



功能好茶 碧生源
— 畅销 16 年 —



Annual Report 2015



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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 926

Corporate Profile

Besunyen Holdings Company Limited (the “**Company**”) together with its subsidiaries (collectively, the “**Group**”) is a leading provider of therapeutic teas in the People’s Republic of China (the “**PRC**”), mainly engaging in the research and development, production, sale and promotion of therapeutic teas as well as the sale and promotion of medicines. By tagging along with the concept of “herbal, healthy, quality functional tea”, the Group started to produce the Besunyen Detox Tea and Besunyen Slimming Tea (collectively, the “**Two Teas**”) in 2000, and for the last 15 years, has been dedicated to the marketing and sales of the Two Teas. The Two Teas recorded an accumulated sales volume of over 3.9 billion bags, with an accumulated sales amount of over RMB5.1 billion as of the end of 2015. The Group cooperated with Zhejiang Hisun Pharmaceutical Co., Ltd. (“**Hisun Pharmaceutical**”) to sell LARLLY Orlistat slimming medicine in April 2015, so the Group has expanded from the market of slimming therapeutic teas to that of slimming medicines and comprehensively covered the slimming market. Since its launch, LARLLY Orlistat slimming medicine has been highly praised among consumers and has witnessed a stable sales growth.

According to the latest report issued by China Southern Medicine Economy Research Institute (“**SMERI**”), the market share of the Group’s core products the Two Teas maintained a leading position for several consecutive years. Within the reporting period, in national retail pharmacies, based on the retail price of the laxative and slimming products respectively, the market share of the Group’s Besunyen Detox Tea represented 21.81%; and that of Besunyen Slimming Tea accounted for 42.26%, with the Two Teas taking the first place in the market. Since the launch of LARLLY Orlistat slimming medicine in the spring in 2015, it was also gradually unveiled in several major markets including Shanghai, Guangdong and Beijing. In accordance with the data released by SMERI, LARLLY Orlistat has topped the list for the slimming medicines segment.

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. And the Two Teas passed the certification of ISO9001, ISO22000 and HACCP. The packing equipment is C24 tea bag high-speed machine introduced from IMA, an Italian company. The machine is equipped with the specifically designed “cotton thread nautical knot for tea bag and tag fixing” so that the inter and outer bag can be modeled at one time and produced automatically. Closed management is conducted in the production workshop, and the pelleting workshop and inter packing workshop are 100,000 grade clean areas furnished with temperature and humidity monitoring. In the garden-like plant featured by a beautiful environment, hygiene, process, technology, procedure and management reach the world’s advanced level.

The Group, on the basis of raw materials of natural Chinese herbal-based medicine and tea leaves, researches and develops, formulates and produces the Two Teas, providing safe, effective, price-competitive and convenient-to-use healthcare products for those with mild or recurring health problems in the laxative and weight management.

As at 31 December 2015, the sales teams of the Group spanned across 31 provinces, autonomous regions and municipals across the country. The Group had a total of 104 distributors and 390 sub-distributors. The sales teams, distributors and sub-distributors served about 128,000 over-the-counter (“**OTC**”) pharmacies and retail terminals in shopping malls and supermarkets. The Group constantly improved the sales network nationwide, and by means of the dynamics of brand attraction and channels’ promotion, and had a coverage of about 400,000 OTC pharmacies across the country. Meanwhile, new products were enabled to break into the market more quickly and effectively through the existing channels, thereby maintaining the Group’s leading position in the industry.





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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Zhuo Fumin
Ms. Zhang Guimei

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*

REGISTERED OFFICE IN CAYMAN ISLANDS

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

PRINCIPAL PLACE OF BUSINESS IN PRC

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

PLACE OF BUSINESS IN HONG KONG

Room 1303, 13/F., China Resources Building
26 Harbour Road, Wanchai
Hong Kong

WEBSITE OF THE COMPANY

<http://ir.besunyen.com>

INVESTOR RELATIONS

ir@besunyen.com

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MaplesFS Limited
P.O. Box 1093, Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITOR

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

LEGAL ADVISORS

As to Hong Kong Law:
DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC Law:
Jia Yuan Law Offices
F407–408 Ocean Plaza
158 Fuxing Men Nei Ave
Xicheng District
Beijing
PRC

Chairman and CEO's Report

"For 15 years since establishment, the Group has been dedicated to the product operation on the OTC sales channels, and focused on the production and sales of the Besunyen Detox Tea and Besunyen Slimming Tea, so as to enable the Two Teas to maintain a leading position in the therapeutic tea segment in the PRC. Within the reporting period, the Group adhered to the "One Focus and Two Dimensions" as the guideline for its development. To be specific, "One Focus" means focusing on the development of the industry of herbs and health regimen; "Two Dimensions" means devoting to and expanding new businesses of weight loss and weight management as well as laxative and gastrointestinal health. The management closely followed the guideline of "One Focus and Two Dimensions", and actively promoted the expansion of Besunyen businesses in the hope of grasping the opportunities arising from the pan health industry, improving competitive edge, strengthening the competitive position of Besunyen in the industry and hence bringing more profit growth for the shareholders."

ZHAO Yihong
Chairman and CEO



Chairman and CEO's Report

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Director(s)**") of the Company, I am pleased to present to you the audited annual results of the Group for the year ended 31 December 2015.

In 2015, the overall business operation for enterprises became more difficult due to the backdrop of the overall economic slowdown in the PRC, the intense market competition, the changes in sales channels and decline in consumer purchasing power.

Despite the immense market challenges faced by the Group in the past year, we still continued to increase operating efficiency by increasing efforts in brand, R&D (research and development) and food safety, optimizing the organizational structure, adjusting the mode of business operation and marketing strategies as well as lifting the retail price of the Two Teas. Besides, the Group also constantly introduced innovative products to offer more high-quality choices for the consumers. The aforesaid strategies in 2015 have gradually led the Group to a sound development path towards profiting from the healthcare industry, ensured the Group's steady financial status and provided a solid foundations for the Group's future development.

The revenue of the Group in 2015 was RMB662.8 million, representing an increase of 17.5% as compared with that of RMB563.9 million in 2014. The gross profit increased by 25.0% from RMB475.3 million in 2014 to RMB594.2 million in 2015. Meanwhile, the gross profit margin grew from 84.3% in 2014 to 89.7% in 2015. On the other hand, the total operating expenses of the Group (including selling and marketing expenses, administrative expenses and R&D costs) in 2015 were RMB555.9 million, representing an increase of 19.3% as compared with that of RMB466.0 million in 2014. The Group recorded a net profit attributable to shareholders of the Company of RMB92.3 million in 2015, representing an increase of 105.1% as compared with that of RMB45.0 million in 2014.

The Board proposed the payment of a final dividend of HK5 cents per share and a special dividend of HK5 cents per shares to shareholders (the "**Shareholder(s)**") of the Company in recognition of their support for the Group. Each of the total amount of final dividend and special dividend amounted to approximately HK\$78,169,000 respectively.

Against the backdrop of the PRC's overall economic slowdown and decline in the purchasing power in 2015, the exceptional performance of Besunyen first attributed to the trust and promotion of over 400,000 chain and standalone retail pharmacies nationwide and in the meantime thanked to the support of over 400 distributors and sub-distributors as well as business partners. Also, the Group extends gratitude to tons of consumers for their love of and loyalty to Besunyen Two Teas and LARLLY Orlistat, and to the remarkable suppliers for their long-term supply of high-quality raw materials to Besunyen. Finally, gratitude also goes to the solidarity and hardwork of all staff. All mentioned above greatly helped Besunyen to attain the performance in 2015.

Chairman and CEO's Report

INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute leading brand competitive advantages over similar products. According to an investigation report on retail pharmacies in the PRC issued by the China Southern Medicine Economy Research Institute on 5 March 2016, Besunyen Detox Tea continued to rank top in the market segment of aperient and laxative products in terms of retail sales of healthcare products, medicines or other types products sold in the retail pharmacies for eight consecutive years, and the market share of which was 21.81% in 2015, representing a year-on-year increase of 0.14 percentage point. Besunyen Slimming Tea continued to rank top in the market segment of slimming products for six consecutive years, enjoying a market share of 42.26% in 2015, representing a year-on-year decrease of 0.43 percentage points.

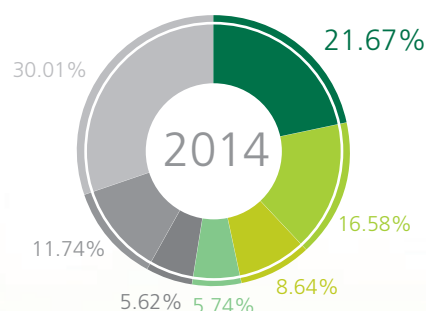
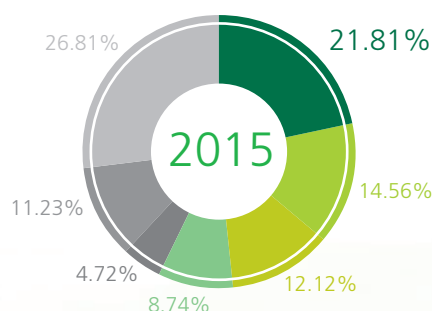
LARLLY Orlistat has topped the list for the market segment in slimming medicines, with its market share of 47.10% in 2015.

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

Market share of laxative products in 2015

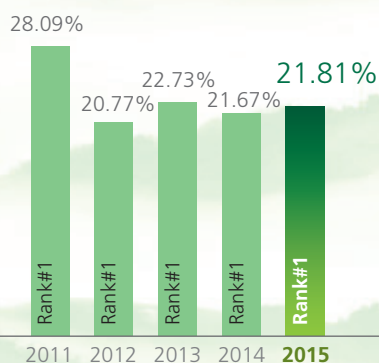
Market share of laxative products in 2014

- Brand 1 Besunyen
- Brand Competitor 2
- Brand Competitor 3
- Brand Competitor 4
- Brand Competitor 5
- Subsequent Five Competitors
- Other Brand Competitors



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

Market share (%)



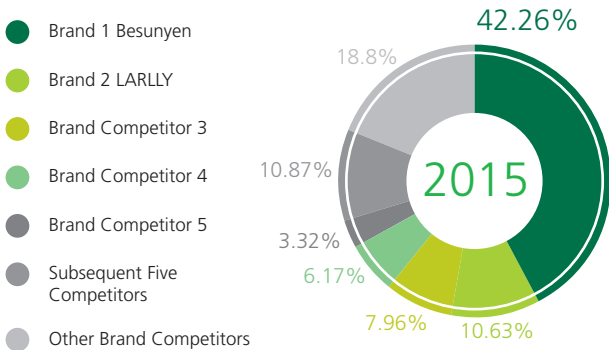
Note: The PRC market excludes the markets in Hong Kong, Macau and Taiwan

Sources: SMERI (March 2016)

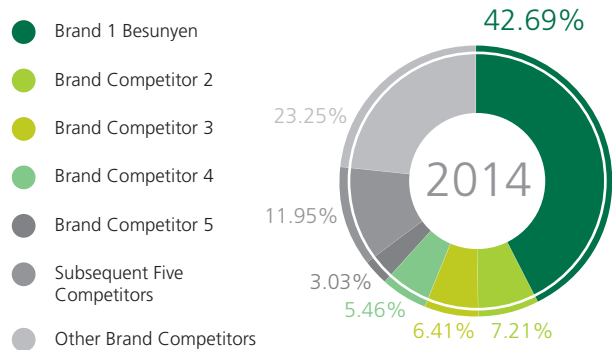
Chairman and CEO's Report

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

Market share of slimming products in 2015

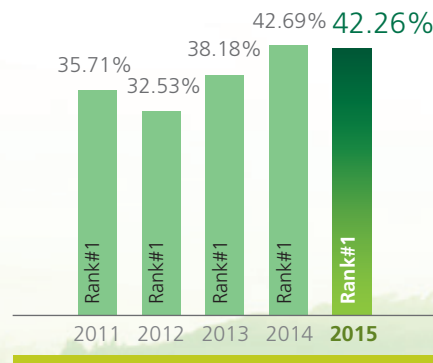


Market share of slimming products in 2014



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

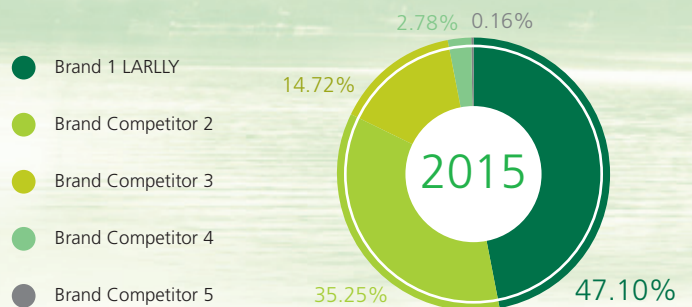
Market share (%)



Note: The PRC market excludes the markets in Hong Kong, Macau and Taiwan

Sources: SMERI (March 2016)

Market share of LARLLY products in 2015



Note: The PRC market excludes the markets in Hong Kong, Macau and Taiwan

Sources: SMERI (March 2016)

Chairman and CEO's Report

BUSINESS REVIEW

2015 was the ending of the national "Twelfth Five-Year Plan", and also the fifteenth anniversary of the Group as well as the sixth anniversary of the Company's stock being listed. Along with the steady development of the Two Teas business and rapid growth in the sales of the new product LARLLY Orlistat, the Company's business development has entered a new starting point, a new journey and a new platform. The Company's management adhered to the guideline "One Focus and Two Dimensions", and stabilised the existing businesses while developing new businesses.

1. Strengthening Brand Strategy and Enhancing Core Competitiveness of the Brand

During the reporting period, the Group engaged in the following several priorities for brand building:

- *Adopting multi-brand strategy to develop a clear brand awareness of consumers*

The brand "Besunyen" was applicable to the Two Teas; the brand "LARLLY" to Orlistat slimming medicine; and the brand "Tea+" to herbal teas. When promoting the brands, the Company identified the connotation of each brand and built a clear brand image based on products of different functions, allowing the consumers to have a clear awareness of all brands of the Group.

- *Expanding consumer base of the Two Teas to consolidate leadership*

Through research into consumers in early 2015, in respect of advertising communication, the positioning of the Two Teas consumer base was expanded from the function-centric consumers in the past to cover those demanding health precaution in an effort to increase consumer base. Accordingly, the advertising theme of the year, "Detoxify Yourself to Keep in Shape", was run throughout the 2015 advertising communication activities.

- *Fine adjustment to price to cater to the demand of channels and terminals for profit*

The raw materials in key production elements, and operating costs experienced cost inflation in the recent years due to price increase in commodities in recent years. Moreover, the demand of channels and terminal pharmacies for profit has been increasingly higher, and the consumers' awareness of product price depends on the match between the brand value and the product price. From the consumers' awareness, the price of Besunyen Two Teas used to represent a discount over the psychological price level of the consumers. To alleviate the cost burden and satisfy the demand of channels and terminals for profit, the Group has increased the retail price of 25-pack Besunyen Two Teas by 16.7% from RMB59.8 to RMB69.8 per box since March 2015.



Chairman and CEO's Report



- *Combining national and local media to achieve the effect of wider coverage and higher audience ratings*

Regarding the media placement for 2015, the Group followed three principles: (1) communication coverage from the air to the ground; (2) from traditional to digital communication media; (3) ways of placement focusing on hot spots and implementation.

In 2015, the Company continued to be the title sponsor of the medical science programme "I'm a Great Doctor" ("我是大醫生") on Beijing Satellite TV so as to attain a rational and high-end consumer base. The Company also continued to be the title sponsor of the classic lifestyle programme "King Wang" ("大王小王") on Hubei Satellite TV to enhance promotional results through the high audience ratings and constantly appeal to loyal users. In addition to the title sponsor of these two major satellite TV stations for national advertisement coverage, the Group also carried out hot spots marketing by placing on-line variety show "Running Man" ("奔跑吧兄弟") on the on-line digital platforms like Tencent, IQIYI and Youku Tudou. The Group also sponsored outstanding TV programs in key sales areas, such as "Dialect Contest" ("方言大賽") on Jiangsu Variety Channel, "Darlings Run Amok" ("暴走甜心") on Zhejiang Qianjiang City Channel and "Dance Carnival" ("舞動嘉年華") on Chengdu TV, together with some off-line activities and placement. A multi-dimensional and intertwining advertisement dissemination model with wide coverage and deep communication was formed by combining the national coverage of satellite TVs, the local cultural traits of provincial TVs, the media audience ratings and the outdoor advertising to gather population.

- *Sponsoring the "Besunyen Cup" Charity Advertising Contest*

Besunyen also obtained title sponsorship of the thirteenth Chinese University Students Advertisement Art Show Academy Award the "Besunyen Cup" Charity Advertising Contest on April 2015. The contest lasted for 10 months, covered 31 cities, visited over 40 universities, held 42 creative lectures and was rounded off. Many students participated in and welcomed the contest, hence creating a sound and profound brand reputation for Besunyen.

Chairman and CEO's Report



2. Upholding the Classic Oriental Tea-making Technique and Opening Besunyen Health Maintenance Tea Art Pavilion

"Herbal Natural Besunyen — Health Maintenance Tea Art Pavilion" was completed on 16 September 2015, and received guests after the establishment, as a gift for the celebration "Forming Ties · Pursuing Dreams · Fifteenth Anniversary". The whole pavilion, based on the story line of "oriental tea-making technique, classic road, forming ties with tea, cherishing ties and fulfilling dreams, embracing the future", guided the visitors to experience a corporate museum where they could interact and which is characterized by culture and unique style of Besunyen. Besunyen Health Maintenance Tea Art Pavilion welcomes all friends for visit and guidance.

3. Innovation and Breakthrough for a New Start Forming Ties · Pursuing Dreams · Fifteenth Anniversary of Besunyen

- *Forming ties with Beijing*

Besunyen held the fifteenth anniversary celebration themed "Forming Ties · Pursuing Dreams · Fifteenth Anniversary" at the plant located in Fangshan District and at the Orient MGM International Hotel on 17 September 2015. More than 1,000 guests and friends in the fields of medicine, health and media across the country gathered in Beijing to enjoy the great celebration.

For 15 years since establishment, Besunyen has witnessed the development of the PRC's healthcare industry and also played its role in making innovation and breakthroughs as a leader in the healthcare and food industry.

Chairman and CEO's Report

- *Rebuilding channels and enhancing cooperation with chain stores*

Starting from 8 November 2015 and lasting for 28 days, 12 celebrations of Besunyen fifteenth anniversary were held in 12 provinces and cities nationwide and major sales areas. Distributors, sub-distributors, heads of chain pharmacies and retail pharmacies were invited to attend the celebrations, and over 100 guests were present in each celebration. Besunyen built trust with the management and staff from top 100 chain pharmacies in the PRC through face-to-face communication and interaction with them, consolidated the brand image of the Two Teas and LARLLY Orlistat in channels and terminals and laid a solid base for the promotion of the Group's products.

