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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 926

Annual Report 2016

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 16 years, has dedicating to the marketing and sales of the Two Teas. The approval for the change of product name from "碧生源牌減肥茶" to "碧生源牌常菁茶" was obtained from China Food and Drug Administration of the People's Republic of China (the "**CFDA**") in November 2016. As at the end of 2016, the Two Teas recorded an accumulated sales volume of over 4.2 billion bags, with an accumulated sales amount of over RMB5.5 billion. Since April 2015, the Group commenced cooperation with Zhejiang Hisun Pharmaceutical Co., Ltd. (the "**Hisun Pharmaceutical**") to sell LARLLY Orlistat slimming medicine, so the Group has expanded from the market of slimming therapeutic teas to that of slimming medicines and comprehensively covered the slimming market segment. 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 (the "**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 17.42%; and that of Besunyen Slimming Tea accounted for 32.33%, with both the Two Teas taking the first place in the market. Since the launch of LARLLY Orlistat slimming medicine in the spring of 2015, it has been 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 of 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 have passed the systematic certifications of ISO9001, ISO22000 and HACCP. Introduced from IMA of Italy, the packing equipment is C24 tea bag high-speed machine. The machine is equipped with the specifically designed "cotton thread nautical knot for tea bag and tag fixing" so that the inner and outer bags can be shaped up at the same time and the bag can be produced automatically. Closed-ended management is conducted in the production facilities, and the pelleting facilities and inter packing facilities are the Grade 100,000 clean areas furnished with temperature and humidity monitoring. In the garden-like plant featured by a beautiful environment, hygiene, process, technology, procedure and management have reached the world's advanced level.

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

As at 31 December 2016, the sales teams of the Group spanned across 31 provinces, autonomous regions and municipals across the country. The Group had a total of 102 distributors and 385 sub-distributors for the Two Teas and LARLLY Orlistat. The whole sales team served about 128,000 over-the-counter (the "**OTC**") pharmacies and the 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, 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.

Contents

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. Ren Guangming
Mr. He Yuanping

AUDIT COMMITTEE

Mr. He Yuanping *(Chairman)*
Mr. Huang Jingsheng
Mr. Ren Guangming

REMUNERATION COMMITTEE

Mr. Huang Jingsheng *(Chairman)*
Mr. Zhao Yihong
Mr. Ren Guangming
Mr. He Yuanping

NOMINATION COMMITTEE

Mr. Ren Guangming *(Chairman)*
Mr. Zhao Yihong
Mr. Huang Jingsheng
Mr. He Yuanping

COMPANY SECRETARY

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

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PLACE OF BUSINESS IN HONG KONG

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Corporate Information

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Certified Public Accountants
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Hong Kong

LEGAL ADVISORS

As to Hong Kong Law:
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15 Queen's Road Central
Hong Kong

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

Chairman and CEO's Report

"For 16 years since establishment, the Group has dedicated to 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", actively promoted the expansion of Besunyen businesses, and adopted two models including same type for different industries and same industry for different types, in the hope of grasping the opportunities arising from the big-health industry, improving the corporate competitive edge, strengthening the competitive position of Besunyen in the industry and hence bringing more profit 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 hereby present to you the audited annual results of the Group for the year ended 31 December 2016.

In 2016, China's overall economic growth slowed. The introduction and trial implementation of the highly-anticipated Implementing Opinions on Carrying out the Two-Invoice System for Drug Procurement by Public Medical Institutions (for Trial Implementation) (《關於在公立醫療機構藥品採購中推行"兩票制"的實施意見(試行)》) (the "**Two-Invoice System**") strengthened the state's regulation over the pharmaceutical industry. With intensifying competition in the healthcare product market, continuing reform of sales channels and consumers' ever increasing demands for products, the overall business operating conditions for enterprises became more difficult. On 1 July 2016, The Administrative Measures for the Registration and Filing of Health Food (《保健食品註冊與備案管理辦法》) that issued by the CFDA came into effect, and various pharmaceutical companies and outside capital started to enter into the health food field, while new business forms, such as cross-over e-commerce, emerged in the PRC market, have been imposing huge challenges on the PRC healthcare product industry.

In 2016, the PRC government has deepened the supply side structural reform. It also imposed monitor over the whole process of the healthcare product industry. In the last year, the consumers also had higher requirements for the quality, safety and efficacy of the healthcare products, all of the afore-mentioned brought both challenges and opportunities for the Group. It is always our goal to provide quality products under "customer-centered" philosophy. Nothing is trivial in the interests of the customers' health. The raw materials and packaging materials for Besunyen Detox Tea and Besunyen Slimming Tea (collectively, the "**Two Teas**") of the Group have been undergoing strict screening and quality monitoring by their suppliers. For the past 16 years, the Group has committed themselves to ensuring high quality of each and every tea bag produced and has strived to bring health benefits for consumers.

In 2016, the Group's greatest risk and market challenge were dealing with the impact of the name change of the Besunyen Slimming Tea product. Pursuant to the Article 3 of the CFDA's Notice 168 for the Year 2015, effective from 1 May 2016, no healthcare food with description of its underlying function within its name shall be produced, and the products already produced prior to the date may be sold until the expiry of their shelf life. As the name of Besunyen Slimming Tea contains description of its underlying function, the Group had successively submitted to the CFDA the application for changing the product name of Besunyen Slimming Tea on 30 December 2015 and afterwards. However, the approval was not obtained before 1 May 2016. The Group had ceased the production of its slimming tea products since 1 May 2016 in accordance with the requirements of such notice and its products already produced prior to the date would be sold until the expiry of their shelf life. The Group received the approval from the CFDA on 15 November 2016. The name of slimming tea products has been successfully changed from "碧生源牌減肥茶" to "碧生源牌常菁茶". The new name of Besunyen Slimming Tea, "常菁茶", better reflects the characteristics of "youth and vigor" in the Besunyen brand. Soon after obtaining the approval, the Group obtained the production permit for "碧生源牌常菁茶" at the end of November, and resumed the production of its slimming tea products in December 2016. The suspended production of the slimming tea products caused widespread short supplies of the Group in the second half of 2016. Due to the situation of the sales of the Two Teas, the Group issued profit warnings on 27 May 2016 and 16 November 2016 respectively to inform the shareholders and investors of potential risks. In order to perform the name change transition smoothly, the Group has launched systematic work on the product name change of Besunyen Slimming Tea to ensure seamless transition in re-naming, package design, information notification, market promotion and other processes.

In 2016, we continued striving to improve operational efficiency through increasing investments in branding, research and development and food safety, as well as actively adjusting our business operation models and marketing strategies. The Group enhanced the capability of its research and development team to channel more resources into the development and introduction of new products to diversify the Group's product portfolio. The Group also continued launching innovative products to provide consumers with more quality choices.

The revenue of the Group in 2016 was RMB514.7 million, representing a decrease of 22.3% as compared with that of RMB662.8 million in 2015. Gross profit decreased by 28.4% to RMB425.5 million in 2016 from RMB594.2 million in 2015. Meanwhile, the gross profit margin dropped from 89.7% in 2015 to 82.7% in 2016. On the other hand, the total operating expenses of the Group (including selling and marketing expenses, administrative expenses and research and development costs) in 2016 were RMB517.9 million, representing a decrease of 6.8% as compared with that of RMB555.9 million in 2015. The Group recorded a net loss attributable to equity shareholders of the Company of RMB68.7 million in 2016, compared to the net profit attributable to equity shareholders of the Company of RMB92.3 million in 2015.

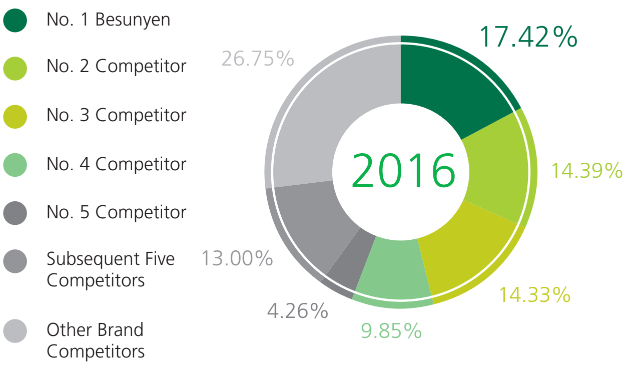
INDUSTRY, MARKET AND COMPETITION

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 SMERI in March 2017, in terms of retail sales amount of healthcare products, medicines or other types of products sold through retail pharmacies, Besunyen Detox Tea continued to rank top in the market segment of laxative products for nine consecutive years, although its market share of 17.42% in 2016 represents a year-on-year decrease of 4.39 percentage points; Besunyen Slimming Tea continued to rank top in the market segment of slimming products for seven consecutive years, enjoying a market share of 32.33% in 2016, representing a year-on-year decrease of 9.93 percentage points.

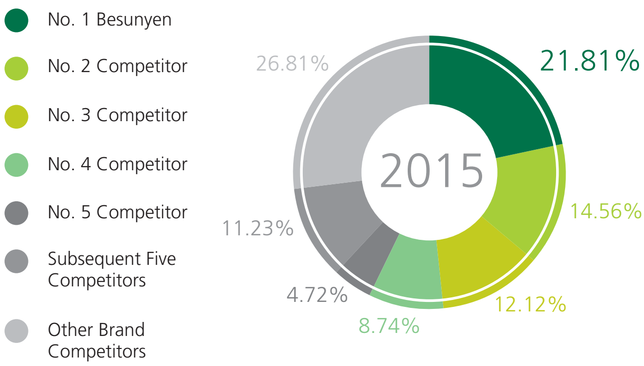
LARLLY Orlistat has topped the list for the market segment of slimming medicines, with its market share of 59.47% out of the top five slimming medicine brands in 2016, representing a year-on-year increase of 12.37 percentage points.

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

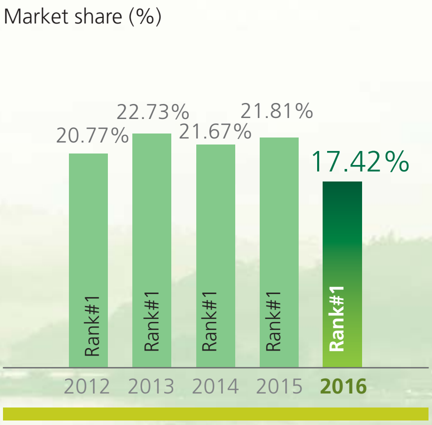
Market share of laxative products in 2016



Market share of laxative products in 2015



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 (based on retail sales amount)

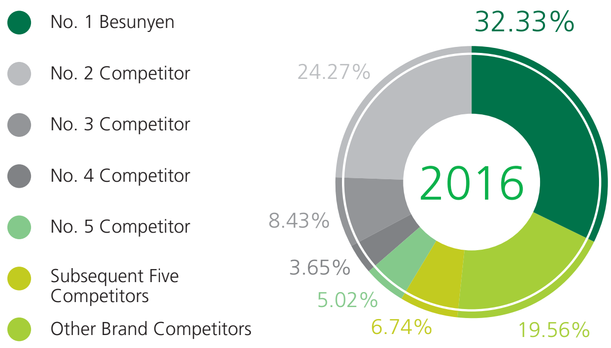


Note: The PRC market excludes the markets in Hong Kong, Macau and Taiwan

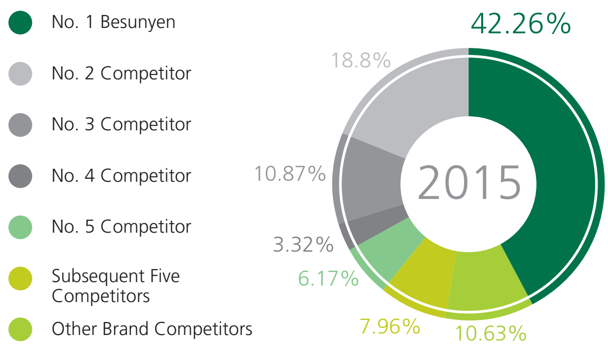
Sources: SMERI (March 2017)

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

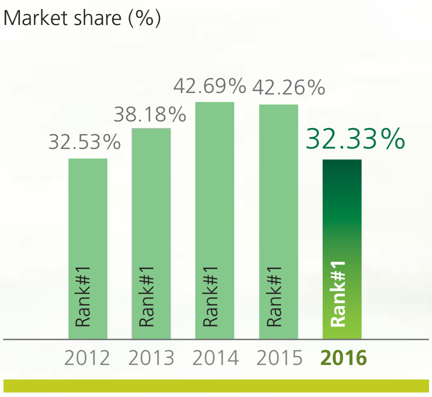
Market share of slimming products in 2016



Market share of slimming products in 2015



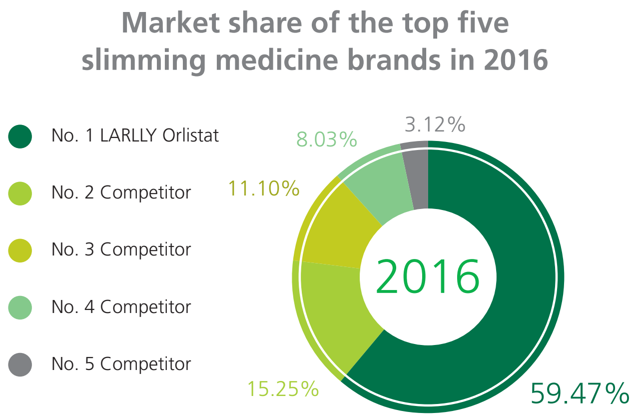
Market share and ranking of Besunyen Slimming Tea among all slimming products sold through retail pharmacies in the PRC market (Note) for the last 5 years (based on retail sales amount)

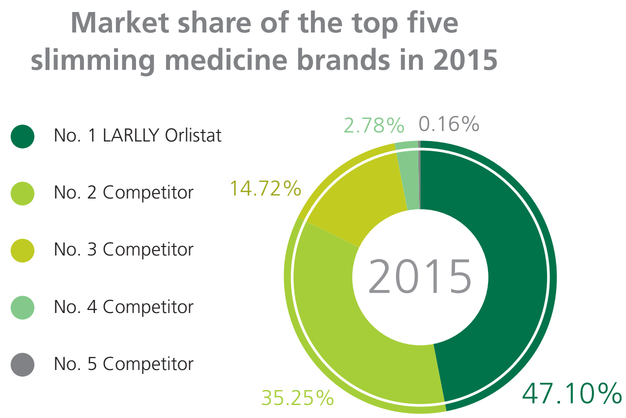


Note: The PRC market excludes the markets in Hong Kong, Macau and Taiwan

Sources: SMERI (March 2017)

Market share and ranking of LARLLY Orlistat out of the top five slimming medicine brands sold through retail pharmacies in the PRC market (Note) (based on retail sales amount)





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

Sources: SMERI (March 2017)

BUSINESS REVIEW

2016 was the sixteenth anniversary of the establishment of the Group, and also the seventh anniversary of the listing of the shares of the Company. In 2016, the Group focused on the development of new products, new customer base and new areas, in order to create opportunities for higher business growth of the Group in the future. In addition, LARLLY Orlistat achieved good performance in its core market, while its market share way ahead of competitors. In order to expand its product portfolio, the Group also launched its new product plan to achieve growth in multiple areas in the future.

Enhancing the Competitiveness of Main Products, Optimising and Upgrading Brand Competition Strategies

- *"碧生源牌減肥茶" successfully renamed to "碧生源牌常菁茶"*

  In 2016, the slimming tea, a star product under Besunyen brand ushered in new challenges and opportunities. In order to reduce the distance with young consumer groups and comply with the changing needs of relevant national laws, regulations and policies, upon obtaining the CFDA's approval, the product name of "碧生源牌減肥茶" was successfully changed to "碧生源牌常菁茶" in November 2016. The character "菁" signals "youth and vigor". The new name implies that Besunyen brand will bring new vitality, and its brand appeal is also upgraded from the previous function-oriented to consumers' caring.

- *Deep insight into consumers' recognitions and strategically focusing on weight management products*

  Based on its research and insight on consumers' needs, the Group established its category marketing strategy in 2016 by launching a weight management product line and introducing Besunyen Xian Xian Tea and meal replacement milkshake, which, together with Besunyen Slimming Tea and LARLLY Orlistat, cater to diversified weight loss needs of online and offline consumers through weight management packages.

Chairman and CEO's Report

- *Increasing brand awareness of LARLLY through in-depth development of education channel and expanding its market share*

  In order to improve consumers' understanding of LARLLY Orlistat, the Group strengthened its advertising promotion to improve the brand awareness of LARLLY Orlistat in 2016. Media placement focused in key markets of LARLLY Orlistat such as Beijing and Shanghai, and media placement and strategy execution were carried out differently based on different stages of product marketing and strategies. With the effective combination of sales strategies and all-channel media placement, significant sales growth was recorded. The Group conducted in-depth staff education activities for LARLLY Orlistat products in order to equip the staff of retail pharmacies with product knowledge and become promoters of LARLLY Orlistat. According to the retail data of SMERI for the year 2016, the market share of LARLLY Orlistat stood in the leading position in the sub-segment of Oristian preparation among the weight loss products in the PRC.

- *Enhancing the product competitiveness of Besunyen Detox Tea to steadily expand its consumer base*

  It has been 16 years since Besunyen Detox Tea was first launched in the market. While facing the competition from similar products, Besunyen Detox Tea has been personally certified and testified by numerous consumers, which has significant advantages on product function and efficacy. As to brand strategy, Besunyen Detox Tea continued to strengthen and consolidate its established goal and strived to optimize consumers' loyalty through effective traditional Chinese medicine formula, strong core product advantages, and enhanced communication efficiency with consumers. In 2016, not only the customer base of Besunyen Detox Tea was consolidated and upgraded, but also the repurchase rate of loyal consumers was increased as shown from the e-commerce data.

Joint Product Branding by Traditional Media and New Media

- *TV media portfolio with strong endorsement and frequent exposure*

  Following the brand philosophy of "healthy fat loss, natural herbs and colourful life for youth" (健康減脂、天然草本、年輕盡興) in 2016, Besunyen Slimming Tea, together with Besunyen Xian Xian Tea and meal replacement milkshake products, conducted dimensionalized communication with consumers at multiple levels through a variety of comprehensive brand activities. In 2016, Besunyen Slimming Tea continued to sponsor a popular health programme "I'm a Great Doctor" ("我是大醫生"), which endorsed its brand image. It continued to be the title sponsor of "King Wang" ("大王小王"), a relationship and lifestyle programme, on Hubei Satellite TV, which appealed to its loyal users and established a strong brand image. It was the exclusive title sponsor of the "Lip Sync Battle" ("對口型大作戰") of Shenzhen Satellite TV, and appealed to young consumers through high exposure and diversified soft advertisement in the programme. Moreover, the Group also partnered with the "Customised Good Shape" ("定制好身材"), a slimming reality show programme of Southeast Satellite TV in Fujian Province, in respect of in-depth content cooperation to establish the professional image of Besunyen Slimming Tea. In addition, we conducted wide area coverage through both "outdoor media and digital TV media", focusing on key markets to complement each other and realize dimensionalized communication, which has effectively covered consumers and improved its brand awareness and upgraded its brand loyalty.

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

  In March 2016, the Group obtained title sponsorship of the fourteen Chinese University Students Advertisement Art Show Academy Award, and held "Besunyen Cup" Charity Advertising Contest. The contest lasted for 10 months, covered 31 provinces and cities, visited over 40 colleges and universities, held 18 creative lectures and was accomplished. Through the zero-distance contact with university students, the contest has created a sound and profound brand reputation for Besunyen among the youth.

- *"Fat Burning Goddess" live show to commence the first live battle for healthcare products*

  From July to September 2016, the peak season for fat loss consumption, the Group blazed a new trail with Alibaba Group's Alihealth by using Tmall Live to produce a fat loss live show named "Besunyen Fat Burning Goddess Live Battle" (碧生源燃脂女神直播戰), which took a popular live form, adopted the variety reality show model, and created a precedent for live show by domestic enterprises. By leveraging its 16 years of experience in the fat-loss industry to hold a 49-day weight loss training camp and with the help of Besunyen Slimming Tea, the meal replacement milkshake products and Besunyen weight management plans, the Group successfully helped five slightly fat girls lose weight by 10 kilograms on average, which once again proved Besunyen's expertise on weight loss. The live show was aired at Tmall electronic commerce platform each Sunday. By incorporating marketing and communication, e-commerce and user interaction, the live show significantly shortened the marketing chain, broke through traditional models and quickly became popular. During the promotional period, Besunyen's sales through e-commerce platform increased by approximately 30% year-on-year. In addition, the Group used WeChat and Weibo as content communicating and user interaction platforms to spread professional weight loss concepts and scientific weight loss methods, which realized exposure of more than 450 million on the internet. Nearly 100,000 young target customers purchased or retained Besunyen products. Quick fat burning exercise and energetic Xian Xian exercise were introduced subsequently, providing consumers with specialised guidance on sports and broadening the scope of our weight management plans. The Fat Burning Goddess campaign received the China Advertising Great-wall Award for 2016 — Marketing and Communication Case for the Year for its remarkable creativity, excellent programme content and outstanding promotional effects.

- *New customer base, new methods and new results*

  The Group has in-depth cooperation with influential online platforms to increase brand and product exposure and coverage of new users. With a total of over 30 cooperation platforms and approximately 50 million times page view in 2016, the number of new customers significantly increased. Meanwhile, an in-depth model of cooperation between the Group and online media was established. The Group established a new joint marketing system with several famous traditional brands to share brand reputation and high-quality users.

Continuous Extension of Product Line and Formal Launch of New Product Plans

- *Weight management: Launch of Besunyen Xian Xian Tea and meal replacement milkshake in the market*

  Besunyen Xian Xian Tea is a slimming tea product with functions of removing dampness and reducing fat, designed for fat people to cater for different needs of the various customer base of slimming tea.

  Given the promising outlook for meal replacement products, the Group launched the meal replacement milkshake products with "delicious taste, low calorie content, and satiety" (營養美味、低卡飽腹) in accordance with the overall planning of weight management products, which, together with other products under Besunyen brand, form a comprehensive product portfolio for consumers. The Group has made comprehensive plans and preparations for the next three years to meet different needs of weight-control population. It is able to provide a variety of weight-control products and product portfolios and help consumers gain ideal weight through professional, easy-to-use weight management plans and services. To date, its meal replacement milkshake has achieved outstanding performance of ranking the No. 1 in Tmall search results. The trial sale has achieved initial success.

- *Intestine management: Launch of probiotic products*

  The Group entered into the probiotic market in 2016, and began the trial sales of probiotic products through e-commerce platforms since October 2016. Its concept of "careful mix of probiotic with probiotics" (益生菌精心配比益生元) was well received by consumers.

Focusing on Strengthening E-commerce Capability to Capture New Growth Opportunities Brought by Online Channels

In 2016, the Group strengthened its innovations at e-commerce channels. Its sales increased by nearly 36.8% year-on-year. The growth of the e-commerce business of the Group for 2016 relates to one word, being "New".

- *Continuing to launch new products to meet consumers' needs and follow market trend*

  In 2016, the Group successively launched new products such as Besunyen Xian Xian Tea, meal replacement milkshake and probiotic to our healthy weight management and intestine health management product line, which were put on e-commerce platforms for trial sale. Currently, the growth prospect of the sales of such new products through e-commerce platforms is promising, signalling an initial success for our weight management product line.

- *Keeping up with the pace of e-commerce platforms to achieve record-high sales*

  Besunyen's Tmall flagship store and JD flagship store kept up with the promotion pace of these e-commerce platforms by conducting strong promotion campaigns on 18 June, 11 November and 12 December 2016. In particular, its sales on 11 November 2016 nearly doubled year-on-year, and its sales on 12 December 2016 increased by almost 160% year-on-year. It also commenced the campaign of online "fans party", which has upgraded a promotion holiday to a day of interacting between members and sharing benefits and laid a solid foundation for its sales through electronic commerce in 2017.

