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

2017

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 and medicines. By tagging along with the concept of "herbal, healthy, quality functional tea", the Group started to produce Besunyen Detox Tea and Besunyen Slimming Tea (previously known as "碧生源牌減肥茶") (collectively, the "**Two Teas**") in 2000, and for the last 17 years, has dedicated itself 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 2017, the Two Teas recorded an accumulated sales volume of over 4.6 billion bags, with an accumulated sales amount of over RMB5.94 billion. Since April 2015, the Group commenced cooperation with Zhejiang Hisun Pharmaceutical Co., Ltd. ("**Hisun Pharmaceutical**") to sell LARLLY Orlistat slimming medicine. In October 2017, the Group acquired Zhongshan Wanhan Pharmacy Co., Ltd. ("**Zhongshan Wanhan**") and Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("**Zhongshan Wanyuan**", together "**Zhongshan Wanhan and Wanyuan**"), for the research and development, production and sales of medicines such as Besunyen Orlistat, 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 their launch, LARLLY Orlistat and Besunyen Orlistat slimming medicine have been highly praised among consumers.

According to the latest report issued by China Southern Medicine Economy Research Institute ("**SMERI**"), the market share of the Group's core products, the Two Teas, maintained a leading position for several consecutive years. During 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 14.55%; and that of Besunyen Slimming Tea accounted for 31.86%, 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's Two Teas 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 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 100,000 grade clean areas furnished with temperature and humidity monitoring. In the garden-like plant featured by a beautiful environment, hygiene, process, technology, procedure and management 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 2017, the sales teams of the Group spanned across 31 provinces, autonomous regions and municipals across the country. The Group had a total of 83 distributors and 366 sub-distributors for the Two Teas and LARLLY Orlistat. The whole sales team served about 96,000 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 leading position of the Group's products in the industry.

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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Zhuo Fumin
Ms. Zhang Guimei

Independent Non-executive Directors

Mr. Huang Jingsheng
Mr. 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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Corporate Information

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Chairman and CEO's Report

"For 17 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 market. During the reporting period, the Group has continuously adhered to "One Focus and Two Dimensions" as the guideline for its business 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 in the areas 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 development opportunities arising from the big health industry, enhancing the corporate competitive advantages, strengthening the competitive position of Besunyen in the industry and hence bringing more profit to 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 2017.

In 2017, China's overall economy showed favourable signs amid the steady growth trend. The healthcare product industry was affected by the constant rising production and environmental protection costs and was under multi-layered pressure from, among others, the Two-Invoice System. With intensifying industrial competition in the market, continuing reform of sales channels and consumers' ever increasing requirements for products, the difficulty of enterprises' overall business operation has been increased. On 13 July 2017, nine authorities including the Food Safety Office of the State Council jointly issued the Notice on Proposal to Rectify Fraudulent and False Advertising of Food and Health Food (《關於印發食品、保健食品欺詐和虛假宣傳整治方案的通知》), which clearly defined production operators' first-party liability in the publication of advertisements, increased the regulatory force on the health food industry, and raised higher requirements on the quality, safety and other requirements on health food.

The increased regulatory force on the health food industry presented both challenges and opportunities to the Group. The stringent regulatory system further regulates health food industry. For the past 17 years, the Group has been accountable to consumers and ensured the quality of each tea bag according to industrial requirements to bring about healthy value for consumers. Due to the effects of changing the Chinese name of Besunyen Slimming Tea (from "碧生源牌減肥茶" to "碧生源牌常菁茶") in 2016, the Group nevertheless faced huge challenges last year. To remodeling the brand image, it needs to go through a lengthy period of market cultivation and consumer awareness process. In 2017, the Group continued to increase its operating efficiency by increasing its investment in brand building, research and development and food safety, and actively adjusting its business operation mode and marketing strategy. In the past year, the Group strengthened the research and development team and devoted more resources in the development and introduction of new products. In 2017, a complete big health industry chain was gradually consummated by the continuous launch of new products, which provided a solid foundation for the future development of the Group.

Revenue of the Group in 2017 was RMB542.9 million, representing an increase of 5.5% from RMB514.7 million in 2016. Gross profit increased by 1.1% to RMB430.2 million in 2017 from RMB425.5 million in 2016. Meanwhile, gross profit margin dropped from 82.7% in 2016 to 79.2% in 2017. On the other hand, total operating expenses of the Group (including selling and marketing expenses, administrative expenses and research and development costs) in 2017 were RMB462.5 million, representing a decrease of 10.7% from RMB517.9 million in 2016. The Group recorded a total comprehensive income of RMB5.3 million for 2017, compared to the total comprehensive loss of RMB74.6 million for 2016.

INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute leading brand advantages when competing with similar products in the market. According to a survey report on national retail pharmacies issued by SMERI in March 2018, based on the retail sales of healthcare products, medicines or other types of products sold through retail pharmacies, Besunyen Slimming Tea continued to rank top in the market segment of slimming products for eight consecutive years, enjoying a market share of 31.86% in 2017, representing a year-on-year decrease of 0.47 percentage points. The 2017 market share of Besunyen Detox Tea in the market segment of laxative products was 14.55%, though representing a year-on-year decrease of 2.87 percentage points, it still ranked top for the tenth consecutive year. LARLLY Orlistat topped the list for the market segment of slimming medicines, with its market share of 53.82% out of the top five slimming medicine brands in 2017, representing a year-on-year decrease of 5.65 percentage points.

BUSINESS REVIEW

2017 was the 17th anniversary of the Group since its establishment, and the 8th year of the listing of the shares of the Company. In 2017, the Group continued to focus on the exploration of new products, new customer base and new areas, and continued its devotion to OTC chains and terminals. While maintaining the stable development of the Two Teas, the Group upheld the strategic guideline of "One Focus and Two Dimensions" and released new products such as Besunyen Orlistat Capsules and Mei Yang Yang Glycerol Enema to help the Group develop new growth drivers to boost the sales growth of the Group's products. Meanwhile, the Group expanded its product portfolio. Given the research capabilities and product reserve brought in by the acquisitions of Zhongshan Wanhan and Wanyuan, it continued to provide more products for sale, and to help the Group to achieve higher growth in all fields in future. As a modern company that engages in the production, research and development and sale of drugs, Zhongshan Wanhan and Wanyuan has been cooperating with a number of local and overseas research facilities and higher education institutions for years, and their products have obtained approval for drug production and the new GMP certification. The Group takes advantage of the research and development capabilities of Zhongshan Wanhan and Wanyuan to gain strategic leverage after integrating complementary resources in an effort to set a new benchmark in the industry.

Concentrating on "One Focus and Two Dimensions" Strategy to Enhance Product Competitiveness

Expanding product line and optimising product structure

In 2017, the Group added L-carnitine coffee powder drink, three flavours of nutritious meal replacement milkshake powder drink (strawberry and cranberry flavour, walnut and almond flavour, pumpkin and taro flavour) and Besunyen Orlistat Capsules to its weight management product line. Besunyen Orlistat Capsules are produced by Zhongshan Wanhan, and officially went on sale in October 2017. Orlistat is the only OCT drug for obesity treatment in the PRC, and the OTC drug available to treat obesity with the approval of FDA in the U.S., EMA in EU and CFDA in the PRC. Besunyen Orlistat Capsules employ all-natural microbial fermentation technology, takes effect quickly, and comes in a splendid tin box. Capitalising on the extensive sales channels of the Group and the research and development capabilities of Zhongshan Wanhan and Wanyuan, Besunyen Orlistat Capsules have been well received by consumers since their launch. This represented a major step of the Group to expand its business to the pharmaceutical industry.

For the intestine management product line, the Group launched fruit and vegetable composite enzyme powder drink and Mei Yang Yang Glycerol Enema in 2017. At present, the Group carries an array of weight management product offerings comprising "OTC drug LARLLY Orlistat and Besunyen Orlistat" + "Health food Besunyen Slimming Tea and Besunyen Xian Xian Tea" + "Common food nutritious meal replacement milkshake and L-carnitine coffee"; an array of intestine healthcare product offerings comprising "OTC drug Mei Yang Yang Glycerol Enema" + "Health food Besunyen Detox Tea" + "Common food probiotic powder and fruit and vegetable composite enzyme powder".