4. Launching New Products to Start New Career Development

- *Launching "LARLLY Orlistat" slimming medicine*

"LARLLY Orlistat" slimming medicine was launched in Shanghai in the spring of 2015, and hugely favoured by consumers. Also, it was gradually launched in Beijing, Tianjin, Zhejiang, Jiangsu, Sichuan, Guangdong and other provinces and cities, allowing Besunyen to successfully cover the high-end consumer bases in the market segments of weight loss and weight management.

- *Launching "Tea+" herbal tea*

Launched in May 2015, "Tea+" herbal tea is specially designed for urban white-collar ladies, and has found its way into market segments like high-speed railways and EMUs, aviation, hotels, universities, gyms, group-buying and office buildings. It was well received by the market and popular with consumers.

Cupped Tea+ herbal tea was officially put into production and market in December 2015, and a strategic corporation was entered into with Zhengzhou Railway Bureau, indicating that on the high-speed railways and EMUs, passengers can readily enjoy Besunyen teas on their journey.

5. Formulating Scientific Marketing Management System, Improving Yields and Building Core Competitiveness in Channels and Terminals

- *Optimizing channels to enhance coverage*

In early 2015, through integrating the distribution systems of distributors and sub-distributors and active support from them, the Company took the initiative to distribute its products to more sales terminals, and optimized the traditional channel management system through the terminal maintenance of distributors and sub-distributors.

- *Developing 40-pack teas and forming alliance with chain pharmacies for win-win*

The Group rolled out a new 40-pack strategic cooperative products in May 2015 for large chain pharmacies working closely with the Group. The 40-pack strategic cooperative product was favoured by chain pharmacies and achieved win-win with large chain pharmacies, and meanwhile satisfied the consumers' demand for large packs.

Chairman and CEO's Report

- *Setting up Supervising Department to independently monitor sales performance of terminals*

The Group set up the supervising department in early 2015, aiming to independently, objectively and rapidly monitor the performance of salesmen in terminal market as a reference for the performance appraisal of the salesmen. Meanwhile, the Group promptly collected marketing activities of the competing brands in the market in order to improve and enhance the mechanism for sales management assessment.

- *Holding "Besunyen Cup" Top Storekeeper and Clerk Trial*

Besunyen joined hands with First Pharmacy (第一藥店) to host the eighth "Besunyen Cup" Super Show Top Storekeeper and Clerk Trial. The activity was launched in April 2015 and the audition was smoothly completed at the end of May. The number of online enrollment nationwide reached nearly 30,000, and 13 special chain trainings were organized. 120 people from 70 chain pharmacies attended 5 regional contests across the country. The 6 champions, runner-ups and second runner-ups selected in the final were present in the PRC Drug Retailing Information Conference. This contest mobilized 1,100 chain pharmacies, covered a total of 12 regions in major areas, municipalities and provinces, and significantly shortened Besunyen's ties with frontier storekeepers and clerks from pharmacy chains. The sales of Besunyen Two Teas in pharmacies doubled during the event compared with that of last month.

- *Introducing mobile terminal management system to enhance efficient sales management*

The Group has fully activated its mobile terminal management system for sales staff since August 2014. Information such as the name of the customer visited, route, time, location, transaction volume, transaction amount, products display, promotion activities, promotional material management, customer feedback and supervisor enquiry is all processed in the mobile terminal management system. Meanwhile, information logged into the mobile phones is synchronised with the sales management centre in the headquarters on a real time basis to form a comprehensive sales management system between the headquarters and regions. After ten months of implementation and operation of the mobile terminal management system for sales staff, management capability and efficiency of the Company have been greatly enhanced in respect of operation decision, sales execution, market services and productivity of sales staff, etc..

6. Establishing Besunyen Business School to Nurse Successors

The Group established Besunyen Business School in early 2015, which is responsible for building the corporate culture and the staff's shared values and sense of mission within the Company. The school also organized team building to build teamwork of staff. Besides, it introduced executive training courses to sharpen the management capabilities and skills of the management. Continuing the "Star Program" in 2014, the Group recruited high-calibre graduates from major colleges and universities nationwide from February to May of 2015 and identified dozens of graduates as the Group's "Stars" of 2015 after strict selection. After three months of intensive training, they were assigned to and interned in different departments to actively nurse career successors and perfect a talent echelon.

Chairman and CEO's Report

7. Forming Alliance with Yunnan Phytopharmaceutical to Arrange New Career Development Strategy of "One Focus and Two Dimensions"

The Group entered into a strategic agreement with Yunnan Phytopharmaceutical Co., Ltd. ("**Yunnan Phytopharmaceutical**") in September 2015, in order to establish a joint venture company, which will have an exclusive right at sales in certain products of Yunnan Phytopharmaceutical in the PRC. Besunyen took advantage of the most powerful product structure of Yunnan Phytopharmaceutical on the basis of its most excellent marketing experience in brands, channels, terminals, media and advertising. The two parties joined hands to create synergy advantages.

8. Focusing on New Product Development Projects

The Group's research and development centre team has conducted a number of new product development projects within the reporting period and focused on developing serial medicines, healthcare food and nutritional and dietary products in the fields of weight control and intestinal health. As at 31 December 2015, the Company held 20 rights to use technology, and obtained 21 healthcare food license permission numbers, one of which was obtained in 2015.

9. Establishing Food Safety System to Track Quality of Raw Materials in Supply Chains in Whole Process

- The herbal medicines and tea used in the production and the suppliers of all inner and outer packing of the Group were rigorously screened. In addition to qualification examination and on-site review, the Group also conducted site visits and verification of key suppliers annually.
- The Group developed the list of qualified suppliers and implemented dynamic supervision and management and updates. On one hand, suppliers with more excellent performance were introduced, on the other, suppliers with quality risk were eliminated.
- In daily management, the Group calculated and analyzed timely delivery rate and pass rate of the suppliers, and communicated with the suppliers on a regular basis to improve its management level.
- The Group kept complete and detailed records about the supplier selection, review, quality inspection of supplies as well as annual quality summary of supplies to ensure the qualification compliance of the suppliers and the integrity and traceability of the information on raw materials.
- Including the management of suppliers into the management of the Group's food quality and safety traceability system can further ensure product safety and quality.

Chairman and CEO's Report

10. Information on Production Enterprise Environmental Policies and Daily Control Measures of Besunyen

Subsidiaries of the Group, including Beijing Outsell, Beijing Besunyen Food and Beverage Co., Ltd. and Beijing Besunyen Pharmaceutical Co., Ltd., are located in the Qiushi Industrial Park, Fangshan District, Beijing. The plant is a garden-like plant with beautiful environment, convenient transportation and clean air. Also, it carried out large areas of greening and hardened the group, meeting the national requirements of policies and laws on food, healthcare food and medicines.

Since its establishment, the Group has always paid attention to national environmental protection policies, placed emphasis on environmental protection issues and actively implemented the following principles: priority to protection, emphasis on prevention, integrated governance, public participation and liability assumption of damages. Also, it conducted sustainable development management of enterprise in accordance with Environmental Protection Law of the People's Republic of China, Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Solid Waste Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Water, Law of the People's Republic of China on Prevention and Control of Pollution of Environmental Noise, Energy Conservation Law of the People's Republic of China and Cleaner Production Promotion Law of the People's Republic of China and other laws and regulations. The Group coordinated and developed the relationship between production and environmental protection and synchronised production development with pollution prevention. Also, it encouraged all staff to raise their awareness of environmental protection, care for the plant environment, promote production and improve efficiency. The Group implemented the relevant national, local or its own environmental protection regulations, policies and national, local or industry environmental standards. Besides, the Group consciously accepted the management and supervision of local government and environmental protection authorities. And it took comprehensive measures to prevent and control pollution, enabling the pollution produced by the Group to comply with the local environmental requirements. The information on the production environmental policies and daily control measures implemented by the Group in 2015 is hereby detailed as follows:

(1) *Raw materials:*

The raw materials used by the Group were Chinese herbal medicines, green tea, black tea, etc.. Chinese herbal medicines were the raw materials which were both medicine and food. The production personnels were offered a health check on a regular basis. Packaging materials include carton and tea filter paper, and were nontoxic and harmless to human body.

(2) *Management of waste water, exhaust gas, waste residues:*

The production workshop of the Group was 100,000 grade clean area. The temperature and humidity control during the production were controlled and the production personnel needed to wear working clothes before production operation. No industrial waste water was produced during the production. There was only domestic waste water in the plant which was directly discharged into the urban sewage system, so the water sources were not polluted. Dust generated in the production process was collected by dust catching and collection facilities before processed to prevent the dust from preventing the

Chairman and CEO's Report

atmosphere and the environment. Exceedingly small amounts of Impurity in raw materials and domestic waste were transported by third-party transportation companies to nearby wasteyards for centralized processing. The packaging waste was recycled by the waste recycling department.

(3) *Cleaner Production:*

The Group is now actively promoting cleaner production audits and carrying out energy conservation, consumption reduction and cleaner production in line with the requirements of the Cleaner Production Promotion Law of the People's Republic of China and of the National Development and Reform Commission and the Beijing Municipal Environmental Protection Bureau.

Through implementing a series of environmental policies, the Group can curb environmental pollution, reduce end treatment pressure, alleviate the burden on enterprises, substantially bolster market competitiveness and achieve the strategy of sustainable development.

PROSPECTS

Macro-Economy

According to the announcements released by the National Bureau of Statistics, the PRC's economy will still be confronted with complex and changing international situations in 2016, and some industries will remain the downward state. But on the other hand, new industries, new formats and new business models are booming as well. Overall, the Chinese economy will continue to grow steadily in 2016. International Monetary Fund holds the same growth forecast for the Chinese economy in 2016 and 2017 as compared with the previous forecast, and believes that the 6% to 6.5% GDP growth is a safe range for the current Chinese economy.

The year 2016 is the start of the "Thirteenth Five-Year Plan" as well as the "dashing" key period for the PRC to achieve the goal of building a moderately prosperous society. According to the statistics of China Chamber of Commerce for Import & Export of Medicines & Health Products (CCCMHPIE), the scale of the PRC's pan healthcare industry was around RMB2 trillion in 2013. In 2016, the scale of the PRC's pan healthcare industry is expected to be about RMB3 trillion, ranking number one in the world.

Efficiently Implementing Six Career Priorities and Seeking New Growth Points under the Guidance of Career Development Strategy

Confronted with the opportunities and challenges of the external environment in 2016, the Group will efficiently implement six business priorities and seek new growth points:

- (1) **Two Teas division:** Focus on chain pharmacies and enhance sales of a single product. In 2016, the Company will focus on the market, increase new consumers and maintain the existing ones for Besunyen Detox Tea, and plan to nurse ten chain customers with the sales of RMB10 million through in-depth cooperation with chains.

Chairman and CEO's Report

- (2) **LARLLY division:** LARLLY Orlistat slimming medicine was introduced into the market in 2015 and has taken a remarkably leading position in the market. Looking into 2016, this will be the opportunity LARLLY Orlistat embraces rapid growth and expansion.
- (3) **E-commerce division:** Differentiation in e-commerce products in 2015 and the introduction of e-commerce lines to new products attracted tons of new customers. Along with the constant launch of our new products, we are convinced that our e-commerce revenues in 2016 will witness a significant increase.
- (4) **Non-mainstream channel division:** Besunyen Two Teas and Tea+ herbal tea were gradually introduced to high-speed railways, aviation, hotels, universities, gyms and office buildings, and attained remarkable results. 2016 shall be the one when non-mainstream channel business develops by leaps and bounds.
- (5) **Yunnan Phytopharmaceutical division:** For Besunyen, Yunnan Phytopharmaceutical business is the one which can generate new increases in the Group's performance.
- (6) **Strategic joint ventures, equity participation, mergers and acquisitions:** Centred on the guideline of "One Focus and Two Dimensions" formulated by the Company, foreign strategic investment, mergers and acquisitions will be another driver in 2016.

ACKNOWLEDGMENT

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, partners, shareholders and investors. In particular, I would like to thank all the staff of our Group for their dedicated work in 2015!

Chairman and CEO,

ZHAO Yihong

Hong Kong, 11 March 2016

Management Discussion and Analysis

FINANCIAL REVIEW

Operating Results

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

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Revenue	662,805	563,888
Cost of sales	(68,568)	(88,607)
Gross profit	594,237	475,281
Other income	40,205	49,290
Selling and marketing expenses	(431,939)	(358,813)
Administrative expenses	(104,793)	(92,393)
Research and development costs	(19,179)	(14,839)
Other expenses	(11,375)	(11,662)
Other losses, net	(2,717)	(2,334)
Gain on disposal of a subsidiary	—	9,977
Profit before income tax	64,439	54,507
Income tax credit/(expense)	23,775	(9,472)
Profit for the year	88,214	45,035
Profit attributable to:		
— Owners of the Company	92,291	45,035
— Non-controlling interests	(4,077)	—
	88,214	45,035
Other comprehensive income	—	—
Total comprehensive income for the year	88,214	45,035
Total comprehensive income attributable to:		
— Owners of the Company	92,291	45,035
— Non-controlling interests	(4,077)	—
Earnings per share attributable to owners of the Company (RMB cents)		
— Basic earnings per share	6.02	2.94
— Diluted earnings per share	6.02	2.94

Management Discussion and Analysis

Revenue

	For the year ended 31 December			
	2015	Percentage	2014	Percentage
	RMB'000	of total	RMB'000	of total
Revenue:				
Besunyen Detox Tea	274,007	41.3%	251,570	44.6%
Besunyen Slimming Tea	323,378	48.8%	307,738	54.6%
Slimming medicines	63,388	9.6%	—	—
Other tea products	2,032	0.3%	4,580	0.8%
Total	662,805	100.0%	563,888	100.0%

The Group's revenue bottomed out gradually from 2013 onwards and increased by 17.5% from RMB563.9 million in 2014 to RMB662.8 million in 2015. Among these, the revenue of Besunyen Detox Tea increased by 8.9% from RMB251.6 million in 2014 to RMB274.0 million in 2015, mainly attributable to an increase in average selling price ("ASP") (revenue divided by sales volume). The sales volume also increased slightly from 172.8 million tea bags in 2014 to 174.5 million tea bags in 2015. The revenue of Besunyen Slimming Tea increased by 5.1% from RMB307.7 million in 2014 to RMB323.4 million in 2015, mainly attributable to an increase in ASP, and the sales volume slightly increased from 215.1 million tea bags in 2014 to 218.5 million tea bags as well. The Group launched LARLLY Orlistat, a slimming medicine, in April 2015. In the slimming segment, the Group has extended from the slimming therapeutic tea market to the slimming medicines market to cover the entire slimming market segment. LARLLY Orlistat slimming medicine has been highly praised by consumers since its launch with stable sales growth. In 2015, the revenue of LARLLY Orlistat reached RMB63.4 million.

In 2015, 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 RMB1.57 and RMB1.48 per bag respectively (2014: RMB1.46 and RMB1.43) in 2015. The ASP of Besunyen Detox Tea increased by 7.5% and the ASP of Besunyen Slimming Tea increased by 3.5%.

Cost of Sales and Gross Profit

	For the year ended 31 December			
	2015	Percentage	2014	Percentage
	RMB'000	of revenue	RMB'000	of revenue
Total cost of sales	68,568	10.3%	88,607	15.7%
Gross profit	594,237	89.7%	475,281	84.3%

The Group's cost of sales decreased by 22.6% from RMB88.6 million in 2014 to RMB68.6 million (net of the reversal of impairment of property, plant and equipment of RMB28.5 million) in 2015. Cost of sales as a percentage of revenue decreased from 15.7% in 2014 to 10.3% in 2015.

Management Discussion and Analysis

As a result of an increase in revenue by 17.5% and a decrease in cost of sales by 22.6% in 2015 as compared with 2014, the gross profit of the Group increased by 25.0% from RMB475.3 million in 2014 to RMB594.2 million in 2015. Gross profit margin of the Group increased from 84.3% in 2014 to 89.7% in 2015.

During the year, considering the business of the Two Teas has recovered gradually since 2013, and such business performed well during past few years with revenue increase year over year, after assessment, the management determined to reverse the impairment associated with the property, plant and equipment which was recognised in 2012, such reversal of RMB28.5 million had been offset against the cost of sales for the current year. The gross profit margin would be approximately 85.4% for 2015 excluding such impact.

Other Income

Other income mainly comprises interest income of RMB15.3 million (2014: RMB16.7 million), a government grant of RMB5.7 million (2014: RMB12.8 million) provided by the PRC government to support the Group's business, and rental income from investment properties of RMB19.1 million (2014: RMB19.7 million).

Selling and Marketing Expenses

	For the year ended 31 December			
	2015	Percentage	2014	Percentage
	RMB'000	of revenue	RMB'000	of revenue
Advertising expenses	219,533	33.1%	163,737	29.0%
Other marketing and promotional expenses	98,685	14.9%	86,522	15.3%
Staff costs	89,732	13.6%	86,031	15.3%
Others	23,989	3.6%	22,523	4.0%
Total	431,939	65.2%	358,813	63.6%

Selling and marketing expenses of the Group increased by 20.4% from RMB358.8 million in 2014 to RMB431.9 million in 2015, which are primarily attributable to the expenses as incurred by the newly acquired subsidiary Guangzhou Runliang Pharmaceutical Co., Ltd. ("**Guangzhou Runliang**"). Among the amount, advertising expenses, other marketing and promotional expenses, staff cost and other expenses in 2015 increased by 34.1%, 14.1%, 4.3% and 6.5% respectively as compared with 2014.

As the revenue increased by 17.5%, and total selling and marketing expenses increased by 20.4% from 2014, the percentage of selling and marketing expenses to revenue increased from 63.6% in 2014 to 65.2% in 2015.

Advertising expenses in 2015 increased substantially by 34.1% as compared to 2014. During 2015, the Group embarked 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 these, our title sponsorships for the medical science programme "I'm a Great Doctor" ("我是大醫生") on Beijing Satellite TV and the classic lifestyle programme "King Wang" ("大王小王") on Hubei Satellite TV continued in 2015. Apart from the title sponsorships on the two major satellite TV stations with national advertising coverage, specific marketing campaigns were launched by advertising on the internet variety show "Running Man" ("奔跑吧兄弟") on internet and digital platforms such as QQ, iQIYI and Youku Tudou. Title sponsorships for good TV programmes such as "Dialect

Management Discussion and Analysis

Competition” (“方言大賽”) on Jiangsu Variety Channel, “Runaway Sweetheart” (“暴走甜心”) on Zhejiang Qianjiang City Channel and “Dancing Carnival” (“舞動嘉年華”) on Chengdu TV were put forth in key sales regions. Enormous media resources were deployed to boost the marketing efforts of the slimming medicine LARLLY Orlistat, a new product of the Group. Product recognition and awareness were enhanced through the use of media to stimulate the desire of consumers, thereby facilitating its sales.