- *Actively expanding new channels and exploring new models to capture new growth opportunities*

  Through connecting Besunyen's WeChat official account "I Want Good Shape" ("我要好身材") to a customer management system, a connection has been established between the Tmall flagship store and the WeChat official account, which enables WeChat subscribers to have direct access to all the online retail channels of Besunyen to place orders, check information on logistics and collect points through the WeChat platform. This has saved onerous procedures for redirecting among various platforms, also provided consumers with convenience thereby improving users' loyalty and increasing repurchase ratio.

  The Group has also adopted the Besunyen's O2O business model in certain pilot areas of Beijing, where offline delivery is ensured within two hours after shipping. The Group is actively communicating with online and offline distributors to customize the upgraded version of its O2O solution, in order to promote such solution across China and develop new growth driver for sales through e-commerce.

Rebuilding Channels to Build a Chain Cooperation Platform

- *Rebuilding channels to promote platform interaction*

  The Group strived to increase channel sales and establish integrated relationship through maintaining "consumers + staff" chain. The results of the stores are improved through advertisements, word-of-mouth communications and return visits of customers. The collaboration with clients are enhanced by strengthening the contact with them. The customers' intentions to place orders are stimulated by guiding them and establishing customer emotional relationship. The increase in store sales and promotion plans provided endorsed the brand and focused on a customer-centered overall enhancement.

- *Strategic cooperation to enhance brand effect*

  In 2016, hundreds of Besunyen product promotion and strategic cooperation meetings were held by the Group in major sales regions. Distributors, sub-distributors, chain pharmacies and retail pharmacies across China were invited to attend the meetings. At such activities, we communicated and interacted with the channels and terminals regarding Besunyen's corporate image, development process, product knowledge, sales skills and strategic cooperation models, consolidating the brand images of the Two Teas and LARLLY Orlistat at channels and terminals and enabling more store managers and staff who directly serve the consumers to have a better understanding of Besunyen brand and its product features, as well as the sales skills for the products of the Group. While helping store managers and staff improve sales performance, the Group also explored profit models that were in line with the interests of consumers with these store managers and staff, and understood the customers' feedbacks from them, in order to ensure the products meet the customers' needs and also ensure the Group provides quality services.

Yunzhi's Cooperation and Development

- The "Healthy China" concept has been adopted as a national strategy and included in the 13th five-year plan and the government work report issued by the State Council. Against such backdrop, the PRC pharmaceutical industry will embrace a new round of development opportunities following short-term adjustments. In May 2016, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**") entered into an agreement with Yunnan Phytopharmaceutical Co., Ltd. ("**Yuzhi**"), to jointly establish Yunzhi Besunyen Pharmaceutical Co., Ltd. ("**Yunzhi Besunyen**") , whose business license was later obtained. This symbolized that the strategic cooperation between these two companies was established. Yunzhi Besunyen obtained the Good Supply Practice Certificate for Pharmaceutical Products (藥品經營質量管理規範認證證書) and Operation Approval Certificate for Pharmaceutical Products (藥品經營許可證書) in February 2017, allowing it to formally commence full-scale sales. Under the favorable government strong support to Chinese medicine and plant medicine, it is believed that Yunzhi Besunyen will develop fruitfully.

Awards and Honours

- *Winning the Award of Brand with Public Credibility in Consecutive Sessions*

  At the Sixth China Healthcare Products with Public Credibility & and Brand Selection (中國保健品公信力產品及品牌推選活動) sponsored by China Health Care Association on 18 June 2016, the Group's products Besunyen Slimming Tea and Besunyen Detox Tea were granted the title of "China Healthcare Products with Public Credibility" (中國保健品公信力產品), and the Besunyen brand received the honour of "China Healthcare Product Brand with Public Credibility" (中國保健品公信力品牌). Besunyen has won the "China healthcare Product Brand with Public Credibility" in four consecutive sessions.

Social Welfare

- At the "2016 China Social Responsibility Public Welfare Ceremony & the Ninth Corporate Social Responsibility Summit" (2016中國社會責任公益盛典暨第九屆企業社會責任峰會) held in December 2016 and sponsored by Xinhua.net and the Research Centre for Corporate Social Responsibility of Chinese Academy of Social Sciences, the Group received the "2016 China Social Responsibility Public Welfare Charity Award" (2016中國社會責任公益慈善獎).

- The Group partnered with Beijing Charity Foundation to establish a special fund for conducting charity and public welfare activities including carrying out social assistance activities, providing services to the underprivileged and playing the complimentary role of social security, which has optimized the path for enterprises to participate in public welfare and charity, and created a practicable and efficient platform for the public welfare and charity to which the Group is committed.

- The Group and China Green Carbon Foundation established a "Special Fund for Combating Illegal Trade in Endangered Wildlife" (打擊瀕危野生動植物非法貿易專項基金), which aims to support the combat of illegal trade in wildlife, protect the diversity of global animals and plants, conduct investigations into and monitoring of domestic and overseas trade in wildlife and other wildlife resources and conduct habitat protection for endangered species through various forms of public welfare programs.

OUTLOOK

Macro-Economy

The year 2016 is the start of the "Thirteenth Five-Year Plan" and a critical year for China's economic development and transformation. For GDP, China has entered the new normal of slow economic growth. The domestic and overseas economic situations resulted in industrial restructuring: traditional industries continued the downward trend, while the internet and big health industries thrived. With the improvement of people's living standards, it is foreseeable that the big health industry in the PRC will continue to grow at a fast pace and become one of the key industries leading the PRC industrial transformation.

Catering to consumers by creating new growth drivers and optimising product structure

Looking forward to 2017, the Group will continue to seek new growth drivers while consolidating its existing business and will continue to expand its products to form a dimensionalized product structure.

Product categorization: Driven by the idea of "products + services", the Group will strengthen its development of back-end services while expanding its existing product lines, in order to enhance consumers' satisfaction and loyalty and develop a new trend for growth. For weight management, the Group will launch various products and services package with LARLLY Orlistat and meal replacement products as core products; and for intestine management, the Group will further enrich and dimensionalize its product lines and improve its intestine management packages.

Channels dimensionalization: In 2017, the Group will assign various channels with different responsibilities according to various characteristics: The pharmacy channel as the Group's current core channel, will continue to be deepened and expanded. The e-commerce channel recorded rapid growth, and the Group will focus on developing such channel and enable it to become the backbone for its business growth. The Group will also devote itself to exploring and attempting shopping mall and supermarket channel and special channels. By all of these efforts, the Group strives to refine and dimensionalize its channel management.

ACKNOWLEDGMENT

On behalf of the Board, I would like to express my heartfelt gratitude to the steadfast support from many parties, including our customers, distributors and sub-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 2016!

Chairman and CEO
ZHAO Yihong

Hong Kong, 10 March 2017

Management Discussion and Analysis

FINANCIAL REVIEW

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue	**514,749**	662,805
Cost of sales	**(89,229)**	(68,568)
Gross profit	**425,520**	594,237
Other income	**40,736**	40,205
Selling and marketing expenses	**(428,415)**	(431,939)
Administrative expenses	**(76,964)**	(104,793)
Research and development costs	**(12,570)**	(19,179)
Other expenses	**(10,912)**	(11,375)
Other losses, net	**(5,069)**	(2,717)
Share of losses of investments accounted for using the equity method	**(2,997)**	—
(Loss)/profit before income tax	**(70,671)**	64,439
Income tax (expense)/credit	**(3,895)**	23,775
(Loss)/profit for the year	**(74,566)**	88,214
(Loss)/profit attributable to:		
— Owners of the Company	**(68,714)**	92,291
— Non-controlling interests	**(5,852)**	(4,077)
	(74,566)	88,214
Other comprehensive income	**—**	—
Total comprehensive (loss)/income for the year	**(74,566)**	88,214
Total comprehensive (loss)/income attributable to:		
— Owners of the Company	**(68,714)**	92,291
— Non-controlling interests	**(5,852)**	(4,077)
	(74,566)	88,214

Revenue

	For the year ended 31 December			
	2016		2015	
	RMB'000	**Percentage of total**	RMB'000	Percentage of total
Revenue:				
Besunyen Detox Tea	**189,129**	**36.7%**	274,007	41.3%
Besunyen Slimming Tea*	**209,292**	**40.7%**	323,378	48.8%
Slimming medicines	**93,466**	**18.2%**	63,388	9.6%
Other products	**22,862**	**4.4%**	2,032	0.3%
Total	**514,749**	**100.0%**	662,805	100.0%

Affected by the name change of Besunyen Slimming Tea, the Group experienced a production suspension of Besunyen Slimming Tea from 1 May 2016 to the end of November 2016, causing a significant decrease in the revenue of 2016. In 2015, the revenue was RMB662.8 million and the revenue in 2016 decreased by 22.3% to RMB514.7 million. Among these, the revenue of Besunyen Detox Tea decreased by 31.0%, from RMB274.0 million in 2015 to RMB189.1 million in 2016, while the sales volume decreased from 174.5 million tea bags in 2015 to 125.9 million tea bags in 2016. The revenue of Besunyen Slimming Tea decreased by 35.3%, from RMB323.4 million in 2015 to RMB209.3 million in 2016, while the sales volume decreased from 218.5 million tea bags in 2015 to 147.6 million tea bags in 2016. The revenue of the slimming medicine, LARLLY Orlistat, increased by 47.5%, from RMB63.4 million in 2015 to RMB93.5 million in 2016. LARLLY Orlistat has been a revenue contribution to the Group since May 2015 and achieved a rapid growth in 2016.

The average selling price of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.57 and RMB1.48 per bag respectively in 2015, and were RMB1.50 and RMB1.42 per bag respectively in 2016. The average selling price of Besunyen Detox Tea decreased by 4.5% and the average selling price of Besunyen Slimming Tea decreased by 4.1%. The decrease of the average selling price was mainly due to the increasing promotional efforts for the Two Teas in order to inspire the purchases from consumers.

Note: The Chinese name of "Besunyen Slimming Tea" was renamed as "碧生源牌常菁茶" in November 2016.

Cost of Sales and Gross Profit

	For the year ended 31 December			
	2016		2015	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Cost of sales	**89,229**	**17.3%**	68,568	10.3%
Gross profit	**425,520**	**82.7%**	594,237	89.7%

The Group's cost of sales increased by 30.0% from RMB68.6 million (net of the reversal of impairment of property, plant and equipment of RMB28.5 million) in 2015 to RMB89.2 million in 2016. Cost of sales as a percentage of revenue increased from 10.3% in 2015 to 17.3% in 2016. Excluding the impact of reversal of impairment of property, plant and equipment of RMB28.5 million in 2015, cost of sales as a percentage of revenue would increase from 14.6% in 2015 to 17.3% in 2016.

As a result of a decrease in revenue by 22.3% and an increase in cost of sales by 30.0% in 2016 as compared with 2015, the gross profit of the Group decreased by 28.4% from RMB594.2 million in 2015 to RMB425.5 million in 2016. Gross profit margin of the Group decreased from 89.7% in 2015 to 82.7% in 2016.

The decrease in the gross profit margin was mainly because of the cost of sales in 2015 had offset the reversal of impairment of the property, plant and equipment of RMB28.5 million. In addition, although its suspended production led to a decrease in sales volumes, Besunyen Slimming Tea still had to bear the depreciation on the Group's property, plant and equipment, which also resulted in the decease in the gross profit margin.

Other Income

In 2016, the Group's other income mainly comprises interest income of RMB7.5 million (2015: RMB15.3 million), a government grant of RMB13.5 million (2015: RMB5.7 million) provided by the PRC government to support the Group's business, and rental income from investment properties of RMB19.2 million (2015: RMB19.1 million).

Selling and Marketing Expenses

	For the year ended 31 December			
	2016		2015	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising costs	**159,994**	**31.1%**	219,533	33.1%
Marketing and promotional expenses	**118,111**	**22.9%**	98,685	14.9%
Employee benefit expenses	**113,682**	**22.1%**	89,732	13.6%
Others	**36,628**	**7.1%**	23,989	3.6%
Total	**428,415**	**83.2%**	431,939	65.2%

Selling and marketing expenses of the Group slightly decreased by 0.8% from RMB431.9 million in 2015 to RMB428.4 million in 2016. The advertising costs decreased by 27.1% in 2016 as compared with 2015.

As the revenue decreased by 22.3% as compared with that of 2015, and the total selling and marketing expenses only decreased by 0.8%, the percentage of selling and marketing expenses to revenue increased from 65.2% in 2015 to 83.2% in 2016.

The employee benefit expenses in 2016 recorded an increase of 26.7% as compared with 2015, mainly because the Group increased staffs' compensation in 2016. In addition, the Group completed the acquisition of 80% equity interest in Guangzhou Runliang Pharmaceutical Co., Ltd. ("**Guangzhou Runliang**") in April 2015, therefore, the employee benefit expenses of Guangzhou Runliang for the whole year of 2016 have been consolidated which also leads to the increase in employee benefit expenses.

The increase in marketing and promotional expenses was mainly attributable to the cost increment resulted from the Group's increasing strategic cooperation and platform interaction with chain stores.

Administrative Expenses

	For the year ended 31 December			
	2016		2015	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Employee benefit expenses	**28,601**	**5.6%**	39,941	6.0%
Office expenses	**6,709**	**1.3%**	8,165	1.2%
Professional service fees	**16,616**	**3.2%**	22,168	3.3%
Entertainment and travelling expenses	**6,571**	**1.3%**	8,934	1.4%
Others	**18,467**	**3.6%**	25,585	3.9%
Total	**76,964**	**15.0%**	104,793	15.8%

The decrease of administrative expenses of the Group in 2016 was primarily due to (i) there was a fifteenth anniversary celebration activity for the Group's establishment in 2015; and (ii) the streamline in the management team in 2016.

Research and Development Costs

	For the year ended 31 December			
	2016		2015	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**12,570**	**2.4%**	19,179	2.9%

The Group's research and development costs decreased by 34.4% from RMB19.2 million in 2015 to RMB12.6 million in 2016. Research and development costs as a percentage of revenue also decreased from 2.9% in 2015 to 2.4% in 2016. The decrease of the research and development costs in 2016 are mainly as a result of the decrease in outsourcing research and development projects, which resulted in decrease in the research and development costs.

Taxation

Income tax expense of the Group in 2016 was RMB3.9 million whereas in 2015 was an income tax credit of RMB23.8 million. The tax credit in 2015 is mainly attributable to the recognition of deferred income tax assets in 2015 on certain deductible tax loss as accumulated in prior years.

Total Comprehensive (Loss)/Income for the Year of the Group

Due to the aforementioned factors, the total comprehensive loss attributable to the shareholders of the Company of the year was RMB68.7 million (total comprehensive income attributable to the shareholders of the Company was 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 2016 are as follows:

	Net Proceeds from IPO		
	Available	**Used**	**Unused**
	RMB'000	RMB'000	RMB'000
Acquisition of new production equipment and building new production facilities	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	74,980	75,020
Total	1,033,183	958,163	75,020

Liquidity and Capital Resources

In 2016, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities and proceeds from the IPO.

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	
	2016	2015
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(44,623)**	63,446
Net cash (used in)/from investing activities	**(54,427)**	26,160
Net cash used in financing activities	**(173,806)**	(41,825)
Net (decrease)/increase in cash and cash equivalents	**(272,856)**	47,781
Exchange gains on cash and cash equivalents	**882**	324
Net (decrease)/increase in cash and cash equivalents	**(271,974)**	48,105

In 2016, the Group's net cash used in operating activities was RMB44.6 million (2015: net cash generated from operating activities was RMB63.4 million). The difference was primarily resulted from the decrease in the operating cash flow which was caused by the decrease in operating profit in the year. In 2016, the net cash used in the investing activities of the Group was RMB54.4 million (2015: net cash generated from the investing activities was RMB26.2 million), mainly because of the Group's investments in Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. (the "**Yuanyuan Liuchang Fund Management Company**"), Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the "**Yuanyuan Liuchang Fund**") and Yunzhi Besunyen in the year, as well as the acquisition of remaining 20% equity of Guangzhou Runliang, a controlled subsidiary. In 2016, the net cash used in the financing activities of the Group was RMB173.8 million (2015: net cash used in the financing activities was RMB41.8 million), the increase was mainly due to the distribution of dividends and share repurchase.

Bank Balances, Cash and Bank Borrowings

The Group's cash and bank deposits, comprising cash and cash equivalent, restricted bank deposits and bank deposits with initial term of over three months decreased by 66.8% from RMB475.9 million as at 31 December 2015 to RMB157.8 million as at 31 December 2016. Meanwhile, the Group did not have any bank borrowings and unused bank facilities as at 31 December 2016 (31 December 2015: Nil).

Capital Expenditure

In 2016, cash payments for capital expenditure of the Group amounted to RMB34.2 million (2015: RMB39.5 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	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	**32,294**	28,162
Intangible assets	**1,912**	2,120
Land use rights	**—**	9,175
Total	**34,206**	39,457

Investment Properties

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

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Investment properties	**55,632**	57,694

The Group owns Besunyen Building, Linglong Tiandi which is located in No. 160 West 4th Ring Road North, Haidian District, Beijing 100036, and certain office properties in Changcheng Building located in No. 3000, Zhongshan Road North, Putuo District, Shanghai. As at 31 December 2016, the Group was in the process of obtaining property certificates of the building located in the PRC with a total carrying value of approximately RMB44.8 million. 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 2016, carrying value of the investment properties amounted to RMB55.6 million (2015: RMB57.7 million). Such 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 2016, 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 value of such investment properties.

Investments Accounted for Using the Equity Method

	At 31 December 2016 RMB'000	2015 RMB'000
Investments accounted for using the equity method	**66,933**	—

As at 31 December 2016, the carrying value of the Group's investments in the joint ventures, Yuanyuan Liuchang Fund Management Company and the Yuanyuan Liuchang Fund, were RMB58.7 million, and the carrying value of the Group's the investment in the associate, Yunzhi Besunyen, was RMB8.3 million.

Inventories

The Group's inventories include 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 2016 RMB'000	2015 RMB'000
Raw materials and packaging materials	**3,816**	2,183
Work in progress	**1,028**	774
Finished goods	**17,876**	3,231
Total inventories	**22,720**	6,188

The turnover days of the Group's inventories in 2016 (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 59 days (2015: 21 days). The increase in the turnover days of the Group's inventories was mainly because that the Group focused on the production of Besunyen Slimming Tea in December 2016. Under the relevant regulatory requirements of CFDA, for those slimming tea products produced before the end of 2016, on their external packaging, product specifications and the related advertising materials, can be specified as "碧生源牌常菁茶 (原碧生源牌減肥茶)". Therefore, the Group focused on the production of Besunyen Slimming Tea in December 2016. Other than this policy reason to stock up the inventory, the Group actively monitors its inventory level to ensure that the inventory volumes of raw materials and packaging materials, work in progress and finished goods remain at a rather low but sufficient level. Throughout the entire distribution and retailing process, the Group monitors and evaluates sales performance and product trends, so as to better estimate inventory requirements.

Risks in Foreign Exchange Rate

Almost all of 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 2016, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2015: Nil).

Material Acquisition or Disposal

On 2 September 2016, Beijing Outsell, an indirectly wholly-owned subsidiary of the Company, entered into the equity transfer agreement with Beijing Tianrun Diliang Investment Co., Ltd. ("**Tianrun Diliang**"). Pursuant to the equity transfer agreement, Beijing Outsell acquired the remaining 20% equity interest in Guangzhou Runliang held by Tianrun Diliang at the total consideration of RMB10.0 million. Upon completion of the Acquisition, Guangzhou Runliang became an indirectly wholly-owned subsidiary of the Company.

Material Investment

On 29 March 2016, Besunyen Pharmaceutical, Mr. Bai Jiguang and the Yuanyuan Liuchang Fund Management Company entered into the Limited Partnership Agreement to establish the Yuanyuan Liuchang Fund in the PRC with the total capital commitment of RMB100.0 million and owned as to 89%, 10% and 1% by Besunyen Pharmaceutical, Mr. Bai Jiguang and the Yuanyuan Liuchang Fund Management Company respectively. The Yuanyuan Liuchang Fund Management Company is jointly owned by Besunyen Pharmaceutical and Mr. Bai Jiguang and acts as the general partner of the Yuanyuan Liuchang Fund. Upon the incorporation of the Yuanyuan Liuchang Fund, it will mainly focus on investment projects in health care industry, TMT (technology, media and telecommunications) industry and consumer industry, etc., as well as the investment in certain early stage partnerships.

As at 31 December 2016, the Yuanyuan Liuchang Fund had invested in 4 projects, with a total amount of RMB65.0 million. These projects were in different aspects such as retail of health products and nutrition supplements, orthopedic therapy and ophthalmic therapy.

Save as aforesaid or as otherwise disclosed herein, during the reporting period, the Group did not make any material investment or purchase of capital assets.

Pledge of Assets

As of 31 December 2016, the Group had no pledged assets (2015: Nil).

Gearing Ratio

As of 31 December 2016, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 13.56% (2015: 11.73%).

Contingent Liabilities and Guarantees

As of 31 December 2016, the Group had no material contingent liabilities or guarantees (2015: Nil).

Capital Commitments

As of 31 December 2016, the Group had capital commitments of RMB8.4 million (2015: RMB28.7 million).

Environment Protection and Compliance with Laws and Regulations

During the year, so far as known to the Directors of the Company, there was no non-compliance with any relevant laws and regulations which would have a material impact on the Group. During the year, so far as known to the Directors of the Company, there was no incidence of non-compliance with the relevant environmental laws and regulations that have a significant impact on the business of the Group. The Group is committed to and has implemented certain policies to minimize the impact on the environment from our business activities.

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 2016, 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 2016, 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 2016, the Group had 1,156 employees in the PRC mainland and Hong Kong (2015: 1,231 employees), which included 79 promotional staff employed by employment agents (2015: 113 employees). The staff costs of the Group (including remunerations of the Directors) were RMB162.3 million for the year ended 31 December 2016 (2015: RMB148.9 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.

Subsequent Events

- On 10 March 2017, the Company entered into a share subscription agreement (the "**Share Subscription Agreement**") with Ms. LI Jiaozhi, Mr. WANG Jining, Mr. LUO Xuezhi and Everyoung Investment Holdings Limited (collectively, the "**Subscribers**"), pursuant to which the Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue and allot 165,000,000 Shares (the "**Subscription Shares**") at HK$0.5 per share subject to a lock-up period of 1 year. The issue of the Subscription Shares is subject to, among others, the granting and not having withdrawn or revoked the approval for the listing of, and permission to deal in the Subscription Shares by the Listing Committee of the Stock Exchange. The net proceeds of approximately HKD82.4 million from the subscription will be used for, including but not limited to, replenishing the working capital of the Group and appropriate acquisitions and potential investment opportunities of the Group. For details, please refer to the announcement of the Company dated 10 March 2017.

- On 10 March 2017, Beijing Outsell entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with Zhonghang Tuohong (Xi'an) Property Co., Ltd. (an independent third party) (the "**Zhonghang Tuohong**") and Beijing Besunyen Food and Beverage Co., Ltd. (the "**Besunyen Food and Beverage**"), pursuant to which (i) Beijing Outsell agreed to dispose of and Zhonghang Tuohong agreed to acquire 100% equity interest in Besunyen Food and Beverage for an aggregate consideration of RMB75 million; and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50 million to Beijing Outsell. Upon completion of the equity transfer, Besunyen Food and Beverage will cease to be a subsidiary of the Company. Proceeds from the equity transfer and the debt repaid by Besunyen Food and Beverage will be used by Beijing Outsell for its operation of business and strategic investments. For details, please refer to the announcement of the Company dated 10 March 2017.