Enhancing R&D capabilities of medicines and consummating big health product chain

Leveraging the R&D capabilities of Zhongshan Wanhan and Wanyuan in the pharmaceutical area, the Group continues to reserve new products and consummates the medicine product chain in the pharmaceutical industry. Based on the in-depth analysis of product types, precise function and market positioning of products, series of product positioning solutions have been established. In the slimming drug sector, Besunyen Orlistat Capsules produced by Zhongshan Wanhan were successfully released and well received by consumers. Meanwhile, the Group continues to add slimming products according to market needs. Orlistat chewable tablets under development are hoped to become a new domestic form of Orlistat featuring easier intake, lower dose and fewer side effects; the second generation of Orlistat — new Orlistat tablets is also at the research and development stage, with similar weight losing results as Orlistat Capsules but milder adverse gastrointestinal reactions. Following the further expansion of Orlistat product series, the Group will gradually realise overall growth in the slimming drug sector.

Zhongshan Wanhan and Wanyuan integrates the market positioning and clinical conditions of drugs, pays attention to the front line of international pharmaceutical research, studies new formulations and new indications in depth, discovers the clinical value of drugs with modern techniques, and realises the potential of drugs based on precise clinical positioning. In February 2017, Zhongshan Wanhan obtained production approval for its domestically exclusive formulation of povidone iodine membrane, and has now completed the GMP certification for such type of product and launched the product. The therapeutic effect of povidone iodine membrane on vulvovaginal candidiasis is equivalent to traditional suppositories, but the dose is only half of a suppository and the membrane is soluble in water, so its safety and convenience features are better than suppositories. Furthermore, according to related news report, the antidepressant medication market in the PRC expands at a faster pace and the clinical demand for antidepressants grows year by year. With the clinical approval of vortioxetine hydrobromide tablet developed by Zhongshan Wanhan and Wanyuan, Zhongshan Wanhan and Wanyuan has achieved considerable results in the antidepressant area. Vortioxetine hydrobromide tablet is used to treat severe depression and its effect is equivalent to mainstream medications, but as it is safer than its predecessors and does not lead to treatment-related weight loss, it offers a safer alternative to depression patients. Meanwhile, Zhongshan Wanhan and Wanyuan has carried out in-depth pharmacodynamic and clinical studies on trelagliptin succinate, sodium hyaluronate and polyvinyl alcohol eye drops, providing a sound scientific research foundation for future product cultivation and promotion.

Innovating Branding and Marketing Strategies to Fuel Brand Vitality

Integrating quality media resources to build a closed media marketing loop

In 2017, the Group integrated media resources with the Two Teas as the core. Our brand was endorsed by working with CCTV's Mid-Autumn Festival Evening（《中秋晚會》）and Gourmet Turntable（《食尚大轉盤》）to enhance brand recognition. The Group's products were also incorporated in Yunnan TV's Chinese Love Songs（《中國情歌匯》）and Zhejiang TV's Go Up, Poetry!（《向上吧詩詞》）to activate young consumers through soft placement in a variety of programmes with high exposure. Moreover, the Group placed advertisements in High-speed Rail and OTT to build a closed media marketing loop in order to penetrate specific regions and focus on key markets to gain effective consumer coverage through mutual complementation and stereo dissemination.

Forging a national brand and passing on craftsmanship

Besunyen's trailer, Besunyen Detox Tea's defaecation TV commercial and Besunyen's 20-minute feature video were aired in Innovative China: Craftsmanship — Wealth and Inheritance（大國創新—《工匠精神—財富與傳承》）, a special programme of CCTV2 Finance Channel and CCTV Securities Channel, which showcased the Group's innovation and development footprint in the context of national policies and the times. Besunyen's "craftsmanship" instilled in each product was embodied in the history of the brand; its appreciation of social responsibility and desire for national rejuvenation were felt in the fine details of its products.

Expanding Promotion Channels through New Media Marketing

In 2017, the Group provided a title sponsorship for We Are 17 (《我們十七歲》), a variety show of Tencent. With a viewership in excess of 100 million for Besunyen commercials, the Group has successfully communicated with the consumers that the official change of Chinese product name of Besunyen Slimming Tea to "碧生源牌常菁茶" is for the purpose of brand rejuvenation. This was also in line with the communications theory that calls for identification with consumer groups and their preferences. Through high-density and multi-form of placement of terminal materials with the aid of systematic education to shop assistants, the message behind the change of name was disseminated to consumers, so that the brand was revamped while consumers were being educated.

In view of the robust development of the mobile internet and the decreasing age of consumer groups, the Group has been actively trying out new promotion channels. From May 2017, three live broadcast shows — "A Visit to the Production Plant of Besunyen" ("走進碧生源工廠"), "Let Go of the Fat" ("放開那個肉肉") and "Mysterious Invitation from Besunyen — Unlocking the Secret Chamber of the Intestine" ("碧生源神秘邀請函之解鎖腸道密室") — have been gradually launched on the internet. The shows have generated an aggregate of approximately 30 million views and the number of new customers has increased substantially as a result. This innovative and exploratory attempt at new media marketing has enriched the Group's brand communication, enabling us to stay in tune with young consumers through more diversified approaches. We started to implement the live broadcast model on m.111.com.cn, our strategic partner, and then moved on in gradual transition to www.yizhibo.com ("一直播"), a popular live broadcast platform, through which we effectively tapped the Weibo population and gained direct access to millions of fans leveraging the "Internet Star" economy to assure basic viewership. The contents were increasingly attuned to younger audience with the imparting of a younger brand tone for Besunyen.

Video marketing innovated by micro-video clip No Discount on Life

On the eve of the e-commerce festival "Double 11", the Group joined hands with Jingdong to launch an innovative video clip titled No Discount on Life (《人生不打折》), which put an alternative interpretation on "discount" by extending the original meaning of "discount" on food prices to "discount" on the fine figure resulting from eating too much, and ultimately to the core value of no "discount" on the fine figure and no "discount" on life with the help of Besunyen. The creative video clip boasted a cast from the drama of the year In the Name of the People (《人民的名義》) and was filmed in a humorous and funny style that appealed to youngsters. It also ignited WeChat's Moments with H5, giving rise to a new marketing battleground. The campaign has been exposed to over 400 million persons and was listed on Weibo's hot keywords chart while setting a new record for Baidu Index. The Group also partnered with KOLs to customise the contents according to their understanding of their fans, then found target users from users' feedback and caught up on media channels, achieving an effective transmission to e-commerce.

Joining Hands with Academy Award and Sponsoring Besunyen Cup Advertising Contest

In March 2017, the Group obtained title sponsorship of the 15th Chinese University Students Advertisement Art Show Academy Award and held "Besunyen Cup" Advertising Contest. The contest spanned 31 provinces, cities and autonomous regions and involved 40 colleges and universities. 20 creative seminars and 21 off-site display sessions were held. The official proposition poster and strategy sheet covered more than 1,000 schools across the country. The contest was completed successfully with more than 143,300 sets of qualified works and more than 186,402 individual works. Through the zero-distance contact with university students, the contest has created a sound and profound brand reputation for Besunyen among the youth.

Simplifying and Refining Levels of Management to Further Enhance Management Efficiency

In 2017, the Group upgraded its business system and simplified its sales structure from a three-level hierarchy of "region-provincial office-area" to a two-layer body of "business unit-area", resulting in a structure with "13 business units + 49 areas". The new sales system expedited information circulation and enhanced management and decision-making efficiency, ensuring that the Group could quickly respond to market changes and thus reducing operational risks.

Innovating Talent Cultivation to Strengthen Sales Force

The Group adheres to the people-oriented philosophy and scientific talent view and has always regarded talent cultivation as the top priority for its development. In 2017, the Group focused on building a first-class sales force and selected outstanding employees through "little stars (with the aim of cultivating regional managers), iron triangles (with the aim of cultivating core front-line business employees) and mutual aid groups (with the aim of cultivating new employees)" for intensive training. Under the "iron triangle" operation model which aims to enhance the integrated capabilities of tailored front-line sales personnel, three persons form a team to fight cooperatively with the team members, resulting in greatly enhanced overall capabilities of the sales force. Following the implementation of the talent cultivation programme, a number of outstanding front-line management personnel and core employees have been promoted and rewarded, achieving the Group's talent management goal of "maximising the potential of a talent, making good use of the talent, and striving for success".