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

Administrative Expenses

	For the year ended 31 December			
	2015		2014	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Staff costs	39,941	6.0%	30,673	5.4%
Office expenses	8,165	1.2%	5,841	1.0%
Professional fees	22,168	3.3%	27,395	4.9%
Travel and entertainment expenses	8,934	1.4%	6,046	1.1%
Others	25,585	3.9%	22,438	4.0%
Total	104,793	15.8%	92,393	16.4%

Administrative expenses of the Group increased by 13.4% from RMB92.4 million in 2014 to RMB104.8 million in 2015.

Administrative expenses as a percentage of revenue slightly decreased from 16.4% in 2014 to 15.8% in 2015.

Research and Development Costs

	For the year ended 31 December			
	2015		2014	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Research and development costs	19,179	2.9%	14,839	2.6%

The Group’s research and development costs increased by 29.7% from RMB14.8 million in 2014 to RMB19.2 million in 2015. Research and development costs as a percentage of revenue also increased from 2.6% in 2014 to 2.9% in 2015.

Management Discussion and Analysis

Taxation

Income tax credit of the Group in 2015 was RMB23.8 million, which is different from the income tax expense of RMB9.5 million in 2014. The difference is mainly attributable to the net increase in deferred income tax assets of the Group.

Profit and Total Comprehensive Income for the Year of the Group

Due to the aforementioned factors, the total comprehensive income attributable to shareholders of the Company increased from RMB45.0 million in 2014 to RMB92.3 million in 2015.

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 and the announcement dated 16 June 2015 by the Company. The respective uses of the net proceeds up to 31 December 2015 are as follows:

	Net Proceeds from IPO		
	Available RMB'000	Used RMB'000	Unused RMB'000
Acquisition of new production equipment and building new production facilities	275,094	275,094	—
Establishment of the East China Regional Headquarters	77,518	77,518	—
Beijing new office building	123,664	123,664	—
Design, research and development of new products	62,981	62,981	—
Upgrading ERP and overall IT system	8,834	8,834	—
Loan repayment	73,000	73,000	—
Expansion of traditional and on-line sales and distribution network, channels and brand building	153,092	153,092	—
Working capital	109,000	109,000	—
Investment in traditional and on-line medical and pharmaceutical industries	150,000	—	150,000
Total	1,033,183	883,183	150,000

Liquidity and Capital Resources

In 2015, funds and capital expenditure required for the operation of the Group mainly derived from the cash flow as generated from its operating activities as well as the proceeds from the IPO.

Management Discussion and Analysis

Cash Flows

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

	For the year ended 31 December	
	2015 RMB'000	2014 RMB'000 (Reclassified)
Net cash generated from operating activities	63,446	109,200
Net cash from investing activities	26,160	73,332
Net cash used in financing activities	(41,825)	(15,620)
Net increase in cash and cash equivalents	47,781	166,912
Exchange gains on cash and cash equivalents	324	102
Net increase in cash and cash equivalents	48,105	167,014

In 2015, the Group's net cash from operating activities was RMB63.4 million (2014: RMB109.2 million). The difference primarily resulted from the operating cash outflow from the newly acquired subsidiary, Guangzhou Runliang, during the year. Net cash from investing activities of the Group in 2015 was RMB26.2 million (2014: RMB73.3 million), the decrease was mainly attributable to the less withdrawal of term-deposit with initial term of over three months. The net cash used in financing activities of the Group in 2015 was RMB41.8 million (2014: RMB15.6 million), mainly for the distribution of dividends and share repurchase.

Bank Balances, Cash and Bank Borrowings

As at 31 December 2015, the bank balance and cash of the Group in aggregate was RMB425.9 million (2014: RMB377.8 million), representing an increase of RMB48.1 million as compared to the previous year. Approximately 98.8% of the Group's bank balance and cash was in Renminbi. Meanwhile, as of 31 December 2015, the Group did not have any bank borrowings (31 December 2014: Nil) and unused bank facilities (31 December 2014: Nil).

Capital Expenditure

In 2015, cash payments for capital expenditure of the Group amounted to RMB39.5 million (2014: RMB54.3 million). The following table sets forth the capital expenditure as paid by the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2015 RMB'000	2014 RMB'000
Property, plant and equipment	28,162	46,524
Intangible assets	2,120	4,743
Land use rights	9,175	3,000
Total	39,457	54,267

Management Discussion and Analysis

Investment Properties

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

	At 31 December	
	2015 RMB'000	2014 RMB'000 (As reclassified)
Investment properties	57,694	141,240

The Group owns Besunyen Building, Linglong Tiandi located in No. 160 West 4th Ring Road North, Haidian District, Beijing 100036, certain office properties in Changcheng Building located in No. 3000, Zhongshan Road North, Putuo District, Shanghai. As at 31 December 2015, the Group was in the process of obtaining property certificates of the building with a total carrying value approximate to RMB46.4 million which is located in the PRC. The Group will not put all units of these properties into full use and has leased the unused units to independent third parties until the Group needs to recover such units for business expansion in the future. The properties held for lease are classified as investment properties.

As at 31 December 2015, carrying amount of the investment properties amounted to RMB57.7 million (2014: RMB141.2 million). The decrease was primarily due to the transfer out of an investment property for own-occupation to the property, plant and equipment during the year. The Group's 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 2015, the Group assessed the fair values of the investment properties based on a valuation carried out by an independent valuer 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-manufactured goods) and finished goods. The following table sets forth the inventory analysis as of the dates as indicated:

	At 31 December	
	2015 RMB'000	2014 RMB'000
Raw materials and packaging materials	2,183	2,602
Work in progress	774	1,066
Finished goods	3,231	1,446
Total inventories	6,188	5,114

Management Discussion and Analysis

The turnover days of the Group's inventories in 2015 (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 21 days (2014: 22 days). The Group took initiative to monitor its inventories level, and sought 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 monitored and evaluated sales performance and product trends, so as to better forecast the inventories requirements.

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 2015, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2014: nil).

Material Acquisition or Disposal

No material acquisition or disposal had been undertaken by the Group for the year ended 31 December 2015 (2014: Nil).

Pledge of Assets

As of 31 December 2015, the Group had no pledged assets (2014: Nil).

Gearing Ratio

As of 31 December 2015, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 11.73% (2014: 12.87%).

Contingent Liabilities and Guarantees

As of 31 December 2015, the Group had no material contingent liabilities or guarantees (2014: Nil).

Capital Commitments

As of 31 December 2015, the Group had capital commitments of RMB28.7 million (2014: RMB6.4 million).

Compliance with Laws and Regulations

During the year, so far as known to the Directors, there was no non-compliance with any relevant laws and regulations which would have a material impact on the Group.

Management Discussion and Analysis

Relationships with Employees, Suppliers and Customers

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2015, the Group provided generous social security benefits to its employees to motivate them while heightening their sense of belonging. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2015, there was no significant and material dispute between the Group and its suppliers and/or customers.

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 31 December 2015, the Group had 1,231 employees in the PRC mainland and Hong Kong (2014: 1,014 employees), which included 113 promotional staff employed by employment agents (2014: 156 employees). The increase in the number of staff was mainly due to the incorporation of Guangzhou Runliang into the Group. The staff costs (including remunerations of the Directors) were approximately RMB148.9 million for the year ended 31 December 2015 (2014: RMB131.1 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 senior and middle management executives enjoy share options under the pre-IPO share option scheme and the share option scheme adopted by the Company on 30 April 2010 and 8 September 2010, respectively, which are to motivate staff, to encourage them to work hard 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 49, 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 26 years of experience in food and beverage industry in the PRC. 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 47, 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 Directors

Mr. ZHUO Fumin, aged 64, 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 41 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 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

Directors and Senior Management Profile

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), Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ), 華東建築集團股份有限公司 (East China Architectural Group Co., Ltd.*; a company listed on the Shanghai Stock Exchange, stock code: 600629) and Hedy Holding Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002027) and an independent non-executive director of Shenwan Hongyuan (H.K.) Limited (a company listed on the Stock Exchange, stock code: 218), Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange, stock code: 1099) and SRE Group Limited (a company listed on the 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. Mr. Zhuo is a representative of Granite Global Ventures III L.L.C., a substantial shareholder of the Company.

Ms. ZHANG Guimei, aged 38, was appointed as a non-executive Director of the Company in September 2015. Ms. Zhang has over 17 years of experience in enterprise management in food and beverage industry and in capital markets. Ms. Zhang is an assistant to the chairman of China Hui Yuan Juice Holdings Co., Ltd. ("**China Huiyuan Holdings**", a company incorporated in the Cayman Islands with limited liability and the controlling shareholder of China Huiyuan Juice Group Limited ("**Huiyuan Juice**", a company listed on the Stock Exchange, stock code: 1886)) and also in charge of its treasury management and legal affairs. Since 1998, she served various positions in turn in associated companies and subsidiaries of China Huiyuan Holdings, including legal affairs department manager, production and sales department manager, investment department manager, Huiyuan Juice's officer of board office and vice president, etc. Ms. Zhang holds an Executive MBA degree from the College of Business at The University of Texas at Arlington in the United States. Ms. Zhang is a representative of China Huiyuan Holdings, a substantial shareholder of the Company.

Independent non-executive Directors

Mr. HUANG Jingsheng, aged 58, 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 sociology in 1988 from Stanford University. Mr. Huang received a master's degree in business administration from Harvard University in 1999.

Directors and Senior Management Profile

Mr. WANG Jing, aged 43, 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 20 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 fellow member of The Chinese Institute of Certified Public Accountants.

Mr. REN Guangming, aged 51, 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 28 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 51, is our Chief Operating Officer. Ms. Zhao joined our Group in August 2014 and has over 20 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 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. Zhao resigned on 1 January 2016.

Directors and Senior Management Profile

Ms. WANG Juan, aged 40, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 19 years of experience in accounting, finance and tax. Between 1997 and 2000, Ms. Wang worked for PricewaterhouseCoopers in China and lastly as a senior tax consultant. Between 2008 and September 2013, Ms. Wang served as deputy chief financial officer of Beijing Media Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1000). Ms. Wang graduated from the Department of Accounting of Capital University of Economics and Business with a bachelor's degree in economics in 1997. Ms. Wang is a member of the Institute of Certified Management Accountants.

Mr. YU Hongjiang, aged 51, 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 25 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 47, 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 26 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 since 1998. 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.

* For identification purpose only

Corporate Governance Report

CORPORATE GOVERNANCE

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 (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the year ended 31 December 2015, 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 2015.

BOARD OF DIRECTORS

Composition

The Board comprises seven Directors, including two executive Directors, namely Mr. Zhao Yihong (Chairman and Chief Executive Officer), Ms. Gao Yan (Vice Chairman); two non-executive Directors, namely Mr. Zhuo Fumin, Ms. Zhang Guimei; 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 26 to 29.

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 26 years of experience in food and beverage industry in the PRC. 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.

Corporate Governance Report

Roles and Responsibilities

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 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 an important role in corporate governance and is responsible for performing the corporate governance duties set out in the CG Code. All Directors contribute 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 become 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.

Training

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 have 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 2015.

Corporate Governance Report

Procedures

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, a notice has been given to all Directors at least 14 days prior to such meeting so as 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.

Corporate Governance Responsibilities

The Board is responsible for fulfilling the following corporate governance responsibilities:

- develop and review the Company's corporate governance policies and practices and put forward recommendations to the Board;
- review and monitor the training and continuing professional development of Directors and senior management;
- review and monitor the Company's policies and practices regarding compliance with laws and regulatory provisions;
- develop, review and monitor code of conduct and compliance manual for staff and Directors (if any);
- review the Company's compliance with the Code and disclosure in the corporate governance report; and
- develop shareholder communications policy and regularly review the policy to ensure its effectiveness.

COMMITTEES UNDER THE BOARD

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 Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2015, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

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;
- reviewing and monitoring the responsibilities of risk management and internal control systems and the effectiveness of internal audit functions;

Corporate Governance Report

- 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 2015, the following works, inter alia, were performed by the Audit Committee:

- (i) reviewed and discussed with PricewaterhouseCoopers, the Group's external auditor, on the audit scope, audit approach and audit areas of focus for the financial years ended 31 December 2014 and 2015;
- (ii) reviewed and approved the audit fees;
- (iii) reviewed the 2014 auditors' report prepared by Messrs. Deloitte Touche Tohmatsu and the 2015 interim report issued by PricewaterhouseCoopers;
- (iv) reviewed and approved the 2014 annual report and audited financial statements, the 2014 annual results announcement, the 2015 interim report and the 2015 interim results announcement;
- (v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2014;
- (vi) reviewed the management letters prepared by Messrs. Deloitte Touche Tohmatsu and PricewaterhouseCoopers; 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 2015, the fees having been paid to PricewaterhouseCoopers and its member firm for audit services amounted to RMB3.9 million, and for non-audit services amounted to RMB1.2 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.

Corporate Governance Report

In the Remuneration Committee meetings held in 2015, 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 2015, 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.

Corporate Governance Report

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:

DIRECTORS	Number of Attending/Convening Meetings				
	Board of Directors Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meetings
Executive Directors					
Mr. Zhao Yihong	12/12	—	3/3	3/3	1/1
Ms. Gao Yan	12/12	—	—	—	1/1
Non-executive Directors					
Mr. Zhuo Fumin	11/12	—	—	—	1/1
Ms. Zhang Guimei (appointed on 16 September 2015)	2/2	—	—	—	0/0
Independent Non-executive Directors					
Mr. Huang Jingsheng	11/12	5/5	3/3	2/3	0/1
Mr. Wang Jing	11/12	5/5	3/3	3/3	1/1
Mr. Ren Guangming	11/12	5/5	3/3	3/3	1/1

ACCOUNTABILITY AND AUDIT

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 2015, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimated 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 62 and 63 of this annual report.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensure the Group sets up and maintains appropriate and effective risk management and internal control systems to achieve the Group's strategic objectives.

Corporate Governance Report

To this end, management continues to optimize, implement and monitor the risk management and internal control systems, reports to the Board and confirms the effectiveness of such systems, provides reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

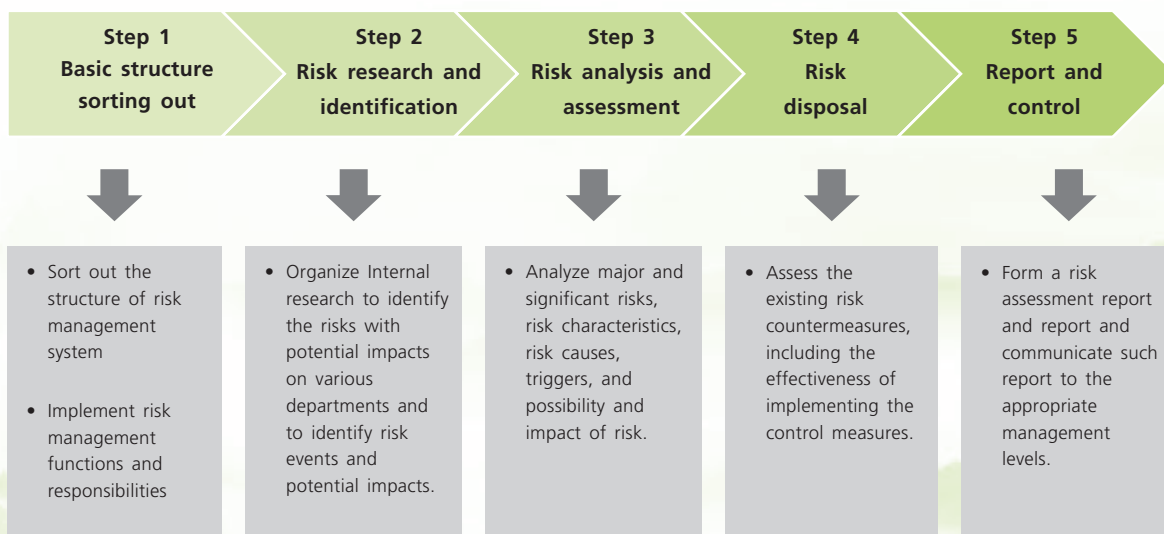
The dynamics of the Group and the environment within which it operates are continually evolving together with its exposure to risk. The Group continues to review the adequacy of its risk management and control framework and looks for opportunities to make improvements and add appropriate resources when necessary in an effort to achieve the Group's strategic objectives.

Risk Governance Structure

The internal control department collects information on internal control and risk, summarizes and analyzes risks, identifies risk countermeasures, issues reports and recommendations and submits the reports to the president and the management for review. Internal management department and internal audit department carry out risk assessment and internal control system assessment, independently review the effectiveness of risk management and internal control and report the results to the Audit Committee. The Board reviews the effectiveness of risk management and internal control at least once a year, and the Audit Committee supervises and reviews the work procedures and responsibility fulfillment of the internal management department and the internal audit department, including the effectiveness of internal audit functions.