- On 10 March 2017, Beijing Outsell, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (the "**Zhongshan Wanyuan**"), Zhongshan Wanhan Pharmacy Co., Ltd. (the "**Zhongshan Wanhan**"), Zhuhai Yinchen Investment Consulting Co., Ltd., Zhuhai Jiatai Chengzhang Investment Co., Ltd., Ms. LUO Dongfang, Mr. ZHAO Rui, Mr. ZOU Yong, and Ms. PENG Wei (collectively, the "**Sellers**") entered into an investment agreement (the "**Investment Agreement**") pursuant to which: (1) Beijing Outsell conditionally agreed to purchase and the Sellers of Zhongshan Wanhan conditionally agreed to sell 39.66% equity interest in Zhongshan Wanhan for a total consideration of RMB77.1 million (the "**Equity Transfer**"); and (2) Beijing Outsell conditionally agreed to make capital contribution in cash to each of Zhongshan Wanhan and Zhongshan Wanyuan in the total sum of RMB60.6 million (the "**Capital Contribution**"). Upon completion of the Investment Agreement, Beijing Outsell will own 51% equity interest in each of Zhongshan Wanhan and Zhongshan Wanyuan. This transaction will facilitate the Group to obtain more comprehensive qualifications in pharmaceutical research and development, manufacture and medical e-commerce, and also lay a good foundation for the Group's comprehensive layout and development in pharmaceutical industry. For details, please refer to the announcement of the Company dated 10 March 2017.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. ZHAO Yihong, aged 50, 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 27 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 48, is our co-founder, Vice Chairman and Vice President principally in charge of our human resources and corporate culture affairs 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 65, 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 42 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 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), Arcplus Group Plc (a company listed on the Shanghai Stock Exchange, stock code: 600629) and Focus Media Information Technology 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.

Ms. ZHANG Guimei, aged 39, was appointed as a non-executive Director of the Company in September 2015. Ms. Zhang has over 18 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 59, 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. REN Guangming, aged 52, 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 29 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.

Mr. HE Yuanping, aged 50, was appointed as an independent non-executive Director of the Company in October 2016. He is the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company. Mr. He has years of experience in senior operation and management, with rich theoretical knowledge and practical experience in investment and financing, business management, industrial operations, finance and other fields. Mr. He has been serving as a director, deputy general manager, chief financial officer and board secretary of Beijing OriginWater Technology Co., Ltd. (北京碧水源科技股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 300070) ("**Beijing OriginWater**") since June 2007. He worked as a director, deputy general manager and chief financial officer of Beijing OriginWater Science and Technology Development Co., Ltd. (predecessor of Beijing OriginWater) from September 2005 to June 2007. Mr. He worked as a deputy general manager and the chief investment officer of Beijing Allianz Investment Co. Ltd. from April 2003 to August 2005. Currently, he is also a director of Wuhan Sanzhen Industry Holding Co., Ltd. (武漢三鎮實業控股股份有限公司, a company listed on the Shanghai Stock Exchange, stock code: 600168) a non-executive director of Yunnan Water Investment Co., Limited (雲南水務投資股份有限公司, a company listed on the Stock Exchange, stock code: 6839) and Yingde Gases Group Company Limited (盈德氣體集團有限公司, a company listed on the Stock Exchange, stock code: 2168). Mr. He assumes several social positions, including a member of the Sixth Session of Issuance Examination Committee (GEM) of China Securities Regulatory Commission, a member of the Ninth Beijing Haidian District Committee of the Chinese People's Political Consultative Conference, a vice chairman of the Board Secretary Committee of China Association for Public Companies, a deputy secretary-general of The Listed Companies Association of Beijing, a vice president of Western Returned Scholars Association ANZ branch, a guest teacher of the School of Accountancy of Central University of Finance and Economics and a guest teacher of University of Science and Technology Beijing. He has won several prizes and social recognitions, including China CFO of the Year 2015 by New Fortune Magazine, The Most Popular CFO among Investors of the Year 2012 by the Chartered Institute of Management Accountants and Golden Shield Award for Excellent Board Secretary of China's Listed Companies of the Year 2014. Mr. He received a bachelor's degree in engineering from Nanjing University of Science and Technology in July 1987, a master's degree in engineering from University of Science and Technology Beijing in March 1992 and a master's degree in financial mathematics from Victoria University of Wellington in New Zealand in June 2000.

SENIOR MANAGEMENT

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

Ms. GAO Yan is our Vice President. Her profile is shown in the director profile above.

Ms. WANG Juan, aged 41, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 20 years of experience in accounting, finance and tax. Between 1997 and 2000, Ms. Wang worked for PricewaterhouseCoopers 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 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 52, is our Vice President principally in charge of our audit and legal affairs. Mr. Yu is also a director and the legal representative of various subsidiaries of the Group. Mr. Yu joined our Group in July 2000 and has more than 26 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 48, 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 27 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.

Mr. ZHANG Jun, aged 49, is our Vice President principally in charge of the construction and operation of corporate information system and data centre management. Mr. Zhang joined the Group in October 2016 and have 26 years of experience in IT and corporate management information industry, which includes EPR system, supply chain management system, product life cycle management system, retail management system, human resources management system, information security system, data centre system and internet application system. Mr. Zhang held various positions in Legend Group from 1991 to 2005, namely vice general manager of industry system integrated services department, general manager of information management department, vice president of consultancy services business, etc. From 2005 to 2012, Mr. Zhang served Li Ning Sports Goods Co., Ltd and held the position of general manger of information technology system. Mr. Zhang graduated from the Department of Telecommunication Engineering in Beijing University of Posts and Telecommunications with a bachelor degree with major in Communication Engineering, and studied EMBA in Guanghua School of Management of Peking University. While serving in Legend Group, he was engaged by the State Economic and Trade Commission as an expert consultant of information assessment. While serving in Li Ning company, he served as the council president of the garment industry branch of China Systems Applications and Products Users Association.

* *For identification purpose only*

Environmental, Social and Governance Report

GROUP PROFILE

The Group is a leading provider of therapeutic teas in the PRC, mainly engaging in the research and development, production, sales and promotion of therapeutic teas as well as the sales and promotion of medicines. By tagging along with the concept of "herbal health, functional good tea", the Group has started to produce Besunyen Detox Tea, Besunyen Slimming Tea and other therapeutic tea products since 2000, and for the last 16 years, has dedicated to the marketing and sales of the Two Teas.

The Group cooperated with Hisun Pharmaceutical to launch LARLLY Orlistat for sale in April 2015, so that the Group has expanded from the market of slimming therapeutic teas to that of OTC slimming medicines. Since its launch, LARLLY Orlistat has been highly praised among consumers and has witnessed a stable sales growth.

The Group was incorporated in September 2000 and listed on the Main Board of The Stock Exchange of Hong Kong Limited on 29 September 2010. The Group has its operating headquarter in Haidian District, Beijing, and provides services to distributors and consumers through two channels, i.e. internet e-commerce platform and offline sales. The Group has established marketing offices across 31 provinces, autonomous administrative division and municipals across the country and has strong marketing capability, and has been leading the field for years.

The production base of the Group is located in Fangshan District, Beijing. The production of the Two Teas is in strict compliance with the requirements of the national GMP standards, and they have passed the systematic certifications such as ISO9001, ISO22000 and HACCP. Our packing equipment is the C24 tea bag high-speed machine introduced from IMA of Italy, where it is equipped with a specifically designed "cotton thread nautical knot for tea bag and tag fixing" so that the inner and outer bags can be shaped up at the same time and the bag can be produced automatically. Closed-ended management is conducted in the production facilities, and the pelleting facilities and inter packing facilities are the Grade 100,000 clean areas furnished with temperature and humidity monitoring. Our garden-like plant is featured by a beautiful environment, its hygiene, process, technology, procedure and management have reached the advanced level within the industry.

THE VISION, POLICY AND STRATEGY FOR SOCIAL RESPONSIBILITY OF THE GROUP

In the last two years, we actively adapted ourselves to the new normal economic conditions. We actively dealt with the difficult and complicated operation conditions, continuously intensified reformation, strove for innovation and sped up the launch and marketing of new products; we worked hard to prevent operation risks and enhance quality of development, all these efforts had resulted in stable rise in our operation results. When enjoying excellent operation results, the Group never forgets to make contribution to the society. We take part in the charity course by cooperating with Beijing Charity Foundation and setting up the "Besunyen Charity Fund", making donations to the China Green Carbon Foundation and the Red Cross, and sponsoring charity advertising contests.

Talents are always the greatest asset to the Group. "People-orientation and respect for people" is our basic requirement for human resources management. We are always active to recruit, train and keep talents. In order to better recruit and retain talents, the Group adjusts wages and salaries of employees on an annual basis with reference to salary levels of the industry and relevant job positions. We also create a nice and comfortable work environment for our employees.

To actively respond to General Secretary Xi's appeal that "green environment is more important than money", the Group will actively promote environmental protection plans such as "cleaner production" and implement the following measures to lower energy consumption, enhance energy efficiency and achieve the goal of environmental protection: ice storage renovation project, solar water heating system renovation, grade II packing meter renovation, industrial renovation of ice storage, replacement of high-efficiency electrical and mechanical system and renovation of air-conditioning units, etc.

COMMUNICATION WITH STAKEHOLDERS

Stakeholders' participation is an indispensable and important component in the development and social responsibility undertaking of the Group. The Group devotes itself to maintaining communication with stakeholders and develops a mutually-beneficial and win-win relationship through stockholders' participation. The Group opens up various channels to stakeholders such as investors, employees, customers, suppliers, regulatory authorities and media for their participation in the Group's production and operation activities. Through the continuous communication and exchange of views, stakeholders can be familiar with and supervise the Group's operation, and allows the Group to have a full understanding of the opinions of stakeholders and thus give an active response.

The official website of the Group provides an important window for the communication between the Group and stakeholders. Timely maintenance and improvement of the website information will help stakeholders know the Group's business operation, participate in the Group's operation and offer advice for the Group's healthy operation and sustainable development.

In 2016, the Group conducted positive and frank communication with investors and shareholders via multiple ways such as convening general meeting of shareholders, holding results press release, receiving investors' visits and calls, conducting non-transactional roadshow, etc., thereby allowing investors to have a full understanding of the Group's operation and development status as well as conveying their opinions to the Group's management.

Besides, the Group has organized distributors, sub-distributors, chains, first-tier marketing representatives, suppliers, consumers, government regulatory authorities and news media to visit the plants of Besunyen so as to deepen stakeholders' understanding of the Group's production and marketing process and let the Group know the stakeholders' opinions and requirements on the Group's environmental, social and governance work. The Group has maintained various channels to keep communicating with stakeholders regarding different subjects.

STAKEHOLDER SCOPE AND MAIN OBJECTIVES AND THE GROUP'S COMMUNICATION AND RESPONSE IN 2016

Stakeholder	Main Objectives	Communication and Response
Investors	The Group's operation conditions	In 2016, the Group conducted communication with investors and timely disclosed the Group's operation conditions via multiple ways such as general meeting of shareholders, results press release, non-transactional roadshow, consultation through calls and emails, information disclosure on website, etc. to protect the interests of investors.
	Interests of investors	
Employees	Interests of employees	The labour union of the Group has played a positive role in protecting the interests of employees, carrying out employee trainings and activities, and providing healthy and safe working conditions to employees. The Group convened the 3rd labour union congress in December 2016. During the congress, the Group had a thorough communication with employees, understood the needs of employees and explained the revised employee manual. At the congress, the Employee Manual was adopted by vote by all employees.
	Career planning and training	
	Health and safety	
Customers	Product quality	The Group organized clients and consumers to visit and study the plants of Besunyen and listened to their opinions and suggestions in order to constantly improve product quality. In 2016, the Group continued to promote and implement the "Go Home Plan" for distributors, sub-distributors and chains. Through the visits and studies, our customers were able to further learn about the Group's development history, corporate culture and products, enabling the Group to get closer to the customers and enhance communication with consumers.
	Consultation service	The Group treasures feedback from customers in order to do well in after-sale services and improve the consumer consultation service system. In 2016, the Group introduced the call center system on the e-commerce platform so as to provide better consultation service to consumers.
Suppliers, Distributors and Sub-distributors	Fair procurement	In 2016, the Group constantly improved the supply chain management system, conducted field visit to the suppliers and fully communicated with the suppliers during the visit. Besides, the Group also specified the anti-corruption clause in the procurement contract and informed the suppliers of the same in 2016.
	Complying with contractual provisions	In 2016, the Group conducted sufficient and effective communication with suppliers, distributors and sub-distributors across the country by organizing "parallel sessions". During communication, the Group repeatedly stressed the importance of openness and transparency and good faith performance and expressed that the Group is willing to carry out long-term cooperation on that basis.
Regulatory Authorities	Legal compliance	The Group complied with laws and regulations, operated legally with integrity, and actively cooperated in supervision and inspection. In 2016, the Group obtained such honorary titles as Famous Trademark of Beijing, AAA Credit Rating by the Ministry of Commerce, Integrity Enterprise of Beijing, Top 100 Social Responsibility Performance Entity of Beijing, etc.
	Harmonious development of economy, environment and society	The Group actively performed social responsibility and engaged in social welfare. At the 2016 China Social Responsibility and Public Welfare Ceremony, the Group was awarded the "Award of China Social Responsibility and Public Welfare in 2016" again.
Media	Information disclosure	In 2016, the Group invited relevant media to visit Besunyen and to learn about Besunyen, maintained active and effective communication with media through various ways such as participation in forums of social responsibility of healthcare enterprises, the 3rd China Teabag Seminar in 2016, etc. and making timely and accurate information disclosure.
	Good media relationship	

REPORT CRITERIA AND SCOPE

This Environmental, Social and Governance Report is prepared according to the Environmental, Social and Governance Reporting Guide of The Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and has stated the measures taken by the Group for environmental, social and governance issues and the progress thereof between 1 January 2016 to 31 December 2016.

As the following companies made great contribution to the Group and can adequately represent the business of the Group, so they are selected to be included in this Environmental, Social and Governance Report:

i. Beijing Outsell Health Product Development Co., Ltd.;

ii. Beijing Besunyen Trading Co., Ltd.;

iii. Beijing Besunyen Food and Beverage Co., Ltd.;

iv. Beijing Pincha E-commerce Co., Ltd.;

v. Heilongjiang Besunyen Commerce & Trading Co., Ltd.;

vi. Beijing Besunyen Pharmaceutical Co., Ltd.; and

vii. Guangzhou RunLiang Pharmaceutical Co., Ltd.

ENVIRONMENTAL PROTECTION

The Group has always been attaching great importance to environmental protection work, setting itself as an example in business activities. In 2016, the Group strictly implemented the Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste, and other laws, regulations, standards and local regulations on environmental protection, and strived to reduce the possible adverse impact on the environment by its business operation.

In addition to compliance with laws and regulations, the Group has also fulfilled its environmental protection duties through continuous improvement of production processes, use of clean energy and reduction of other energy use, reduction of waste emissions, and encouraging employees to participate in environmental protection activities.

In December 2016, for the purpose of protecting environment and reducing energy consumption, the Group launched the "cleaner production" plan. In mid-December, the Beijing Municipal Commission of Development and Reform announced at its official website that the Group had successfully passed cleaner production review of Beijing, and a series of cleaner production measures are well underway.

Emissions

Exhaust Gas and Greenhouse Gas Emission

The Group produces a variety of pollutant-containing gases produced in the fuel combustion and production process of the plant, which are collectively referred to as industrial waste gases such as sulfur dioxide and nitrogen oxides.

In 2016, the Group fully complied with the requirements of the Law of the PRC on the Prevention and Control of Atmospheric Pollution and other relevant laws and regulations and has taken the following measures to reduce the emission of exhaust gases and greenhouse gas:

(1) producing with clean energies such as natural gas and setting up such devices as dedusting devices in the production base;

(2) taking such measures as closeness, fencing, covering, cleaning and watering to reduce the dust and gaseous pollutant emission in the phases of stockpiling, transportation and loading and unloading of internal materials;

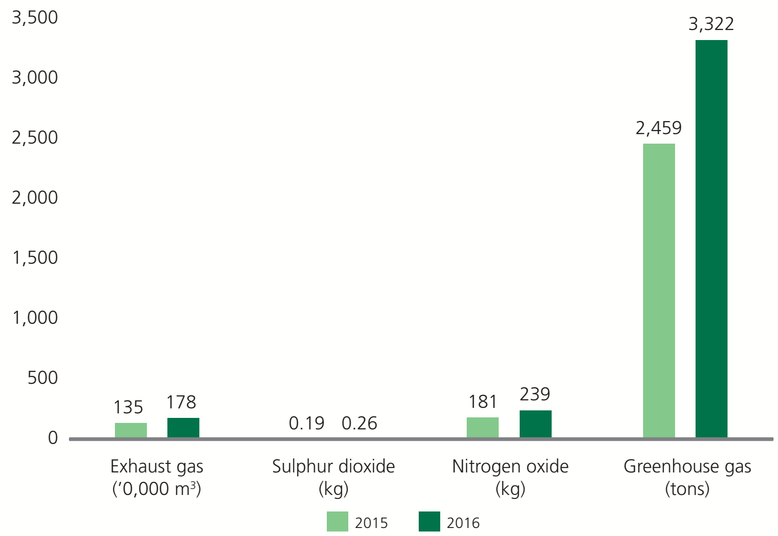
(3) adopting energy-saving facilities and reducing emission of greenhouse gas through lighting management, air-conditioning temperature management and natural lighting of buildings; and

(4) reducing petrol use by arranging commuter vehicles, business vehicle management and encouraging the use of public transportation.

In 2016, the amount of natural gas used by the Group was 128,000 cubic meters, generating 1.78 million standard cubic meters of industrial waste gas, 0.26 kg of sulphur dioxide and 239 kg of nitrogen oxides in total; 1,928 standard cubic meters of exhaust gas was discharged for the production of one ton of finished products. As compared with the same period of 2015, the Group's exhaust gas emission increased by 430,000 standard cubic meters, with emission of sulphur dioxide reduced by 0.07 kg and emission of nitrogen oxides increased by 58kg.

In 2016, the total amount of greenhouse gas discharged by the Group was 3,322 tons, and 3.6 tons of greenhouse gas was produced for the production of one ton of finished products. The Group's greenhouse gas emission increased by 863 tons as compared with the same period in 2015.

The Group's emission of exhaust gas and greenhouse gas in 2015 and 2016, is shown in the diagram below:

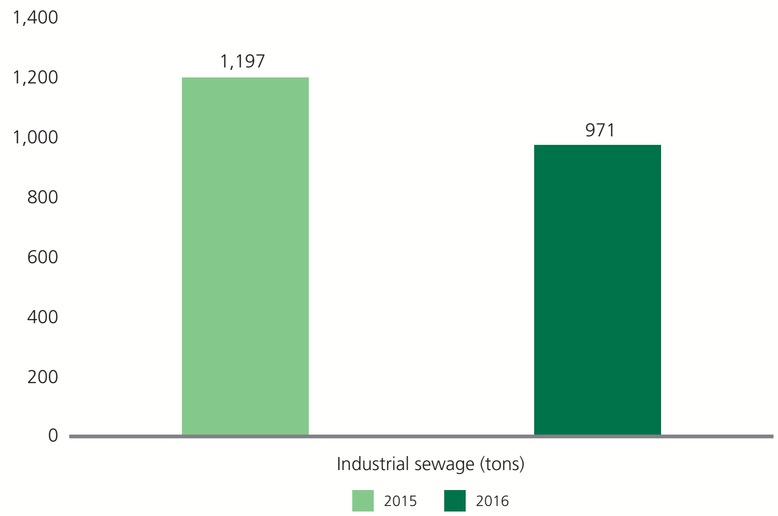


Sewage Treatment

In 2016, the Group strictly implemented the provisions of the Law of the PRC on the Prevention and Control of Water Pollution, took comprehensive prevention and control measures against sewage, improved the water reuse rate, and reduced the sewage and pollutant emission. The sewage produced by the Group is mainly from machines and equipment cleaning and employees' works.

The Group has been repeatedly advocating and emphasizing polices on the protection of environment and water resources. These ideas have been rooted in the heart of the employees, and the employees' awareness of environmental protection significantly improved. In 2016, the Group's industrial sewage discharge was 971 tons, decreasing by 226 tons as compared with the same period in 2015. 1.1 tons of sewage was discharged for the production of one ton of finished products.

The Group's industrial sewage discharge in 2015 and 2016 is shown in the diagram below:



According to the requirements of relevant laws and regulations of the PRC, all sewage was discharged to special sewage treatment companies through city pipe network and blowdown pipelines for centralized sewage treatment.

Generation of Hazardous and Non-hazardous Wastes

The hazardous wastes produced by the Group are mainly laboratory reagents. Non-hazardous wastes mainly include packing material wastes and living garbage. Hazardous wastes were collected and disposed by professional companies. Non-hazardous solid wastes were specifically treated by professional cleansing companies.

In 2016, the Group adopted the following measures to reduce the discharge of wastes and minimize hazards of the wastes discharged:

(1) implementing cleaner production review, using clean energy, advanced technologies and equipment to improve production monitoring level;

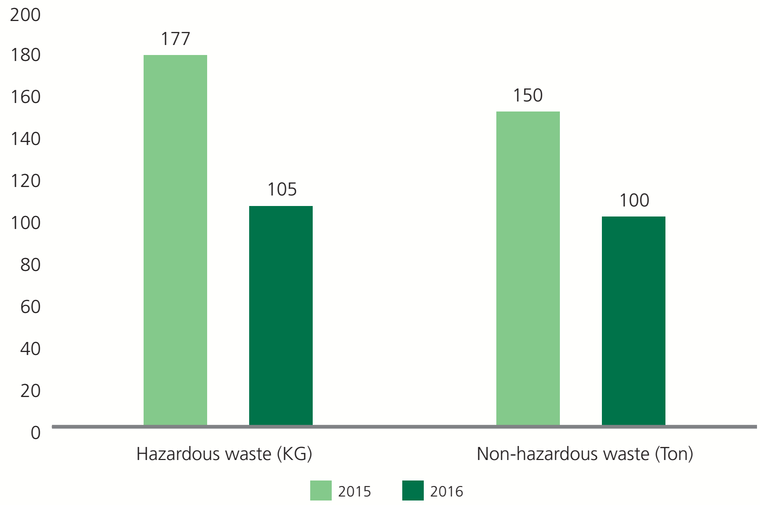
(2) classifying wastes, together with recall of materials and packing materials for recycling and reuse; and

(3) avoiding excessive packing and reducing the use of disposable goods.

In 2016, the total amount of hazardous wastes produced by the Group was 105 kg; 0.1 kg of hazardous wastes were produced for the production of one ton of finished products. In 2016, the total amount of non-hazardous solid wastes produced by the Group was 100 tons; 0.1 tons of non-hazardous wastes were produced for the production of one ton of finished products.

As compared with the same period of 2015, the hazardous wastes produced by the Group in 2016 decreased by 72 kg and the non-hazardous wastes produced by the Group in 2016 decreased by 50 tons. Implementation of the said measures has greatly reduced the waste discharge.

The Group's discharge of hazardous and non-hazardous wastes in 2015 and 2016 is shown in the diagram below:



Use of Resources

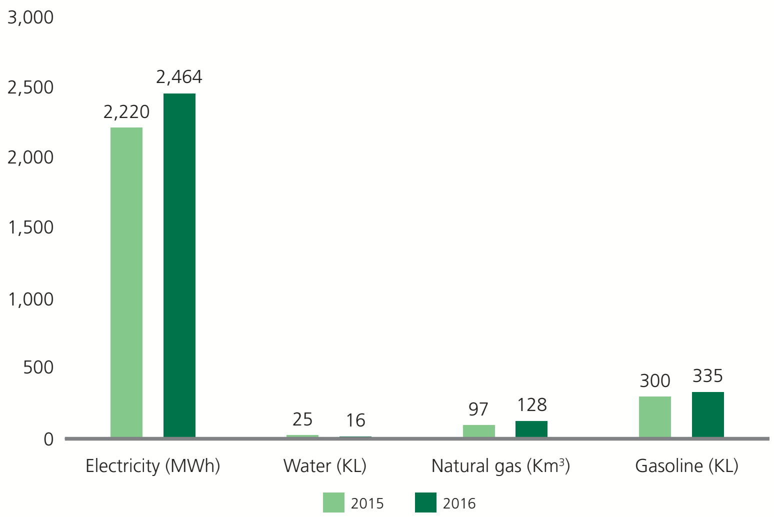
Energy Conservation

In order to protect the environment and save energy consumption, the Group has formulated a relatively sound energy management system, and specified division of works and posts of the relevant employees in the internal energy management system, and confirmed equipment, process, operation and running, maintenance and other aspects through production specifications and other standard files, thereby initiating the institutionalization of the Group's energy management.