Building a New Marketing Model, Focusing on a Breakthrough in Chains, Recreating Strong Terminals

Fully mobilising the enthusiasm of sales force based on actual market conditions

In 2017, to better adapt to market changes, the Group proposed the strategy of "one tactic for one area, one proposal for one store, one solution for one corner, one battle for one point", which was significant to the smash of established concepts, liberation of the mindset of sales personnel, and encouragement of sales personnel to boldly strive for performance. The "four ones" strategy fully realised the flexibility and mobility of our sales force. Through reasonable delegation, our sales force was revitalised and the sales performance was further enhanced.

Getting through channels to continue to increase the strength and influence of the brand

In 2017, the Group innovated its marketing model and got through the channels by focusing on the "four circles" (channels, chains, stores, consumers) with the aim of increasing sales amount and volume, so that the Group's sales policy could reach terminals quickly. The Group adopted the approach of "one tactic for one area, one proposal for one store" for channel customers, chains and terminal stores and focused on the "two types of chains" through three meetings (kick-off meeting, discussion meeting, in-store meeting) to establish "key chains" and "pillbox stores", consolidated and developed the brand image and position of Besunyen's brand and products and LARLLY Orlistat in channels and terminals. This was well received and supported by channel customers, chains and individual terminal stores in various locations, providing a solid foundation for the promotion of the Group's products.

"Key chains" and "pillbox stores" to further increase sales

The Group customised precise marketing solutions according to the actual situation of local chains and recreated strong terminals by establishing an integrated relation with stores through the "iron triangle", which stimulated the sales of the "two types of chains" and detonated the entire group of chains, boosting overall sales in the market. Pillbox stores were established as model stores to attract consumers, stabilise the customer base and develop new customers, from point to area to increase the sales in the whole area. The "key chains" and "pillbox stores" strategies ushered in a stellar and continual increase in the sales of Besunyen Detox Tea, Besunyen Slimming Tea and LARLLY Orlistat in certain areas.

"Caravan" Set off Again to Explore Terminals and Revitalise the Market

In September 2017, the Group kicked off the "Caravan Sets off Again" campaign and the caravan stopped at six stations including Chengdu, Shaoxing, Luoyang Longmen, Jinan, Changsha and Xi'an in over 50 days. With the participation of almost 1,000 employees to help set up more than 4,000 terminal stores, more than RMB3 million of sales were realised. By pairing up two business departments, based on the data, system and talent platforms, and sticking to the sales, marketing, result, system and mutual success-oriented principle, cases, system, mutual assistance and new products were implemented, which opened up the channels and paved the path to the long-term development of the Group. The enthusiasm of all sales personnel was ignited to the maximum and team coordination and personal skills were enhanced.

Tmall Besunyen Flagship Store to Consummate Sales Channels and Boost Sales Amount

Tmall Besunyen flagship store was officially set up in November 2017, which had positive effect on the consummation and consolidation of sales of Besunyen products. Going forward, the Group will fully utilise the Besunyen flagship store to sell products of its own and other brands, and explore stable online OTC sales channels in order to further consolidate and boost the Group's overall sales performance.

Building an Efficient R&D Team at a Faster Pace and Fostering Research Collaboration to Enhance R&D Capabilities

In 2017, the Group recruited 1 doctor and 2 postgraduates to strengthen its R&D team. At present, teams specialised in pharmacology, analysis, formulation, process and technical regulations have been formed and obtained the certificate of "Beijing Municipal Enterprise Technology Research and Development Institute" in December 2017. The Group strengthened external collaboration by jointly establishing innovative laboratories with research facilities and enterprises and building raw herb materials plantation bases together, and is preparing to set up a technical team consisting of R&D consultants and experts to enhance R&D capabilities.

Apart from that, the Group also acquired Zhongshan Wanhan and Wanyuan in 2017. Leveraging on their advantages in the research and development of pharmaceuticals, the Group continuously built up new product reserve in the pharmaceutical industry and has optimised its pharmaceutical product chain.

Keeping up with Consumers' Needs and Exploiting E-commerce Channels to Build an E-commerce-oriented Enterprise

In the area of e-commerce, the Group kept up with consumers' needs and released new products continuously. 6 products were launched online in 2017. In the "2017 E-commerce Quality Fair and Golden Wheat Quality Awards", Besunyen Xian Xian Tea and Besunyen L-carnitine coffee received quality awards in healthcare and tea & beverages categories respectively. The Group cooperated with the fashion industry to customise IP products catering to young female users. In 2017, the Group shifted its e-commerce strategy from B2B to B2C. Riding on the trend of content-based e-commerce platforms such as Ali and Jingdong, the Group made its way towards the content-based e-commerce model that connected to consumers more closely from a pure e-commerce retail merchant. The e-commerce sales amount of Besunyen products as at the end of October 2017 had surpassed the e-commerce sales amount in the entire year of 2016. During the "Double 11" period in 2017, overall B2B and B2C sales amount of the Group reached RMB8.5 million and Tmall Besunyen official flagship store registered sales of RMB4.78 million; 15,000 new B2C customers were obtained and 29,000 orders were placed. Within 30 minutes from 00:00 on the day of "Double 11", the e-commerce platform registered sales of over RMB1 million, setting a new record in the history.

Social Welfare

The Group partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund" for conducting charity and public welfare activities including carrying out social assistance activities, providing services to the underprivileged and playing the complementary role of social security, which has optimised the path for the enterprise 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.

In September 2017, the Group co-organised the "Public Lecture on the Wisdom of Avoiding Cancer" and "The 2nd Top Ten Anticancer Heroes of China Selection Roadshow" to help the public eliminate false perceptions of cancer and guide the public to develop a healthy lifestyle, promote early diagnosis of cancer, and improve the living quality of patients.

The Group and China Green Carbon Foundation established a "Special Fund for Combating Illegal Trade in Endangered Wildlife", which aims to promote wildlife protection and law enforcement, and raise public awareness of and participation in wildlife conservation through various charitable programmes. In September 2017, the Group worked with China Green Carbon Foundation to initiate a charitable project named "Be a Snow Leopard Photographer" to support the much-needed study on the survival status of snow leopards in Changtang, Tibet. The Group also raised a donation for this charity project, which supported the implementation and landing of the project.

Awards and Honours

Winning outstanding social responsibility enterprise award

At the 2017 China Social Responsibility Public Welfare Ceremony held on 6 December 2017, the Group received the "2017 China Social Responsibility Outstanding Enterprise Award". Over the years, the Group has actively taken part in various social undertakings and provided dedicated funds for the establishment of "Besunyen Special Charity Fund". The Group has always placed integrity and social contribution at the heart of its business philosophy, and regarded shareholders, customers, employees and social responsibility as the key to its sustainable development. The Group believes that a small charitable act can have a huge effect on society.

OUTLOOK

Macro-economy

According to the publication of the National Bureau of Statistics, China's economy showed favourable signs amid the steady growth trend in 2017. The successful hold of the 19th National Congress of the Communist Party of China boosted the confidence of local and international communities in China's economic development.

Corporate profitability picked up, market expectations rose, and balance of payments was largely kept in check. The big health industry will continue to grow at a fast pace and become one of the key industries leading the PRC industrial transformation.

Supporting Front-line Sales Platform, Enriching Product Line, Continuing to Focus on Sales

The Group will use the new sales system to further improve management efficiency and support front-line sales personnel. The Group will continue to focus on the development of new products, new users and new areas and to explore OTC chains and terminals. The Group aims at expanding its product range and promoting higher growth in various areas by introducing new products through self-development and outsourced processing.