Risk Governance Procedures

The Group adopts the following risk management procedures, and prudently manages the risks associated with the Group's business and operations:



Corporate Governance Report

Significant Risks and Response Plans

In 2015, the Group reviewed the identified risks and assessed the potential risks arising from the existing and new businesses in accordance with the aforesaid risk governance structure and procedures. The significant risks identified by the Group in 2015 are as follows:

Major Risks	Risk Description	Risk Countermeasures and Plans
Products and Businesses	<p>The majority of the total turnover of the Group resulted from in the past and was expected to result from in the foreseeable future the two major products Besunyen Detox Tea and Besunyen Slimming Tea. In case of a drop in demand, enhanced competition or failure to successfully develop and launch new products and other events or situations unfavourable to the product sales and profits, the turnover and the overall business performance of the Group would be materially and adversely affected.</p>	<p>The Group paid constant attention to the development of relevant healthcare products and the expansion of new businesses. In 2015, the Company's wholly-owned subsidiary and principal operating entity, Beijing Outsell Health Product Development Co., Ltd., entered into a Joint Venture Agreement with a Beijing Tianrun Diliang Investment Co., Ltd., and launched the new medicine "LARLLY" Orlistat. Meanwhile, the Group unveiled serial new products of Tea+ herbal tea in 2015. The Group planned to expand its business in healthcare products and healthcare services in the future in a bid to realize the Company's expansion in healthcare functional products and services. It gradually formed and improved the market research mechanism and established information feedback channels in order to acquire the feedback information from the market in a timely manner. At the same time, it arranged product R&D and optimizes new product R&D procedures and methods in line with the corporate strategies and objectives.</p>
Sales Channels	<p>The expansion of the Group's distribution and retail network achievements was critical to the continued growth of the Group's turnover. The development prospects of the Group might be affected in the event of difficulties in expanding the distribution and retail network, thereby seriously and adversely affecting the Group's business financial standing and business performance.</p>	<p>The Group sold its products by means of Internet channels and traditional off-line channels. The Group signed strategic agreements with airlines, hotel groups, pharmaceutical companies and large numbers of chain pharmacies to expand the offline sales channels in 2015. Additionally, Huiyuan Group acquired the stocks of the Group and became the second major shareholder of the Group in 2015. The Group expected to further enhance its strength in the industry chain and channel construction by utilizing various kinds of resources of Huiyuan Group.</p>

Corporate Governance Report

Major Risks	Risk Description	Risk Countermeasures and Plans
<p>Marketing</p>	<p>Whether the Group's products can be successful and bestselling in the long run greatly hinges on the effect of the Group's marketing campaign. Any factors unfavourable to the Group's marketing scale and effectiveness will be unfavourable to the Group's product market share, brand awareness and reputation.</p>	<p>The Group adopts the television advertising and sponsorship of television programs as the main marketing methods, while developing target markets via a variety of media to ensure that the advertisements achieve extensive and in-depth publicity. In 2015, the Group expanded 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 the promotion of retail terminals, the Group rolled out packaging of new specifications in 2015 and carried out promotion and sales in major and large chain pharmacies.</p>
<p>Channel Management</p>	<p>The Group sold products through the networks of the distributors and the retailers distributing the Group's products. In the event that the Group terminated the partnership with the distributors since they violated the distribution agreement or they did not solve the serious problem of non-compliance of their retailers, the Group's ability to sell products in certain areas may be impaired.</p>	<p>The Group requested the distributors and causes the sub-distributors and retailers in the jurisdiction of such distributors to comply with the Group's retail policy in accordance with the requirements of contracts. Meanwhile, the Group set up special regulatory departments to regularly monitor and review sales performance of distributors and whether the distributors complied with contract provisions, based on which it decided if new distributors were needed or any distributors of poor performance were replaced. Additionally, the Group set about establishing corresponding information system and tracked and managed the sales of distributors and retailers.</p>
<p>Management of investment</p>	<p>The Group enhanced its R&D strength and increased product variety by selecting and acquiring companies. Meanwhile, to promote the diversified development of the Company, the Company will continue to expand equity investment business in healthcare, medical and other relevant fields. In the event that the Group cannot effectively integrate with the acquired companies, or the acquired assets or businesses did not receive or bring the expected gains, the Group's overall profits and development plans may be adversely affected.</p>	<p>In order to achieve the Group's business expansion planning and corporate strategic objectives, the Company planned to set up a business and management team consisting of professionals who will conduct special control of the pre-investment research and post-investment management of the Company's investment projects in healthcare, medical and other relevant fields. Referring to the senior investment experience and extensive resources of members of the Board, adequate and professional discussions were carried out and decisions were made accordingly.</p>

Corporate Governance Report

INDEPENDENCE OF EXTERNAL AUDITOR

The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. All services provided by the external auditor are required to be approved by the Audit Committee. To ensure that the policy of restricting the non-audit work done by the external auditor is strictly adopted by all entities within the Group, appropriate policies and procedures have been established for approval of engagement of the Group's independent external auditor, PricewaterhouseCoopers, to provide services to 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 enquiries 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 was no change in the Company's memorandum and articles of association during the year.

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 2015.

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 11 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the Consolidated Statement of Comprehensive Income on page 64 of this annual report.

The Board has resolved to recommend for declaration and payment of a final dividend of HK5 cents per share (HK\$78,169,000 in aggregate) for the year ended 31 December 2015, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting ("**AGM**") to be held on 6 May 2016. The final dividend will be paid on or about 27 May 2016 to the Shareholders whose names appear on the register of members of the Company on 13 May 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 May 2016 to 6 May 2016, both days inclusive. During such period, no transfer of shares of the Company (the "**Shares**") will be registered. The record date for determining the eligibility to attend the AGM will be on 6 May 2016. In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 3 May 2016.

The register of members of the Company will be closed on 13 May 2016. On such day, no transfer of Shares will be registered. The record date for determining the eligibility to receive the final dividend will be on 13 May 2016. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 12 May 2016.

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 128.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 14 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 25 to the consolidated financial statements.

Directors' Report

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2015 amounted to RMB1,219 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 67 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015:

- (a) the revenue attributable to the five largest customers of the Group as a percentage of the goods sold or services rendered by the Group was less than 30%;
- (b) the purchases attributable to the five largest suppliers of the Group accounted for 68% of the purchases of the Group;
- (c) the purchases attributable to the largest supplier of the Group accounted for 24% 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

Ms. Zhang Guimei (appointed on 16 September 2015)

Independent non-executive Directors

Mr. Huang Jingsheng

Mr. Wang Jing

Mr. Ren Guangming

Directors' Report

In accordance with article 16.2 of the articles of association of the Company, Ms. Zhang Guimei will retire at the forthcoming AGM, and being eligible, will offer herself for re-election.

In accordance with article 16.18 of the articles of association of the Company, Mr. Wang Jing and Mr. REN Guangming 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 38 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 or his/her related entities had a material interest, either directly or indirectly, in any transaction, arrangement or 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 10 to the consolidated financial statements of this annual report.

Directors' Report

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

As at 31 December 2015, 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⁾	867,355,216 ^{(1)(L)}	36,000,000 ^{(1)(L)}	5,000,000 ^{(1)(L)}	55.35%
Ms. Gao Yan	Beneficial owner and interest of her spouse ⁽²⁾⁽³⁾	867,355,216 ^{(2)(L)}	36,000,000 ^{(2)(L)}	5,000,000 ^{(2)(L)}	55.35%
Mr. Zhuo Fumin	Beneficial owner and interest of her spouse	1,136,000 ^{(4)(L)}	400,000 ^{(4)(L)}	600,000 ^{(4)(L)}	0.07%
Ms. Zhang Guimei	—	—	—	—	—
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) 810,859,176 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

Directors' Report

- (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) 810,859,176 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 1,566,970,820 Shares, being the number of Shares in issue as at 31 December 2015. 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.

Directors' Report

PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Share Option Scheme (“**Pre-IPO Share Option Scheme**”) for the first time by passing a resolution on 30 April 2010. The scheme aims to provide incentives for qualified employees. Pursuant to the Pre-IPO Share Option Scheme, the Board can provide qualified Directors, employees and consultants the share options to subscribe for shares of the Company.

The maximum number of shares which may be issued upon exercise of all options granted under the Pre-IPO Share Option Scheme is 76,980,000, representing approximately 4.92% of the issued shares as at the date of this annual report.

Details of specific category of options are as follows:

Options type	Date of grant	Share options		Exercise period	Exercise Price	Fair value of
		granted	Vesting period			option at
					RMB	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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The following table discloses the movement of the Company's share options held by the Directors, employees and consultant under the Pre-IPO Share Option Scheme for the year ended 31 December 2015:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2015	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2015
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	34,890,000	—	—	—	34,890,000
	6.5.2010	2nd	4 Years	4,990,000	—	(600,000)	—	4,390,000
	31.5.2010	5th	3.9 Years	—	—	—	—	—
	21.6.2010	6th	3.9 Years	100,000	—	—	—	100,000
	28.6.2010	7th	3.9 Years	200,000	—	—	—	200,000
				40,180,000	—	(600,000)	—	39,580,000
Total				77,580,000	—	(600,000)	—	76,980,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the year								76,980,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the year ended 31 December 2015.

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;

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- (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 no expense for the year ended 31 December 2015 (2014: RMB91,000) in relation to share options granted under the Pre-IPO Share Option Scheme by the Company.

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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 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 and representing approximately 10.75% of the issued shares as at the date of this annual report.

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

On 10 August 2015, the Company granted 2,900,000 share options under the Share Option Scheme.

Options type	Date of grant	Share options			Exercise Price HK\$	Fair value of
		granted	Vesting period	Exercise period		option at grant date HK\$
1st	27.10.2014	20,200,000	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.419
2nd	27.10.2014	21,060,000	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.388
3rd	27.10.2014	3,600,000	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.447
4th	10.8.2015	2,400,000	24.8.2015–23.8.2019	24.8.2016–23.8.2023	1.16	0.480
5th	10.8.2015	500,000	24.8.2015–23.8.2019	24.8.2016–23.8.2023	1.16	0.450

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The following table discloses the movement of the Company's share options held by the Directors, employees and consultant under the Share Option Scheme for the year ended 31 December 2015:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2015	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2015
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	—	—	(6,500,000)	—	14,560,000
	27.10.2014	3rd	4 Years	3,600,000	—	—	(3,000,000)	—	600,000
	10.8.2015	4th	4 Years	—	2,400,000	—	—	—	2,400,000
	10.8.2015	5th	4 Years	—	500,000	—	—	—	500,000
				37,460,000	2,900,000	—	(9,500,000)	—	30,860,000
	Total			44,860,000	2,900,000	—	(9,500,000)	—	38,260,000
Weighted average exercise price (HK\$)									
				1.00	1.16	—	1.00	—	1.01
Exercisable at the end of the year									
									8,840,000

Pursuant to the Share Option Scheme, the options granted on 27 October 2014 and 10 August 2015, 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;

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- (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 binomial option pricing model has been used to determine the fair value of share options granted during the year ended 31 December 2015. The inputs into the model were as follows:

	Option type				
	1st	2nd	3rd	4th	5th
Grant date share price (HK\$)	0.98	0.98	0.98	1.16	1.16
Exercise price (HK\$)	1.00	1.00	1.00	1.16	1.16
Expected volatility	50%	50%	50%	54%	54%
Option life	8 years	8 years	8 years	8 years	8 years
Dividend yield	1.00%	1.00%	1.00%	2.80%	2.80%
Risk-free interest rate	1.68%	1.68%	1.68%	1.52%	1.52%
Annual post-vesting forfeit rate	15.0%	25.0%	0.0%	15.0%	24.0%
Total estimated fair value of the options granted (HK\$'000)	8,458	8,178	1,611	1,145	225

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 recognized a total expense of RMB5,306,000 for the year ended 31 December 2015 (2014: RMB1,300,000) in relation to share options granted under the Share Option Scheme by the Company.

Directors' Report

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.

On 14 April 2015, 854,000 shares were granted by the Company to Selected Participants at nil consideration, and vested on 15 May 2015. On 6 July 2015, 112,000 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 21 August 2015. On 24 November 2015, 200,000 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 31 December 2015.

As at 31 December 2015, 36,801,567 shares (31 December 2014: 37,967,567 shares) were held by the Trust and not yet granted to Selected Participants.

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The Group recognized a total expense of RMB968,000 for the year ended 31 December 2015 (2014: RMB657,000) 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.

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the year ended 31 December 2015 and outstanding at 31 December 2015:

Employees	Number of awarded shares
Outstanding as at 1 January 2015	—
Granted during the year	1,166,000
Vested during the year	(1,166,000)
Outstanding as at 31 December 2015	—

The closing price of the Company's shares immediately before 14 April 2015, the date of grant of the restricted shares was HK\$1.19.

The closing price of the Company's shares immediately before 6 July 2015, the date of grant of the restricted shares was HK\$1.08.

The closing price of the Company's shares immediately before 24 November 2015, the date of grant of the restricted shares was HK\$0.90.

Save as disclosed above, during the year ended 31 December 2015, 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 aforesaid year.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, 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 (%) ⁽⁴⁾
Foreshore Holding Group Limited ⁽¹⁾	810,859,176 ^(L)	51.75%
KCS Trust Limited ⁽¹⁾	810,859,176 ^(L)	51.75%
Sea Network Holdings Limited ⁽¹⁾	810,859,176 ^(L)	51.75%
China Hui Yuan Juice Holdings Co., Ltd. ⁽²⁾	167,143,424 ^(L)	10.67%
Huiyuan International Holdings Limited ⁽²⁾	167,143,424 ^(L)	10.67%
Mr. ZHU Xinli ⁽²⁾	167,143,424 ^(L)	10.67%
GGV III Entrepreneurs Fund L.P. ⁽³⁾	93,442,640 ^(L)	5.96%
Granite Global Ventures III L.L.C. ⁽³⁾	93,442,640 ^(L)	5.96%
Granite Global Ventures III L.P. ⁽³⁾	93,442,640 ^(L)	5.96%

(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) The entire issued share capital of China Hui Yuan Juice Holdings Co., Ltd. is directly owned by Huiyuan International Holdings Limited. The entire issued share capital of Huiyuan International Holdings Limited is directly owned by Mr. Zhu Xinli.

(3) Granite Global Ventures III L.L.C. is the general partner of Granite Global Ventures III L.P., which beneficially owns 91,947,576 Shares, and GGV III Entrepreneurs Fund L.P., which beneficially owns 1,495,064 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 93,442,640 Shares.

(4) This is calculated based on 1,566,970,820 Shares, being the number of Shares in issue as at 31 December 2015.

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

Save as disclosed above, as at 31 December 2015, 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.

Directors' Report

CONNECTED TRANSACTIONS

Pursuant to the requirements of the Listing Rules, the transactions between the Company and the connected person (as defined in the Listing Rules) constitute a connected transaction of the Company. The Company monitors and manages these transactions in accordance with the Listing Rules. The followings are the non-exempt connected transactions carried out by the Group in the reporting period.

Non-exempt continuing connected transactions

New Structured Contract

In accordance with relevant state laws and regulations, any foreign investors shall not hold over 50% equities of any enterprises providing increment telecommunication services (including e-commerce) and such foreign investors shall have experience of the increment telecommunication business. On 28 March 2011, Beijing Outsell, the wholly-owned subsidiary of our Company, Mr. Zhao Yihong and the Pincha Online E-Commerce Co., Ltd. (hereinafter referred to as the "**Pincha**", an enterprise wholly owned by Mr. Zhao Yihong; it obtained the Business Permit of Telecommunication and Message Services issued by Beijing Communications Administration in September 2010.) entered into the Exclusive Business Cooperation Agreement, the Equity Mortgage Agreement, the Exclusive Purchasing Agreement and the Authorization Letter (hereinafter referred to as the "**Structured Contract**"). Pincha, as the medium, shall engage in e-commerce activities on behalf of the Group in accordance with the contract by and between Beijing Outsell and Pincha. Upon execution of the Structured Contract, the Company shall be entitled to control Pincha and gain returns thereby. Therefore, in accordance with the International Financial Reporting Standards No. 10, Pincha should be deemed as the wholly-owned subsidiary of the Company.

The board of directors holds that it is necessary to regularize the Group's e-commerce platform established by Beijing Outsell and Pincha. Upon execution of the Structured Contract, Pincha have been deemed to be the subsidiary of the Company. The Group is in charge of the finance and operation of Pincha through Beijing Outsell. Beijing Outsell may continue its low-cost strategy of expanding the distribution network on the Internet and shortening the sales process by direct connection with customers.

As the Structured Contract and the annual cap of the continuing connected transaction thereunder expired on 31 December 2014, on 27 October 2014, Beijing Outsell, Mr. Zhao Yihong and Pincha entered into a new structured contract (hereinafter referred to as the "**New Structured Contract**"). The contract term of the New Structured Contract is twenty-four (24) years with the effective date on 1 January 2015 and the expiry date on 31 December 2038. The New Structured Contract mainly includes the articles as follows:

- In accordance with the Exclusive Business Cooperation Agreement by and between Beijing Outsell and Pincha, Beijing Outsell (or any party(ies) designated by Beijing Outsell) shall exclusively provide Pincha with technical consulting and management services, including but not limited to technological service, Internet supporting service, business consulting service, permit of Intellectual Property Rights, equipment leasing service, market consulting service, system integration, product R&D, system maintenance and other legal services at Pincha's request, whereas, Pincha shall only accept such services provided by Beijing Outsell. Unless otherwise it has obtained prior consent of Beijing Outsell in writing, Pincha shall not accept any of the aforesaid services provided by any other third parties or enlist cooperation with any other third parties;

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- In accordance with the Equity Pledge Contract by and among Beijing Outsell, Mr. Zhao Yihong and Pincha, Mr. Zhao Yihong agrees to make a pledge of all equities of Pincha to Beijing Outsell as (including) the guarantee for all of Pincha's liability under the Exclusive Business Cooperation Agreement;
- In accordance with the Exclusive Purchasing Right Contract by and among Beijing Outsell, Mr. Zhao Yihong and Pincha, Mr. Zhao Yihong grants irrevocably Beijing Outsell the particular right that Beijing Outsell, subject to the applicable state laws and regulations, is entitled to conduct any performance at its own discretion and purchase (or authorize one or more person(s) to purchase) the whole or part of Pincha's equities by lump-sum payment or installments at the lowest price legally (unless otherwise the state laws have other restrictions with regard to the evaluation and purchasing price), whereas, Pincha agrees with Mr. Zhao Yihong's granting Beijing Outsell the relevant equity purchasing right. The Agreement also stipulates that Beijing Outsell, as allowed by state laws, may directly engage in the increment telecommunication business or directly hold Pincha's equities. During its operation of increment telecommunication business, each party shall adopt necessary actions in accordance with the provisions under the Contract of Exclusive Purchasing Right to assist Beijing Outsell or its designated third party(ies) (which shall be the subsidiary(ies) of the Company) with obtainment of all of Pincha's equities and cooperate with such party to terminate relevant contract(s), agreement(s) and other law document(s) (including but not limited to the Exclusive Business Cooperation Agreement, the Equity Pledge Contract, the Contract of Exclusive Purchasing Right and the Authorization Letter); and
- In accordance with the Authorization Letter signed by Mr. Zhao Yihong, Mr. Zhao Yihong grants irrevocably the board of directors, the executive director or the legal representative of Beijing Outsell, or any person(s) or successor(s) designated by the aforesaid person(s) all rights and power to perform as the only shareholder of Pincha. The authorized person(s) shall be Chinese citizen(s) and shall not be Mr. Zhao Yihong or any person(s) connected to Mr. Zhao Yihong (defined by the listing rules).

As Pincha is wholly owned by Mr. Zhao Yihong, the controlling shareholder and executive director of the Company, Mr. Zhao Yihong and Pincha are both connected persons of the Company under the listing rules. In accordance with the listing rules, the New Structured Contract and the three-year annual cap of the continuing connected transactions thereunder with the expiry date on 31 December 2017, have been approved by the independent shareholders of the Company.

During the reporting period, Pincha has realized an annual revenue of RMB50.9 million in 2015 with an increase of 92.1% year on year by RMB26.5 million. In addition, the gross profit has increased from RMB12.2 million in 2014 to RMB24.6 million 2015, with a growth of 101.6% year on year. Meanwhile, the gross profit has increased from 46.0% in 2014 to 48.3% in 2015. On the other hand, Pincha's total operating costs (including sales and marketing expenses and administrative expenses) in 2015 amounted to RMB18.2 million, reaching an increase of RMB15.2 million, equivalent to 19.7%, year on year. On the basis of the above-mentioned reasons, Pincha has realized the net profit of RMB7.0 million in 2015. Compared to the loss of RMB2.5 million in 2014, Pincha has encountered an economic turnaround.