The Group's energy consumption is mainly incurred by production management center, which further regulates production and reduces energy consumption by implementing a department and position-based energy assessment system. In 2016, the Group began to implement the "cleaner production" plan and improved energy utilization efficiency, reduced energy consumption and realized energy conservation by a series of measures including ice storage renovation, solar water heating system renovation, grade II packing meter renovation, industrial renovation of ice storage.

In 2016, the Group's energy consumption was still dominated by electricity, with a total consumption of 2,464 MWh, with 2,669 kWh per ton of finished product, followed by natural gas, water and gasoline. As compared to 2015, electricity consumption grew by 244 MWh, with consumption of water reduced by 8,723 tons, consumption of natural gas increased by 31,008 cubic meters, and consumption of gasoline increased by 35,445 liters.

The Group's energy consumption in 2015 and 2016 is shown in the diagram below:



Water Conservation

The Group's philosophy of environmental protection and water conservation has already been deeply rooted. The Group's "Water Conservation" campaign was supported and implemented by a full response. The Group has made great efforts to practice water conservation and environmental protection commitments and has been awarded the title of "Beijing Water-saving Entity" by the Beijing Municipal Government. The Group's water saving measures include:

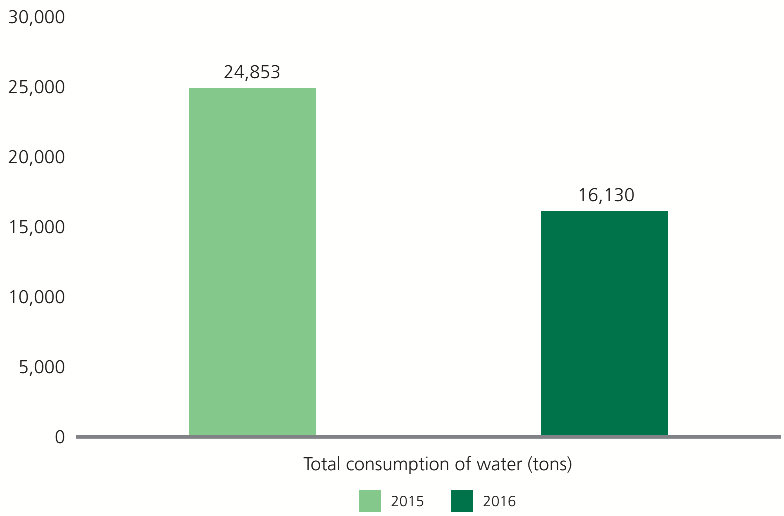
(1) inspecting the circulating pipe network on a regular basis to prevent any water leakage;

(2) posting water-saving tips on next to the drinking water equipment in office area to remind employees to save water; and

(3) strengthening the ventilation of equipment such as air conditioners so as to improve cooling water utilization rate.

The implementation of the above-mentioned water saving measures of the Group has greatly improved the efficiency of water use and reduced the waste of water resources. In 2016, the Group's water consumption was 16,130 tons in total, which decreased by 8,723 tons as compared with the same period in 2015.

The Group's water consumption in 2015 and 2016 is shown in the diagram below:



Packing Materials

Packing materials consumed by the Group mainly include packing boxes, paper boxes, filter papers, PE packing bags, all of which are provided by professional suppliers. In order to realize a win-win situation of efficiency and environmental protection, in 2016, the Group had adopted the following measures to improve the efficiency of the use of packaging materials and reduced waste:

(1) coordinating production plan, centralizing production, organizing procurement, warehouses and other departments to manage their own package material warehouse, setting up the maximum and minimum limits for all the packaging materials specifications for their management of the packaging materials, and taking high-limit early warning and lower limit warning;

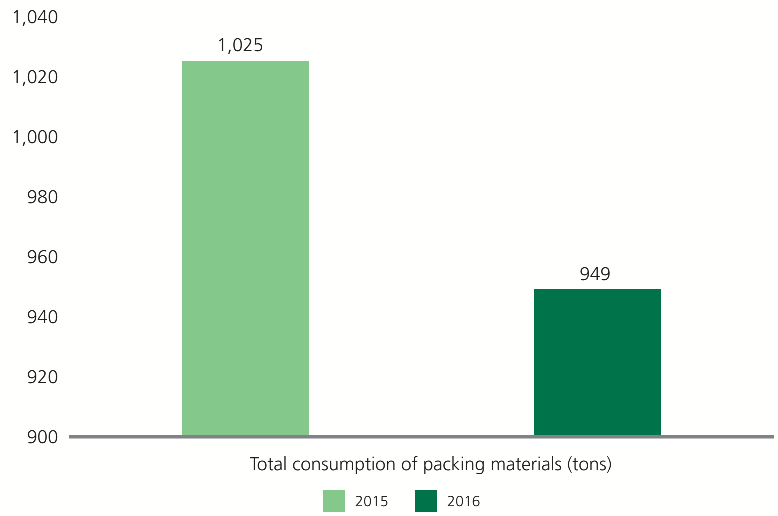
(2) implementing specific management system on packing materials to count the labels and descriptions used;

(3) strengthening the promoting of material saving and material protection at the workshop and implementing the incentive and penalties; and

(4) re-using the packing materials (that were slightly damaged but do not affect product quality and safety).

In 2016, the Group consumed 949 tons of packing materials in total, one ton of packing materials were used for the production of one ton of finished products, reflecting a decrease of 76 tons as compared with the same period in 2015.

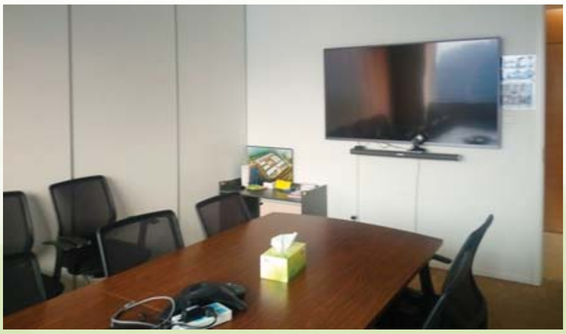
The Group's packing materials consumption in 2015 and 2016 is shown in the diagram below:



Environment and Natural Resources

The Group has been constantly improving the production efficiency and energy utilization rate by upgrading and reforming the production technologies and production and office equipment. The Group has also widely planted vegetation and nursery stock in the plant to build garden-like plant. By implementing a series of measures, the Group has become an urban industrial enterprise featuring pollution-free, low energy consumption and high value-added.

Office Automation



Since its establishment, the Group has been promoting the concept and measures of office automation and paperless office to further reduce energy consumption, such measures include:

(1) actively promoting paperless office, the Group's official documents, internal communication information and recruitment information are all processed through OA system and emails, thereby greatly reducing the amount of papers used in office; and

(2) introducing video conference system and upgrading teleconference system, etc. in 2016.

Through these measure, the Group's operating efficiency was enhanced and favourable conditions were created for the Group's energy saving.

Other Energy Conservation Measures

Greenhouse gas emissions from energy consumption accounts for a large proportion of the total greenhouse gas emissions of the Group. Therefore, the Group has taken several energy conservation measures to improve the energy efficiency of operation and reduce energy consumption.

These measures include:

(1) Management of air-conditioning temperature: setting the lowest temperature (25ºC) in summer and the highest temperature (18ºC) in winter in the office; requiring employees to turn off air conditioning system 30 minutes before going off duty; and

(2) Management of lighting and electricity saving: using LED and other energy-saving lighting devices in the office; installing electronic sound-activated equipment to save energy consumption and reduce greenhouse gas emissions.

QUALITY OF WORKING CONDITIONS

In 2016, the Group fully complied with the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC, and other relevant laws and regulations, protected and respected the employees' lawful rights and interests.

In December 2016, the Group held the third Labour Union Representatives Meeting and had in-depth communication with employees so as to understand their needs and explain the revised employee manual. At the meeting, the employees voted and adopted the new employee manual. This fully reflects the Group's attention and respect for its employees.

The employee manual expressly stipulates the impartial and equal treatment of all employees in salary, employment, promotion and dismissal so as to ensure that their rights and interests are protected. The Group also commits to provide training and development platform and equal opportunities for employees. In order to better attract and retain talents, the Group adjusts wages and salaries of employees timely on an annual basis with reference to the salary levels of the industry and relevant positions. Trainings related to office skills, professional skills needed for their positions and management are also provided to the employees.

In order to promote gender diversification, the Group considers all candidates with the established impartial attitude in staff recruitment. The same rights and equal opportunities enjoyed by male employees in salary, promotion and other aspects are given to female employees. Management of the Group expressly objects to sex discrimination in human resources management. During the 8 March Women's day every year, Gao Yan, the Vice Chairman of the Company, would personally organize activities for female employees and present gifts to them as appreciation. For example, a seminar on health of workplace women and exchanges was held on the Women's Day of 2015; a succulent plant DIY activity was organized for female employees on the Women's Day of 2016.

Working Environment

In order to help employees better realize their self-values and achieve the Company's objectives of development, the Group also provides the employees with healthy and safe working environment. In 2016, on the basis of seeking opinions and advices from employees for many times, the Group revised and adjusted the employee manual and other rules based on the respect of employees and adhering to the people-oriented strategy and according to the requirements of the Labour Contract Law of the PRC and other laws and regulations. The aforesaid revision involved many aspects such as employee recruitment, labour contract, attendance management, vacation, salary and welfare, training and development, performance management, employee health and safety management, information safety and network use, etc.:

The Group's major rules in relation to working environment include the followings:

(1) employee attendance is subject to the system of standard working hours (daily and weekly working hours not exceeding 8 and 40 respectively), the system of combined working hours or the system of irregular working hours (applicable according to the production and operation characteristics and special work needs);

(2) arranging annual leave, leave of absence, sick leave, marriage leave, maternity leave and various national holidays for employees;

(3) the Group neither encourages nor arranges extra work hours, and in case of overtime due to special reasons, arranges shift leave for the employee as the first choice and makes overtime payment as the second choice as required;

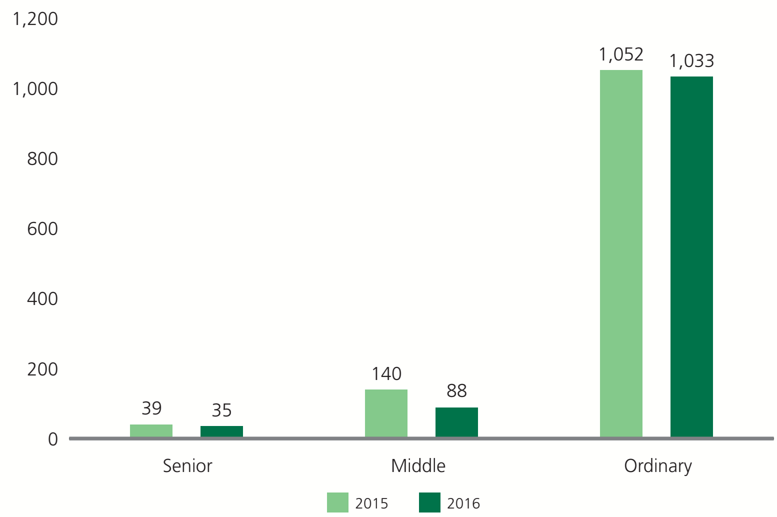
(4) establishing and improving the salary management system, insisting the salary management principles of "making distribution according to performance, giving priority to efficiency and taking fairness into due consideration", implementing performance assessment of all employees, and building a salary system that takes position and capability as the basis and the performance as the core; and

(5) strictly paying social insurance on time and in full for all employees according to the national and local laws, regulations and policies on social insurance.

As of 31 December 2016, the Group had 1,156 in-service employees of whom 35 were senior officers representing 3% in the Group's total number of employees; 88 were middle rank officers representing 8% in the Group's total number of employees; 1,033 were ordinary employees representing 89% in the Group's total number of employees. The headcount reduced by 75 as compared to that on 31 December 2015. The turnover rate of employees was 6%.

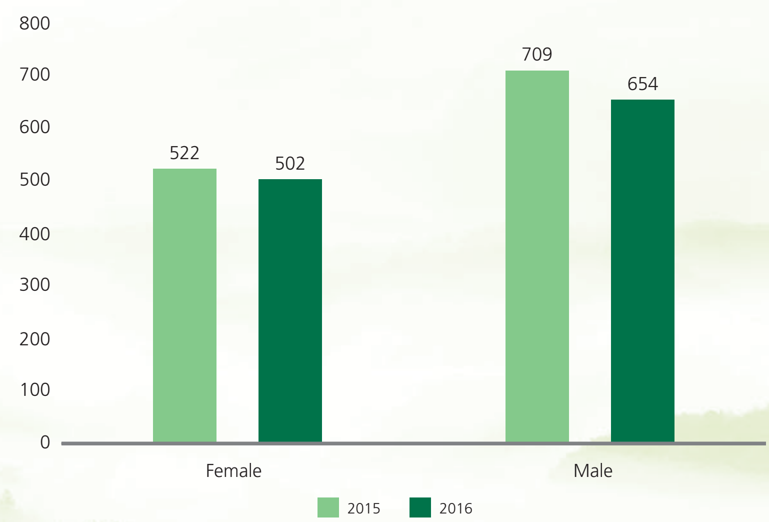
Environmental, Social and Governance Report

The Group's employees as of 31 December 2016 categorized by employment type, compared to that of 2015 is shown in the diagram below:



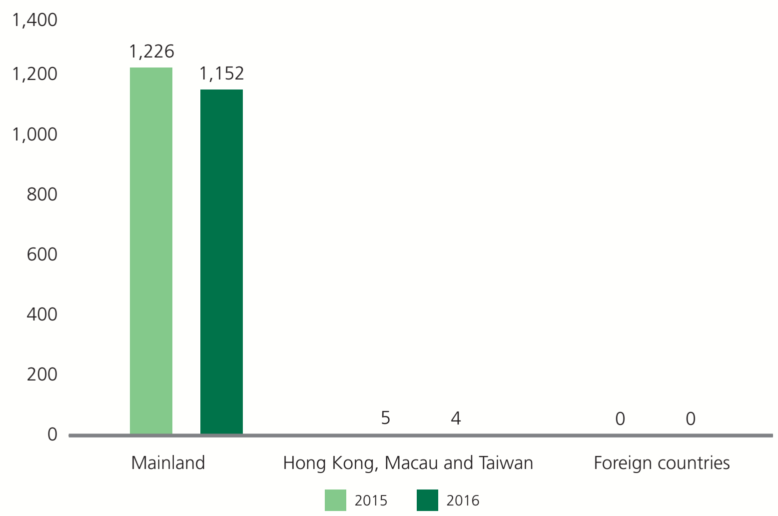
The Group expressly states its objection against sex discrimination in its human resource management rule. As of 31 December 2016, the Group's employee structure includes: 502 female employees representing 43% of the total number of employees; 654 male employees representing 57% of the total number of employees.

The Group's employees as of 31 December 2016 categorized by gender, compared to that of 2015 is shown in the diagram below:



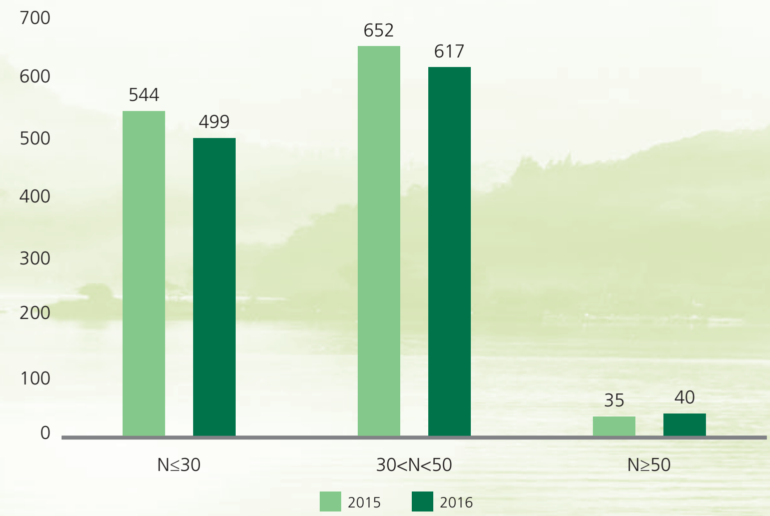
The Group insists on an impartial attitude to all in employing and deploying employees. As of 31 December 2016, our employee structure includes: 1,152 Mainland employees representing 99.7% of the total number of employees; 4 Hong Kong, Macau and Taiwanese employees representing 0.3% of the total number of employees; and we have no foreign employees.

The Group's employees as of 31 December 2016 categorized by geographical region, compared to that of 2015 is shown in the diagram below:



The Group actively promotes operation by a young team by encouraging and supporting young people to undertake management responsibilities. As at 31 December 2016, the age structure of the Group's employees is: 499 employees under 30 years old representing 43% of the total number of employees; 617 employees in the age group of 35-50 representing 53% of the total number of employees; and only 40 employees above 50 years old representing 4% of the total number of employees.

The Group's employees as at 31 December 2016 categorized by age group, compared to that of 2015 is shown in the diagram below:



Health and Safety

Since its establishment, the Group has always put employees' health and safety in an important position in company operation and development and has created sound working conditions for employees in the daily operation activities. In 2016, the Group strictly complied with the Safe Production Law of the PRC and other laws and regulations. In 2016, the Group had no major work safety accident nor newly added occupational disease cases, and it achieved good results in controlling and eliminating potential work safety hazard and occupational hazard and therefore provided strong guarantee for the realization of the business goals.

In 2016, two employees of the Group had work-related injury, and the work-related injury ratio was 0.17% and the cumulative working days lost due to work-related injury were 52 days. The Group promptly applied work-related injury insurance for and expressed sympathy to injured employees. In order to better take care of employees' health, the Group arranges health inspection for in-service employees once a year and has started to purchase accident insurance for in-service employees since 2015, and all costs are borne by the Group.

In 2016, the Group fully implemented the primary responsibility for work safety and earnestly implemented the Measures for the Administration of Work Safety, the Responsibility System for Work Safety and other rules. In 2016, the production management center organized employee work safety trainings for many times, and the accumulative training participation number reached 224. As a result, employees' safety consciousness was highly improved and the probability of occurrence of safety accident was reduced.

In order to better protect safety of employees and achieve the objective of safe production, the Group sets up a safe protection department responsible for the protection and supervision of employees' safety in the course of production. Besides, checks (such as checking on the safe production) on irregular basis by the department of health, food and drug administration, fire services administration and human resources and social security department also constitute effective supervision of the Group.

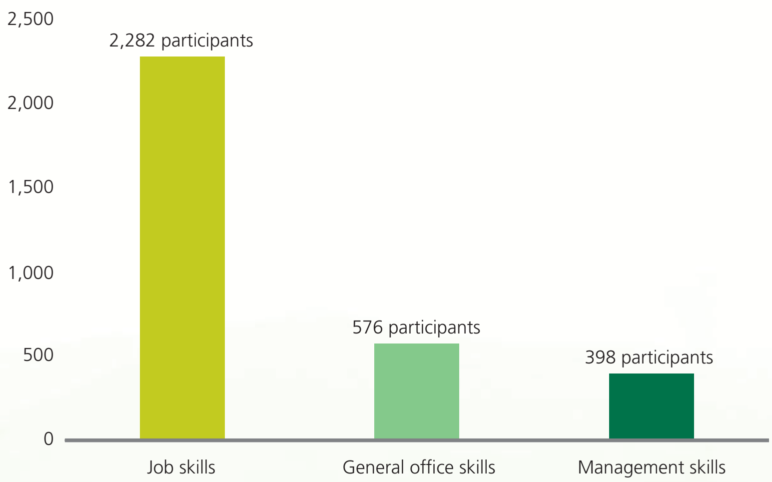
Environmental, Social and Governance Report

Development and Training

The Group has always paid high attention to the employee development and training, dedicated to provide better opportunities and platforms to employees, and strived to realize a win-win of the employees' self-value and the enterprise's value.

In 2016, the Group incurred training expense of RMB 3.38 million in total; the cumulative number of training participation reached 3,256; the cumulative training hour reached 747,756 hours, 100% employees participated in the trainings, with the average training expense of RMB 2,924 per person.

Trainings provided by the Group in 2016 categorized based on the content and number of participants are shown in the diagram below:



In order to increase employees' development opportunities and promote a experience sharing culture, in 2016, according to the Group's development goals, the Group put forward the following training projects respectively based on the type and position demand of employees:

(1) four times of leadership consultation project for top management team, six months for each time;

(2) process optimization and reengineering trainings for middle-level management and key employees;

(3) special sales trainings for significant sales regions;

(4) monthly trainings for new employees and the "Little Star (College Students) Special Training Camp", etc;

(5) Excel trainings and business etiquette trainings for all employees; and

(6) weekly "WeChat session on leadership" which had been held for 46 sessions.

Labour Standards

In 2016, the Group strictly complied with relevant regulations on preventing child labour or forced labour. The Group has explicit requirements on the age of recruiting staff in the Employee Recruitment Administrative Measures, investigates the identity information of the applicants during the recruitment and strictly forbids recruiting child labour. The Group creates safe and healthy working conditions for employees, provides labour protection, pays reasonable salaries, provides welfare, and forbids forced labour.

OPERATION PRACTICES

Supply Chain Management

Effective supply chain management has a significant impact on the Group's cost control, quality and sales of its products and can reduce the environmental and social risks facing the Group. As a enterprise group which engages in research and development, production and sale, the Group attaches great weigh to supply chain management and maintenance, and develops close tie with supply chain for effective management of the distributors and sub-distributors of the supply chain through formulation of the "Supply Chain Management Methods" and "Sale Management Rules" and other management rules.

The Group authorizes the procurement department to centrally control suppliers, and establishes a "Qualified Supplier Catalogue". The Group conducts assessment on the performance of the suppliers at least once a year. The assessment includes on-site checking and questionnaires for rating. In addition to the procurement department, the quality assurance department and utilization department also participant in the assessment. During the process, the contracted suppliers' qualification, supply ability, advance payment ability, delivery quantity, delivery quality, contract performance, after-sale services, good faith operation, etc. will be assessed. Whether a supplier meets the requirements is determined according to the assessment results, and any supplier that finally fails to meet the aforesaid requirements shall be disqualified from admission.

The Group strictly manages the environmental risk of supply chain. The Group requires that all raw materials suppliers should comply with the Food Safety Law of the PRC and other laws and regulations. All raw materials suppliers shall have the qualifications for the productions and operations and the certifications of quality and safety. Each supply shall be accompanied with an authoritative inspection report from an independent third party. After the Group's production management center has received the raw materials, the quality assurance department will strictly inspect them in accordance with the product quality management standards. If any indicator, such as remnant pesticides, heavy metal, sulphur dioxide, extracts and other indicator which may be detrimental to product safety fails to meet the standard, such batch will be returned and the related raw material suppliers will have their rating deducted and downgraded.

Environmental, Social and Governance Report

Since 2015, the Group add the "anti-bribery clause" in the procurement contracts in order to create a supply chain with probity. At present, the Group has 34 contracted suppliers across the nation.

The Group authorizes the sales department to manage and maintain, assess the distributors and sub-distributors, and conduct performance assessment on the contracted clients for their qualification, performance ability, advance payment ability and other aspects on an at least annual basis. If a distributor or sub-distributor fails to meet the requirements, or commits behavior such as distributing products in unauthorized regions and disrupting the market at a low price, it could be subject to punitive measures such as imposing penalty and reducing rebates, for those series violators, their distributor or sub-distributor qualifications would be revoked.

In 2016, the Group was not aware of any major supplier or distributor or sub-distributor that caused any significant existing or potential adverse impact on business ethics or environmental protection.

Product Liability

The Group has always been adhering to the concept of "honest operation", and has been taking "product safety" as the lifeline of the Group, strictly performs the duties of production enterprises, and is truly responsible to the society and consumers. In 2016, the Group strictly complied with the Food Safety Law of the PRC, Administrative License Law of the PRC, and the Advertisement Law of the PRC and other national and industrial laws and regulations for production and sale of products.

The health and safety of consumers are always the Group's priority. The Group insists on choosing premium raw materials and produce in strict accordance with the production process. The Group publicizes and sells through official channels and attains the product management objective of "no sale of substandard products, all products on sale shall be up to standard and no false messages in advertisements". In 2016, the Group also strictly complied with requirements of label and descriptions prescribed in the Food Safety Law of the PRC.