Ongoing Development of E-commerce Platform to Build a Younger Content-based E-Commerce Platform

The Group will continue to develop its e-commerce platform as the focus of its channel strategic development, revamp the visual effect of its e-commerce platform to give users a new visual experience, make the brand younger and bring it closer to internet users, and use internet language to resonate with consumers. Through continuous e-commerce promotion efforts, the Group will make its way further towards the content-based e-commerce model that connects to consumers more closely from a pure e-commerce retail merchant.

Innovating Branding and Marketing Strategies to Fuel Brand Vitality

The Group will continue to integrate premium media resources with the Two Teas as the core, and activate young consumers through soft placement in a variety of programmes with high exposure. In view of the development trend of mobile internet, the Group will continue to try out new promotion channels, and make use of new media marketing to radiate the younger vibes of the brand. In addition, the Group will continue to explore the marketing model of traditional media + new media to build a closed media marketing loop, focus on key markets, and make use of the mutual complementary feature of traditional and new media and stereo dissemination to develop new growth drivers for the Group's revenue.

Continuous Optimisation of Product Structure to Enhance Market Competitiveness

According to the product strategy of "One Focus and Two Dimensions", the Group will continue to focus on the development of new herbal products and embark on new healthcare herbal food products with effects such as weight reducing, throat clearing, immunity enhancing, fatigue relieving or adjuvant therapeutic effects on chemical liver injury. Given the research capabilities and product reserve of Zhongshan Wanhan and Wanyuan, the Group will continue to optimise its product structure and consummate its overall position in the pharmaceutical, healthcare products and big health industry.

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 2017!

Chairman and CEO
ZHAO Yihong

Hong Kong, 14 March 2018

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	
	2017	2016
	RMB'000	RMB'000
Revenue	**542,870**	514,749
Cost of sales	**(112,677)**	(89,229)
Gross profit	**430,193**	425,520
Other income	**28,645**	40,736
Selling and marketing expenses	**(339,684)**	(428,415)
Administrative expenses	**(106,921)**	(76,964)
Research and development costs	**(15,866)**	(12,570)
Other expenses	**(9,665)**	(10,912)
Other losses, net	**(3,305)**	(5,069)
Finance costs	**(180)**	—
Share of profit/(losses) of investments accounted for using the equity method	**9,599**	(2,997)
Loss before income tax	**(7,184)**	(70,671)
Income tax credit/(expense)	**12,465**	(3,895)
Profit/(loss) for the year	**5,281**	(74,566)
Profit/(loss) attributable to:		
— Owners of the Company	**4,086**	(68,714)
— Non-controlling interests	**1,195**	(5,852)
	5,281	(74,566)
Other comprehensive income	**—**	—
Total comprehensive income/(loss) for the year	**5,281**	(74,566)
Total comprehensive income/(loss) attributable to:		
— Owners of the Company	**4,086**	(68,714)
— Non-controlling interests	**1,195**	(5,852)
	5,281	(74,566)

REVENUE

	For the year ended 31 December			
	2017		2016	
	RMB'000	**Percentage of total**	RMB'000	Percentage of total
Revenue:				
Besunyen Detox Tea	**225,764**	**41.6%**	189,129	36.7%
Besunyen Slimming Tea*	**215,975**	**39.8%**	209,292	40.7%
Slimming medicines	**62,694**	**11.5%**	93,466	18.2%
Other products and medicines	**38,437**	**7.1%**	22,862	4.4%
Total	**542,870**	**100.0%**	514,749	100.0%

In 2016, the revenue was RMB514.7 million and the revenue in 2017 increased by 5.5% to RMB542.9 million. Among these, the revenue of Besunyen Detox Tea increased by 19.4%, from RMB189.1 million in 2016 to RMB225.8 million in 2017, while the sales volume increased from 125.9 million tea bags in 2016 to 151.7 million tea bags in 2017. The revenue of Besunyen Slimming Tea increased by 3.2%, from RMB209.3 million in 2016 to RMB216.0 million in 2017, while the sales volume increased from 147.6 million tea bags in 2016 to 151.4 million tea bags in 2017. The revenue of the slimming medicine, Orlistat, decreased by 32.9%, from RMB93.5 million in 2016 to RMB62.7 million in 2017.

The average selling price of Besunyen Detox Tea and Besunyen Slimming Tea in 2016 were RMB1.50 and RMB1.42 per bag respectively, and were RMB1.49 and RMB1.43 pre bag respectively in 2017. The average selling price of Besunyen Detox Tea slightly decreased by 0.7% and the average selling price of Besunyen Slimming Tea slightly increased by 0.7%.

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			
	2017		2016	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Cost of sales	**112,677**	**20.8%**	89,229	17.3%
Gross profit	**430,193**	**79.2%**	425,520	82.7%

The Group's cost of sales increased by 26.3% from RMB89.2 million in 2016 to RMB112.7 million in 2017. Cost of sales as a percentage of revenue increased from 17.3% in 2016 to 20.8% in 2017. The increase in the cost of sales as a percentage of revenue was mainly due to the relatively higher cost of sales as a percentage of revenue for newly acquired companies.

Revenue increased by 5.5% and cost of sales increased by 26.3% in 2017 as compared with 2016, the gross profit of the Group increased by 1.1% from RMB425.5 million in 2016 to RMB430.2 million in 2017. Gross profit margin of the Group decreased from 82.7% in 2016 to 79.2% in 2017.

OTHER INCOME

In 2017, the Group's other income mainly comprised interest income of RMB1.3 million (2016: RMB7.5 million), government grants of RMB5.2 million (2016: RMB13.5 million) provided by the PRC government to support the Group's operation of business, and rental income from investment properties of RMB22.0 million (2016: RMB19.2 million).

SELLING AND MARKETING EXPENSES

	For the year ended 31 December			
	2017		2016	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising costs	**99,753**	**18.4%**	159,994	31.1%
Marketing and promotional expenses	**108,218**	**19.9%**	118,111	22.9%
Employee benefit expenses	**98,902**	**18.2%**	113,682	22.1%
Others	**32,811**	**6.1%**	36,628	7.1%
Total	**339,684**	**62.6%**	428,415	83.2%

Selling and marketing expenses of the Group decreased by 20.7% from RMB428.4 million in 2016 to RMB339.7 million in 2017.

The advertising costs in 2017 recorded a decrease of 37.7% as compared with 2016, mainly due to the decrease in advertising costs as incurred in traditional television media.

The marketing and promotional expenses in 2017 recorded a decrease of 8.4% as compared with 2016, mainly due to more promotional campaigns incurred in 2016.

The employee benefit expenses for 2017 recorded a decrease of 13.0% as compared with 2016, mainly due to the flat management of the Group's sales structure, optimised personnel structure and reduced headcount in 2017.

ADMINISTRATIVE EXPENSES

	For the year ended 31 December			
	2017		2016	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Employee benefit expenses	**40,432**	**7.5%**	28,601	5.6%
Office expenses	**5,892**	**1.1%**	6,709	1.3%
Professional service fees	**28,440**	**5.2%**	16,616	3.2%
Entertainment and travelling expenses	**6,642**	**1.2%**	6,571	1.3%
Others	**25,515**	**4.7%**	18,467	3.6%
Total	**106,921**	**19.7%**	76,964	15.0%

The administrative expenses of the Group increased by 38.8% from RMB77.0 million in 2016 to RMB106.9 million in 2017. Administrative expenses as a percentage of revenue increased from 15% in 2016 to 19.7% in 2017, mainly due to the increases in staff dismissal costs and professional fees related to human resources consultation, investment and financing incurred by the Group in 2017.

RESEARCH AND DEVELOPMENT COSTS

	For the year ended 31 December			
	2017		2016	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**15,866**	**2.9%**	12,570	2.4%

The Group's research and development costs increased by 26.2% from RMB12.6 million in 2016 to RMB15.9 million in 2017. Research and development costs as a percentage of revenue increased from 2.4% in 2016 to 2.9% in 2017, mainly due to the consolidation of the post-acquisition research and development costs of the newly acquired companies, Zhongshan Wanhan and Wanyuan.

TAXATION

Income tax credit of the Group in 2017 was RMB12.5 million whereas in 2016 was an income tax expense of RMB3.9 million. The income tax credit in 2017 was mainly attributable to the recognition of deferred income tax for certain deductible temporary differences by the Group.