Directors' Report

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;

Directors' Report

- 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.

New Distribution Agreement

On 30 September 2010, Beijing Outsell and Pincha entered into a distribution agreement (the "**Distribution Agreement**"). In accordance with the Distribution Agreement, Beijing Outsell agrees to sell products to Pincha by means of distribution. As the Distribution Agreement and the annual cap of the continuing connected transactions thereunder expired on 31 December 2014, on 27 October, 2014, Beijing Outsell and Pincha entered into a new Internet Distribution Contract (the "**New Distribution Agreement**"). The contract term of the New Distribution Contract is three (3) years with the effective date on 1 January 2015. In accordance with the New Distribution Agreement, Pincha agrees to carry out global distribution of the products provided by Beijing Outsell or any of its subsidiaries on the e-commerce platform and via its telephone selling network, whereas, Beijing Outsell sells products to Pincha at the prices with the reasonable profit rate ranging from 6.16% to 20.54% of costs and based on the previous selling prices of the products sold to Pincha in the previous three years.

As Pincha is wholly owned by Mr. Zhao Yihong, the controlling shareholder and executive director of the Company, Mr. Zhao Yihong and Pincha are both connected persons of the Company under the listing rules. In accordance with the listing rules, the New Distribution Agreement and the three-year annual cap of the continuing connected transactions thereunder with the expiry date on 31 December 2017 have been approved by the independent shareholders of the Company.

Directors' Report

New Leasing Agreement

On 30 September 2010, Beijing Outsell and Pincha entered into a leasing agreement (the "**Leasing Agreement**"). In accordance with the Leasing Agreement, Beijing Outsell agrees to lease a property to Pincha for office use. As the Leasing Agreement and the annual cap of the continuing connected transactions thereunder expired on 31 December 2014, on 27 October 2014, Beijing Outsell and Pincha entered into a new leasing agreement (the "**New Leasing Agreement**"). The contract term of the New Leasing Agreement is three (3) years with the effective date on 1 January 2015. In accordance with the New Leasing Agreement, Beijing Outsell agrees to lease the Linglong Tiandi property with the floor area of 437 square meters to Pincha for office use. Pincha shall pay the rent totaling RMB786,600 based on the fixed monthly rent of RMB150 per square meter to the Linglong Tiandi property on behalf of the Group every year until the termination of the Leasing Agreement on 31 December 2017.

As Pincha is wholly owned by Mr. Zhao Yihong, the controlling shareholder and executive director of the Company, Mr. Zhao Yihong and Pincha are both connected persons of the Company under the listing rules. According to the listing rules, the New Leasing Agreement and the three-year annual cap of the continuing connected transactions thereunder with the expiry date on 31 December 2017 have been approved by the independent shareholders of the Company.

The Company confirms that the execution and performance of the specific agreements under the above continuing connected transactions during the year ended 31 December 2015 were in compliance with the pricing principles of such continuing connected transactions.

The annual caps and the actual transaction amounts of the above non-exempt continuing connected transactions for the year ended 31 December 2015 are shown below:

	Annual cap (RMB)	Actual transaction amount (RMB)
New Distribution Agreement	41,046,000	25,834,000
New Lease Agreement	786,600	786,600
New Structure Contract	682,000	625,000

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions for the year ended 31 December 2015 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.

Directors' Report

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 2015:

- (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 2015.

For the continuing connected transactions set out above for the year ended 31 December 2015, the Group has followed the pricing policies of the Group.

Non-exempt connected transactions

On 16 April 2015, Beijing Tianrun Diliang Investment Co., Ltd. ("**Tianrun Diliang**"), a company controlled by Mr. Zhao Yixing, and the original minority shareholders of Guangzhou Runliang Pharmaceutical Co., Ltd. ("**Runliang Pharmaceutical**"), a company as to 80% owned by Beijing Outsell entered into the Equity Transfer Agreement to acquire the 20% equity interest of Runliang Pharmaceutical held by it. Beijing Outsell had decided not to exercise its pre-emptive rights for such acquisition. Upon the completion of the transfer of 20% equity interest of Runliang Pharmaceutical from the original minority shareholders to Tianrun Diliang, 80% and 20% of the equity interest of Runliang Pharmaceutical have been held by Beijing Outsell and Tianrun Diliang respectively. The total investment amount of Runliang Pharmaceutical is RMB50,000,000, and contributed by both parties on a pro-rata basis.

As Mr. Zhao Yixing is a younger brother of Mr. Zhao Yihong, who is the controlling shareholder of the Company and an executive Director, Mr. Zhao Yixing is an associate of Mr. Zhao Yihong. Therefore, Tianrun Diliang, controlled by Mr. Zhao Yixing, is a connected person of the Company as defined under Rule 14A.07 of the Listing Rules. Upon completion of the Equity Transfer Agreement entered into between Tianrun Diliang and the original minority shareholders, the Joint Venture Arrangement between Beijing Outsell and Tianrun Diliang in respect of Runliang Pharmaceutical will constitute a connected transaction of the Company under the Listing Rules. The Company considers that the Joint Venture Arrangement entered into between Beijing Outsell and Tianrun Diliang will forge a close connection of the interests of the shareholders and the Company with those of the senior management of Runliang Pharmaceutical, as well as enhancing the proactivity of the senior management of Runliang Pharmaceutical, which will further increase the sales revenue of the Group and generate further profit for the Company and its shareholders.

The transaction details were set out in the announcement dated 16 April 2015 at the websites of the Stock Exchange and the Company.

Directors' Report

Save as disclosed above, for the year ended 31 December 2015, there is no related party transaction or continuing related party transaction as set out in note 37 to the consolidated financial statements that falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "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.

PERMITTED INDEMNITY PROVISION

The Company maintained Directors' liability insurance to protect them from any loss to which the Directors of the Company might be liable arising from their actual or alleged misconduct.

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.

Directors' Report

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

The Shares repurchased by the Company on the Stock Exchange during the year ended 31 December 2015 are as follows:

Month	No. of Shares repurchased	Price per Share		Total consideration HK\$'000
		Highest HK\$	Lowest HK\$	
December	2,451,000	0.99	0.90	2,320
Total	2,451,000	0.99	0.90	2,320

The above repurchase was made to increase the net assets and earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2015.

DONATION

The Company made charitable donations of RMB1,770,000 in aggregate during the year ended 31 December 2015.

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 PricewaterhouseCoopers as auditor of the Company for the year ended 31 December 2015. The Company has engaged PricewaterhouseCoopers to act as the auditor of the Company since 2015.

On behalf of the Board

ZHAO Yihong

Chairman

Hong Kong, 11 March 2016

Independent Auditor's Report



羅兵咸永道

To the shareholders of Besunyen Holdings Company Limited

(incorporated in Cayman Island with limited liability)

We have audited the consolidated financial statements of Besunyen Holdings Company Limited (the “**Company**”) and its subsidiaries set out on pages 64 to 127, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of 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. 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 11 March 2016

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December	
		2015 RMB'000	2014 RMB'000
Revenue	5	662,805	563,888
Cost of sales	6	(68,568)	(88,607)
Gross profit		594,237	475,281
Other income	7	40,205	49,290
Selling and marketing expenses	6	(431,939)	(358,813)
Administrative expenses	6	(104,793)	(92,393)
Research and development costs	6	(19,179)	(14,839)
Other expenses	6	(11,375)	(11,662)
Other losses, net	8	(2,717)	(2,334)
Gain on disposal of a subsidiary	9	—	9,977
Profit before income tax		64,439	54,507
Income tax credit/(expense)	12	23,775	(9,472)
Profit for the year		88,214	45,035
Profit attributable to:			
— Owners of the Company		92,291	45,035
— Non-controlling interests		(4,077)	—
		88,214	45,035
Other comprehensive income		—	—
Total comprehensive income for the year		88,214	45,035
Total comprehensive income attributable to:			
— Owners of the Company		92,291	45,035
— Non-controlling interests		(4,077)	—
		88,214	45,035
Earnings per share attributable to owners of the Company (RMB cents)			
— Basic earnings per share	13	6.02	2.94
— Diluted earnings per share	13	6.02	2.94

The notes on pages 69 to 127 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000 (As reclassified)	As at 1 January 2014 RMB'000 (As reclassified)
ASSETS				
Non-current assets				
Property, plant and equipment	14	389,052	286,869	356,119
Land use rights	15	377,100	376,809	389,093
Investment properties	16	57,694	141,240	63,378
Intangible assets	17	9,608	1,933	2,215
Non-current deposits	18	6,755	5,439	1,278
Deferred income tax assets	29	38,723	12,850	14,496
		878,932	825,140	826,579
Current assets				
Inventories	19	6,188	5,114	5,674
Trade and bills receivables	20	17,404	14,121	14,184
Deposits, prepayments and other receivables	21	32,905	34,805	38,802
Pledged bank deposits	22	—	813	13,631
Term deposits with initial term of over three months	23	50,000	100,000	201,000
Cash and cash equivalents	24	425,858	377,753	207,578
		532,355	532,606	480,869
Assets classified as held for sale	9	—	—	7,600
Total assets		1,411,287	1,357,746	1,315,048
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	25	89	89	89
Share premium		1,229,764	1,271,589	1,287,209
Other reserves	26	326,773	318,377	317,494
Accumulated losses		(316,851)	(407,020)	(453,450)
		1,239,775	1,183,035	1,151,342
Non-controlling interests		5,960	—	—
Total equity		1,245,735	1,183,035	1,151,342

Consolidated Balance Sheet (Continued)

	Note	As at 31 December 2015 RMB'000	As at 31 December 2014 RMB'000 (As reclassified)	As at 1 January 2014 RMB'000 (As reclassified)
LIABILITIES				
Non-current liabilities				
Deferred government grants	28	6,325	6,326	7,112
Deferred income tax liabilities	29	8,429	6,833	7,104
Other non-current liabilities		1,698	1,693	1,593
		16,452	14,852	15,809
Current liabilities				
Trade and bills payables	30	7,577	10,381	17,232
Other payables and accrued expenses	31	135,110	147,771	115,974
Current income tax liabilities		6,413	1,707	2,794
		149,100	159,859	136,000
Liabilities associated with assets classified as held for sale	9	—	—	11,897
Total liabilities		165,552	174,711	163,706
Total equity and liabilities		1,411,287	1,357,746	1,315,048

The notes on pages 69 to 127 form an integral part of these consolidated financial statements.

The financial statements on pages 64 to 127 were approved by the Board of Directors on 11 March 2016 and were signed on its behalf.

ZHAO Yihong
Director

GAO Yan
Director

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves (Note 26)	Accumulated losses	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014		89	1,287,209	317,494	(453,450)	1,151,342	—	1,151,342
Total comprehensive income for the year		—	—	—	45,035	45,035	—	45,035
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	10	—	—	2,278	—	2,278	—	2,278
Transfer of share-based payment reserve upon expiration of share options		—	—	(2,586)	2,586	—	—	—
Vesting of restricted shares under restricted share award scheme		—	—	657	(657)	—	—	—
Transfer to statutory reserves		—	—	534	(534)	—	—	—
Dividends	33	—	(15,620)	—	—	(15,620)	—	(15,620)
Balance at 31 December 2014		89	1,271,589	318,377	(407,020)	1,183,035	—	1,183,035
Balance at 1 January 2015		89	1,271,589	318,377	(407,020)	1,183,035	—	1,183,035
Total comprehensive income for the year		—	—	—	92,291	92,291	(4,077)	88,214
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	10	—	—	6,274	—	6,274	—	6,274
Vesting of restricted shares under restricted share award scheme		—	—	(217)	217	—	—	—
Transfer to statutory reserves		—	—	2,339	(2,339)	—	—	—
Acquisition of a subsidiary	36	—	—	—	—	—	10,037	10,037
Repurchase and cancellation of shares	25	—	(1,932)	—	—	(1,932)	—	(1,932)
Dividends	33	—	(39,893)	—	—	(39,893)	—	(39,893)
Balance at 31 December 2015		89	1,229,764	326,773	(316,851)	1,239,775	5,960	1,245,735

The notes on pages 69 to 127 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2015 RMB'000	2014 RMB'000 (As reclassified)
Cash flows from operating activities			
Cash generated from operations	32	63,781	110,361
Income taxes paid		(3,806)	(9,184)
Interest received		3,471	8,023
Net cash generated from operating activities		63,446	109,200
Cash flows from investing activities			
Purchases of short-term investments		(523,000)	(1,062,000)
Proceeds from maturity of short-term investments		532,738	1,070,827
Placement of term deposits with initial term of over three months		(120,000)	(142,629)
Withdrawal of term deposits with initial term of over three months		173,646	243,629
Placement of pledged bank deposits		—	(33,360)
Withdrawal of pledged bank deposits		813	46,178
Purchases of property, plant and equipment		(28,162)	(46,524)
Purchases of intangible assets		(2,120)	(4,743)
Payment for land use rights		(9,175)	(3,000)
Net cash inflow arising from disposal of a subsidiary	9	—	2,519
Acquisition of a subsidiary, net of cash acquired	36	1,343	—
Proceeds from disposals of property, plant and equipment		77	109
Others		—	2,326
Net cash from investing activities		26,160	73,332
Cash flows from financing activities			
Dividends paid to owners of the Company	33	(39,893)	(15,620)
Repurchase of shares	25	(1,932)	—
Net cash used in financing activities		(41,825)	(15,620)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of year		377,753	210,739
Exchange gains on cash and cash equivalents		324	102
Cash and cash equivalents at end of year		425,858	377,753

The notes on pages 69 to 127 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Besunyen Holdings Company Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The principle activities of the Company and its subsidiaries (collectively referred to as the “**Group**”) are the manufacturing and sales of therapeutic tea products and slimming medicines.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of Besunyen Holdings Company Limited have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRS**”). The consolidated financial statements have been prepared under the historical cost convention.

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

2.1.1 Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

- Amendment to IAS 19, ‘Employee benefits’.
- Amendments from annual improvements to IFRSs — 2010–2012 Cycle, which include changes to IFRS 8, ‘Operating segments’, IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’ and IAS 24, ‘Related party disclosures’.
- Amendments from annual improvements to IFRSs — 2011–2013 Cycle, which include changes to IFRS 3, ‘Business combinations’, IFRS 13, ‘Fair value measurement’ and IAS 40, ‘Investment property’.

The adoption of abovementioned amendments did not have any significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***2.1 Basis of preparation** *(Continued)***2.1.1 Changes in accounting policy and disclosures** *(Continued)**(b) New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) New standards amendments, and interpretations issued but not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
Amendment to IFRS 11, 'Joint Arrangements'	1 January 2016
Amendment to IAS 16, 'Property, Plant and Equipment'	1 January 2016
Amendment to IAS 38, 'Intangible Assets'	1 January 2016
Amendment to IFRS 10, 'Consolidated Financial Statements'	1 January 2016
Amendment to IAS 28, 'Investments in Associates and Joint Ventures'	*
Amendment to IAS 27, 'Separate Financial Statements'	1 January 2016
Annual Improvement to IFRSs 2012–2014 cycle	1 January 2016
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRS 9 'Financial Instrument'	1 January 2018
IFRS 16 'Leases'	1 January 2019

* The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

Management is assessing the impact of such new standards, amendments to standards and will adopt the relevant standards, amendments to standards in the subsequent periods as required.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) *Business combinations (Continued)*

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not premeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.8).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

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

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. In addition, the contribution to the Company's Share Scheme Trust (as defined in Note 11(c)), a controlled structured entity, is stated at cost in "Loan to the subsidiary" first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition for the share of the Company.

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains/losses — net'.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Construction in progress (“**CIP**”) is property, plant and equipment on which construction work has not been completed, and is stated at cost, less accumulated impairment losses, if any. Depreciation is not provided on CIP until such time as the related assets are completed and ready for intended use. When the assets being constructed are ready for their intended use, the CIP is transferred to the appropriate category of property, plant and equipment.

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10–30 years
Plant and machinery	5–10 years
Furnitures and others	2–5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within ‘other gains/losses — net’ in the statement of comprehensive income.

2.6 Investment property

Investment property, principally comprising buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses (if any). 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.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Prepaid lease payments

Prepaid lease payments represent upfront prepayments for the land use rights, and are stated at cost initially and expensed on a straight-line basis over the periods of the leases.

2.8 Intangible assets

(a) Goodwill

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

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

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

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

(c) Trademarks, licenses and other intangible assets

Separately acquired trademarks and licenses are shown at historical cost. Trademarks, licenses and sales agency right acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, licenses and sales agency right have a finite useful life and are carried at cost less accumulated amortisation and impairment (if any). Amortisation is calculated using the straight-line method to allocate the cost of trademarks, licenses and sales agency right over their estimated useful lives of 10 years.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Impairment of non-financial assets

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

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount that would have been determined, net of applicable depreciation, if no impairment loss had been recognised.

2.10 Financial assets

2.10.1 Classification

The Group's financial assets include loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "pledged bank deposits", "term deposits with initial terms of over three months" and 'cash and cash equivalents' in the balance sheet.

(b) *Available-for-sale financial assets*

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement

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

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. The accumulate fair value adjustments will be recognised in profit or loss when the related securities are being sold or impaired.

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

2.11 Offsetting financial instruments

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets *(Continued)*

(b) Assets classified as available-for-sale

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

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

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

2.13 Inventories

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

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

2.15 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Share capital

Ordinary shares are classified as equity.

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

2.17 Trade payables

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

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

2.18 Current and deferred income tax

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

(a) Current income tax

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Employee benefits

All eligible employees of the Group are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government mandated multi-employer defined contribution plan. The Group is required to accrue for these benefits based on certain percentages of the qualified employees' salaries. The Group is required to make contributions to the plans out of the amounts accrued. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Group's obligations are limited to the amounts contributed. The contributions to the plan are recorded as production costs or expenses as incurred. The Group has no further payment obligations once the contributions have been paid.

2.20 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans. These plans comprise share option schemes and a restricted share award scheme. The fair value of the employee services received in exchange for the grant of the options or shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options or shares granted as at date of grant, including any market performance conditions and excluding the impacts of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period) as well as any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options and shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share premium.

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Share-based payments *(Continued)*

(b) Share-based payment transactions among group entities

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

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Sales of goods

Wholesales

The Group sells Detox Tea, Slimming Tea, other tea products and Slimming medicines to wholesalers. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has accepted the products and collectability of the related receivables is reasonably assured.

The products are often sold with volume discounts. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts at the time of sale. Accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases.