In 2016, the Group obtained honorary titles such as Famous Trademark of Beijing, AAA Credit Rating by the Ministry of Commerce, Integrity Enterprise of Beijing, Top 10 Brand with Credibility at 6th China Healthcare Products, Top 100 Social Responsibility Performance Entity of Beijing, etc.

Intellectual Property Right Protection

In 2016, the Group strictly complied with the Trademark Law of the PRC, the Patent Law of the PRC, the Copyright Law of the PRC, the Law against Unfair Competition of the PRC and other laws and regulations. The Group constantly strengthens the development, utilization and protection of intellectual property rights, gives full play to the role of independent intellectual property rights and has improved the core competence of the Group. The Group efficiently protects its existing intellectual property rights by applying for registered trademark, research and development patent and copyright of computer software.

Quality Inspection and Product Recall

As a healthcare product production enterprise, the Group attaches heavy weight to product quality which it considers to be the first mission of the Group's operation and management. The Group's production management center has set up a laboratory and quality assurance department. Professional quality inspection officers are sent to monitor and keep record of the whole production process of the Two Tea products. Sub-standard products are never allowed to be delivered from the warehouse and sold in the market. The Group has formulated and implemented a series of rules and relevant control measures and procedures for product quality inspection. The Group has passed the relevant product quality certifications as ISO9001, HACCP, ISO22000, GMP, HALAL, etc.

Substandard products, products with substandard package and products which are about to expire (including expired products) and not fit for sale are subject to the recall of the Group. In 2016, there was no return of products of substandard quality or package, and the pass rate of products in tests at factory before delivery was 100%. For products which are about to expire (including expired products), the Group's quality assurance department requires for a recall for disposal in strict compliance with the product quality and return management rules. The Group also designates persons to break the package and destroy the recalled products for the purpose of preventing recalled products from circulating back into the market.

Product and Service Complaints

In 2016, there were no significant lawsuits or complaints arising from the quality and service of the products of the Group, and the Group was not aware of any breach of rules related to the provision and use of the Group's products and services (including but not limited to products and services, market promotion advertisements, sponsor and intellectual property rights) that had a significant impact on the Group.

In 2016, the Group received, in total, 25,684 consultation and complaining questions from the consumers, among which there were 103 complaints with a compliant rate of 0.4%. According to the customer consultation and complaint handling measures and procedure, the customer service staff helped the customers settle all the consultation and complaining questions as soon as possible, and the customer satisfaction rate was 100%.

Customer Privacy

The Group constantly improves information safety monitoring, and protects information privacy of stakeholders (including the consumers, clients, suppliers and other stakeholders). The Group's information management department carries out information safety trainings and information safety knowledge sharings on a non-regular basis every year, and guarantees information safety of the Group and protects customer privacy from disclosure through various measures such as setting access authority and password, disaster backup plan and conducting server maintenance.

The Group authorizes external accounting firm and the internal audit department to assess all customer privacy management works by conducting regular and irregular checks. The Group also engages external experts to further assess the safety of the Group's IT system, so as to protect customer information safety to the greatest extent and prevent leakage of customer information.

In 2016, there were no incidents of infringement of customer privacy or loss of customer information or receipt of a confirmed compliant.

Anti-corruption

In order to regulate the operation and prevent the management and employees against illegal acts such as corruption and bribery, extortion, fraud and money laundering, the Group formulated and promulgated internal control rules and measures including the Employee Manual, Contract Management Method and Measures for Punishments Imposed on Employees Violating Regulation and Discipline, etc. The Group's audit center is authorized to accept reports from employees and customers, they are also endowed with the authority to independently investigate misconducts. Channels such as mail box, telephone hotline and WeChat are provided for employees and customers to report misconduct they discovered.

On the other hand, the Group's audit and legal departments carry out relevant advocacy and training toward employees on a non-regular basis to further strengthen the honest and self-disciplined consciousness of employees. The Group's audit staff also visit suppliers and customers to understand, through interviews, whether there are any violation of the probity and self-discipline rules by the Group's employees.

In 2016, there were no significant risks related to corruption and bribery, extortion, fraud and money laundering involving the Group, and no confirmed corruption and bribery, extortion, fraud and money laundering lawsuits that were against the Group or its employees.

COMMUNITY PARTICIPATION

The Group actively participates in community development and investments. The Group's target is to create effective and sustainable benefits and harmonious community relationship in the place of business. For example, in order to actively respond to the nation's appeal for helping peasant workers' employment, the Group requests the production base in Doudian town, Fangshan district of Beijing to give priority to peasant workers from nearby villages in its employment. According to statistics, the production base employed 184 peasant workers from Doudian town and nearby villages in 2014; 176 peasant workers from Doudian town and nearby villages in 2015; and 170 peasant workers from Doudian town and nearby villages in 2016. The Group has solved the employment problems of peasant workers from nearby villages in the vicinity of the production base in Doudian town, Fangshan District and other non-locals through actual actions.

As the leading provider of therapeutic tea products in the PRC, for the past 16 years, the Group has launched several public welfare projects and the cumulative contribution to public welfare has reached over RMB 10 million. While advocating the public to actively engage in public welfare, we also focus on the cultivation of "reserve force". We, together with ADMEN magazine, have held public welfare advertisement competition toward college students in the country for five consecutive years to spread the positive energy of public welfare.

The Group has obtained public welfare awards at the "China Social Responsibility and Public Welfare Ceremony" for three consecutive years since 2014. In 2016, the Group obtained the "Award of China Social Responsibility and Public Welfare in 2016" again.

Public Welfare

The Group has always insisted on repaying the society, actively performing social responsibility of corporate citizen and participating in social public welfare undertakings. In 2014, the Group signed a donation agreement with the Beijing Charity Foundation. Under the agreement, the Group shall donate RMB0.5 million per year to the Foundation for 10 consecutive years. So far, a total of RMB1.5 million has been donated. The charity fund is mainly used to subsidize the Foundation's charity relief projects.

In 2015, the Group signed a donation agreement with the China Green Carbon Foundation. Under the agreement, the Group shall make donations for 3 consecutive years with a total of RMB2.1 million. The fund is used to set up the Special Fund Against Illegal Trading of Endangered Wild Flora and Fauna. So far, the Group has donated RMB1.4 million. The charity fund is mainly used to support efforts against illegal trading of endangered wild flora and fauna and other tasks including protecting the diversity of animals and plants in the world.

Employee Care

The Group pays great attention to employee care and helps employees relax during breaks, enlivens up employees' lives, improves employees' cohesion and creates an enterprise culture with Besunyen characteristics by various activities such as distributing birthday cards to employees, organizing tea party or dining in Friday afternoon, holding knowledge lectures, mountaineering, outdoor development, regular visit to difficulties, etc.

In addition, the Group has established a labour union organization, actively carries out labour union activities under the leadership of the labour union, and gains insight into and solves employees' difficulties in work and life through the labour union.

In the future, the Group will continue to perform its social responsibilities through social charity organizations such as the Beijing Charity Foundation and China Green Carbon Foundation, and continue to repay the society.


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 Listing Rules for the year ended 31 December 2016, 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 2016.

As designated staff, including the senior management, may be aware of insider information from time to time, the Company has further extended the scope of the securities code to those staff. All designated staff have also confirmed the full compliance of the code required for trading of the securities of the Company by the relevant designated staff as adopted by the Company.

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. Ren Guangming and Mr. He Yuanping. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 28 to 32.

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 27 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 Yihong is the spouse of Ms. Gao Yan. 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.

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 and also 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 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 2016.

Procedures

At least four regular Board meetings have been held by the Company 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;
- 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 CG 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. He Yuanping, 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 2016, 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 and the risk management system (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions);

- reviewing and monitoring the responsibilities of risk management and internal control systems and the effectiveness of the internal audit function;
- monitoring the independence of the external auditor; and
- proposing to the Board the appointment, reappointment or removal of external auditor, and facilitating the communication between the external auditor and the internal audit function.

In the Audit Committee meetings held in 2016, 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 2015 and 2016;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2015 auditors' report issued by PricewaterhouseCoopers;

(iv) reviewed and approved the 2015 annual report and audited financial statements, the 2015 annual results announcement, the 2016 interim report and the 2016 interim results announcement;

(v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2015;

(vi) reviewed the management letters prepared by 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 2016, the fees payment by the Group to PricewaterhouseCoopers and its member firm for audit services amounted to RMB2.73 million, and for non-audit services (the service fee charged for issuing the comfort letter for the profit forecast in the acquisition of the 20% equity interest in Guangzhou Runliang) amounted to RMB0.25 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. Ren Guangming and Mr. He Yuanping and one executive Director, Mr. Zhao Yihong.

The primary responsibilities of the Remuneration Committee include:

- reviewing and approving the management's remuneration proposals;
- determining, with delegated responsibility by the Board, the remuneration package of individual executive Director and senior management; and

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

In the Remuneration Committee meetings held in 2016, 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. He Yuanping 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 2016, the following works, inter alia, were performed by the Nomination Committee:

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

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

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

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

DIRECTORS	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meetings
	Number of Attending/Convening Meetings				
Executive Directors					
Mr. Zhao Yihong	14/14	—	3/3	3/3	2/2
Ms. Gao Yan	14/14	—	—	—	1/2
Non-executive Directors					
Mr. Zhuo Fumin	13/14	—	—	—	1/2
Ms. Zhang Guimei	12/14	—	—	—	2/2
Independent Non-executive Directors					
Mr. Huang Jingsheng	11/14	4/4	3/3	2/3	1/2
Mr. Wang Jing (resigned on 20 October 2016)	8/10	3/3	2/2	1/1	2/2
Mr. Ren Guangming	13/14	4/4	3/3	3/3	2/2
Mr. He Yuanping (appointed on 20 October 2016)	3/3	1/1	1/1	1/1	0/0

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 2016, 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 page 91 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 ensuring that the Group sets up and maintains appropriate and effective risk management and internal control systems to achieve the Group's strategic objectives.

To this end, the 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 Board is responsible for ensuring the establishment of risk management and internal control system by the Group, and review its effectiveness on a regular basis. The Audit Committee assists the Board in monitoring the risk level sustained by the Group, the design, implementation and control of the relevant risk management and internal control systems. The Audit Committee supervises the following procedures on behalf of the Board:

(i) assessing the major business risks and control measures in response to such risks on a regular basis, assessing the effectiveness of internal control system as a whole, as well as the action plans in response to control deficiency or improvement;

(ii) reviewing the internal control assessment report submitted by the internal audit department on a regular basis, including the action plans in response to identified control deficiencies as well as the latest status and follow-up results of the implementation of the proposition; and

(iii) the external auditor submits reports on control issues identified during its works on a regular basis, and discusses the review scope and results of various issues with the Audit Committee.

The Audit Committee shall report to the Board after the review of the effectiveness of the risk management and internal control systems of the Group. The Board will give opinion on the effectiveness of the risk management and internal control systems after considering the works and review results of the Audit Committee.

The internal control department collects information on the Group's risks and internal control, summarizes and analyzes risks, identifies risk countermeasures, issues reports and recommendations and submits the reports to the president and the management for review. The internal control department and the internal audit department carry out risk assessment and internal control system assessment, independently review the effectiveness of risk management and internal control measures and report the results to the Audit Committee. The Audit Committee hears a work report from the internal control department and internal audit department every quarter, and reviews the effectiveness of risk management and internal control on a regular basis. The Audit Committee supervises and reviews the work procedures and responsibility fulfillment of the internal control department and the internal audit department, including the effectiveness of internal audit functions. Such review has covered all material respects such as financial control, operation control and compliance control.

Risk Management Procedures

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

Step 1 Basic structure sorting out	Step 2 Risk research and identification	Step 3 Risk analysis and assessment	Step 4 Risk treatment	Step 5 Report and control
• Sort out the structure of the risk management system. • Assign risk management functions and responsibilities to specified persons.	• Organize internal research to identify risks with potential impacts on various departments and to identify risk events and potential impacts.	• Analyze significant and important risks, risk characteristics, risk causes, triggers, possibility and degree of impact.	• Evaluate existing risk counter-measures, including the effectiveness of implementing the control measures.	• Prepare risk assessment reports, and report the same to and communicate with management at the appropriate level.

The effectiveness of risk management and internal control systems in 2016

For the year ended 31 December 2016, a review of the effectiveness of the risk management and internal control systems had been conducted and the Board considered that the Group's risk management and internal control systems were effective and sufficient, and was not aware of any material matters which might affect the financial control, operation control, compliance control and risk management functions of the Group. During the review process, the Board considered that the Group's resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions are adequate.

Significant Risks and Response Plans

In 2016, the Group reviewed the identified risks of the Group and assessed the potential risks arising from the existing and new businesses in accordance with the aforesaid risk governance structure and risk management procedures. The significant risks identified by the Group in 2016 are as follows:

Major Risks	Risk Description	Change in 2016	Risk Countermeasures and Plans
Policy Environment	National policies and regulatory environment have become increasingly tight. According to the CFDA's Notice 168 for the Year 2015: "Effective from 1 May 2016, no healthcare food with description of its underlying function within its name shall be produced, and the products already produced prior to the date may be sold until the expiry of their shelf life". In addition, the Administrative Measures for the Registration and Filing of Health Food has become effective on 1 July 2016. The simplified procedures for registration and filing will result in the surge in the number of imported healthcare products and thereby impacting domestic enterprises. On the other hand, the implementation of the relevant policy signals the beginning of the rectification of the healthcare product market. The regulation on the healthcare product market will become stricter. With the promulgation of various product standards, competition will become increasingly fierce.	↑	The management concentrated on handling the name change of Besunyen Slimming Tea. The Group obtained the approval from CFDA on 15 November 2016, and the name of its slimming tea products has been changed from "碧生源牌減肥茶" to "碧生源牌常菁茶", and also obtained relevant production licenses thereafter. The Group resumed the production of slimming tea products with new name and new packaging since December 2016. It is expected that the operation will return to normal next year. The Company has set up a special department to collect information on the change in national policies, policies of exporting countries, pharmaceutical industry regulations and to analyze their impacts on its business. It has also established an information communication channel to notify staff at relevant departments of the latest regulations.

Corporate Governance Report

Major Risks	Risk Description	Change in 2016	Risk Countermeasures and Plans
Product strategy and product structure	For new products that at the stage of research and development and feasibility study, insufficient market research and inaccurate product positioning will prevent new products from fulfilling the strategic goals of the Group. Currently, the revenue of the Group is mainly derived from certain products. The sales of existing products are vulnerable to the preferences and loss of consumers, and the Company has to maintain a consumer base for its major existing products to enable sustainable growth of its sales performance.	⬌	**Introduction of new products**: The Group reorganized and optimized its new product introduction and go-on-sale process, and assigned the responsibility to specific responsible persons, thereby lowering the risk relating to introducing new products. **Enrichment of product line**: 1. LARLLY Orlistat has become one of the major sources of the revenue of the Group; 2. During the period for the name change of Besunyen Slimming Tea, the Group launched Besunyen Xian Xian Tea to mitigate the impact of the name change of Besunyen Slimming Tea; 3. The Group introduced meal replacement milkshake and probiotic products for sale through e-commerce channels. **Research and development**: The strengthened investment in research and development has helped to expand the product offering of the Group. However, these food products haven't made significant change to the product structure. In the future, the Group will focus on the introduction of a variety of products and fundamentally reduce the risk of product structure.
Channel management and sales management	As to the distribution of products in unauthorised regions, lacking monitoring methods and ineffective crackdown measures will seriously disturb market price order and may even lead to untraceable food safety accidents, which will have a material adverse effect on the reputation of the Group. The Group adopts a variety of sales channels and models, and shall establish and implement an effective price monitoring mechanism. Any inadequate supervision over the selling prices for different channels and terminals and for online and offline products may cause price difference and disturb market order.	⬌	The Group strengthened its monitor over distribution of products in unauthorised regions and has punished those in violation by imposing penalty and reducing rebates. For those serious violators, their distributor or sub-distributor qualifications would be revoked. These measures have curbed the spreading of such issue to some extent. The sales management centre monitored the prices of products of the Group sold online and handled any price lower than normal. Through continuous special treatment, online prices have substantially met the requirements of the Group. Increasing examinations played a positive role in controlling the prices at the terminals.

Corporate Governance Report

Major Risks	Risk Description	Change in 2016	Risk Countermeasures and Plans
Risk relating to competition	As a result of intensifying competition in respect of brand, distribution channel and differentiation of products, more and more competitive similar products emerged in the market. Although for now the products of the Group have overwhelming advantages for brand and distribution channel, any insufficient analysis of market competition or any failure by the Company to identity potential competitors or alternative products and adjust product strategy accordingly, may result in the decrease in its market share and sales and in turn damage its brand reputation.	⬆	Keep abreast of the development of and report on the industry, attach great importance to the analysis of competition in formulating product strategies. Establish and improve a market research management mechanism to timely access to market information and customer feedbacks, and strengthen market analysis to have a timely and accurate understanding of market trends and potential competitors. Conduct analysis of strategies on a regular basis in view of market feedbacks and the objectives and status of the Company, and make adjustment to strategies as and when necessary.
Risk relating to employment, appraisal and management	A standard lacking, unreasonable and non-transparent performance appraisal system may affect the role of the remuneration system in promoting and incentivizing employees and even incur losses to the Group.	⬇	In 2017, the Group will improve its performance appraisal system to solve policy-oriented bias, and will strengthen performance incentives to enable the achievement of its strategic objectives. In 2017, the Group will optimise its recruitment process and strengthen review of new employees. It will also adopt a series of measures including background investigation of the candidates for key positions.

Notes:

⬆ "Internal Risk" increased (before taking into account the risk mitigation measures)

⬇ "Internal Risk" decreased

⬌ "Internal Risk" remained similar

MANAGEMENT OF INSIDE INFORMATION

The Company is fully aware of its relevant responsibility required to be fulfilled under the Securities and Futures Ordinance and the Listing Rules. The Company has formulated the Management Rules for Inside Information to monitor the issues which may constitute inside information in any time and make timely judgement. When the Board or the inside information management team of the Company considers any information to be inside information, the Company will timely disclose the information to the public in reasonable and practicable extent, unless such inside information is applicable under the "Safe Harbour Provision" of the Securities and Futures Ordinance. The Company will also require registration and filing of those who are aware of inside information, or require them to sign confidentiality agreement, and timely report the condition of those who are aware of inside information to internal control department to conduct control over them. The Company will review the effectiveness of such inside information management system to ensure the inside information to be addressed properly.

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 2016.

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 10 to the consolidated financial statements.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Chairman and CEO's Report, the Management Discussion and Analysis, and the Significant Risks and Response Plans (under the Corporate Governance Report) sections of this annual report. Disclosure related to the Group's environmental policies and performance, and relationships with major stakeholders (including employees, customers and suppliers) are included in the Environmental, Social and Governance Report section. The above sections form part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the Consolidated Statement of Comprehensive Income on page 96 of this annual report.

The Board has resolved not to recommend for declaration and payment of a final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 May 2017 to 15 May 2017, 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 forthcoming annual general meeting (the "**AGM**") to be held on 15 May 2017 will be 15 May 2017. 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 9 May 2017.

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 164.

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.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2016 amounted to RMB1,096 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 99 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016:

(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 32% 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

Independent non-executive Directors

Mr. Huang Jingsheng
Mr. Wang Jing (resigned on 20 October 2016)
Mr. Ren Guangming
Mr. He Yuanping (appointed on 20 October 2016)

In accordance with article 16.2 of the articles of association of the Company, Mr. He Yuanping will retire at the forthcoming AGM, and being eligible, will offer himself for re-election.

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhao Yihong and Ms. Gao Yan will retire by rotation at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is determined with reference to 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. The emoluments of other senior managements of the Company fell within the following bands:

Emolument bands (in HK$)	**Number of individuals in 2016**	Number of individuals in 2015
Under HK$1,000,000	**1**	—
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**—**	1
HK$2,500,001 – HK$3,000,000	**1**	—
HK$3,000,001 – HK$3,500,000	**—**	1

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 "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 9 to the consolidated financial statements of this annual report.

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

As at 31 December 2016, so far as known to the Directors, 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 (%)[7]
Mr. Zhao Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director[1][3]	873,255,216[1][L]	36,000,000[1][L]	5,000,000[1][L]	58.94%
Ms. Gao Yan	Beneficial owner and interest of her spouse[2][3]	873,255,216[2][L]	36,000,000[2][L]	5,000,000[2][L]	58.94%
Mr. Zhuo Fumin	Beneficial owner and interest of his spouse	1,136,000[4][L]	400,000[4][L]	600,000[4][L]	0.08%
Ms. Zhang Guimei	—	—	—	—	—
Mr. Huang Jingsheng	Beneficial owner	1,100,000[5][L]	500,000[5][L]	600,000[5][L]	0.07%
Mr. Ren Guangming	Beneficial owner	970,000[6][L]	—	600,000[6][L]	0.07%
Mr. He Yuanping	—	—	—	—	—

(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) 816,259,176 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;

(ii) 14,255,040 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and

(iii) 12,000,000 options granted under the Pre-IPO Share Option Scheme and 1,000,000 options granted under the Share Option Scheme, which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse.

(2) Ms. Gao Yan, executive Director, beneficially owns 12,000,000 options granted under the Pre-IPO Share Option Scheme and 1,000,000 options granted under the Share Option Scheme. Ms. Gao is also deemed or taken to be interested in the following Shares/options for the purposes of the SFO:

(i) 1,741,000 Shares beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;

(ii) 816,259,176 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Foreshore Holding Group Limited;

(iii) 14,255,040 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. Ren Guangming, independent non-executive Director, beneficially owns 600,000 options granted under the Share Option Scheme and 370,000 Shares.

(7) This is calculated based on 1,481,474,820 Shares, being the number of Shares in issue as at 31 December 2016. The percentage of interest in the columns includes the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

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

PRE-IPO SHARE OPTION SCHEME

The Company adopted 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 75,020,000, representing approximately 5.12% 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 granted	Vesting period	Exercise period	Exercise Price	Fair value of option at grant date
					RMB	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

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 2016:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2016	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2016
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 (resigned on 23 April 2014)	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	—	(1,060,000)	—	33,830,000
	6.5.2010	2nd	4 Years	4,390,000	—	(900,000)	—	3,490,000
	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
				39,580,000	—	(1,960,000)	—	37,620,000
	Total			76,980,000	—	(1,960,000)	—	75,020,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the year								75,020,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the year ended 31 December 2016.

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;

(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 2016 (2015: Nil) in relation to share options granted under the Pre-IPO Share Option Scheme by the Company.

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 consultants 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 schemes and representing approximately 11.47% 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.

On 15 March 2016, the Company granted 1,500,000 share options under the Share Option Scheme.

On 20 December 2016, the Company granted 400,000 share options under the Share Option Scheme.