THE GROUP'S TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR

Due to the aforementioned factors, the total comprehensive income for the year was RMB5.3 million (2016: total comprehensive loss of RMB74.6 million).

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 2017 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	150,000	—
Total	1,033,183	1,033,183	—

LIQUIDITY AND CAPITAL RESOURCES

In 2017, 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 and issue of shares.

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	
	2017	2016
	RMB'000	RMB'000
Net cash used in operating activities	**(738)**	(44,623)
Net cash used in investing activities	**(102,608)**	(54,427)
Net cash from/(used in) financing activities	**31,152**	(173,806)
Net decrease in cash and cash equivalents	**(72,194)**	(272,856)
Effects of changes in exchange rate on cash and cash equivalents	**(2,457)**	882
Net decrease in cash and cash equivalents	**(74,651)**	(271,974)

In 2017, the Group's net cash used in operating activities was RMB0.7 million (2016: RMB44.6 million). The difference was primarily due to the reduced loss for the year of 2017 as compared with year 2016. In 2017, the net cash used in investing activities of the Group was RMB102.6 million (2016: RMB54.4 million). The net cash used in investing activities in 2017 mainly comprised of the net cash outflow (net of cash acquired) of RMB81.4 million for the acquisitions of Zhongshan Wanhan and Wanyuan, Zhuhai Kangbaina Pharmaceutical Co., Ltd. ("**Kangbaina**"), Zhuhai Aolixin Pharmaceutical Co., Ltd. ("**Aolixin**"), as well as RMB19.6 million for the further capital injection to the joint venture, Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) ("**Yuanyuan Liuchang Fund**"). In 2017, the net cash from financing activities of the Group was RMB31.2 million (2016: net cash used in the financing activities of RMB173.8 million). The net cash from financing activities in 2017 mainly comprised the proceeds from the issue of new shares, while the net cash used in financing activities in 2016 primarily comprised the settlement of dividends and the payments for the repurchase of shares.

BANK BALANCES, CASH AND BANK BORROWINGS

The Group's bank balances and cash, comprising cash and cash equivalents, bank deposits with initial term of over three months and restricted bank deposits, decreased by 47.2% from RMB157.8 million as at 31 December 2016 to RMB83.3 million as at 31 December 2017. Meanwhile, the Group has a bank borrowing of RMB20.0 million as at 31 December 2017 (31 December 2016: Nil).

CAPITAL EXPENDITURE

In 2017, cash payments for capital expenditure of the Group amounted to RMB30.9 million (2016: RMB34.2 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	
	2017	2016
	RMB'000	RMB'000
Property, plant and equipment	**25,288**	32,294
Intangible assets	**5,562**	1,912
Total	**30,850**	34,206

INVESTMENT PROPERTIES

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

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Investment properties	**48,881**	55,632

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. In 2017, the Group has obtained all property ownership certificates for its buildings in the PRC. The Group will not put all units of these properties into full use and has leased the unused units to independent third parties until the Group needs to recover such units for business expansion in the future. The properties held for lease are classified as investment properties.

As at 31 December 2017, carrying values of the investment properties amounted to RMB48.9 million (2016: RMB55.6 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 2017, 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 values of such investment properties.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Investments accounted for using the equity method	**96,112**	66,933

As at 31 December 2017, the carrying value of the Group's investments in the joint ventures, Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. and the Yuanyuan Liuchang Fund, was RMB92.2 million, and the carrying value of the Group's investment in the associate, Yunzhi Besunyen Pharmaceutical Co., Ltd., was RMB3.9 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 of the Group as of the dates as indicated:

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials and packaging materials	**7,969**	3,816
Work in progress	**1,803**	1,028
Finished goods	**7,914**	17,876
Total inventories	**17,686**	22,720

The turnover days of the Group's inventories in 2017 (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 year) was 64 days (2016: 59 days).

RISKS IN FOREIGN EXCHANGE RATE

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

For the year ended 31 December 2017, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2016: Nil).

MATERIAL ACQUISITION OR DISPOSAL

On 10 March 2017 and 25 July 2017, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**") entered into the equity transfer agreement and its supplementary agreement with Zhonghang Tuohong (Xi'an) Property Co., Ltd, an independent third party, ("**Zhonghang Tuohong**") and Beijing Besunyen Food and Beverage Co., Ltd. ("**Besunyen Food and Beverage**"), respectively, 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 RMB75,000,000; and (ii) Besunyen Food and Beverage agreed to pay 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. Proceeds from the equity transfer and the debt paid by Besunyen Food and Beverage will be applied by Beijing Outsell for its operation of business and strategic investments. For details, please refer to the announcements of the Company dated 10 March 2017 and 25 July 2017.

On 10 March 2017 and 28 July 2017, Beijing Outsell, Zhongshan Wanyuan, 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**") and its supplemental agreement, respectively. Pursuant to the Investment Agreement: (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 consideration of RMB77,100,000; 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 RMB60,600,000. Pursuant to the supplemental agreement, all the rights and obligations of Beijing Outsell under the Investment Agreement shall be taken over by another subsidiary of the Group, Khorgos Besunyen Venture Investment Co., Ltd. ("**Besunyen Venture Investment**"). Upon completion of the Investment Agreement, Besunyen Venture Investment will hold 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 announcements of the Company dated 10 March 2017 and 28 July 2017.

On 28 July 2017, Besunyen Venture Investment, Kangbaina, Aolixin and their shareholders entered into an investment agreement, pursuant to which: (1) Besunyen Venture Investment agreed to purchase and the shareholders of Kangbaina agreed to sell 100% equity interest in Kangbaina for a total consideration of RMB6,000,000; and (2) Besunyen Venture Investment agreed to purchase and the shareholders of Aolixin agreed to sell 100% equity interest in Aolixin for a total consideration of RMB1,500,000. Upon completion of the transactions, Kangbaina and Aolixin will become indirect wholly-owned subsidiaries of the Company. For details, please refer to the announcement of the Company dated 28 July 2017.

For the progress of above-mentioned matters, please refer to notes 25 and 39 as set out on pages 162 and 176 to 179 of this annual report.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures in 2017.

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR ADDITIONS OF CAPITAL ASSETS

Yuanyuan Liuchang Fund, a company with a total committed capital contribution of RMB100.0 million, is owned by the Group's subsidiary, Beijing Besunyen Pharmaceutical Co., Ltd, with 89% of its shares. It mainly focuses on investment projects in the healthcare industry, TMT (technology, media and telecommunications) industry and consumer industry, as well as investment in several early stage partnership enterprises. In 2017, the Group injected capital of RMB19.6 million to Yuanyuan Liuchang Fund, and Yuanyuan Liuchang Fund made an investment in an internet health project, amounting to RMB20.0 million in total.

Save as disclosed above, there were no other significant investments held by the Group in 2017.

Save as disclosed in this report, there was no plan of the Group for other material investments or additions of capital assets as at the date of this report.

PLEDGE OF ASSETS

As of 31 December 2017, Zhongshan Wanyuan, a subsidiary of the Group, has pledged its land use right for an area of 32,490.1 square meter with a carrying value of RMB19.4 million to Huoju Development District branch of Zhongshan Rural Commercial Bank Co., Ltd. as the security of a bank borrowing of RMB20.0 million granted to Zhongshan Wanhan, a subsidiary of the Group (2016: Not applicable).

GEARING RATIO

As of 31 December 2017, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 17.79% (2016: 13.56%).

CONTINGENT LIABILITIES AND GUARANTEES

As of 31 December 2017, the Group had no material contingent liabilities or guarantees (2016: Nil).

CAPITAL COMMITMENTS

As of 31 December 2017, the Group had capital commitments of RMB12.7 million (2016: RMB8.4 million).