Internet sales

Revenue from the sale of goods on the internet is recognised upon acceptance of the delivery of the products by the customer. Provisions are made for sales return based on the expected level of returns, which in turn is based upon the historical rate of returns.

(b) Rental income

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

2.23 Interest income

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

2.24 Dividend income

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

Notes to the Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Operating lease

The Group leases certain property and plant. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to profit or loss on a straight-line basis over the period of the lease.

2.27 Dividend distribution

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

2.28 Research and development costs

Research and development costs included expenses incurred by the Group to design and listing of new or improved products. These expenses are mainly comprised of salaries, employee benefits and other headcount-related costs, raw material consumable and depreciation associated with the research and development activities. For the year ended 31 December 2015 and 2014, the amount of costs qualifying for capitalisation was not significant and as a result, the Group expensed all research and development costs as incurred.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior management of the Group.

3.1.1 Market risk

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("US\$") and the HK dollar ("HK\$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities denominated in a currency other than the RMB.

The carrying amounts of the Group's US\$/HK\$ denominated monetary assets and monetary liabilities at the respective balance dates are as follows:

	2015 RMB'000	2014 RMB'000
US\$		
Assets	139	1,621
Liabilities	—	—
Net	139	1,621
HK\$		
Assets	5,325	4,486
Liabilities	—	—
Net	5,325	4,486

As at 31 December 2015 and 2014, if RMB strengthened/weakened by 5% against US\$ and HK\$ with all other variables held constant, the post-tax profit for each year would have been approximately RMB273,000 (2014: RMB305,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US\$ and HK\$ denominated cash and cash equivalents and other receivables.

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors** (Continued)**3.1.2 Credit risk**

For cash and cash equivalents, term deposits with initial term of over three months, pledged bank deposits and short term investments, the Group manages the credit risk by placing all the bank deposits in or purchasing all the short term investments from state-owned financial institutions or reputable banks located in PRC, and the Group believes the credit risk of these banks and financial institutions is relatively low. Therefore, the Group's credit risk arises primarily from trade and bills receivables and other receivables. Ageing analysis of the Group's trade and bills receivables is disclosed in Note 20. The Group assesses the credit quality of its customers by taking into account various factors including their financial positioner payment patterns, past experience and other factors. Management does not expect any significant losses from non-performance by these counterparties except for those recognised.

3.1.3 Liquidity risk

The Group manages liquidity risk by maintaining adequate cash and cash equivalents. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest elements computed using contractual rates.

	On demand or less than 3 month 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	7,577	—	—	7,577	7,577
Other payables and accrued expenses	56,987	—	—	56,987	56,987
Other non-current liabilities	—	—	1,698	1,698	1,698
At 31 December 2015	64,564	—	1,698	66,262	66,262
Non-derivative financial liabilities					
Trade and bills payables	10,381	—	—	10,381	10,381
Other payables and accrued expenses	64,674	—	—	64,674	64,674
Other non-current liabilities	—	—	1,693	1,693	1,693
At 31 December 2014	75,055	—	1,693	76,748	76,748

Notes to the Consolidated Financial Statements

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or drawdown of borrowings.

The Group monitors capital on the basis of the liability-to-asset ratio. As at 31 December 2015, the liability-to-asset ratio was 11.73% (2014: 12.87%).

3.3 Fair value estimation

Three levels of the inputs to valuation techniques were used to measure fair value:

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

The Group has no financial assets and liabilities that are measured at fair value as at 31 December 2015 and 2014.

The disclosure in respect of the fair value of the Group's investment properties has been set out in Note 16.

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) *Estimated impairment of property, plant and equipment*

At each reporting period date, the Group reviews whether there is any indication that property, plant and equipment might have been impaired or any possible reversal of impairment previously recognised. If impairment indication exists, the recoverable amount of the asset (i.e. the greater of its fair value less costs of disposal and value in use) is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit which the asset belongs to.

Impairment testing is an area involving management judgement. In calculating the net present value of the future cash flows when applying value-in-use calculations, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of annual growth rate and pre-tax discount rate.

Changes in the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation results. Details of the impairment assessment as conducted by management have been set out in Note 14 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Income taxes

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination is made. In addition, the realisation of deferred income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates would result in adjustments to the value of future income tax assets and liabilities, which could have a significant effect on the income tax expenses.

5. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker ("CODM") has been identified as the Executive Directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources.

In prior years, the CODM had only identified the manufacturing and sales of tea products as a single reportable segment. In 2015, the Group has expanded its business activities to sales of slimming medicines through the acquisition of a subsidiary, and the financial information on this business segment was also presented to the Group's CODM on a standalone basis starting from the second half of 2015. Accordingly, the Group had two reportable segments namely, the tea products segment and the slimming medicine segment for the year ended 31 December 2015.

The CODM evaluates the performance of the reportable segments based on their revenue, gross profit and operating results which derived from gross profit to include selling and marketing expenses and research and development costs. The CODM does not assess the assets and liabilities of the operating segments.

Revenue

The revenue segment information reported to CODM for the years ended 31 December 2015 and 2014 is as follows:

	2015 RMB'000	2014 RMB'000
Tea products segment		
— Detox tea	274,007	251,570
— Slimming tea	323,378	307,738
— Other tea products	2,032	4,580
	599,417	563,888
Slimming medicine segment		
— Slimming medicine	63,388	—
	662,805	563,888

Notes to the Consolidated Financial Statements

5. REVENUE AND SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2015 are as follows:

	Tea products segment RMB'000	Slimming medicine segment RMB'000	Total RMB'000
Total revenue	599,417	63,388	662,805
Inter-segment revenue	—	—	—
Revenue from external customers	599,417	63,388	662,805
Cost of sales*	(56,454)	(12,114)	(68,568)
Gross profit	542,963	51,274	594,237
Selling and marketing expenses	(365,439)	(66,500)	(431,939)
Research and development costs	(19,179)	—	(19,179)
Segment results	158,345	(15,226)	143,119
Other income			40,205
Other losses, net			(2,717)
Administrative expenses			(104,793)
Other expenses			(11,375)
Profit before income tax			64,439
Income tax credit			23,775
Profit for the year			88,214
Other segment information:			
Depreciation	(31,157)	(65)	(31,222)
Amortisation	(9,260)	(535)	(9,795)
Reversal of impairment of property, plant and equipment*	28,507	—	28,507

* The reversal of impairment of property, plant and equipment as recognised has been offset against the 'cost of sales' of the tea products segment for the year ended 31 December 2015.

Notes to the Consolidated Financial Statements

5. REVENUE AND SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2014 are as follows:

	Tea products segment RMB'000
Revenue from external customers	563,888
Cost of sales	(88,607)
Gross profit	475,281
Selling and marketing expenses	(358,813)
Research and development costs	(14,839)
Segment results	101,629
Other income	49,290
Other losses, net	(2,334)
Administrative expenses	(92,393)
Other expenses	(11,662)
Gain on disposal of a subsidiary	9,977
Profit before income tax	54,507
Income tax expense	(9,472)
Profit for the year	45,035
Other segment information:	
Depreciation	(30,265)
Amortisation	(12,588)

Non-current assets are all located in the PRC.

All the revenue derived from any single external customer were less than 10% of the Group's total revenue for the years ended 31 December 2015 and 2014.

Notes to the Consolidated Financial Statements

6. EXPENSES BY NATURE

	2015 RMB'000	2014 RMB'000
Changes in inventories of finished goods and work in progress	(1,493)	438
Raw materials and consumables used	53,145	45,105
Advertising costs	219,533	163,737
Employee benefit expense (Note 10)	148,858	131,067
Marketing and promotional expenses	98,685	86,522
Depreciation and amortisation	41,017	42,853
Entertainment and travelling expenses	17,782	13,025
Professional service fees	17,070	24,236
Taxations	8,921	6,673
Office expenses	8,165	5,841
Maintenance and testing costs	5,178	5,567
Auditors' remuneration		
— Audit	3,920	2,130
— Non-audit	1,178	1,029
Reversal of impairment of property, plant and equipment	(28,507)	—
Others	42,402	38,091
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	635,854	566,314

7. OTHER INCOME

	2015 RMB'000	2014 RMB'000
Rental income from investment properties	19,096	19,749
Government grants	5,678	12,813
Bank interest income	5,550	9,690
Interest income from short term investment	9,738	7,038
Others	143	—
	40,205	49,290

Notes to the Consolidated Financial Statements

8. OTHER LOSSES, NET

	2015 RMB'000	2014 RMB'000
Loss on disposal of property, plant and equipment	233	233
Donation	1,766	2,325
Net foreign exchange loss/(gain)	805	(102)
Others	(87)	(122)
	2,717	2,334

9. GAIN ON DISPOSAL OF A SUBSIDIARY

In December 2013, the directors of the Company initiated negotiations with an interested party to dispose of subsidiary — Ever Assure Limited (“**Ever Assure**”). The assets and liabilities attributable to Ever Assure amounting to RMB7,600,000 and RMB11,897,000, respectively, were classified as a disposal group held for sale as at 31 December 2013. On 14 March 2014, a sale and purchase agreement was signed with a third party to dispose of Ever Assure at a cash consideration of RMB5,680,000 and the disposal was completed in 2014.

10. EMPLOYEE BENEFIT EXPENSES

	2015 RMB'000	2014 RMB'000
Salaries, bonus and other allowances	134,185	123,600
Share-based compensation	6,274	2,278
Pension cost — defined contribution plan	8,399	5,189
	148,858	131,067

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2014: two) directors whose emoluments are reflected in the analysis shown in Note 38. The emoluments payable to the remaining three (2014: three) individuals during the year are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, bonus and other allowances	5,633	6,365
Share-based compensation	1,016	108
Pension cost — defined contribution plan	105	132
	6,754	6,605

Notes to the Consolidated Financial Statements

10. EMPLOYEE BENEFIT EXPENSES (Continued)

The emoluments fell within the following bands:

Emolument bands (in HK\$)	Number of individuals	
	2015	2014
HK\$1,000,001–HK\$1,500,000	1	—
HK\$1,500,001–HK\$2,000,000	—	1
HK\$2,000,000–HK\$2,500,000	1	1
HK\$3,000,001–HK\$3,500,000	1	—
HK\$4,000,001–HK\$4,500,000	—	1

11. SUBSIDIARIES

(a) Subsidiaries

At of 31 December 2015, the Company had the following principal subsidiaries:

Name of subsidiaries	Place of incorporation/operation	Issued and fully paid share capital/registered capital	Principal activities and place of operation	Proportion of ownership interest and voting power directly hold by the Company	Proportion of ownership interest and voting power indirectly hold by the Company
Besunyen BVI	BVI/The PRC	US\$1	Investment holding	100%	—
Besunyen (Hong Kong) Co., Limited 碧生源(香港)有限公司	Hong Kong	HK\$1	Investment holding	—	100%
Beijing Outsell Health Product Development Co., Ltd 北京澳特舒爾保健品開發有限公司	The PRC	RMB829,413,849	Manufacture and sales of therapeutic tea products	—	100%
Beijing Besunyen Trading Co., Ltd. (note i) 北京碧生源商貿有限公司	The PRC	RMB5,000,000	Sales of therapeutic tea products	—	100%
Beijing Besunyen Food and Beverage Co., Ltd. (note i) 北京碧生源食品飲料有限公司	The PRC	RMB100,000,000	Sales of therapeutic tea products	—	100%
Guangzhou Outsell Trading Co., Ltd. (note i) 廣州澳特舒爾商貿有限公司	The PRC	RMB5,000,000	Sales of therapeutic tea products	—	100%
Beijing Pincha Online E-Commerce Co., Ltd. (notes i and ii) 北京品茶在綫電子商務有限公司	The PRC	RMB6,000,000	Sales of therapeutic tea products	—	Note ii
Jiang Xi Besunyen Trading Co., Ltd. (note i) 江西碧生源商貿有限公司	The PRC	RMB2,000,000	Sales of therapeutic tea products	—	100%
Hei Longjiang Besunyen Trading Co., Ltd. (note i) 黑龍江碧生源商貿有限公司	The PRC	RMB5,000,000	Sales of therapeutic tea products	—	100%
Beijing Besunyen Pharmaceutical Co., Ltd. (note i) 北京碧生源藥業有限公司	The PRC	RMB10,000,000	Research, manufacturing and sales of herbal and medical tea	—	100%
Guangzhou Runliang Pharmaceutical Co., Ltd. (notes iv and 36) 廣州潤良藥業有限公司	The PRC	RMB15,000,000	Sales of slimming medicine	—	80%

The form of business structure of all the above subsidiaries are limited liabilities companies and the Company directly/indirectly owns the equity interests of all of the above subsidiaries.

Notes to the Consolidated Financial Statements

11. SUBSIDIARIES (Continued)

(a) Subsidiaries (Continued)

- (i) These companies are limited liability companies which are wholly owned by Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**").
- (ii) The Group operates E-commerce platform, 7Cha.com for selling of its own products in the PRC, the operations of the Group E-commerce platform was conducted through Beijing Pincha Online E-Commerce Co., Ltd. ("**Pincha**"), a limited liability company established in the PRC by the controlling shareholder of the Company on 30 June 2010. Pincha is legally owned by the controlling shareholder of the Company who is a PRC citizen (the "**Registered Shareholders**").

The PRC regulations restrict foreign ownership companies to provide value-added telecommunications services, which include activities and services operated by Pincha. In order to enable certain foreign company to make investments into the E-commerce business of the Group, Beijing Outsell, Pincha and the Registered Shareholders had entered into a series of contractual arrangements (collectively, "**Structure Contracts**"). Under these Structure Contracts, the Company is able to:

- exercise effective financial and operational control over Pincha;
- exercise owners' voting rights of Pincha;
- receive substantially all of the economic interest returns generated by Pincha in consideration for the business support, technical and consulting services provided by Beijing Outsell;
- obtain an irrevocable and exclusive right to purchase all or part of equity interests in Pincha from the Registered Shareholders at a minimum purchase price permitted under PRC laws and regulations; and
- obtain a pledge over the entire equity interest of Pincha from the Registered Shareholders as collateral security to secure performance of Pincha's obligations under the Structure Contracts.

As a result of the Structure Contracts, the Group has rights to variable returns from its involvement with Pincha and has the ability to affect those returns through its power over Pincha and is considered to control Pincha. Consequently, the Company regards Pincha as an indirect subsidiary for accounting purpose.

- (iii) None of the subsidiaries have issued any debt securities as at 31 December 2015 and 2014.
- (iv) The directors of the Company considered that the non-controlling interests of the non-wholly owned subsidiary are not significant to the Group. Therefore, no summarised financial information of subsidiary has been disclosed separately.

Notes to the Consolidated Financial Statements

11. SUBSIDIARIES (Continued)

(b) Significant restrictions

Cash and cash equivalents and term deposits of approximately RMB463,387,000 (2014: RMB420,778,000) are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(c) Consolidation of structured entities

As mentioned in Note 11(a) (ii) above, the Company has consolidated the operating entity within the Group without any legal equity interests. In addition, due to the implementation of the restricted share award scheme of the Company mentioned in Note 27(b), the Company has also set up a structured entity ("**Share Scheme Trust**"), and its particulars are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired through purchases on the Hong Kong Stock Exchange for the purpose of restricted share award scheme.

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

As at 31 December 2015, the Share Scheme Trust held 36,801,567 (2014: 37,967,567) shares which have not yet been granted to employees.

Notes to the Consolidated Financial Statements

12. INCOME TAX CREDIT/(EXPENSE)

	2015 RMB'000	2014 RMB'000
Current income tax:		
Current income tax on profit for the year	(6,286)	(8,926)
Adjustments in respect of the prior year	3,849	829
Total current income tax	(2,437)	(8,097)
Deferred income tax (Note 29):		
Origination and reversal of temporary differences	26,212	(1,375)
Income tax credit/(expense)	23,775	(9,472)

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

The tax rate applicable to the Group’s subsidiary incorporated and operated in Hong Kong is 16.5% (2014: 16.5%). No provision for Hong Kong profit tax has been made as Group has no estimated assessable profit derived from or generated in Hong Kong for the years ended 31 December 2015 and 2014.

In February 2015, Beijing Outsell Health Product Development Co., Ltd. (“Beijing Outsell”), a subsidiary of the Group, has obtained the High and New Technology Enterprise (“HNTE”) qualification for three years from 2014 to 2016, in which the applicable income tax rate during the approved period is 15%. All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2014: 25%) (the “PRC Statutory Tax Rate”).

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise using the PRC Statutory Tax Rate as follows:

	2015 RMB'000	2014 RMB'000
Profit before income tax	64,439	54,507
Tax at PRC Statutory Tax Rate of 25% (2014: 25%)	16,110	13,627
Effect of preferential tax rate granted	(1,734)	(4,123)
Tax losses/deductible temporary differences for which no deferred income tax asset was recognised	12,104	6,652
Utilisation or recognition of previously unrecognised tax losses/ deductible temporary differences	(47,357)	(9,729)
Tax effect of expenses not deductible for tax purposes and others	951	(12)
Adjustment in respect of the prior year and others	(3,849)	3,057
Income tax (credit)/expense	(23,775)	9,472

Notes to the Consolidated Financial Statements

13. EARNINGS PER SHARE**(a) Basic**

Basic earnings per share (“**EPS**”) is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares under Restricted Share Award Scheme (Note 27(b)).

	2015	2014
Profit attributable to owners of the Company (RMB'000)	92,291	45,035
Weighted average number of ordinary shares in issue (thousand)	1,532,083	1,530,189
Basic EPS (RMB cent per share)	6.02	2.94

(b) Diluted

The share options granted and restricted share awarded by the Company have potential dilutive effect on the EPS. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS). The share options had anti-diluted effect to the Group for the years ended 31 December 2015 and 2014. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2015 and 2014. No adjustment is made to earnings (numerator). Accordingly, the diluted earnings per share is the same as the basic earnings per share for the years ended 31 December 2015 and 2014.