Options type	Date of grant	Share options granted	Vesting period	Exercise period	Exercise Price HK$	Fair value of option at grant date HK$
1st	27.10.2014	20,200,000	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
6th	15.3.2016	1,500,000	29.3.2016–28.3.2020	29.3.2017–28.3.2024	1.00	0.337
7th	20.12.2016	400,000	3.1.2017–2.1.2021	3.1.2018–2.1.2025	1.00	0.095

The following table discloses the movement of the Company's share options held by the Directors, employees and consultants under the Share Option Scheme for the year ended 31 December 2016:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2016	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2016
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 (resigned on 20 October 2016)	27.10.2014	1st	4 Years	600,000	—	—	(600,000)	—	—
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
				1,800,000	—	—	(600,000)	—	1,200,000
Employees and consultant									
In aggregate	27.10.2014	1st	4 Years	12,800,000	—	—	(5,000,000)	—	7,800,000
	27.10.2014	2nd	4 Years	14,560,000	—	—	(4,000,000)	—	10,560,000
	27.10.2014	3rd	4 Years	600,000	—	—	—	—	600,000
	10.8.2015	4th	4 Years	2,400,000	—	—	(2,000,000)	—	400,000
	10.8.2015	5th	4 Years	500,000	—	—	(500,000)	—	—
	15.3.2016	6th	4 Years	—	1,500,000	—	(1,000,000)	—	500,000
	20.12.2016	7th	4 Years	—	400,000	—	—	—	400,000
				30,860,000	1,900,000	—	(12,500,000)	—	20,260,000
	Total			38,260,000	1,900,000	—	(13,100,000)	—	27,060,000
Weighted average exercise price (HK$)				1.01	1.00	—	1.00	—	1.00
Exercisable at the end of the year									12,980,000

Pursuant to the Share Option Scheme, the options granted on 27 October 2014, 10 August 2015, 15 March 2016 and 20 December 2016 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 binomial option pricing model has been used to determine the fair value of share options granted during the year ended 31 December 2016. The inputs into the model were as follows:

	Option type						
	1st	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**
Grant date share price (HK$)	0.98	0.98	0.98	1.16	1.16	0.92	0.53
Exercise price (HK$)	1.00	1.00	1.00	1.16	1.16	1.00	1.00
Expected volatility	50%	50%	50%	54%	54%	53%	52%
Option life	8 years	8 years	8 years	8 years	8 years	8 years	8 years
Dividend yield	1.00%	1.00%	1.00%	2.80%	2.80%	3.53%	6.13%
Risk-free interest rate	1.68%	1.68%	1.68%	1.52%	1.52%	1.30%	1.92%
Annual post-vesting forfeit rate	15.0%	25.0%	0.0%	15.0%	24.0%	16.0%	24.0%
Total estimated fair value of the options granted (HK$'000)	8,458	8,178	1,611	1,145	225	505	38

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 RMB2,169,000 for the year ended 31 December 2016 (2015: RMB5,306,000) in relation to share options granted under the Share Option Scheme by the Company.

RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the "**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 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 a Selected Participant 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.

On 2 December 2016, 200,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 4 January 2017.

As at 31 December 2016, 36,801,567 Shares (31 December 2015: 36,801,567 Shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized no expense for the year ended 31 December 2016 (2015: RMB968,000) in relation to the restricted shares granted under the Restricted Share Award Scheme.

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the year ended 31 December 2016 and outstanding at 31 December 2016:

Employees	**Number of awarded shares**
Outstanding as at 1 January 2016	—
Granted during the year	200,000
Vested during the year	—
Outstanding as at 31 December 2016	200,000

The closing price of the Company's shares immediately before 2 December 2016, the date of grant of the restricted shares, was HK$0.56.

Save as disclosed above, during the year ended 31 December 2016, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, so far as known to the Directors, persons (other than the Directors or chief executive of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Substantial Shareholders	Number of Shares	Approximate percentage of total issued Shares (%)[3]
Foreshore Holding Group Limited[1]	816,259,176[L]	55.10%
KCS Trust Limited[1]	816,259,176[L]	55.10%
Sea Network Holdings Limited[1]	816,259,176[L]	55.10%
China Hui Yuan Juice Holdings Co., Ltd.[2]	167,143,424[L]	11.28%
Huiyuan International Holdings Limited[2]	167,143,424[L]	11.28%
Mr. ZHU Xinli[2]	167,143,424[L]	11.28%

(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) This is calculated based on 1,481,474,820 Shares, being the number of Shares in issue as at 31 December 2016.

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

Save as disclosed above, as at 31 December 2016, 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.

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 Structure Contracts

Pursuant to the relevant laws and regulations, foreign investors shall not hold more than 50% of the equity interest of any company providing value-added telecommunication services (including e-commerce) and such foreign investors shall have operation experiences in the area of value-added telecommunication. Due to such restrictions, the Company or its wholly-owned subsidiaries in the PRC (including Beijing Outsell) could not carry out such e-commerce activities in the PRC directly. On 18 June 2010, Beijing Pincha Online E-Commerce Co., Ltd. (the "**Pincha**") was incorporated in the PRC and wholly-owned by Mr. Zhao Yihong. In September 2010, Pincha obtained a Telecom and Information Service Operation License from Beijing Communications Administration, and commenced selling the Group's products (including therapeutic teas and other products) purchased from Beijing Outsell through the e-commerce platform.

In order to formalize the legal arrangement between the Group and Pincha, on 28 March 2011, Beijing Outsell, Mr. Zhao Yihong and Pincha entered into the Exclusive Business Cooperation Agreement, the Equity Mortgage Agreement, the Exclusive Purchasing Agreement and the Authorization Letter (each as defined in the announcement of the Company dated 28 March 2011, together, the "**Structure Contracts**"), for the purpose of using Pincha as a vehicle to conduct e-commerce activities in China for the Group through the contract arrangements between Beijing Outsell and Pincha. Upon execution of the Structure Contracts, the Company is able to control Pincha and is exposed to variable returns from its control over Pincha. Therefore, in accordance with the International Financial Reporting Standards 10, Pincha became a subsidiary of the Company.

The Board decided that it is necessary to establish and formalize the Group's e-commerce platform. Pincha became the Company's subsidiary after the execution of the Structure Contracts, upon which the Group would obtain financial and operational control of Pincha through Beijing Outsell. Further, upon the execution of the Structure Contracts, the Supplemental Distribution Agreement and the Supplemental Lease Agreement (as disclosed below), Beijing Outsell is allowed to expand its distribution network via the internet at a low cost and shorten the sales process by having direct access to customers. Through co-operation with Pincha pursuant to the terms of the Supplemental Distribution Agreement, Beijing Outsell will be able to explore the global e-commerce markets and make its distribution network more effective and cost efficient, thus strengthening the Group's market position in the therapeutic tea industry.

As the Structure Contracts and the annual caps of the continuing connected transactions thereunder would be expired on 31 December 2014, on 27 October 2014, Beijing Outsell, Mr. Zhao Yihong and Pincha renewed the above-mentioned contractual arrangements by entering into the Exclusive Business Cooperation Agreement, the Equity Interests Pledge Agreement, the Exclusive Purchase Agreement and the Power of Attorney (each as defined in the circular of the Company dated 17 November 2014, together, the "**New Structure Contracts**"). The term for each of the above-mentioned agreements underlying the New Structure Contracts, as well as the Power of attorney, is twenty-four (24) years from 1 January 2015 to 31 December 2038. The key provisions of the New Structure Contracts are summarized as follows:

- Pursuant to the Exclusive Business Cooperation Agreement 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 technical service, network support, business consulting, intellectual property license, equipment, market consulting, system integration, product research and development, systematic maintenance and other services as permitted by the laws of the PRC at the request of Pincha from time to time; and Pincha shall only utilize such services provided by Beijing Outsell, and unless obtaining prior written consent from Beijing Outsell, shall not utilize any of the aforesaid services provided by any third parties or cooperate with any third parties other than Beijing Outsell;

- Pursuant to the Equity Interests Pledge Agreement among Beijing Outsell, Mr. Zhao Yihong and Pincha, Mr. Zhao Yihong agrees to pledge all of his equity interests in Pincha to Beijing Outsell as security for, among others, the performance of all the obligations of Pincha under the Exclusive Business Cooperation Agreement;

- Pursuant to the Exclusive Purchase Agreement among Beijing Outsell, Mr. Zhao Yihong and Pincha, Mr. Zhao irrevocably granted to Beijing Outsell an option to acquire (or authorize one or more persons to acquire) at any time, to the extent permitted by applicable PRC laws and regulations, his equity interest in Pincha, entirely or partially and one-off or by several times as solely decided by Beijing Outsell, at the lowest price permitted by the PRC laws at that time unless appraisal is required or other restrictions on purchase price apply under PRC laws; and Pincha also agreed on the grant of such option by Mr. Zhao to Beijing Outsell. It is also agreed that when the relevant PRC law permits Beijing Outsell to operate value-added telecommunications business directly, or the equity interest of Pincha to be directly held by Beijing Outsell while it continues to operate its value-added telecommunications business, the parties will carry out all necessary actions to give effect to the obtaining of the entire equity interest in Pincha by Beijing Outsell or third party designated by Beijing Outsell which must be a subsidiary of the Company pursuant to the provisions of the Exclusive Purchase Agreement, as well as unwind the contracts, agreements and other legal documents in connection with the contractual arrangements, including but not limited to the Exclusive Business Cooperation Agreement, the Equity Interests Pledge Agreement, the Exclusive Purchase Agreement and the Power of Attorney; and

- Pursuant to the Power of Attorney signed by Mr. Zhao Yihong, Mr. Zhao Yihong irrevocably authorized the board of directors or executive director or the legal representative of Beijing Outsell, or any person appointed by any of the aforesaid persons or its successor to exercise all of his rights and powers as the sole shareholder of Pincha. The authorized person must be a PRC citizen and must not be Mr. Zhao or any of his associates (as defined under the Listing Rules).

As Pincha is wholly owned by Mr. Zhao Yihong, the controlling shareholder of the Company and an executive Director, Mr. Zhao Yihong and Pincha are both connected persons of the Company under the Listing Rules. In accordance with the Listing Rules, the New Structure Contracts and the annual caps for the continuing connected transactions thereunder for the three years ending 31 December 2017, have been approved by the independent shareholders of the Company.

Pincha has realized an annual revenue of RMB69.6 million in 2016, representing an increase of 36.8% from RMB50.9 million in 2015. The gross profit of Pincha has increased from RMB24.6 million in 2015 to RMB29.7 million in 2016, reflecting a year-on-year increase of 20.7%. Meanwhile, the gross profit margin has decreased from 48.3% in 2015 to 42.7% in 2016. On the other hand, Pincha's total operating costs (including sales and marketing expenses, administrative expenses, etc.) amounted to RMB30.9 million in 2016, representing an increase of 69.8% from RMB18.2 million in 2015. Due to the reasons above, Pincha has realized a net loss for the year of RMB0.8 million in 2016.

As at 31 December 2016, the total assets of Pincha amounted to RMB21.8 million.

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 Yihong, may fail to perform their obligations under the New Structure Contracts;

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

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

c) each of Mr. Zhao Yihong 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 caps of the continuing connected transactions thereunder would be 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 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 through its e-commerce platform and telemarketing network. The prices of the products sold by Beijing Outsell to Pincha under the New Distribution Agreement shall be determined based on the cost plus reasonable profit margin, which is between 6.16%–20.54%, and by reference to the historical selling prices of the products which were sold by Beijing Outsell to Pincha in the past three years.

As Pincha is wholly owned by Mr. Zhao Yihong, the controlling shareholder of the Company and an executive director, 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 annual caps for the continuing connected transactions thereunder for the three years ending 31 December 2017 have been approved by the independent shareholders of the Company.

New Lease Agreement

On 30 September 2010, Beijing Outsell and Pincha entered into a lease agreement (the "**Lease Agreement**"). In accordance with the Lease Agreement, Beijing Outsell agrees to lease a property to Pincha for office use. As the Lease Agreement and the annual caps of the continuing connected transactions thereunder would be expired on 31 December 2014, on 27 October 2014, Beijing Outsell and Pincha entered into a new Lease agreement (the "**New Lease Agreement**"). The term of the New Lease Agreement is three (3) years with the effective date on 1 January 2015. In accordance with the New Lease Agreement, Beijing Outsell agrees to lease the Linglong Tiandi property with a total gross floor area of 437 square meters to Pincha for office use. The aggregate rental for the Linglong Tiandi properties to be paid by Pincha to the Group for each of the three years ending 31 December 2017 is RMB786,600, calculated based on the fixed monthly rental of RMB150 per square meter.

As Pincha is wholly owned by Mr. Zhao Yihong, the controlling shareholder of the Company and an executive director, Mr. Zhao Yihong and Pincha are both connected persons of the Company under the Listing Rules. According to the Listing Rules, the New Lease Agreement and the annual caps for the continuing connected transactions thereunder for the three years ending 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 2016 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 2016 are shown below:

	Annual cap (RMB)	**Actual transaction amount** (RMB)
New Distribution Agreement	63,441,000	42,375,992
New Lease Agreement	786,600	749,143
New Structure Contracts	818,000	628,480

The independent non-executive Directors have reviewed and confirmed that the above-mentioned continuing connected transactions for the year ended 31 December 2016 were entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions and the auditor has reported the factual findings on these procedures to the Board.

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 2016:

(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 2016.

Non-exempt connected transactions

On 2 September 2016, Beijing Outsell and Tianrun Diliang, entered into an equity transfer agreement for Beijing Outsell to acquire the remaining 20% equity interest in Guangzhou Runliang held by Tianrun Diliang at the total consideration of RMB10.0 million. Upon completion of the acquisition, Guangzhou Runliang became an indirectly wholly-owned subsidiary of the Company. It is expected that upon completion of the acquisition, the sales of the LARLLY Orlistat could be further increased by employing the existing sales and advertising channels of the Two Teas and with the help of the Group's extensive management experiences on the Two Teas as well as an efficient and integrated sales team, thereby the financial performance of Guangzhou Runliang is expected to be improved and gradually generated profits for the benefit of the Company and its shareholders.

Mr. Zhao Yihong, being the controlling shareholder of the Company and an executive Director, is a connected person of the Company. Tianrun Diliang, as a wholly-owned company of Mr. Zhao Yixing, the younger brother of Mr. Zhao Yihong, is therefore a connected person of the Company as defined under Rule 14A.07 of the Listing Rules. Accordingly, the acquisition by Beijing Outsell from Tianrun Diliang constitutes a connected transaction of the Company for the purpose of the Listing Rules.

The transaction details above were set out in the announcement dated 2 September 2016 at the websites of the Stock Exchange and the Company.

Save as disclosed above, for the year ended 31 December 2016, 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 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.

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 2016 are as follows:

Month	No. of Shares repurchased	Price per Share Highest	Price per Share Lowest	Total consideration
		HK$	HK$	HK$'000
January	2,400,000	0.800	0.760	1,885
February	1,200,000	0.800	0.790	952
May	8,634,000	0.690	0.640	5,760
June	15,455,000	0.760	0.650	10,975
July	3,086,000	0.690	0.640	2,063
November	38,021,000	0.590	0.520	21,813
December	17,700,000	0.560	0.495	9,649
Total	86,496,000	0.800	0.495	53,097

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 2016.

DONATION

The Company made charitable donations of RMB1.5 million in aggregate during the year ended 31 December 2016.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the Directors' knowledge as 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 2016. 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, 10 March 2017

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Besunyen Holdings Company Limited
(incorporated in Cayman Island with limited liability)

OPINION

What we have audited

The consolidated financial statements of Besunyen Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 96 to 163, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is impairment of property, plant and equipment.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment	
Refer to Note 4 'Critical accounting estimates and assumptions' and Note 14 'Property, plant and equipment' to the consolidated financial statements. Pursuant to requirements of certain Notices on Related Matters to Further Regulation on Assigning Names to Healthcare Food as issued by the China Food and Drug Administration ("CFDA") (collectively the "Notices"), the Group's slimming tea products have to be re-registered with a new name which could not include any descriptions of their underlying functionalities. The Group has to obtain the proper approval from the CFDA for the new registered name prior to 1 May 2016 or otherwise, the Group has to suspend its production of the slimming tea products since then. The Group had received approval of its new registered name of the slimming tea products from CFDA on 15 November 2016 and the Group had temporarily suspended its productions of its slimming tea products from 1 May 2016 to the end of November 2016. This resulted in a significant decline in the sales of the Group's detox and slimming tea products during the year ended 31 December 2016.	In response to this key audit matter, we performed the following procedures: • evaluated the management's processes by which the budget and future cash flow forecast of the Group (upon which the impairment assessment is based) were drawn up and reconciled the input data for the impairment assessment to supporting evidence, such as approved budgets; • evaluated the reasonableness of the 'value-in-use' of the Key Operating Assets of the Tea Product CGU as determined from the discounted cash flow model and challenged the key management's judgements and assumptions, after considering the external evidence and historical accuracy of management's assumptions and forecasts (primarily with respect to the revenue growth rates and the discount rate as used in the discounted cash flow model);

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment (continued)	
Management considered that the significant decline in the sales of detox and slimming tea products in 2016 compared to management's previous budgets and forecasts constitute a triggering event for reassessing the recoverable amounts of the Group's production plant and facilities (the "Key Operating Assets") of the cash-generating unit for the manufacturing and sales of the Group's detox and slimming tea products (the "Tea Product CGU"). Therefore, management has performed an impairment assessment to assess the 'value-in-use' (determined by management as the recoverable amount) of the Key Operating Assets of the Tea Product CGU as at 31 December 2016 by using the discount cash flow model. Management performs impairment assessments by comparing the recoverable amount of the Key Operating Assets against its carrying amount. Based on the assessment results, the Directors of the Company concluded that no provision for impairment on the Key Operating Assets of the Tea Product CGU has to be recognised as of 31 December 2016. We focused our efforts on the impairment assessment mainly because of the amounts involved were significant, and that significant judgements were required to evaluate management's assumptions, particularly in respect of the revenue growth rate and the discount rate as they are sensitive to the discounted cash flow model.	• tested the mathematical accuracy and considered the appropriateness of the type of cash flows included in the discounted cash flow model; • checked sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually or in aggregate, would result in the assets being impaired; and • reviewed the related disclosures in the consolidated financial statements. Based on the procedures performed, the model and key assumptions used are considered as appropriate and the significant estimations and judgements made by management are supportable.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee of the Company is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Independent Auditor's Report

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

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

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

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

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

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

From the matters communicated with the Audit Committee, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 March 2017

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**514,749**	662,805
Cost of sales	6	**(89,229)**	(68,568)
Gross profit		**425,520**	594,237
Other income	7	**40,736**	40,205
Selling and marketing expenses	6	**(428,415)**	(431,939)
Administrative expenses	6	**(76,964)**	(104,793)
Research and development costs	6	**(12,570)**	(19,179)
Other expenses	6	**(10,912)**	(11,375)
Other losses, net	8	**(5,069)**	(2,717)
Share of losses of investments accounted for using the equity method	11	**(2,997)**	—
(Loss)/profit before income tax		**(70,671)**	64,439
Income tax (expense)/credit	12	**(3,895)**	23,775
(Loss)/profit for the year		**(74,566)**	88,214
(Loss)/profit attributable to:			
— Owners of the Company		**(68,714)**	92,291
— Non-controlling interests		**(5,852)**	(4,077)
		(74,566)	88,214
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(74,566)**	88,214
Total comprehensive (loss)/income attributable to:			
— Owners of the Company		**(68,714)**	92,291
— Non-controlling interests		**(5,852)**	(4,077)
		(74,566)	88,214
(Losses)/earnings per share attributable to owners of the Company (RMB cents)			
— Basic (losses)/earnings per share	13	**(4.56)**	6.02
— Diluted (losses)/earnings per share	13	**(4.56)**	6.02

The notes on pages 101 to 163 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**381,640**	389,052
Land use rights	15	**364,358**	377,100
Investment properties	16	**55,632**	57,694
Intangible assets	17	**8,397**	9,608
Non-current deposits	18	**8,402**	6,755
Investments accounted for using the equity method	11	**66,933**	—
Deferred income tax assets	29	**34,237**	38,723
		919,599	878,932
Current assets			
Inventories	19	**22,720**	6,188
Trade and bills receivables	20	**31,504**	17,404
Deposits, prepayments and other receivables	21	**13,175**	32,905
Restricted bank deposits	22	**3,911**	—
Term deposits with initial term of over three months	23	**—**	50,000
Cash and cash equivalents	24	**153,884**	425,858
		225,194	532,355
Total assets		**1,144,793**	1,411,287
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	25	**86**	89
Share premium		**1,055,961**	1,229,764
Other reserves	26	**319,050**	326,773
Accumulated losses		**(385,565)**	(316,851)
		989,532	1,239,775
Non-controlling interests		**—**	5,960
Total equity		**989,532**	1,245,735

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	As at 31 December 2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred government grants	28	**8,639**	6,325
Deferred income tax liabilities	29	**7,066**	8,429
Other non-current liabilities		**1,396**	1,698
		17,101	16,452
Current liabilities			
Trade and bills payables	30	**14,780**	7,577
Other payables and accrued expenses	31	**121,175**	135,110
Current income tax liabilities		**2,205**	6,413
		138,160	149,100
Total liabilities		**155,261**	165,552
Total equity and liabilities		**1,144,793**	1,411,287

The notes on pages 101 to 163 form an integral part of these consolidated financial statements.

The financial statements on pages 96 to 163 were approved by the Board of Directors on 10 March 2017 and were signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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	9	—	—	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		—	—	—	—	—	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
Balance at 1 January 2016		**89**	**1,229,764**	**326,773**	**(316,851)**	**1,239,775**	**5,960**	**1,245,735**
Total comprehensive loss for the year		**—**	**—**	**—**	**(68,714)**	**(68,714)**	**(5,852)**	**(74,566)**
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	9	**—**	**—**	**2,169**	**—**	**2,169**	**—**	**2,169**
Changes in ownership interest in a subsidiary without change of control	36	**—**	**—**	**(9,892)**	**—**	**(9,892)**	**(108)**	**(10,000)**
Repurchase and cancellation of shares	25	**(3)**	**(45,834)**	**—**	**—**	**(45,837)**	**—**	**(45,837)**
Dividends	33	**—**	**(127,969)**	**—**	**—**	**(127,969)**	**—**	**(127,969)**
Balance at 31 December 2016		**86**	**1,055,961**	**319,050**	**(385,565)**	**989,532**	**—**	**989,532**

The notes on pages 101 to 163 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	32(a)	**(53,979)**	63,781
Income taxes refund/(paid), net		**2,604**	(3,806)
Interest received		**6,752**	3,471
Net cash (used in)/generated from operating activities		**(44,623)**	63,446
Cash flows from investing activities			
Purchases of short-term investments		**(171,000)**	(523,000)
Proceeds from maturity of short-term investments		**171,794**	532,738
Placement of term deposits with initial term of over three months		**—**	(120,000)
Withdrawal of term deposits with initial term of over three months		**51,201**	173,646
Placement of restricted bank deposits		**16,446**	—
Withdrawal of restricted bank deposits		**(20,357)**	813
Purchases of property, plant and equipment		**(32,294)**	(28,162)
Purchases of intangible assets		**(1,912)**	(2,120)
Payment for land use rights		**—**	(9,175)
Investments in associate and joint ventures	11	**(69,930)**	—
Acquisition of a subsidiary, net of cash acquired		**—**	1,343
Acquisition of additional interest in a subsidiary	36	**(10,000)**	—
Proceeds from disposals of land use rights and property, plant and equipment	32(b)	**8,525**	77
Receipt of asset-related government grants		**3,100**	—
Net cash (used in)/from investing activities		**(54,427)**	26,160
Cash flows from financing activities			
Dividends paid to owners of the Company	33	**(127,969)**	(39,893)
Repurchase of shares	25	**(45,837)**	(1,932)
Net cash used in financing activities		**(173,806)**	(41,825)
Net (decrease)/increase in cash and cash equivalents		**(272,856)**	47,781
Cash and cash equivalents at the beginning of year		**425,858**	377,753
Exchange gains on cash and cash equivalents		**882**	324
Cash and cash equivalents at end of year		**153,884**	425,858

The notes on pages 101 to 163 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 and annual improvements adopted by the Group

The following amendments to standards and annual improvements have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to IFRS 11
- Disclosure initiative — Amendments to IAS 1
- Clarification of acceptable methods of depreciation and amortisation — Amendments to IAS 16 and IAS 38
- Equity method in separate financial statements — Amendment to IAS 27
- Annual improvements to IFRSs 2012 – 2014 cycle

The adoption of these amendments and annual improvements did not have any significant impact on the consolidation 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 standards, amendments and interpretations issued but not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements.

Out 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
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

IFRS 15 Revenue from contracts with customers

IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. IFRS 15 specifies how and when the Group will recognise revenue as well as requiring the Group to provide users of financial statements with more informative and relevant disclosures.

Management is currently analysing the impact of the new standard on the Group's financial statements and has initially identified areas which are likely to be affected, including the appropriate treatment for certain expenses paid or payable to the ultimate customers of the distributors of the Group's products under the IFRS 15. The Group will continue to assess the impact on the Group's 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 standards, amendments and interpretations issued but not yet adopted (Continued)

IFRS 15 Revenue from contracts with customers (Continued)

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 9 Financial instruments

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

There will be no significant impact on the Group's accounting for financial assets and liabilities, as the new requirements only affect the accounting for financial assets and liabilities that are designated at fair value through profit or loss and the Group does not have any such assets or liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

The new standard is effective for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16 Leases

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

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

IFRS 16 Leases (Continued)

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has no significant non-cancellable operating lease commitments. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is effective for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRS or interpretation that are not yet effective that would be expected to have a material impact on the Group.