COMPLIANCE WITH LAWS AND REGULATIONS

The Group shall conduct business in compliance with the requirements of various laws and regulations, mainly including the Food Safety Law of the PRC, the Drug Administration Law of the PRC, the Regulations for Implementation of the Drug Administration Law of the PRC, the Environmental Protection Law of the PRC, the Labour Law of the PRC, the Labour Contract Law of the PRC as well as other applicable regulations, policies and normative legal documents issued based on or related to such laws and regulations. The Group's prevailing products production, quality and safety control systems are relatively comprehensive and imposes effective control on design and execution. It has passed the certifications of quality management systems such as ISO9001, ISO22000 and HACCP, to ensure products quality and safety in an all-round and in-depth manner. In case of any changes in applicable laws, regulations and normative legal documents related to our principal businesses, the Group would timely inform relevant staff and operation teams. In addition, the Group ensures the compliance with such requirements via numerous measures, such as internal control and approval procedures as well as training and supervision on different business departments.

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.

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 2017, the Group provided generous social security benefits to its employees to motivate their proactivity at work 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 2017, 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 2017, the Group had 1,020 employees in the PRC mainland and Hong Kong (2016: 1,156 employees), which included 25 promotional staff employed by employment agents (2016: 79 employees). The staff costs of the Group (including remunerations of the Directors) were RMB161.7 million for the year ended 31 December 2017 (2016: RMB162.3 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 of our staff, so as to keep enhancing the knowledge, skill and team spirit of our staff. The Group often provides internal and external training courses to relevant staff as required.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. ZHAO Yihong, aged 51, is our co-founder, Chairman and Chief Executive Officer and was appointed as an executive Director of our Company in August 2009. Mr. Zhao is also a member of the remuneration committee and the nomination committee of our Company and a director and the legal representative of various subsidiaries of our 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 28 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 49, is our co-founder and Vice Chairman and was appointed as an executive Director of our Company in October 2009. Ms. Gao is also a director of various subsidiaries of our 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 66, was appointed as a non-executive Director of our Company in October 2009. Mr. Zhuo is also a director of various subsidiaries of our Group. Mr. Zhuo has more than 43 years of experience in the field of enterprise management and capital markets. Mr. Zhuo is the chairman and a managing partner of V Star Capital. Mr. Zhuo has served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Mr. Zhuo has also 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. Since 2002, Mr. Zhuo fully devotes to venture capital business and has in turn served as 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), the founder and the chairman of Shanghai Kexing Venture Capital Fund and a management partner of GGV Capital. 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), Focus Media Information Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002027) and Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648) 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 40, was appointed as a non-executive Director of our Company in September 2015. Ms. Zhang has over 19 years of experience in enterprise management in food and beverage industry and in capital markets. Ms. Zhang is a vice president of China Hui Yuan Juice Holdings Co., Ltd. ("**China Huiyuan Holdings**", a company incorporated in the Cayman Islands with limited liability) and also in charge of its human resources, internal audit 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, China Huiyuan Juice Group Limited's (a company listed on the Stock Exchange, stock code: 1886) officer of board office and assistant to the chairman, 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 our Company.

Independent Non-executive Directors

Mr. HUANG Jingsheng, aged 60, was appointed as an independent non-executive Director of our Company in May 2010. He is the chairman of the remuneration committee and a member of the audit committee and the nomination committee of our 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.

Mr. REN Guangming, aged 53, was appointed as an independent non-executive Director of our Company in April 2014. He is the chairman of the nomination committee and a member of the audit committee and the remuneration committee of our Company. Mr. Ren has over 30 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 51, was appointed as an independent non-executive Director of our Company in October 2016. He is the chairman of the audit committee and a member of the remuneration committee and the nomination committee of our 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. (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. (a company listed on the Shanghai Stock Exchange, stock code: 600168) and a non-executive director of Yunnan Water Investment Co., Limited (a company listed on the Stock Exchange, stock code: 6839). Mr. He has served as a non-executive director of Yingde Gases Group Company Limited (a company previously 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 42, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 21 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 obtained confirmation from the Stock Exchange for her meeting qualification as a company secretary under the Listing Rules and is a member of the Institute of Certified Management Accountants in the United States and a fellow of the Institute of Public Accountants in Australia and the Institute of Financial Accountants in the United Kingdom.

Mr. YU Hongjiang, aged 53, is our Vice President principally in charge of our internal audit and production. 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 27 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 49, 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 28 years of experience in the media and health industry. He has served as a manager of China Optoelectro 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.

Directors and Senior Management Profile

Mr. ZHANG Jun, aged 50, is our Vice President principally in charge of the construction and operation of corporate information system and data centre management. Mr. Zhang joined our Group in October 2016 and have 27 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 supplier in the areas of therapeutic teas in 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 Besunyen Detox Tea, Besunyen Slimming Tea (now known as "碧生源牌常菁茶") and other therapeutic teas since 2000, and for the last 17 years, has dedicated itself to the marketing and sales of the Two Teas.

In April 2015, the Group cooperated with Hisun Pharmaceutical to sell LARLLY Orlistat, and thereby extended from therapeutic teas market to OTC slimming medicines market. Since its launch, LARLLY Orlistat has been well received by consumers.

In 2017, the Group acquired 51% equity interest in Zhongshan Wanhan and Wanyuan. Zhongshan Wanhan is a hi-tech pharmaceutical company that engages in the production, research and development and sale of drugs and owns series of products including Orlistat capsules. Zhongshan Wanyuan focuses on the development and innovative research on pharmaceuticals. In October 2017, the Group officially launched out Besunyen Orlistat Capsules, which has further enriched its product structure.

In 2017, the Group continued its efforts in the area of food and beverages by combining the R&D capabilities of its own and external institutions, and launched a variety of new products including Besunyen vitamin C chewable tablets, Besunyen vitamin E capsules, Besunyen L-carnitine coffee powder drink, Besunyen fruit and vegetable composite enzyme powder drink and Besunyen meal replacement shake, to further extend the Group's influence in the big health sector.

The Group seeks for changes, breakthroughs and innovations constantly. In 2017, Beijing Outsell, a subsidiary of the Group, once again received the High and New Technology Enterprise qualification and became a Beijing Municipal Enterprise Technology Research and Development Institution. It also obtained one utility model patent and two appearance patents, and achieved continuous business growth, development and expansion by developing new products with external companies.

The Group's headquarters is located in Haidian District, Beijing. Its sales force spans 31 provinces, autonomous regions and municipalities across the PRC, providing premium products and services to consumers through e-commerce platforms and tradition channels. The Group's production base is situated in Qiushi Industrial Park, Fangshan District, Beijing and is equipped with 18 most advanced IMA high-speed tea bag packaging machines in the world, which were imported from Italy.

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

In response to the important guidance and spirit proposed in the report of the 19th National Congress of the Communist Party of China including "to implement the healthy China strategy" and "to offer all-round and complete healthcare services to the people", the Group adheres to its business philosophy and focuses on the research and development of products in respect of weight management and intestinal health to provide scientific ways of weight management as well as healthy and quality products to the public continuously.

The Group actively participates in and advocates social undertakings by setting up and taking part in "Besunyen Special Charity Fund" and "Special Fund for Combating Illegal Trade in Endangered Wildlife". The Group's business philosophy and spirit are also embodied in its actions such as donations to welfare homes, construction of schools of hope, school-enterprise cooperation, donations to disaster-stricken areas and support for the construction of new villages.

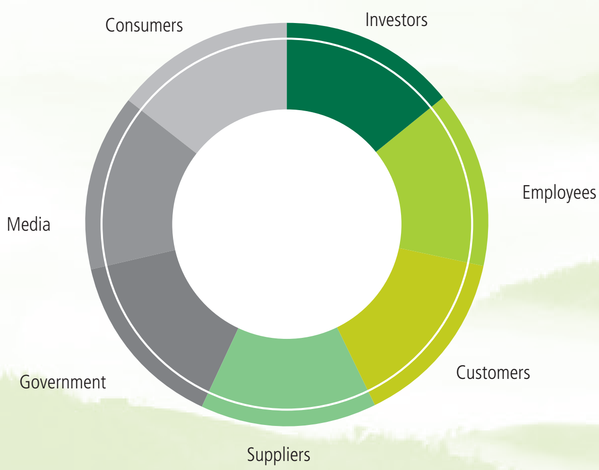
The Group attaches great importance to product quality and regards it as the first lifeline for the enterprise. The Group seeks to serve public health to the satisfaction of the customers as its pursuit concept. The Group's awareness of product quality and safety has been known to all. Product quality is assured in various aspects and on multiple levels through standardised management of production process, supervision and examination of product quality and production safety.