Notes to the Consolidated Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Plant and machinery RMB'000	Furniture and others RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
At 1 January 2014, as reclassified	170,619	215,058	32,185	82,208	500,070
Additions	—	1,549	3,054	36,942	41,545
Transfer to investment properties	—	—	—	(81,651)	(81,651)
Transfer	5,821	—	—	(5,821)	—
Others	(490)	—	—	—	(490)
Disposals/write-off	(691)	(539)	(926)	—	(2,156)
At 31 December 2014, as reclassified	175,259	216,068	34,313	31,678	457,318
At 1 January 2015, as reclassified	175,259	216,068	34,313	31,678	457,318
Additions	243	981	2,474	17,964	21,662
Transfer	4,497	—	—	(4,497)	—
Transfer from investment properties	81,651	—	—	—	81,651
Disposals/write-off	—	(530)	(2,919)	—	(3,449)
At 31 December 2015	261,650	216,519	33,868	45,145	557,182
ACCUMULATED DEPRECIATION					
At 1 January 2014, as reclassified	25,027	56,279	20,901	—	102,207
Charge for the year	6,336	16,685	5,291	—	28,312
Disposals/write-off	(691)	(270)	(853)	—	(1,814)
At 31 December 2014, as reclassified	30,672	72,694	25,339	—	128,705
At 1 January 2015, as reclassified	30,672	72,694	25,339	—	128,705
Charge for the year	6,094	17,488	3,159	—	26,741
Transfer from investment properties	2,586	—	—	—	2,586
Disposals/write-off	—	(475)	(2,664)	—	(3,139)
At 31 December 2015	39,352	89,707	25,834	—	154,893
ACCUMULATED IMPAIRMENT					
At 1 January 2014 and 31 December 2014	9,859	31,885	—	—	41,744
At 1 January 2015	9,859	31,885	—	—	41,744
Impairment reversal	(8,229)	(20,278)	—	—	(28,507)
At 31 December 2015	1,630	11,607	—	—	13,237
NET BOOK VALUES					
At 31 December 2015	220,668	115,205	8,034	45,145	389,052
At 31 December 2014, as reclassified	134,728	111,489	8,974	31,678	286,869

Notes to the Consolidated Financial Statements

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

At 31 December 2015, the Group is still in the process of obtaining property ownership certificates of certain buildings located in the PRC with carrying amounts of approximately RMB21,370,000 (2014: RMB21,931,000).

Depreciation charges have been charged in profit or loss as follows:

	2015 RMB'000	2014 RMB'000 (As reclassified)
Cost of sales	19,573	19,641
Research and development costs	1,149	1,437
Administrative expenses	5,284	6,679
Selling and marketing expenses	735	555
	26,741	28,312

Construction work in progress as at 31 December 2015 mainly comprises new plant under construction in the PRC.

Impairment reversal

In 2012, the Group had recognised a provision for impairment on the production plant and facilities of the cash-generating unit for the manufacturing and sales of the Group's therapeutic tea products (the "**tea products CGU**") (collectively the "**key operating assets**"), considering the sustained unfavourable business performance of the Group and the uncertain outlook of the therapeutic tea market in 2011 and 2012. The provision amount was estimated by reference to the recoverable amounts of the key operating assets as determined based on the value-in-use calculations which used pre-tax cash flow projections based on financial budget approved by management covering a five-year period and cash flows beyond the five-year period are extrapolated using a growth rate which did not exceed the long-term industry average.

With the Group's strategic changes in the strategies of marketing and products diversification, the popularity of the Group's therapeutic tea products has been established and kept improving and the Group has achieved persistent increase in the sales of its therapeutic tea products for the past three consecutive years. In addition, the Directors of the Company (the "**Directors**") are of the view that economic outlook of the therapeutic tea market will remain positive and therefore concluded that the events and circumstances which led to the impairment as previously recognised are no longer existed.

Notes to the Consolidated Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)***Impairment reversal** *(Continued)*

Management has therefore revisited the key assumptions as adopted in the impairment assessment as conducted in 2012 to reassess the recoverable amounts of the key operating assets in the current year by reference to the latest financial budget as approved by management covering the upcoming five-year period. The annual growth rate used in the financial budget for the five-year period is 5%. The growth rate considers the long-term average growth rate for the industry and expected market penetration of the Group's products. A terminal value is calculated based on the expected residual value of key operating assets. The pre-tax discount rate used was 18%.

Based on the impairment assessment in the current year, the Directors concluded that it is not required to maintain the provision for impairment on those key operating assets of the tea products CGU. Accordingly, a full impairment reversal of approximately RMB28,507,000 has been credited to 'cost of sales' for the year ended 31 December 2015.

15. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2015 RMB'000	2014 RMB'000 (As reclassified)
At 1 January	376,809	389,093
Additions	9,175	—
Amortisation	(8,884)	(12,284)
At 31 December	377,100	376,809

At 31 December 2015, the Group is still in the process of obtaining the ownership certificates for certain land use rights located in the PRC with carrying amounts of approximately RMB235,472,000 (2014: RMB241,159,000).

Amortisation charges have been charged in the profit or loss as follows:

	2015 RMB'000	2014 RMB'000 (As reclassified)
Cost of sales	383	383
Administrative expenses	2,661	3,246
Other expenses	5,840	8,655
	8,884	12,284

Notes to the Consolidated Financial Statements

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2014, as reclassified	67,911
Refund for property purchased	(1,836)
Transfer from property, plant and equipment	81,651
At 31 December 2014, as reclassified	147,726
At 1 January 2015, as reclassified	147,726
Transfer to property, plant and equipment (a)	(81,651)
At 31 December 2015	66,075
ACCUMULATED DEPRECIATION	
At 1 January 2014, as reclassified	4,533
Charge for the year	1,953
At 31 December 2014, as reclassified	6,486
At 1 January 2015, as reclassified	6,486
Charge for the year	4,481
Transfer to property, plant and equipment (a)	(2,586)
At 31 December 2015	8,381
NET BOOK VALUES	
At 31 December 2015	57,694
At 31 December 2014, as reclassified	141,240

- (a) In 2015, the Group has terminated the lease arrangement for an industrial property located in Fangshan, Beijing as management has decided to use this industrial property for the Group's own operations in the future. Accordingly, this investment property has been transferred to property, plant and equipment at the commencement when the property becomes self-occupied.

Notes to the Consolidated Financial Statements

16. INVESTMENT PROPERTIES (Continued)

- (b) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2015 and 2014 are as follows:

	As at 31 December 2015		As at 31 December 2014	
	Carrying amount RMB'000	Fair value (level 3) RMB'000	Carrying amount RMB'000	Fair value (level 3) RMB'000
Industries property units located in Fangshan, Beijing	—	—	81,651	86,000
Commercial property units located in Shanghai	11,333	17,800	11,780	17,800
Commercial property units located in Beijing	46,361	48,600	47,809	48,700

(As reclassified)

The Group's investment properties were valued at 31 December 2015 and 2014 by DTZ Debenham Tie Leung Limited, an independent professionally qualified valuer. The valuation for commercial property units 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 as of 31 December 2014 was determined on the basis of 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.

- (c) At 31 December 2015, the Group is still in the process of obtaining the property ownership certificates for certain investment properties located in PRC with carrying amounts of approximately RMB46,361,000 (2014: RMB129,460,000).
- (d) Property rental income earned during the year ended 31 December 2015 was approximately RMB19,096,000 (2014: RMB19,749,000). All of the properties held as at 31 December 2015 have committed tenants for the next 2 to 4 years (2014: 2 to 5 years). At 31 December 2015, the Group had future minimum lease receipts under non-cancellable operating leases as follows.

	2015 RMB'000	2014 RMB'000
No later than 1 year	20,414	17,296
Later than 1 year and no later than 5 years	21,318	28,796
	41,732	46,092

Notes to the Consolidated Financial Statements

16. INVESTMENT PROPERTIES (Continued)

- (e) Depreciation charges of approximately RMB4,481,000 for the year ended 31 December 2015 (2014: RMB1,953,000) have been charged in 'other expenses' in profit or loss.

17. INTANGIBLE ASSETS

	Trademarks RMB'000	Patents RMB'000	Product development cost RMB'000	Computer Software RMB'000	Good Supply Practice (GSP) License and exclusive sales agency right RMB'000	Total RMB'000
COST						
At 1 January 2014	11,476	7,287	3,483	—	—	22,246
Additions	22	—	—	—	—	22
At 31 December 2014	11,498	7,287	3,483	—	—	22,268
At 1 January 2015	11,498	7,287	3,483	—	—	22,268
Additions	—	—	—	804	—	804
Disposal/write off	—	—	(3,483)	—	—	(3,483)
Acquisition of a subsidiary (Note 36)	—	—	—	42	7,740	7,782
At 31 December 2015	11,498	7,287	—	846	7,740	27,371
ACCUMULATED AMORTISATION						
At 1 January 2014	9,501	3,724	3,483	—	—	16,708
Charge for the year	245	59	—	—	—	304
At 31 December 2014	9,746	3,783	3,483	—	—	17,012
At 1 January 2015	9,746	3,783	3,483	—	—	17,012
Charge for the year	258	72	—	46	535	911
Disposal/write off	—	—	(3,483)	—	—	(3,483)
At 31 December 2015	10,004	3,855	—	46	535	14,440
ACCUMULATED IMPAIRMENT						
At 1 January 2014, 31 December 2014 and 31 December 2015	—	3,323	—	—	—	3,323
NET BOOK VALUES						
At 31 December 2015	1,494	109	—	800	7,205	9,608
At 31 December 2014	1,752	181	—	—	—	1,933

Notes to the Consolidated Financial Statements

17. INTANGIBLE ASSETS (Continued)

Amortisation charges have been charged in the profit or loss as follows:

	2015 RMB'000	2014 RMB'000
Cost of sales	294	283
Administrative expenses	82	21
Selling and marketing expenses	535	—
	911	304

18. NON-CURRENT DEPOSITS

	2015 RMB'000	2014 RMB'000
Deposits for purchases of intangible assets	6,755	5,439

19. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials and packaging materials	2,183	6,580
Work in progress	774	1,066
Finished goods	3,231	1,446
	6,188	9,092
Less: Provision for impairment	—	(3,978)
	6,188	5,114

Movement in the provision for impairment of inventories are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	3,978	4,183
Utilised on inventories written-off	(3,978)	(205)
At 31 December	—	3,978

The cost of inventories recognised as expense and included in 'cost of sales' and 'research and development costs' amounted to approximately RMB49,256,000 and RMB2,396,000 (2014: RMB43,580,000 and RMB1,963,000), respectively.

Notes to the Consolidated Financial Statements

20. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	5,881	2,703
Bills receivables (a)	11,724	11,616
	17,605	14,319
Less: allowance for impairment	(201)	(198)
	17,404	14,121

- (a) Bills receivable are all bank acceptance notes with maturity dates within six months.
- (b) The Group allows a credit period of 20–180 days to its customers. The following is an ageing analysis of trade and bills receivables (net of allowance for doubtful debts) based on the dates of deliveries related goods to the customers, which are approximate to their invoice dates.

	2015 RMB'000	2014 RMB'000
0–90 days	10,865	13,795
91–180 days	6,482	174
181–365 days	29	152
Over 365 days	28	—
	17,404	14,121

As at 31 December 2015, the Group's trade receivables of approximately RMB57,000 (2014: RMB152,000) were past due but not impaired and ageing analysis of these trade receivables is as follows.

	2015 RMB'000	2014 RMB'000
181–365 days	29	152
Over 365 days	28	—
	57	152

The Group anticipates a full recovery of these amounts and therefore no provision for impairment has been made.

- (c) As at 31 December 2015, trade receivables of RMB201,000 (2014: RMB198,000) were impaired and full provision for impairment has been made.

Notes to the Consolidated Financial Statements

20. TRADE AND BILLS RECEIVABLES (Continued)

(d) Movement in the allowance for impairment of trade receivables is as follows:

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
At 1 January	198	568
Provision for impairment	3	—
Unused amounts reversed	—	(370)
At 31 December	201	198

(e) The Group's trade and bills receivables are all denominated in RMB.

(f) As at 31 December 2015 and 2014, the carrying amounts of trade and bills receivables approximate their fair values due to the short maturities of the related assets.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Prepayment for advertisement	6,150	14,178
Prepayment to suppliers	6,962	402
Other receivables	4,712	6,342
Interest receivables	1,369	2,936
Others	13,712	10,947
Total	32,905	34,805

Deposits, prepayment and other receivables are all denominated in RMB, except that an other receivable of approximately RMB197,000 (2014: RMB197,000) are denominated in HK\$.

The carrying amounts of the deposits, prepayments and other receivables approximate their fair values due to the short maturities of the related assets.

22. PLEDGED BANK DEPOSITS

Pledged bank deposits represented deposits placed in banks as security for the issue of bank acceptance notes to the Group's suppliers for purchases of raw materials and property, plant and equipment.

Notes to the Consolidated Financial Statements

23. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

As at 31 December 2015, the Group had term deposits of RMB50,000,000 (2014: RMB100,000,000) with initial term of over three months. As at 31 December 2015, term deposits with initial term of over three months carried an average interest rate of 3.25% (2014: 3.30%) per annum.

The carrying amounts of term deposits with initial term of over three months approximate their fair values due to the nature and short maturities of the related assets.

All of the term deposits are denominated in RMB.

24. CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000 (As reclassified)
Cash at bank and on hand	53	—
Term deposits and highly liquid investments with initial terms within three months	56,800	125,936
Cash at bank	369,005	251,817
Cash and cash equivalents	425,858	377,753

Cash and cash equivalent which are denominated in currencies other than RMB are as follow:

	2015 RMB'000	2014 RMB'000
United States Dollars ("US\$")	139	1,621
Hong Kong Dollars ("HK\$")	5,128	4,289

Notes to the Consolidated Financial Statements

25. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of ordinary shares (thousands)	Nominal value of ordinary shares US\$	Equivalent nominal value of ordinary share RMB'000
<i>Authorised:</i>			
Ordinary shares of US\$0.00000833333 each			
At 1 January 2014, 31 December 2014 and 31 December 2015	6,000,000	50,000	341
<i>Issued and fully paid:</i>			
At 1 January 2014 and 31 December 2014	1,569,422	13,079	89
At 1 January 2015	1,569,422	13,079	89
Repurchase and cancellation of shares	(2,451)	(21)	—
At 31 December 2015	1,566,971	13,058	89

During the year ended 31 December 2015, the Company has acquired 2,451,000 of its own shares through purchases on the Hong Kong Stock Exchange. Such shares were cancelled upon the repurchase. The total amount paid to acquire the shares was HK\$2,320,000 (equivalent approximately RMB1,932,000) and has been deducted from share capital and share premium within shareholder's equity.

As at 31 December 2015, 36,801,567 shares (2014: 37,967,567 shares) were held by the Company's the Restricted Share Award Scheme (Note 27(b)).

Notes to the Consolidated Financial Statements

26. OTHER RESERVES

	Merger reserve RMB'000	Capital redemption reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Statutory surplus reserve RMB'000	Share based payment reserve RMB'000	Total RMB'000
At 1 January 2014	230,864	6	(26,013)	61,360	51,277	317,494
Transfer to statutory reserve	—	—	—	534	—	534
Share-based payments (Note 10)	—	—	—	—	2,278	2,278
Transfer of share-based payment reserve upon expiration of share options	—	—	—	—	(2,586)	(2,586)
Vesting of restricted shares under restricted share award scheme	—	—	1,544	—	(887)	657
At 31 December 2014	230,864	6	(24,469)	61,894	50,082	318,377
At 1 January 2015	230,864	6	(24,469)	61,894	50,082	318,377
Transfer to statutory reserve	—	—	—	2,339	—	2,339
Share-based payments (Note 10)	—	—	—	—	6,274	6,274
Vesting of restricted shares under restricted share award scheme	—	—	751	—	(968)	(217)
At 31 December 2015	230,864	6	(23,718)	64,233	55,388	326,773

Notes to the Consolidated Financial Statements

27. SHARE-BASED PAYMENTS

(a) 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.

The Company's post-IPO 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 29 September 2010 (the initial public offering on the listing date) which is the effective date of such scheme.

(i) Movements in share options

	Pre-IPO Share Option Scheme		Share Option Scheme		Total number of options
	Average exercise price (RMB)	Number of options	Average exercise price (HK\$)	Number of options	
At 1 January 2014	1.23	82,770,000	—	—	82,770,000
Granted	—	—	1.00	44,860,000	44,860,000
Exercised	—	—	—	—	—
Lapsed	1.23	(5,190,000)	—	—	(5,190,000)
At 31 December 2014	1.23	77,580,000	1.00	44,860,000	122,440,000
Exercisable as at 31 December 2014		77,580,000		—	77,580,000
At 1 January 2015	1.23	77,580,000	1.00	44,860,000	122,440,000
Granted	—	—	1.16	2,900,000	2,900,000
Exercised	—	—	—	—	—
Lapsed	1.23	(600,000)	1.00	(9,500,000)	(10,100,000)
At 31 December 2015	1.23	76,980,000	1.01	38,260,000	115,240,000
Exercisable as at 31 December 2015		76,980,000		8,840,000	85,820,000

Notes to the Consolidated Financial Statements

27. SHARE-BASED PAYMENTS (Continued)**(a) Share Option Scheme** (Continued)*(ii) Outstanding share options*

Expiry Date	Range of exercise price	Number of share options	
		31 December 2015	31 December of 2014
10 years commencing from the date of the grant of options Pre-IPO share option scheme	RMB1.23	76,980,000	77,580,000
8 years commencing from the date of the commencement of options Share option scheme	HK\$1–HK\$1.16	38,260,000	44,860,000

The weighted average fair value of options granted during the year determined using the binomial valuation model was HK\$0.47 per option (2014: HK\$0.41).

Other than the exercise price mentioned above, significant judgment on parameters, such as risk free rate, dividend yield and expected volatility, is required to be made by the directors in applying the binomial valuation model, which is summarised as below.

	Options granted in	
	2015	2014
Grant date share price (HK\$)	1.16	0.98
Exercise price (HK\$)	1.16	1.00
Expected volatility	54%	50%
Option life	8 years	8 years
Dividend yield	2.80%	1.00%
Risk-free interest rate	1.52%	1.68%
Annual post-vesting forfeit rate	15.0%–24.0%	0.0%–25.0%

Expected volatility was estimated based on the historical share price volatility over the past 5 years of the Company and other comparable listed companies.

The risk-free rate of the option was estimated based on the yield of 8-year Hong Kong Government 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.

Notes to the Consolidated Financial Statements

27. SHARE-BASED PAYMENTS (Continued)**(a) Share Option Scheme** (Continued)*(ii) Outstanding share options* (Continued)

The annual post-vesting forfeit rate was estimated with analysis of historical forfeit rate of the Group's employees.

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.

(b) Restricted Share Award Scheme

The Company adopted a restricted share award scheme ("**Restricted Share Award Scheme**") on 11 November 2011 with duration of 10 years for the granting of restricted shares to eligible participants who shall receive offers of restricted shares as designated by the administration committee (the "**Selected Participants**").

The Company has set up a 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 through the Hong Kong Stock Exchange at a total consideration of HK\$48,291,000 (equivalent approximately to RMB39,312,000) for the Restricted Share Award Scheme.

Movements in the number of restricted shares are as follows:

	Number of shares held for the Restricted Share Award Scheme	Number of awarded shares	Total
At 1 January 2014	40,362,567	—	40,362,567
Granted	(2,395,000)	2,395,000	—
Vested and transferred	—	(2,395,000)	(2,395,000)
At 31 December 2014	37,967,567	—	37,967,567
At 1 January 2015	37,967,567	—	37,967,567
Granted	(1,166,000)	1,166,000	—
Vested and transferred	—	(1,166,000)	(1,166,000)
At 31 December 2015	36,801,567	—	36,801,567

Notes to the Consolidated Financial Statements

27. SHARE-BASED PAYMENTS (Continued)**(b) Restricted Share Award Scheme** (Continued)

The fair value of the awarded shares was calculated based on the market price of the Company's share at the respective grant dates.