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.

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

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) *Business combinations (Continued)*

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.

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 2.10).

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

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

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(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 — that 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 interests are also recorded in equity.

(c) Disposals 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 purpose 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. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category or equity as specified/permitted by applicable IFRSs.

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 10(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 of 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in the associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/loss of investments accounted for using the equity method' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in the associate are recognised in profit or loss.

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

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

2.4 Joint arrangements *(Continued)*

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 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.

2.6 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 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 consolidated statement of comprehensive income within 'other gains/losses — net'.

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

2.6 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

2.7 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 categories 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 and facilities	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.

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

2.7 Property, plant and equipment *(Continued)*

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 2.11).

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

2.8 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 costs of investment properties to their residual values over their estimated useful lives of 30 years by using the straight-line method.

2.9 Land use rights

Land use rights 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.

2.10 Intangible assets

(a) 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.

(b) 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.

2.11 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 of disposal 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).

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

2.11 Impairment of non-financial assets *(Continued)*

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.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, 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. As at 31 December 2016 and 2015, the Group only has financial assets in the categories of loans and receivables and available-for-sale financial assets.

(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 bills receivables', 'other receivables', 'restricted bank deposits', 'term deposits with initial term 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.

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

2.12 Financial assets *(Continued)*

2.12.2 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 accumulated 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 effective interest method is presented in the consolidated statement of comprehensive income within ‘other income’. Dividends on available-for-sale equity instruments are recognised when the Group’s right to receive payments is established and is presented in the consolidated statement of comprehensive income within ‘other income’.

2.13 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.

2.14 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.

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

2.14 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost (Continued)

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.

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

2.15 Inventories

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

2.16 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.

2.17 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.

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

2.19 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.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred income 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, associate and joint ventures 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.

(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 income tax 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.

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

2.20 Current and deferred income tax *(Continued)*

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associate and joint arrangements, 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. Generally, the Group is unable to control the reversal of the temporary differences for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary differences in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associate and joint arrangements, 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.

2.21 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. The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who have the scheme prior to vesting fully in the contributions

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

2.22 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.

(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.

2.23 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.

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

2.23 Provisions *(Continued)*

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.

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

2.25 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.

2.26 Dividend income

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

2.27 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.

2.28 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.

2.29 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.

2.30 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 2016 and 2015, the amount of costs qualifying for capitalisation was not significant and as a result, the Group expensed all research and development costs as incurred.

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:

	2016 **RMB'000**	2015 RMB'000
US$		
Assets	**41**	139
Liabilities	**—**	—
Net	**41**	139
HK$		
Assets	**14,820**	5,325
Liabilities	**—**	—
Net	**14,820**	5,325

As at 31 December 2016 and 2015, if RMB strengthened/weakened by 5% against US$ and HK$ with all other variables held constant, the post-tax loss for the year would have been approximately RMB703,000 higher/lower (2015: pre-tax profit RMB273,000 lower/higher), mainly as a result of foreign exchange loss on translation of US$ and HK$ denominated cash and cash equivalents and other receivables.

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, restricted 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 position, 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 months RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2016					
Trade and bills payables	**14,780**	**—**	**—**	**14,780**	**14,780**
Other payables and accrued expenses	**64,307**	**—**	**—**	**64,307**	**64,307**
Other non-current liabilities	**—**	**—**	**1,396**	**1,396**	**1,396**
	79,087	**—**	**1,396**	**80,483**	**80,483**
At 31 December 2015					
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
	64,564	—	1,698	66,262	66,262

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 2016, the liability-to-asset ratio was 13.56% (2015: 11.73%).

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 2016 and 2015.

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

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.

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

4.1 Critical accounting estimates and assumptions *(Continued)*

(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's 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 expectation of annual growth rate and pre-tax discount rate.

Changes in the assumptions selected by management, in particular the revenue growth rate and discount 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.

(b) Income taxes and deferred tax

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 expense 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.

The CODM had identified the manufacturing and sales of tea products and also the sales of slimming medicine as separate reportable segments, namely the tea products segment and the slimming medicine segment.

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.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue

The revenue segment information reported to CODM for the years ended 31 December 2016 and 2015 is as follows:

	2016 RMB'000	2015 RMB'000
Tea products segment		
— Detox tea	**189,129**	274,007
— Slimming tea	**209,292**	323,378
— Others	**22,862**	2,032
	421,283	599,417
Sliming medicine segment		
— Slimming medicine	**93,466**	63,388
	514,749	662,805

The segment results for the year ended 31 December 2016 are as follows:

	Tea products segment RMB'000	Slimming medicine segment RMB'000	Total RMB'000
Total revenue	**421,283**	**93,466**	**514,749**
Inter-segment revenue	**—**	**—**	**—**
Revenue from external customers	**421,283**	**93,466**	**514,749**
Cost of sales	**(69,768)**	**(19,461)**	**(89,229)**
Gross profit	**351,515**	**74,005**	**425,520**
Selling and marketing expenses	**(316,454)**	**(111,961)**	**(428,415)**
Research and development costs	**(12,570)**	**—**	**(12,570)**
Segment results	**22,491**	**(37,956)**	**(15,465)**
Other income			**40,736**
Other losses, net			**(5,069)**
Administrative expenses			**(76,964)**
Other expenses			**(10,912)**
Share of losses of investments accounted for using the equity method			**(2,997)**
Loss before income tax			**(70,671)**
Income tax expense			**(3,895)**
Loss for the year			**(74,566)**
Other segment information:			
Depreciation	**(34,195)**	**(45)**	**(34,240)**
Amortisation	**(9,733)**	**(807)**	**(10,540)**

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.

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 2016 and 2015.

6. EXPENSES BY NATURE

	2016 RMB'000	2015 RMB'000
Changes in inventories of finished goods and work in progress	**(14,899)**	(1,493)
Raw materials and consumables used	**57,290**	53,145
Advertising costs	**159,994**	219,533
Employee benefit expense (Note 9)	**162,320**	148,858
Marketing and promotional expenses	**118,111**	98,685
Depreciation and amortisation	**44,780**	41,017
Entertainment and travelling expenses	**16,755**	17,782
Professional service fees	**13,638**	17,070
Stamp duties, property and other taxes	**7,923**	8,921
Office expenses	**6,709**	8,165
Maintenance and testing costs	**4,881**	5,178
Auditors' remunerations		
— Audit	**2,728**	3,920
— Non-audit	**250**	1,178
Reversal of impairment of property, plant and equipment	**—**	(28,507)
Others	**37,610**	42,402
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**618,090**	635,854

7. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Rental income from investment properties	**19,242**	19,096
Government grants	**13,468**	5,678
Bank interest income	**6,679**	5,550
Interest income from short term investment	**794**	9,738
Others	**553**	143
	40,736	40,205

8. OTHER LOSSES, NET

	2016 RMB'000	2015 RMB'000
(Gain)/loss on disposals of land use rights and property, plant and equipment	**(2,514)**	233
Donation	**1,521**	1,766
Net foreign exchange loss	**1,365**	805
Penalty expenses	**3,714**	—
Others	**983**	(87)
	5,069	2,717

9. EMPLOYEE BENEFIT EXPENSES

	2016 RMB'000	2015 RMB'000
Salaries, bonus and other allowances	**150,634**	134,185
Share-based compensation	**2,169**	6,274
Pension cost — defined contribution plan	**9,517**	8,399
	162,320	148,858

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: two) directors whose emoluments are reflected in the analysis shown in Note 38. The emoluments payable to the remaining three (2015: three) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, bonus and other allowances	**4,419**	5,633
Share-based compensation	**631**	1,016
Pension cost — defined contribution plan	**141**	105
	5,191	6,754

The emoluments fell within the following bands:

	Number of individuals 2016	2015
Emolument bands (in HK$)		
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	—
HK$2,000,000 – HK$2,500,000	**—**	1
HK$2,500,000 – HK$3,000,000	**1**	—
HK$3,000,001 – HK$3,500,000	**—**	1

10. SUBSIDIARIES

(a) Subsidiaries

As at 31 December 2016, the Company had the following principal subsidiaries:

Name of subsidiaries	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Principal activities and place of operation	Proportion of ownership interest and voting power directly held by the Company	Proportion of ownership interest and voting power indirectly held by the Company
Besunyen BVI	Cayman, Limited liability company	US$1	Investment holding in BVI	100%	—
Besunyen (Hong Kong) Co., Limited 碧生源(香港)有限公司	Hong Kong, Limited liability company	HK$1	Investment holding in Hong Kong	—	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, Limited liability company	RMB829,413,849	Manufacture and sales of therapeutic tea products in PRC	—	100%
Beijing Besunyen Trading Co.,Ltd. (note i) 北京碧生源商貿有限公司	The PRC, Limited liability company	RMB5,000,000	Sales of therapeutic tea products in PRC	—	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, Limited liability company	RMB100,000,000	Sales of therapeutic tea products in PRC	—	100%
Guangzhou Outsell Trading Co., Ltd. (note i) 廣州澳特舒爾商貿有限公司	The PRC, Limited liability company	RMB5,000,000	Sales of therapeutic tea products in PRC	—	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, Limited liability company	RMB6,000,000	Sales of therapeutic tea products in PRC	—	Note ii
Jiang Xi Besunyen Trading Co., Ltd. (note i) 江西碧生源商貿有限公司	The PRC, Limited liability company	RMB2,000,000	Sales of therapeutic tea products in PRC	—	100%
Hei Longjiang Besunyen Trading Co., Ltd. (note i) 黑龍江碧生源商貿有限公司	The PRC, Limited liability company	RMB5,000,000	Sales of therapeutic tea products in PRC	—	100%
Beijing Besunyen Pharmaceutical Co., Ltd. (note i) 北京碧生源藥業有限公司	The PRC, Limited liability company	RMB10,000,000	Research, manufacturing and sales of herbal and medical tea in PRC	—	100%
Guangzhou Runliang Pharmaceutical Co., Ltd. (notes i and 36) 廣州潤良藥業有限公司	The PRC, Limited liability company	RMB15,000,000	Sales of slimming medicine in PRC	—	100%
Hei Longjiang Outsell Trading Co., Ltd. (note i) 黑龍江澳特舒爾商貿有限公司	The PRC, Limited liability company	RMB5,000,000	Sales of therapeutic tea products in PRC	—	100%

10. SUBSIDIARIES *(Continued)*

(a) Subsidiaries *(Continued)*

Notes:

(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 Shareholder**").

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 Shareholder 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 Shareholder 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 2016 and 2015.

10. SUBSIDIARIES *(Continued)*

(b) Significant restrictions

Cash and cash equivalents and term deposits of approximately RMB97,352,000 (2015: RMB463,387,000) 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 10(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 2016, the Share Scheme Trust held 36,601,567 (2015: 36,801,567) shares which have not yet been granted to employees.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	2016 RMB'000	2015 RMB'000
Associate (a)	**8,256**	—
Joint ventures (b)	**58,677**	—
At 31 December	**66,933**	—

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	2016 RMB'000	2015 RMB'000
Associate (a)	**(1,544)**	—
Joint ventures (b)	**(1,453)**	—
For the year ended 31 December	**(2,997)**	—

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Investment in an associate

On 30 March 2016, the Group has entered into an investment agreement with Yunnan Phytopharmaceutical Co., Ltd. ("**Yunzhi**") for the establishment of a limited company in the PRC named Yunzhi Besunyen Pharmaceutical Sales Co., Ltd. ("**Yunzhi Besunyen**"). The Group holds 49% equity interests in Yunzhi Besunyen and can only exercise significant influence over Yunzhi Besunyen. The principal business of Yunzhi Besunyen is the sales of pharmaceutical products, especially plant medicines.

The Group has committed to contribute capital of RMB24,500,000 to Yunzhi Besunyen in accordance with the investment agreement and the Group has contributed capital of RMB9,800,000 to Yunzhi Besunyen as of 31 December 2016.

Nature of investment in the associate as at 31 December 2016

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Yunzhi Besunyen	The PRC	49%	Note	Equity

Note: Yunzhi Besunyen is strategic for the Group to stabilise the product supply for the slimming medicine segment and providing access to new customers and markets.

Summarised financial information for the associate

Set out below are the summarised financial information for Yunzhi Besunyen which is accounting for using the equity method.

Summarised balance sheet

	As at 31 December 2016 RMB'000
Current	
Cash and cash equivalents	16,259
Other current assets	1,035
Total current assets	17,294
Trade and other payables	(1,298)
Total current liabilities	(1,298)
Non-current assets	852
Net assets	16,848

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investment in an associate *(Continued)*

Summarised statement of comprehensive income

	Period from 9 May 2016 (date of incorporation) to 31 December 2016 RMB'000
Revenue	38
Cost of sales	(27)
Selling and marketing expenses	(1,511)
Administrative expenses	(1,677)
Other expenses	25
Loss before income tax	(3,152)
Income tax expense	—
Loss for the period	(3,152)
Other comprehensive income	—
Total comprehensive loss	(3,152)

The information above reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in the associate.

Summarised financial information	RMB'000
Capital injected by the shareholders of the associate	20,000
Loss for the period	(3,152)
Closing net assets	16,848
Interest in the associate (49%)	8,256
Carrying amount	8,256

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(b) Investments in joint ventures

	Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. RMB'000	Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) RMB'000	Total RMB'000
Capital contributed by the Group during the year	500	59,630	60,130
Share of losses	(15)	(1,438)	(1,453)
Carrying amounts as at 31 December 2016	485	58,192	58,677

Nature of investments in joint ventures

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. (the "**Fund Management Company**") (Note i)	The PRC	50%	Note i	Equity
Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the "**Fund**") (Notes i and ii)	The PRC	89.5%	Note ii	Equity

Notes:

(i) The Fund Management Company is established on 8 March 2016 and is jointly owned by Beijing Besunyen Pharmaceutical Co., Ltd. ("**Besunyen Pharmaceutical**") (a wholly owned subsidiary of the Group) and Mr. Bai Jiguang (the "**Co-Partner**"). On 29 March 2016, Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company have entered into a limited partnership agreement, pursuant to which the involved parties agreed to establish Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the "**Fund**") in the PRC. The Fund has a total capital commitment of RMB100,000,000 and owned by Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company as to 89%, 10% and 1%, respectively. As of 31 December 2016, the Group has already contributed capital of RMB500,000 and RMB59,630,000 to the Fund Management Company and the Fund respectively.

(ii) The principal business of the Fund is the investments in portfolio companies specialising in the healthcare industry, TMT (technology, media and telecommunications) industry and consumer industry, etc., as well as the investment in certain early stage partnership companies. The term of the Fund is 5 years, and may be extended to no more than 7 years as unanimously agreed by all parties.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(b) Investments in joint ventures *(Continued)*

Although the Group owns more than half of the equity interests in the Fund Management Company, the Group only has joint control over the Fund Management Company and the Fund with the Co-Partner pursuant to the investment agreements. Consequently, the Group has accounted for the Fund Management Company and the Fund by using the equity method.

Commitments and contingent liabilities in respect of joint ventures

	2016 **RMB'000**	2015 RMB'000
Commitment to provide funding if called	**29,370**	—

There are no contingent liabilities relating to the Group's interest in the joint ventures.

Summarised financial information for the joint ventures

Set out below are the summarised financial information for the Fund Management Company and the Fund which are accounting for using the equity method.

Summarised balance sheet as at 31 December 2016

	The Fund Management Company RMB'000	**The Fund** RMB'000	**Total** RMB'000
Current			
Cash and cash equivalents	658	292	950
Other current assets	—	—	—
Total current assets	658	292	950
Trade and other payables	(360)	—	(360)
Total current liabilities	(360)	—	(360)
Non-current			
Financial assets at fair value through profit or loss	—	65,093	65,093
Other non-current assets	672	—	672
Total non-current assets	672	65,093	65,765
Net assets	970	65,385	66,355

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(b) Investments in joint ventures *(Continued)*

Summarised statement of comprehensive income for the period from 8 March 2016 and 5 April 2016 (the respective date of incorporation of the Fund Management Company and the Fund) to 31 December 2016

	The Fund Management Company RMB'000	The Fund RMB'000	Total RMB'000
Revenue	1,438	—	1,438
Administrative expenses	(1,463)	(1,610)	(3,073)
Other expenses	(5)	3	(2)
Loss before income tax	(30)	(1,607)	(1,637)
Income tax expense	—	—	—
Loss for the period	(30)	(1,607)	(1,637)
Other comprehensive income	—	—	—
Total comprehensive loss	(30)	(1,607)	(1,637)

The information above reflects the amounts presented in the financial statements of the joint ventures and not the Group's share of those amounts.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amounts of the Group's interests in the joint ventures.

Summarised financial information	The Fund Management Company RMB'000	The Fund RMB'000	Total RMB'000
Capital contributed by the shareholders of the joint ventures	1,000	66,960	67,960
Loss for the period	(30)	(1,607)	(1,637)
Closing net assets	970	65,353	66,323
Interest in joint venture (50% and 89.5% respectively)	485	58,491	58,976
Others	—	(299)	(299)
Carrying amounts	485	58,192	58,677

12. INCOME TAX (EXPENSE)/CREDIT

	2016 RMB'000	2015 RMB'000
Current income tax:		
Current income tax on profit for the year	**(1,932)**	(6,286)
Adjustments in respect of the prior year	**1,160**	3,849
	(772)	(2,437)
Deferred income tax (Note 29):		
Origination and reversal of temporary differences	**(3,123)**	26,212
Income tax (expense)/credit	**(3,895)**	23,775

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% (2015: 16.5%). No provision for Hong Kong profit tax has been made as the Group has no estimated assessable profit derived from or generated in Hong Kong for the years ended 31 December 2016 and 2015.

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%.

In November 2015, Beijing Besunyen Food and Beverage Co., Ltd. ("**Besunyen Food and Beverage**"), a subsidiary of the Group, has obtained the HNTE qualification for three years from 2015 to 2017, 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% (2015: 25%) (the "**PRC Statutory Tax Rate**").

12. INCOME TAX (EXPENSE)/CREDIT *(Continued)*

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:

	2016 RMB'000	2015 RMB'000
(Loss)/profit before income tax	**(70,671)**	64,439
Tax at the PRC Statutory Tax Rate of 25% (2015: 25%)	**(17,668)**	16,110
Effect of preferential tax rate granted	**5,767**	(1,734)
Re-measurement of deferred tax due to change of tax rate	**(5,577)**	—
Tax losses/deductible temporary differences for which no deferred income tax asset was recognised	**21,116**	12,104
Utilisation or recognition of previously unrecognised tax losses/ deductible temporary differences	**(324)**	(47,357)
Tax effect of expenses not deductible for tax purposes and others	**1,741**	951
Adjustment in respect of the prior year	**(1,160)**	(3,849)
Income tax expenses/(credit)	**3,895**	(23,775)

13. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the loss/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 the Company's Restricted Share Award Scheme (Note 27(b)).

	2016	2015
(Loss)/profit attributable to owners of the Company (RMB'000)	**(68,714)**	92,291
Weighted average number of ordinary shares in issue (thousand)	**1,506,515**	1,532,083
Basic (losses)/earnings per share (RMB cents per share)	**(4.56)**	6.02

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the (losses)/earnings per share. Diluted (losses)/earnings per share 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 granted and restricted shares awarded 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 2016 and 2015. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2016 and 2015. No adjustment is made to (losses)/earnings (numerator). Accordingly, the diluted (losses)/earnings per share is the same as the basic (losses)/earnings per share for the years ended 31 December 2016 and 2015.

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 2015	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
At 1 January 2016	261,650	216,519	33,868	45,145	557,182
Additions	—	434	1,194	25,471	27,099
Transfer	2,948	—	—	(2,948)	—
Disposals/write-off	(2,691)	(434)	(1,734)	—	(4,859)
At 31 December 2016	261,907	216,519	33,328	67,668	579,422
ACCUMULATED DEPRECIATION					
At 1 January 2015	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
At 1 January 2016	39,352	89,707	25,834	—	154,893
Charge for the year	8,866	20,036	3,276	—	32,178
Disposals/write-off	(457)	(412)	(1,657)	—	(2,526)
At 31 December 2016	47,761	109,331	27,453	—	184,545
ACCUMULATED IMPAIRMENT					
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
At 1 January 2016 and 31 December 2016*	1,630	11,607	—	—	13,237
NET BOOK VALUES					
At 31 December 2016	212,516	95,581	5,875	67,668	381,640
At 31 December 2015	220,668	115,205	8,034	45,145	389,052

* The provision for impairment on the Group's production plant and facilities (the "Key Operating Assets") of the cash-generating unit for the manufacturing and sales of the Group's detox and slimming tea products (the "Tea Product CGU") as recognised in prior years had been fully reversed in 2015 and the amounts as reversed had been limited to the carrying amount of the Key Operating Assets that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. The balance of the accumulated impairment as presented of approximately RMB13,237,000 as of 31 December 2016 and 2015 represented the amounts of depreciation on the Key Operating Assets that would have been charged had no impairment loss had been recognised in prior years.

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

At 31 December 2016, the Group is still in the process of obtaining property ownership certificates of certain buildings located in the PRC with carrying amounts of approximately RMB24,835,000 (2015: RMB21,370,000).

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

	2016 **RMB'000**	2015 RMB'000
Cost of sales	**23,046**	19,573
Administrative expenses	**6,574**	5,284
Research and development costs	**1,830**	1,149
Selling and marketing expenses	**728**	735
	32,178	26,741

Construction work in progress as at 31 December 2016 mainly comprises a new plant under construction in the PRC.

Impairment testing

Pursuant to requirements of certain Notices on Related Matters to Further Regulation on Assigning Names to Healthcare Food as issued by the China Food and Drug Administration ("**CFDA**") (collectively the "**Notices**"), the Group's slimming tea products have to be re-registered with a new registered name which could not include any descriptions of their underlying functionalities. The Group has to obtain the proper approval from the CFDA for the new registered name prior to 1 May 2016 or otherwise, the Group has to suspend its production of the slimming tea products since then.

The Group had received approval of the new registered name of the slimming tea products from CFDA on 15 November 2016 and the Group had temporarily suspended its productions of its slimming tea products from 1 May 2016 to the end of November 2016. This resulted in a significant decline in the sales of the Group's detox and slimming tea products during the year ended 31 December 2016.

Management considered that the significant decline in the sales of detox and slimming tea products in 2016 compared to management's previous budgets and forecasts constitute a triggering event for reassessing the recoverable amount of the Key Operating Assets of the cash-generating unit for the Tea Product CGU. Therefore, management has performed an impairment assessment to assess the 'value-in-use' (determined by management as the recoverable amount) of the Key Operating Assets of the Tea Product CGU as of 31 December 2016 by using the discounted cash flow model.

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

Impairment testing *(Continued)*

The key assumptions as adopted in the impairment assessment to assess the recoverable amounts of the Key Operating Assets in the current year were referenced to the latest financial budget as approved by management covering the upcoming four-year period. The annual revenue growth rate used in the financial budgets for the 4 year period ranged from 3% to 13%. 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 the Key Operating Assets. The pre-tax discount rate used was 18.9%.

Based on the result of impairment assessment as conducted by management, the Directors of the Company concluded that no provision for impairment on the Key Operating Assets of the Tea Product CGU has to be recognised as of 31 December 2016.

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:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**377,100**	376,809
Additions	**—**	9,175
Amortisation	**(9,064)**	(8,884)
Disposals	**(3,678)**	—
At 31 December	**364,358**	377,100

At 31 December 2016, the Group is in the process of obtaining certificates for certain land use rights in the PRC with carrying amounts of approximately RMB229,660,000 (2015: RMB235,472,000).