The Group actively promotes research upgrade and product innovation. In 2017, the Group invested in pharmaceutical enterprises which integrated production and development such as Zhongshan Wanhan to further realise its strategy in the complete big health industry chain and further enhance its R&D and production capabilities of drugs. New products such as Besunyen Orlistat Capsules were successfully rolled out in 2017 to provide more premium services for the health of the people.

In 2017, based on the "people-oriented and respect for talents" human resources management philosophy, the Group proposed the "fighter-oriented" ideal to further align the interest of the enterprise and its employees. Labour could enjoy the results of corporate development to the full, which greatly enhanced employees' proactivity at work.

COMMUNICATION WITH STAKEHOLDERS OF THE GROUP

The Group always attaches great importance to the communication and interaction with stakeholders, and believes stakeholders' participation is an indispensable and vital component in the sustainable positive development and assumption of social responsibility of the Group. The Group maintains communication and contact with its stakeholders on different topics through various channels and methods such as general meetings, roadshows, its official website, trade unions and customer visits.



Stakeholders, major concerns and the Group's communication and response in 2017 are as follows:

Stakeholder	Major Concern	Communication and Response
Investors	The Group's operation conditions	In 2017, the Group communicated with investors and timely disclosed the Group's operation conditions via multiple ways such as general meetings, roadshows, consultation through calls and emails, information disclosure on its website, etc. to protect the interests of investors.
	Interests of investors	
Employees	Rights and obligations	In early 2017, management of the Group communicated with its employees to learn about their needs and revised the Staff Manual and Performance Appraisal System again to further protect their legal interests. In 2017, 19 major and small staff training sessions were organised and participated by 1,246 persons in aggregate.
Customers and suppliers	Product quality	The Group regards product quality and safety as the first lifeline for the enterprise and has obtained quality management system certifications including ISO9001, ISO22000 and HACCP. In 2017, the Group received the honorary title of "National Food Nutrition Education and Demonstration Base".
	Appraisal of suppliers	In 2017, the Group further improved the supplier management system to appraise its suppliers and communicate with them thoroughly during the review process, adhered to the fair trade principle and opposed commercial bribery.
	Contract compliance	The Group has always adhered to the principle of good faith operation and respected the spirit of contract, fulfilled its contractual obligations, strictly executed the contractual terms to ensure legal and compliant operations. There were no material contractual disputes in 2017.

Stakeholder	Major Concern	Communication and Response
Government	Legal compliance	In 2017, the Group successively received the honorary titles of "Key Leading Enterprise of Industrialisation of Agriculture in Beijing", "National Food Nutrition Education and Demonstration Base", "User-satisfied Project" and "User-satisfied Enterprise".
	Social responsibility	In 2017, the Group obtained the "2017 China Social Responsibility Outstanding Enterprise Award" again, and received "The 1st Compassionate and Charitable Enterprise Award" from the Growth and Love Foundation, which was initiated by the China Medical Pharmaceutical Material Association and established under the Red Cross Society of China.
Media	Information disclosure	The Group has long established good communication with the media and emphasised repeatedly the importance of media supervision. The Group maintained active and effective communication with the media through various ways such as organising press meetings and participating in seminars, forums and sponsoring College Students Advertising Festival, and made timely and accurate information disclosure.
Consumers	Product liability	The Group attaches great importance to consumers' opinions and suggestions, the protection of consumers' interests, and the formation of a professional customer service team. Health consultants are available to answer questions one-to-one and follow up with consumers' opinions. In 2017, the Group received and replied to 21,226 consumers' queries and opinions in total.

REPORTING CRITERIA AND SCOPE

This Environmental, Social and Governance Report has been prepared according to the Environmental, Social and Governance Reporting Guide of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and has stated the measures taken by the Group for environmental, social and governance issues and the progress thereof between 1 January 2017 to 31 December 2017. The Company has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide in 2017.

As the following companies made significant contribution to the Group and could adequately represent the business of the Group, 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 Online E-commerce Co., Ltd.

v. Heilongjiang Besunyen Trading Co., Ltd.

vi. Beijing Besunyen Pharmaceutical Co., Ltd.

vii. Guangzhou RunLiang Pharmaceutical Co., Ltd.

viii. Zhongshan Wanhan Pharmacy Co., Ltd.

ix. Zhongshan Wanyuan New Medicine Research and Development Co., Ltd.

The Group acquired 51% equity interest in each of Zhongshan Wanhan and Zhongshan Wanyuan in October 2017.

I. ENVIRONMENTAL PROTECTION

The Group actively discharges its responsibility to the environment as a corporate citizen, adheres to the philosophy of scientific and green development, vigorously promotes green production, lowers pollutant emissions, and strictly abides by related laws, regulations, standards and local regulations on environmental protection including 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 the Prevention and Control of Environmental Pollution by Solid Waste.

The Group vigorously executed the "cleaner production" plan to further reduce energy consumption during the production process and enhance energy efficiency through ice cooling system modification, solar-powered water heating system modification, ice storage industrial modification, replacement of generators of high efficiency and air-conditioner modification for the purpose of environmental protection. Meanwhile, the Group also encouraged employees to take part in charity events for environmental protection such as the tree planting campaign.

Apart from focusing on operating results, the Group also considers building a resource-saving, environmental-friendly and green enterprise as an important strategic goal for its sustainable and healthy development.

(I) Emissions

1. Exhaust Gas and Greenhouse Gas Emission

In 2017, the Group fully complied with the requirements of the Law of the PRC on the Prevention and Control of Atmospheric Pollution and relevant laws and regulations. Through the use of clean energy promoted by the "cleaner production" plan, the Group set an example by implementing energy-saving and emission-reduction measures to develop low-carbon economy. Specific measures included:

(1) further expansion of scope of use of clean energy such as natural gas, clean kerosene and solar power;

(2) plantation in production base to increase green area and build a garden-like factory;

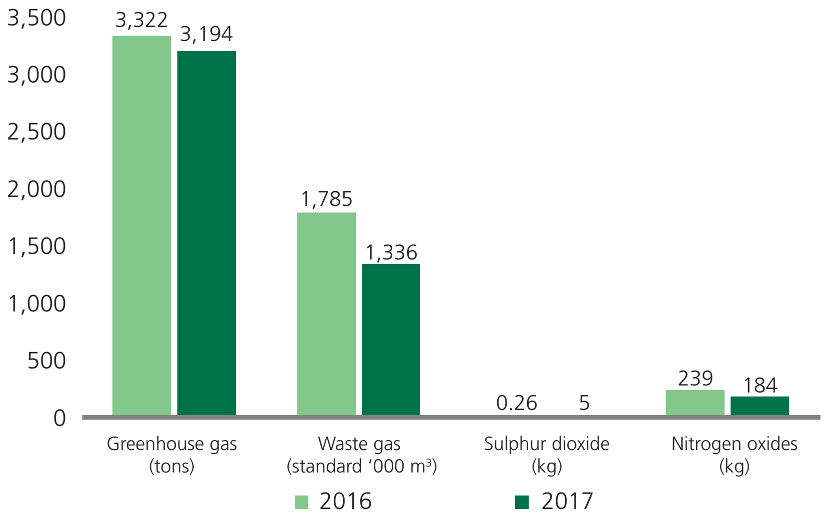
(3) promotion of environmental protection through the Company's We Media platform and organising employees to take part in energy-saving and emission-reduction campaigns;

(4) adoption of energy-saving water and electricity equipment.

In 2017, the amount of natural gas used by the Group was 139 cubic kilometres, generating 1,336 standard cubic kilometres of industrial waste gas, approximately 5 kilograms of sulphur dioxide and 184 kilograms of nitrogen oxides in total; 1,826 standard cubic metres of exhaust gas was discharged for the production of one ton of finished products.