The weighted average fair value of awarded shares granted during the year ended 31 December 2015 was HK\$1.04 per share (equivalent to approximately RMB0.83 per share) (2014: HK\$0.49 per share (equivalent to approximately RMB0.39 per share)).

28. DEFERRED GOVERNMENT GRANTS

The government grants were received for subsidising the Group's construction/purchases of certain property, plant and equipment and are recognised over the estimated useful lives the relevant assets.

29. DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2015 RMB'000	2014 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	10,963	949
— Deferred income tax assets to be recovered within 12 months	27,760	11,901
	38,723	12,850
Deferred income tax liabilities:		
— Deferred income tax liability to be settled after more than 12 months	(8,030)	(6,422)
— Deferred income tax liability to be settled within 12 months	(399)	(411)
	(8,429)	(6,833)
Deferred income tax assets (net)	30,294	6,017

The movement on the deferred income tax account is as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	6,017	7,392
Acquisition of a subsidiary (Note 36)	(1,935)	—
Credited/(charged) to profit or loss (Note 12)	26,212	(1,375)
At 31 December	30,294	6,017

Notes to the Consolidated Financial Statements

29. DEFERRED INCOME TAX (Continued)

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

Deferred income tax assets	Accrued expenses and payables RMB'000	Deferred government grants RMB'000	Tax losses (a) RMB'000	Total RMB'000
At 1 January 2014	12,522	1,974	—	14,496
Charged to profit or loss	(1,214)	(432)	—	(1,646)
At 31 December 2014	11,308	1,542	—	12,850
Credited/(charged) to profit or loss	1,025	(593)	25,441	25,873
At 31 December 2015	12,333	949	25,441	38,723

Deferred income tax liabilities	Withholding tax on undistributed earnings (c) RMB'000	Interests receivable RMB'000	Intangible assets identified in acquisition of a subsidiary RMB'000	Total RMB'000
At 1 January 2014	(6,422)	(682)	—	(7,104)
Credited to profit or loss	—	271	—	271
At 31 December 2014	(6,422)	(411)	—	(6,833)
Acquisition of a subsidiary (Note 36)	—	—	(1,935)	(1,935)
Credited to profit or loss	—	206	133	339
At 31 December 2015	(6,422)	(205)	(1,802)	(8,429)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Notes to the Consolidated Financial Statements

29. DEFERRED INCOME TAX (Continued)

- (a) As at 31 December 2014, the Group did not recognise deferred income tax assets of approximately RMB51,010,000 in respect of the tax losses of certain subsidiaries of approximately RMB204,038,000 that can be carried forward against future taxable income. The Group has utilised part of these unrecognised tax losses of approximately RMB56,922,000 against the estimated taxable profit for the year ended 31 December 2015.

As mentioned in Note 14 to the consolidated financial statements, management has conducted an impairment assessment in the current year based on a latest financial budget as approved by management covering the upcoming five-year period (the “**financial budget**”). The financial budget reveals that a portion of the unrecognised tax losses of approximately RMB106,322,000 could be utilised before their expiry dates. Therefore, a deferred income tax credit of approximately RMB25,441,000 has been recognised during the year ended 31 December 2015 for recognising the related deferred income tax assets.

As of 31 December 2015 and 2014, the expiry dates of the unrecognised tax losses that can be carried forward against future taxable income are analysed as below:

Expiring in year ending:	2015 RMB'000	2014 RMB'000
2015	—	1,641
2016	3,122	53,892
2017	15,407	105,448
2018	16,824	18,580
2019	15,193	24,477
2020	11,364	—
	61,910	204,038

- (b) As at 31 December 2015, the Group has unrecognised deductible temporary differences (including exceeds of advertising expenses and other accrued expenses of approximately RMB94,652,000 (2014: RMB61,420,000)), due to the Group expects that the advertising expenses would continue exceeding the caps of the deduction in foreseeable future and the unpredictability of future profit streams for those group entities. Accordingly, no deferred income tax assets have been recognised on these deductible temporary differences.

Notes to the Consolidated Financial Statements

29. DEFERRED INCOME TAX (Continued)

- (c) In accordance with the corporate income tax law in the PRC, a 10% withholding tax will be levied on the dividend declared by the subsidiaries which was established in the PRC to its foreign investor starting from 1 January 2008. Considering the dividend policies of the PRC subsidiaries and the Group's business plan, the Directors are of the view that only a portion of the unremitted earnings of the PRC subsidiaries of approximately RMB64,220,000 (2014: RMB64,220,000) may be distributed to their foreign parent company in the foreseeable future and the related deferred income tax liabilities of approximately RMB6,422,000 have been recognised accordingly. As of 31 December 2015, the remaining portion of the unremitted earnings of the PRC subsidiaries of approximately RMB48,866,000 (2014: RMB25,517,000) are planned to be reinvested in the Group's business operations in the PRC and hence no deferred income tax liabilities have been recognised in respect of these unremitted earnings.

30. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables based on invoice date were as follows:

	2015 RMB'000	2014 RMB'000
0-90 days	7,447	10,057
91-180 days	130	191
181-365 days	—	51
Over 365 days	—	82
	7,577	10,381

31. OTHER PAYABLES AND ACCRUED EXPENSES

	2015 RMB'000	2014 RMB'000
Advance from customers	31,963	33,670
Payroll and welfare payable	20,338	23,526
Accrued expenses	22,414	22,438
Accrued sales rebates	26,080	22,130
Taxes and surcharges payable	25,822	18,115
Payable to suppliers for:		
— purchases of property, plant and equipment	2,016	8,516
— advertisement	2,330	648
Others	4,147	18,728
	135,110	147,771

Notes to the Consolidated Financial Statements

32. CASH GENERATED FROM OPERATIONS**(a) Reconciliation of profit before income tax to cash generated from operating activities**

	2015 RMB'000	2014 RMB'000
Cash flows from operating activities		
Profit before income tax	64,439	54,507
Adjustments for:		
Amortisation of land use rights	8,884	12,284
Amortisation of intangible assets	911	304
Depreciation of property, plant and equipment	26,741	28,312
Depreciation of investment properties	4,481	1,953
Reversal of impairment of property, plant and equipment	(28,507)	—
Gain on disposal of a subsidiary	—	(9,977)
Interest income	(15,288)	(16,728)
Loss on disposal of property, plant and equipment	233	233
Amortisation of deferred government grants	(786)	(786)
Provision for/(reversal of) impairment of trade receivables	3	(370)
Share-based compensation	6,274	2,278
Negative goodwill on acquisition of a subsidiary	(146)	—
Write down of inventories	—	681
Exchange gain, net	(324)	(102)
Others	—	39
Operating cash flows before movements in working capital	66,915	72,628
Increase in inventories	(998)	(121)
Decrease in trade and bills receivables	4,285	433
Decrease in deposits, prepayments and other receivables	11,087	3,875
Decrease in trade and bills payables	(8,415)	(1,351)
(Decrease)/increase in other payables and accrued expenses	(9,098)	34,797
Increase in other non-current liabilities	5	100
Cash generated from operations	63,781	110,361

(b) Major non-cash transactions

During the year ended 31 December 2015, bills receivables of RMB45,941,000 (2014: RMB3,158,000) have been endorsed to certain suppliers as the settlement of purchases of raw materials and advertisement costs.

Notes to the Consolidated Financial Statements

33. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Interim dividend declared and paid for the current year of HK\$1.25 cents (2014: HK\$1.25 cents) per ordinary share	15,715	15,620
Final dividend declared and paid for the prior year of HK\$2 cents (2014: HK\$nil) per ordinary share	24,178	—
	39,893	15,620

A special dividend of HK5 cents per share (equivalent approximately RMB4 cents), amounting to a total dividend of HK\$78,169,000 (equivalent to approximately RMB65,490,000), is to be proposed at the special general meeting on 12 March 2016.

In addition, an annual dividend in respect of the year ended 31 December 2015 of HK5 cents per share (equivalent approximately RMB4 cents), amounting to a total dividend of HK\$78,169,000 (equivalent to approximately RMB65,490,000), is to be proposed at the annual general meeting on 6 May 2016.

As the above dividends are declared after the balance sheet date, such dividends as declared are not recognised as dividends payable as at 31 December 2015.

34. CONTINGENCIES

As at 31 December 2015 and 2014, the Group had no significant contingent liabilities.

35. COMMITMENT**(a) Capital commitments**

Capital expenditure contracted for at end of year but not yet incurred is as follows:

	2015 RMB'000	2014 RMB'000
Property, plant and equipment	28,674	6,392

(b) Operating lease commitments

The Group as lessee

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

	2015 RMB'000	2014 RMB'000
No later than 1 year	1,271	2,237
Later than 1 year and no later than 5 years	82	381
	1,353	2,618

Notes to the Consolidated Financial Statements

35. COMMITMENT (Continued)**(b) Operating lease commitments** (Continued)

The Group as lessee (Continued)

Operating lease payments primarily represent rental payable by the Group for certain of its office building and staff dormitory.

36. BUSINESS COMBINATIONS

On 30 April 2015, the Group completed the acquisition of 80% equity interest in Guangzhou Runliang Pharmaceutical Co. Ltd., a company which engages in sales of slimming medicines, at the cash consideration of RMB40,000,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The acquired business contributed revenue of approximately RMB63,388,000 and net loss of RMB20,385,000 to the Group for the period from 1 May 2015 to 31 December 2015. If the acquisition had occurred on 1 January 2015, the pro-forma consolidated revenue and consolidated net profit of the Group for the year ended 31 December 2015 would have been RMB674,245,000 and RMB91,196,000, respectively.

The following table summarises the amount of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	As at 30 April 2015 RMB'000
Fair value	
Cash and cash equivalents	41,343
Intangible assets	
— Computer software	42
— Good Supply Practice (GSP) License and exclusive sales agency right	7,740
Inventories	76
Trade and bills receivables	7,571
Deposits, prepayments and other receivables	7,098
Trade and bills payables	(5,611)
Deferred income tax liabilities	(1,935)
Other payables and accrued expenses	(3,722)
Current income tax liabilities	(2,419)
Total identifiable net assets	50,183
Non-controlling interests	(10,037)
	40,146
Negative goodwill	(146)
Purchase consideration	40,000

Notes to the Consolidated Financial Statements

36. BUSINESS COMBINATIONS *(Continued)*

	As at 30 April 2015 RMB'000
Inflow of cash to acquire business, net of cash and cash equivalents acquired	
— Cash consideration paid	(40,000)
— Cash and cash equivalents of the subsidiary acquired	41,343
Cash inflow on acquisition	1,343

37. RELATED PARTY TRANSACTIONS**Key management compensation**

Key management includes Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Vice Presidents. The compensation paid or payable to key management for employee services is shown below:

	2015 RMB'000	2014 RMB'000
Salaries, bonus and other allowances	10,404	10,759
Share-based compensation	1,795	258
Pension cost — defined contribution plan	227	244
	12,426	11,261

Notes to the Consolidated Financial Statements

38. BENEFITS AND INTERESTS OF DIRECTORS**(A) Directors' emoluments**

The remuneration of each director is set out below:

For the year ended 31 December 2015:

Name	Fees RMB'000	Salaries, bonus and other allowances RMB'000	Share- based payments RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
<i>Executive directors:</i>					
Zhao Yihong	192	2,712	623	61	3,588
Gao Yan	192	2,059	156	61	2,468
	384	4,771	779	122	6,058
<i>Non-executive directors:</i>					
Zhuo Fumin	192	—	94	—	286
Zhang Guimei (Note (a))	56	—	—	—	56
	248	—	94	—	342
<i>Independent non-executive directors:</i>					
Huang Jingsheng	192	—	94	—	286
Ren Guangming (Note (b))	192	—	94	—	286
Wang Jing (Note (c))	192	—	94	—	286
	576	—	282	—	858
	1,208	4,771	1,155	122	7,256

Notes to the Consolidated Financial Statements

38. BENEFITS AND INTERESTS OF DIRECTORS (Continued)**(A) Directors' emoluments** (Continued)

For the year ended 31 December 2014:

Name	Fees RMB'000	Salaries, bonus and other allowances RMB'000	Share- based payments RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
<i>Executive directors:</i>					
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
<i>Non-executive directors:</i>					
Zhuo Fumin	190	—	23	—	213
	190	—	23	—	213
<i>Independent non-executive directors:</i>					
Huang Jingsheng	190	—	24	—	214
Ren Guangming (Note (b))	131	—	18	—	149
Wang Jing (Note (c))	131	—	18	—	149
Arthur Wong Lap Tat (Note (d))	59	—	10	—	69
Zhang Fenglou (Note (e))	78	—	—	—	78
	589	—	70	—	659
	1,159	4,014	243	112	5,528

Notes:

- (a) Ms. Zhang Guimei was appointed as a non-executive Director of the Company in September 2015.
- (b) Mr. Ren Guangming was appointed as an independent non-executive Director of the Company in April 2014.
- (c) Mr. Wang Jing was appointed as an independent non-executive Director of the Company in April 2014.
- (d) Mr. Arthur Wong Lap Tat was as an independent non-executive Director and resigned in April 2014.
- (e) Mr. Zhang Fenglou was as an independent non-executive Director of the Company and resigned in May 2014.

During the year ended 31 December 2015, no directors waived or agree to waive any emoluments. (2014: Nil).

Notes to the Consolidated Financial Statements

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	209,099	201,475
Loans to subsidiaries	1,021,164	974,909
	1,230,263	1,176,384
Current assets		
Deposits, prepayments and other receivables	18,716	430
Cash and cash equivalents	8,732	54,265
	27,448	54,695
Total assets	1,257,711	1,231,079
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	89	89
Share premium	1,229,764	1,271,589
Other reserves	31,676	25,619
Accumulated loss	(11,224)	(71,604)
Total equity	1,250,305	1,225,693
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	7,406	5,386
Total liabilities	7,406	5,386
Total equity and liabilities	1,257,711	1,231,079

The balance sheet of the Company was approved by the Board of Directors on 11 March 2016 and was signed on its behalf.

ZHAO Yihong
Director

GAO Yan
Director

Notes to the Consolidated Financial Statements

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Reserve movement of the Company

	Other reserves							Total
	Share premium RMB'000	Share payment reserve RMB'000	Capital redemption reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Total other reserve RMB'000	Accumulated losses RMB'000		
At 1 January 2014	1,287,209	51,277	6	(26,013)	25,270	(106,474)	1,206,005	
Profit for the year	—	—	—	—	—	32,941	32,941	
Share-based payments under share option scheme and restricted share award scheme	—	2,278	—	—	2,278	—	2,278	
Transfer to share-based payment reserve upon forfeiture for share options	—	(2,586)	—	—	(2,586)	2,586	—	
Vesting of restricted shares under restricted share award scheme	—	(887)	—	1,544	657	(657)	—	
Dividends	(15,620)	—	—	—	—	—	(15,620)	
At 31 December 2014	1,271,589	50,082	6	(24,469)	25,619	(71,604)	1,225,604	
At 1 January 2015	1,271,589	50,082	6	(24,469)	25,619	(71,604)	1,225,604	
Profit for the year	—	—	—	—	—	60,163	60,163	
Share-based payments under share option scheme and restricted share award scheme	—	6,274	—	—	6,274	—	6,274	
Vesting of restricted share under restricted share award scheme	—	(968)	—	751	(217)	217	—	
Repurchase and cancellation of shares	(1,932)	—	—	—	—	—	(1,932)	
Dividends	(39,893)	—	—	—	—	—	(39,893)	
At 31 December 2015	1,229,764	55,388	6	(23,718)	31,676	(11,224)	1,250,216	

Notes to the Consolidated Financial Statements

40. EVENT AFTER THE BALANCE SHEET DATE

Except for the proposed of a special dividend and a final dividend for the year ended 31 December 2015 as disclosed in Note 33, there has not been any other significant event took place after 31 December 2015 to the date of these consolidated financial statements.

41. PRIOR YEAR RECLASSIFICATION

The Company has reassessed the classification of certain items of the consolidated balance sheet for the year ended 31 December 2014:

- (a) A one-year term bank deposit of RMB100 million, was previously classified as part of the Group's cash and cash equivalents as at 31 December 2014, has been reclassified as "Term deposits with initial term of over three months" in the consolidated balance sheet. This item has also been excluded for the consolidated statement of cash flows.
- (b) Certain prepaid operating lease payments for use of land in the amounts of approximately RMB65,187,000 and RMB252,772,000 as at 31 December 2014 (RMB67,464,000 and RMB261,427,000 as at 1 January 2014) as previously included in property, plant and equipment and investment properties respectively have been reclassified as land use rights.

Accordingly, certain comparative figures as presented in the consolidated financial statements have been reclassified.

These reclassifications have no impact to the consolidated statement of comprehensive income.

The consolidated balance sheet as of 1 January 2014 has been presented as to present the related impact of the aforesaid prior year reclassification on the consolidated balance sheet as at the beginning of the earliest comparative period.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000
Turnover	840,409	475,182	487,500	563,888	662,805
Gross profit	737,639	392,119	406,103	475,281	594,237
Operating profit/(loss)	9,560	(286,409)	(93,623)	44,530	64,439
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)	—	—	—
Reversal of impairment of property, plant and equipment	—	—	—	—	28,507
Profit/(loss) before income tax	(6,882)	(343,697)	(96,946)	54,507	64,439
Profit/(loss) and total comprehensive income (expense) for the year	(40,876)	(342,187)	(89,976)	45,035	88,214
Earnings/(loss) per share (RMB)					
Basic	(0.02)	(0.22)	(0.06)	0.03	0.06
Diluted	(0.02)	(0.22)	(0.06)	0.03	0.06

CONSOLIDATED BALANCE SHEET

	At 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000
Non-current assets	857,898	833,836	826,579	825,140	878,932
Net current assets	832,871	417,255	340,572	372,747	383,255
Total assets less current liabilities	1,690,769	1,251,091	1,167,151	1,197,887	1,262,187
Non-current liabilities	18,603	15,581	15,809	14,852	16,452
Net assets	1,672,166	1,235,510	1,151,342	1,183,035	1,245,735
Share capital	95	89	89	89	89
Reserves	1,672,071	1,235,421	1,151,253	1,182,946	1,239,686
	1,672,166	1,235,510	1,151,342	1,183,035	1,239,775
Non-controlling interests	—	—	—	—	5,960
Total equity	1,672,166	1,235,510	1,151,342	1,183,035	1,245,735



碧生源控股有限公司
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