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

	2016 **RMB'000**	2015 RMB'000
Cost of sales	**383**	383
Administrative expenses	**2,179**	2,661
Other expenses	**6,502**	5,840
	9,064	8,884

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2015	147,726
Transfer to property, plant and equipment (a)	(81,651)
At 31 December 2015	66,075
At 1 January 2016 and 31 December 2016	66,075
ACCUMULATED DEPRECIATION	
At 1 January 2015	6,486
Charge for the year	4,481
Transfer to property, plant and equipment (a)	(2,586)
At 31 December 2015	8,381
At 1 January 2016	8,381
Charge for the year	2,062
At 31 December 2016	10,443
NET BOOK VALUES	
At 31 December 2016	55,632
At 31 December 2015	57,694

(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.

16. INVESTMENT PROPERTIES *(Continued)*

(b) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

	As at 31 December 2016		As at 31 December 2015	
	Carrying amount RMB'000	**Fair value (level 3) RMB'000**	Carrying amount RMB'000	Fair value (level 3) RMB'000
Commercial property units located in Shanghai	**10,856**	**17,500**	11,333	17,800
Commercial property units located in Beijing	**44,776**	**46,000**	46,361	48,600

The Group's investment properties were valued at 31 December 2016 and 2015 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.

(c) At 31 December 2016, the Group is still in the process of obtaining the property ownership certificates for certain investment properties located in the PRC with carrying amounts of approximately RMB44,776,000 (2015: RMB46,361,000).

(d) Property rental income earned during the year ended 31 December 2016 was approximately RMB19,242,000 (2015: RMB19,096,000). All of the properties held as at 31 December 2016 have committed tenants for the next 1 to 3 years (2015: 2 to 4 years). As at 31 December 2016, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	2016 RMB'000	2015 RMB'000
No later than 1 year	**20,057**	20,414
Later than 1 year and no later than 5 years	**27,112**	21,318
	47,169	41,732

(e) Depreciation charges of approximately RMB2,062,000 for the year ended 31 December 2016 (2015: RMB4,481,000) have been charged in 'other expenses' in profit or loss.

17. INTANGIBLE ASSETS

	Trade-marks RMB'000	Patents RMB'000	Product development cost RMB'000	Computer software RMB'000	Good Supply Practice (GSP) License and others RMB'000	Total RMB'000
COST						
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	—	—	—	42	7,740	7,782
At 31 December 2015	11,498	7,287	—	846	7,740	27,371
At 1 January 2016	11,498	7,287	—	846	7,740	27,371
Additions	—	—	—	265	—	265
Disposal/write-off	—	(2,262)	—	—	—	(2,262)
At 31 December 2016	11,498	5,025	—	1,111	7,740	25,374
ACCUMULATED AMORTISATION						
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
At 1 January 2016	10,004	3,855	—	46	535	14,440
Charge for the year	247	58	—	370	801	1,476
Disposal/write-off	—	(2,262)	—	—	—	(2,262)
At 31 December 2016	10,251	1,651	—	416	1,336	13,654
ACCUMULATED IMPAIRMENT						
At 1 January 2015, 31 December 2015 and 31 December 2016	—	3,323	—	—	—	3,323
NET BOOK VALUES						
At 31 December 2016	1,247	51	—	695	6,404	8,397
At 31 December 2015	1,494	109	—	800	7,205	9,608

17. INTANGIBLE ASSETS *(Continued)*

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

	2016 **RMB'000**	2015 RMB'000
Cost of sales	**1,056**	294
Administrative expenses	**377**	82
Selling and marketing expenses	**43**	535
	1,476	911

18. NON-CURRENT DEPOSITS

	2016 **RMB'000**	2015 RMB'000
Deposits for purchases of intangible assets	**8,402**	6,755

19. INVENTORIES

	2016 **RMB'000**	2015 RMB'000
Raw materials and packaging materials	**3,816**	2,183
Work in progress	**1,028**	774
Finished goods	**17,876**	3,231
	22,720	6,188
Less: provision for impairment	**—**	—
	22,720	6,188

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

	2016 **RMB'000**	2015 RMB'000
At 1 January	**—**	3,978
Utilised on inventories written-off	**—**	(3,978)
At 31 December	**—**	—

The cost of inventories recognised as expense and included in 'cost of sales' and 'research and development costs' amounted to approximately RMB41,294,000 and RMB1,097,000 (2015: RMB49,256,000 and RMB2,396,000), respectively.

20. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**5,756**	5,881
Bills receivables (a)	**26,150**	11,724
	31,906	17,605
Less: allowance for doubtful debts	**(402)**	(201)
	31,504	17,404

(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 of the related goods to the customers, which are approximate to their invoice date:

	2016 RMB'000	2015 RMB'000
0 – 90 days	**24,417**	10,865
91 – 180 days	**6,914**	6,482
181 – 365 days	**158**	29
Over 365 days	**15**	28
	31,504	17,404

As at 31 December 2016, the Group's trade receivables of approximately RMB173,000 (2015: RMB57,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2016 RMB'000	2015 RMB'000
181 – 365 days	**158**	29
Over 365 days	**15**	28
	173	57

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

(c) As at 31 December 2016, trade receivables of approximately RMB402,000 (2015: RMB201,000) which are all aged more than 180 days were impaired and full provisions for impairment have been made.

20. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	**201**	198
Provision for impairment	**220**	3
Unused amount reversed	**(19)**	—
At 31 December	**402**	201

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

(f) As at 31 December 2016 and 2015, 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

	2016	2015
	RMB'000	RMB'000
Prepayment for advertisement	**2,436**	6,150
Prepayment to suppliers	**4,703**	6,962
Other receivables	**3,575**	4,712
Interest receivables	**95**	1,369
Others	**2,366**	13,712
	13,175	32,905

Deposits, prepayment and other receivables are all denominated in RMB,except that an other receivable of approximately RMB206,000 (2015: 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. RESTRICTED BANK DEPOSITS

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

23. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

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

The term deposits were denominated in RMB.

24. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash at bank and on hand	**112,606**	369,058
Term deposits and highly liquid investments with initial terms within three months	**41,278**	56,800
Cash and cash equivalents	**153,884**	425,858

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

	2016 RMB'000	2015 RMB'000
United States Dollars ("**US$**")	**41**	139
Hong Kong Dollars ("**HK$**")	**14,820**	5,128

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
Authorised:			
Ordinary shares of US$0.00000833333 each			
At 1 January 2015, 31 December 2015 and 31 December 2016	6,000,000	50,000	341
Issued and fully paid:			
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
At 1 January 2016	1,566,971	13,058	89
Repurchase and cancellation of shares	(85,496)	(712)	(3)
At 31 December 2016	1,481,475	12,346	86

During the year ended 31 December 2016, the Company has acquired 85,496,000 (2015: 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$52,591,000 (equivalent to approximately RMB45,837,000) (2015: HK$2,320,000 (equivalent to approximately RMB1,932,000)) and has been deducted from share capital and share premium within shareholder's equity.

25. SHARE CAPITAL *(Continued)*

As at 31 December 2016, 36,601,567 shares (2015: 36,801,567 shares) were held by the Company's Restricted Share Award Scheme (Note 27(b)).

26. OTHER RESERVES

	Merger reserve RMB'000	Capital redemption reserve RMB'000	Capital 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 2015	230,864	6	—	(24,469)	61,894	50,082	318,377
Transfer to statutory reserve	—	—	—	—	2,339	—	2,339
Share-based payments (Note 9)	—	—	—	—	—	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
At 1 January 2016	**230,864**	**6**	**—**	**(23,718)**	**64,233**	**55,388**	**326,773**
Share-based payments (Note 9)	**—**	**—**	**—**	**—**	**—**	**2,169**	**2,169**
Changes in ownership interests in subsidiary without change of control (Note 36)	**—**	**—**	**(9,892)**	**—**	**—**	**—**	**(9,892)**
At 31 December 2016	**230,864**	**6**	**(9,892)**	**(23,718)**	**64,233**	**57,557**	**319,050**

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.

27. SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

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		
	Average exercise price (RMB)	Number of options	Average exercise price (HK$)	Number of options	Total number of options
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	1.23	76,980,000	1.00	8,840,000	85,820,000
At 1 January 2016	**1.23**	**76,980,000**	**1.01**	**38,260,000**	**115,240,000**
Granted	**—**	**—**	**1.00**	**1,900,000**	**1,900,000**
Exercised	**—**	**—**	**—**	**—**	**—**
Lapsed	**1.23**	**(1,960,000)**	**1.03**	**(13,100,000)**	**(15,060,000)**
At 31 December 2016	**1.23**	**75,020,000**	**1.01**	**27,060,000**	**102,080,000**
Exercisable as at 31 December 2016	**1.23**	**75,020,000**	**1.00**	**12,980,000**	**88,000,000**

(ii) Outstanding share options

		Number of share options	
Expiry Date	**Range of exercise price**	**31 December 2016**	31 December 2015
10 years commencing from the date of the grant of options Pre-IPO share option scheme	RMB1.23	**75,020,000**	76,980,000
8 years commencing from the date of the commencement of options Share option scheme	HK$1 – HK$1.16	**27,060,000**	38,260,000

27. SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(ii) Outstanding share options (Continued)

The weighted average fair value of options granted during the year determined using the binomial valuation model was HK$0.34 per option (2015: HK$0.47).

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	
	2016	2015
Grant date share price (HK$)	**0.53 – 0.92**	1.16
Exercise price (HK$)	**1.00**	1.16
Expected volatility	**52% – 53%**	54%
Option life	**8 years**	8 years
Dividend yield	**3.53% – 6.13%**	2.80%
Risk-free interest rate	**1.30% – 1.92%**	1.52%
Annual post-vesting forfeit rate	**16.0% – 24.0%**	15.0% – 24.0%

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.

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.

27. SHARE-BASED PAYMENTS *(Continued)*

(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 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
At 1 January 2016	**36,801,567**	**—**	**36,801,567**
Granted	**(200,000)**	**200,000**	**—**
Vested and transferred	**—**	**—**	**—**
At 31 December 2016	**36,601,567**	**200,000**	**36,801,567**

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 2016 was HK$0.55 per share (equivalent to approximately RMB0.49 per share) (2015: HK$1.04 per share (equivalent to approximately RMB0.83 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:

	2016 RMB'000	2015 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	**7,200**	10,963
— Deferred income tax assets to be recovered within 12 months	**27,037**	27,760
	34,237	38,723
Deferred income tax liabilities:		
— Deferred income tax liability to be settled after more than 12 months	**(6,866)**	(8,030)
— Deferred income tax liability to be settled within 12 months	**(200)**	(399)
	(7,066)	(8,429)
Deferred income tax assets (net)	**27,171**	30,294

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

	2016 RMB'000	2015 RMB'000
At 1 January	**30,294**	6,017
Acquisition of a subsidiary	**—**	(1,935)
(Charged)/credited to profit or loss (Note 12)	**(3,123)**	26,212
At 31 December	**27,171**	30,294

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 RMB'000	Total RMB'000
At 1 January 2015	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
(Charged)/credited to profit or loss	2,867	436	(7,789)	(4,486)
At 31 December 2016	15,200	1,385	17,652	34,237

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 2015	(6,422)	(411)	—	(6,833)
Credited to profit or loss	—	206	133	339
Acquisition of a subsidiary	—	—	(1,935)	(1,935)
At 31 December 2015	(6,422)	(205)	(1,802)	(8,429)
Credited to profit or loss	958	205	200	1,363
At 31 December 2016	(5,464)	—	(1,602)	(7,066)

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.

29. DEFERRED INCOME TAX *(Continued)*

(a) As of 31 December 2016 and 2015, 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	2016 RMB'000	2015 RMB'000
2016	—	3,122
2017	**15,407**	15,407
2018	**16,824**	16,824
2019	**13,897**	15,193
2020	**11,364**	11,364
2021	**14,478**	—
	71,970	61,910

(b) As at 31 December 2016, the Group has unrecognised deductible temporary differences (including the advertising expenses incurred in excess of the maximum deductible caps as accumulated for the tax financial year from 2011 to 2016 and other accrued expenses of approximately RMB184,436,000 (2015: RMB94,652,000)), 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 as accumulated.

(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. Before 2015, 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 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 are planned to be reinvested in the Group's business operations in the PRC and hence no deferred income tax liabilities had been recognised in respect of these unremitted earnings.

As of 31 December 2016, the unremitted earnings of the aforesaid PRC subsidiaries have been reduced to approximately RMB54,640,000 due to their operating loss in 2016. Accordingly, the related deferred income tax liabilities of approximately RMB958,000 have been reversed during the year ended 31 December 2016.

30. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables based on their respective invoice and issue dates are as follows:

	2016 RMB'000	2015 RMB'000
0 – 90 days	**10,772**	7,447
91 – 180 days	**4,008**	130
	14,780	7,577

31. OTHER PAYABLES AND ACCRUED EXPENSES

	2016 RMB'000	2015 RMB'000
Advance from customers	**18,851**	31,963
Payroll and welfare payable	**24,576**	20,338
Accrued expenses	**26,294**	22,414
Accrued sales rebates	**30,349**	26,080
Taxes and surcharges payable	**13,441**	25,822
Payable to suppliers for:		
— purchases of property, plant and equipment	**316**	2,016
— Advertisement	**1,908**	2,330
Others	**5,440**	4,147
	121,175	135,110

32. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of (loss)/profit before income tax to cash (used in)/generated from operating activities

	2016 RMB'000	2015 RMB'000
Cash flows from operating activities		
(Loss)/profit before income tax	**(70,671)**	64,439
Adjustments for:		
Amortisation of land use rights	**9,064**	8,884
Amortisation of intangible assets	**1,476**	911
Depreciation of property, plant and equipment	**32,178**	26,741
Depreciation of investment properties	**2,062**	4,481
Reversal of impairment of property, plant and equipment	**—**	(28,507)
Interest income	**(7,473)**	(15,288)
(Gain)/loss on disposals of land use rights and property, plant and equipment	**(2,514)**	233
Amortisation of deferred government grants	**(786)**	(786)
Provision for impairment of trade receivables	**201**	3
Share-based compensation	**2,169**	6,274
Negative goodwill on acquisition of a subsidiary	**—**	(146)
Foreign exchange gain, net	**(882)**	(324)
Share of losses from investments accounted for using the equity method	**2,997**	—
Operating cash flows before movements in working capital	**(32,179)**	66,915
Increase in inventories	**(16,532)**	(998)
(Increase)/decrease in trade and bills receivables	**(14,301)**	4,285
Decrease in deposits, prepayments and other receivables	**10,872**	11,087
Increase/(decrease) in trade and bills payables	**3,203**	(8,415)
Decrease in other payables and accrued expenses	**(4,740)**	(9,098)
(Decrease)/increase in other non-current liabilities	**(302)**	5
Cash (used in)/generated from operations	**(53,979)**	63,781

32. CASH GENERATED FROM OPERATIONS *(Continued)*

(b) In the statement of cash flows, proceeds from sale of land use rights and property, plant and equipment comprise:

	2016 RMB'000	2015 RMB'000
Net book amount (Notes 14 and 15)	**6,011**	308
Gain/(loss) on disposals of land use right and property, plant and equipment	**2,514**	(231)
Proceeds from disposals of land use right and property, plant and equipment	**8,525**	77

(c) Major non-cash transactions

During the year ended 31 December 2016, bills receivables of RMB35,075,000 (2015: RMB45,941,000) have been endorsed to certain suppliers as the settlement of purchases of raw materials and advertisement costs.

33. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Interim dividend paid for the current year, of Nil (2015: HK$1.25 cents) per ordinary share	**—**	15,715
Special dividend paid for the previous year, of HK$5 cents (2015: Nil) per ordinary share	**63,591**	—
Final dividend paid for the previous year, of HK$5 cents (2015: HK$2 cents) per ordinary share	**64,378**	24,178
	127,969	39,893

The Board has resolved not to declare any final dividend for the year ended 31 December 2016.

34. CONTINGENCIES

As at 31 December 2016 and 2015, 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:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	**8,442**	28,674

(b) Operating lease commitments

The Group as leasee

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

	2016 RMB'000	2015 RMB'000
No later than 1 year	**1,105**	1,271
Later than 1 year and no later than 5 years	**353**	82
	1,458	1,353

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

36. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On 2 September 2016, the Group acquired the remaining 20% of the equity interests of Guangzhou Runliang Pharmaceutical Co., Ltd. ("Runliang"), a subsidiary of the Group for a purchase consideration of RMB10,000,000. The carrying amount of the non-controlling interests on the date of acquisition was approximately RMB108,000. The Group recognised a decrease in non-controlling interests of approximately RMB108,000 and a decrease in equity attributable to owners of the Company of approximately RMB9,892,000. The effect of changes in the ownership interests of the Group on the equity attributable to owners of the Company during the year is summarised as follows:

	2016 RMB'000
Carrying amount of non-controlling interests acquired	**108**
Consideration paid to non-controlling interests	**(10,000)**
Excess of consideration paid recognised within equity	**(9,892)**

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:

	2016 RMB'000	2015 RMB'000
Salaries, bonus and other allowances	**9,647**	10,404
Share-based compensation	**1,096**	1,795
Pension cost — defined contribution plan	**244**	227
	10,987	12,426

38. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

For the year ended 31 December 2016:

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
Executive directors:					
Zhao Yihong	**205**	**2,770**	**371**	**47**	**3,393**
Gao Yan	**205**	**2,244**	**93**	**47**	**2,589**
	410	**5,014**	**464**	**94**	**5,982**
Non-executive directors:					
Zhuo Fuming	**205**	**—**	**56**	**—**	**261**
Zhang Guimei	**205**	**—**	**—**	**—**	**205**
	410	**—**	**56**	**—**	**466**
Independent non-executive directors:					
Huang Jingsheng	**205**	**—**	**56**	**—**	**261**
Ren Guangming	**205**	**—**	**56**	**—**	**261**
Wang Jing (Note a)	**165**	**—**	**—**	**—**	**165**
He Yuanping (Note b)	**41**	**—**	**—**	**—**	**41**
	616	**—**	**112**	**—**	**728**
	1,436	**5,014**	**632**	**94**	**7,176**

38. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2015:

Name	Fees	Salaries, bonus and other allowances	Share-based payments	Employer's contribution to a retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Zhao Yihong	192	2,712	623	61	3,588
Gao Yan	192	2,059	156	61	2,468
	384	4,771	779	122	6,056
Non-executive directors:					
Zhuo Fuming	192	—	94	—	286
Zhang Guimei (Note c)	56	—	—	—	56
	248	—	94	—	342
Independent non-executive directors:					
Huang Jingsheng	192	—	94	—	286
Ren Guangming	192	—	94	—	286
Wang Jing	192	—	94	—	286
	576	—	282	—	858
	1,208	4,771	1,155	122	7,256

Notes:

(a) Mr. Wang Jing was resigned as a non-executive Director of the Company in October 2016.

(b) Mr. He Yuanping was appointed as an independent non-executive Director of the Company in October 2016.

(c) Ms. Zhang Guimei was appointed as a non-executive Director of the Company in September 2015.

During the year ended 31 December 2016, no directors waived or agree to waive any emoluments (2015: Nil).

39. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**211,268**	209,099
Loans to subsidiaries	**849,290**	1,021,164
	1,060,558	1,230,263
Current assets		
Deposits, prepayments and other receivables	**21,861**	18,716
Cash and cash equivalents	**49,028**	8,732
	70,889	27,448
Total assets	**1,131,447**	1,257,711
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**86**	89
Share premium	**1,055,961**	1,229,764
Other reserves	**33,845**	31,676
Retained earnings/(accumulated losses)	**40,525**	(11,224)
Total equity	**1,130,417**	1,250,305
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	**1,030**	7,406
Total liabilities	**1,030**	7,406
Total equity and liabilities	**1,131,447**	1,257,711

The balance sheet of the Company was approved by the Board of Directors on 10 March 2017 and was signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

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

Reserve movement of the Company

		Other reserves					
	Share premium RMB'000	Share-based payment reserve RMB'000	Capital redemption reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Total other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
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
At 1 January 2016	**1,229,764**	**55,388**	**6**	**(23,718)**	**31,676**	**(11,224)**	**1,250,216**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**51,749**	**51,749**
Share-based payments under share option scheme and restricted share award scheme	**—**	**2,169**	**—**	**—**	**2,169**	**—**	**2,169**
Repurchase and cancellation of shares	**(45,834)**	**—**	**—**	**—**	**—**	**—**	**(45,834)**
Dividends	**(127,969)**	**—**	**—**	**—**	**—**	**—**	**(127,969)**
At 31 December 2016	**1,055,961**	**57,557**	**6**	**(23,718)**	**33,845**	**40,525**	**1,130,331**

40. EVENT AFTER THE BALANCE SHEET DATE

- On 10 March 2017, the Company entered into a share subscription agreement with certain individuals and a company (collectively, the "**Subscribers**"), pursuant to which the Subscribers conditionally agree to subscriber for, and the Company conditionally agreed to issue and allot 165,000,000 shares (the "**Subscription Shares**") at HK$0.5 per share subject to a lock-up period of 1 year.

- On 10 March 2017, Beijing Outsell entered into an equity transfer agreement with Zhonghang Tuohong (Xi'an) Property Co., Ltd. (the "**Zhonghang Tuohong**") and Besunyen Food and Beverage, pursuant to which (i) Beijing Outsell agreed to dispose of its entire 100% equity interest in Besunyen Food and Beverage to Zhonghang Tuohong at an aggregate consideration of RMB75,000,000 (the "**Disposal**"); and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell. Upon completion of the equity transfer, Besunyen Food and Beverage will cease to be a subsidiary of the Company and management estimated that the Disposal will not result in any loss to the Group.

- On 10 March 2017, Beijing Outsell, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (the "**Zhongshan Wanyuan**"), Zhongshan Wanhan Pharmacy Co., Ltd. (the "**Zhongshan Wanhan**"), and the respective shareholders of Zhongshan Wanyuan and Zhongshan Wanhan (collectively the "**Sellers**") entered into an investment agreement (the "**Investment Agreement**"), pursuant to which: (1) Beijing Outsell conditionally agreed to purchase 39.66% equity interest in Zhongshan Wanhan from the Sellers at a total consideration of RMB77,100,000 (the "**Equity Transfer**"); and (2) Beijing Outsell conditionally agreed to make capital contribution in cash to each of Zhongshan Wanyuan and Zhongshan Wanhan in the total sum of RMB60,600,000. Upon completion the Investment Agreement, Beijing Outsell will own 51% equity interest in each of Zhongshan Wanyuan and Zhongshan Wanhan.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Turnover	475,182	487,500	563,888	662,805	**514,749**
Gross profit	392,119	406,103	475,281	594,237	**425,520**
Operating (loss)/profit	(286,409)	(93,623)	44,530	64,439	**(70,671)**
(Loss)/gain on disposal of a subsidiary	(6,700)	—	9,977	—	**—**
Impairment loss recognised in respect of intangible assets	(8,844)	(3,323)	—	—	**—**
Impairment loss recognised in respect of property, plant and equipment	(41,744)	—	—	—	**—**
Reversal of impairment of property, plant and equipment	—	—	—	28,507	**—**
(Loss)/profit before income tax	(343,697)	(96,946)	54,507	64,439	**(70,671)**
Investment losses accounted for using the equity method	—	—	—	—	**(2,997)**
(Loss)/profit and total comprehensive (loss)/income for the year	(342,187)	(89,976)	45,035	88,214	**(74,566)**
(Losses)/earnings per share (RMB)					
Basic	(0.22)	(0.06)	0.03	0.06	**(0.05)**
Diluted	(0.22)	(0.06)	0.03	0.06	**(0.05)**

CONSOLIDATED BALANCE SHEET

	At 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Non-current assets	833,836	826,579	825,140	878,932	**919,599**
Net current assets	417,255	340,572	372,747	383,255	**87,034**
Total assets less current liabilities	1,251,091	1,167,151	1,197,887	1,262,187	**1,006,633**
Non-current liabilities	15,581	15,809	14,852	16,452	**17,101**
Net assets	1,235,510	1,151,342	1,183,035	1,245,735	**989,532**
Share capital	89	89	89	89	**86**
Reserves	1,235,421	1,151,253	1,182,946	1,239,686	**989,446**
	1,235,510	1,151,342	1,183,035	1,239,775	**989,532**
Non-controlling interests	—	—	—	5,960	**—**
Total equity	1,235,510	1,151,342	1,183,035	1,245,735	**989,532**

碧生源控股有限公司
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