Compared with 2016, the Group's industrial waste gas emission in 2017 decreased by 448 standard cubic kilometres, with emission of sulphur dioxide increased by nearly 4.74 kilograms and that of nitrogen oxides decreased by 55 kilograms, representing a decrease of 102 standard cubic metres of waste gas for each ton of finished products; the total amount of greenhouse gas discharged in 2017 was 3,194 tons, and approximately 4.36 tons of greenhouse gas was produced for one ton of finished products. Greenhouse gas emission decreased by 128 tons as compared with that of 2016.

The Group's emission of waste gas and greenhouse gas in 2016 and 2017 is shown in the diagram below:



2. *Sewage Treatment*

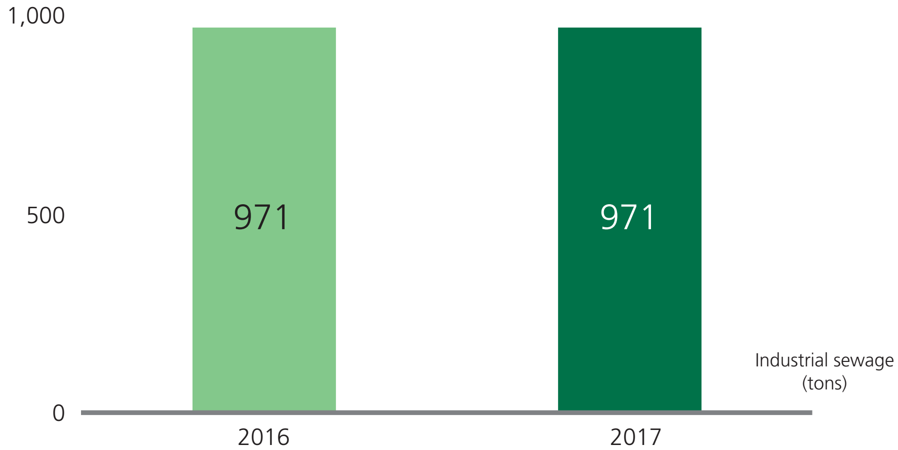
Sewage produced by the Group is mainly from machines and equipment cleaning and employees' cleaning process. The Group meets the legal and regulatory requirements of the PRC and local areas by strengthening its sewage discharge and control. Sewage is discharged through municipal pipelines and treated by professional sewage treatment companies to ensure the discharge of sewage is in compliance with the requirements.

In 2017, the Group adopted a number of measures to control the production of sewage, including:

(1) production technology upgrade and modification to reduce water consumption during production and promote cleaner production as well as using water repeatedly to increase water reuse rate;

(2) analysis and testing of sewage discharge to formulate energy-saving and emission-reduction plans according to the actual production to reduce sewage discharge and environmental pollution.

In 2017, the Group discharged 971 tons of industrial sewage, representing 1.3 tons of sewage discharged for one ton of finished products. The Group's industrial sewage discharge in 2016 and 2017 is shown in the diagram below:



3. *Generation of Hazardous and Non-hazardous Wastes*

The hazardous wastes produced by the Group are mainly laboratory reagents. Non-hazardous wastes mainly include packaging material wastes and domestic garbage. Hazardous wastes were collected and stored strictly according to the requirements and were professionally processed by third parties which possessed relevant qualifications. Non-hazardous wastes were categorised and treated separately by cleaning companies.

In 2017, the Group strictly complied with the requirements of the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste. The Group adopted the following measures to reduce the discharge of wastes and minimise the corresponding hazards:

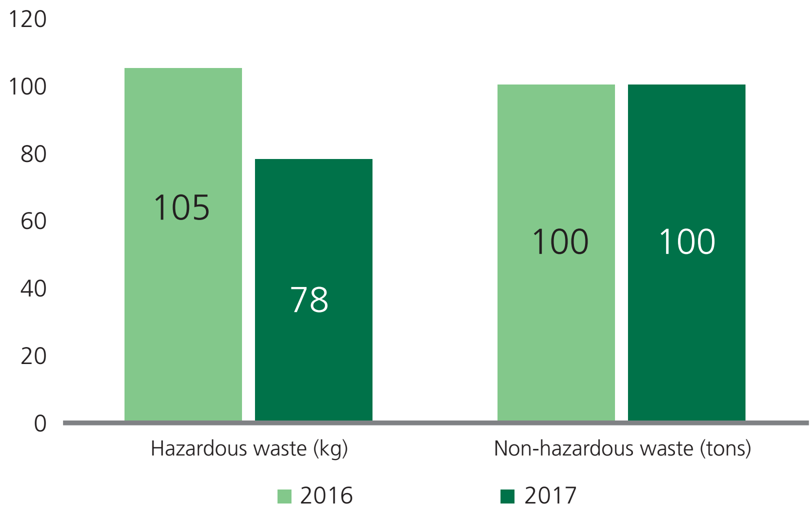
(1) vigorous promotion of "cleaner production", collection and reuse of damaged materials and packaging materials;

(2) "eat-it-all initiative" in canteen of production base to reduce kitchen waste;

(3) upgrade of laboratory testing and examination equipment and standardisation of testing process to further reduce hazardous wastes.

In 2017, the total amount of hazardous wastes produced by the Group decreased by 27 kg to 78 kg compared to 2016, representing 0.1 kg of hazardous wastes for one ton of finished products. In 2017, the total amount of non-hazardous solid wastes produced by the Group was 100 tons, representing 0.14 ton of non-hazardous wastes for one ton of finished products.

The Group's discharge of hazardous and non-hazardous wastes in 2016 and 2017 is shown in the diagram below:



(II) Use of Resources

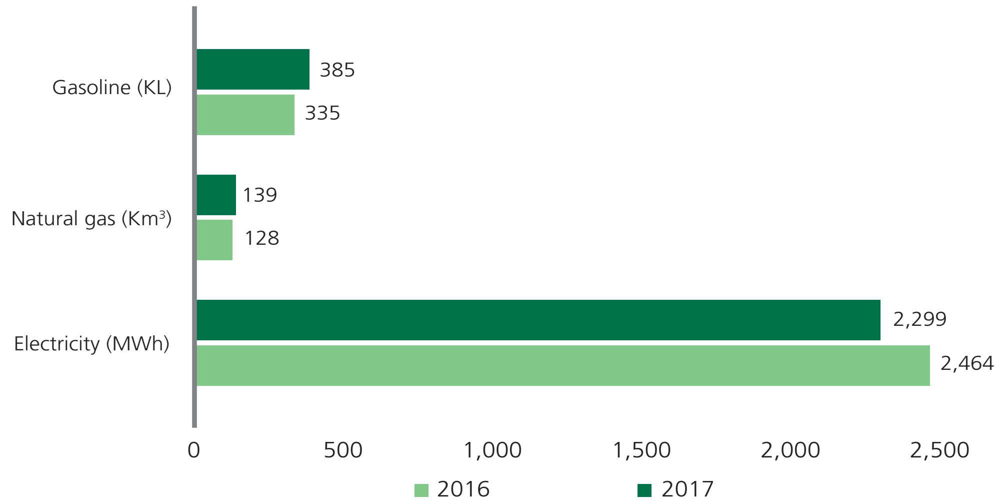
1. *Energy Conservation*

The Group continued to improve its energy management system, specified division of works and posts of relevant employees in the internal energy management system, revised the documents setting out production standards for production process, equipment, operation and maintenance, established the goal and responsibility of energy saving and emission reduction, and carried out supervision and inspection, providing a sound foundation for the implementation of energy-saving and emission-reduction works.

The Group set out diversified energy-saving and emission-reduction indicators according to the energy consumption of various departments and implemented responsibility assessment to reduce energy consumption. In 2017, the Group continued its "cleaner production" plan and implemented technological upgrade of environmental facilities such as grade II packing meter renovation to improve energy efficiency, conserve energy, reduce emission and minimise environmental pollution.

In 2017, the Group's energy consumption was still dominated by electricity with a total consumption of 2,299 MWh, representing 3,141 kWh per ton of finished product, followed by natural gas, water and gasoline. Compared to 2016, electricity consumption reduced by 165 MWh, natural gas consumption increased by 11 cubic kilometres, and gasoline consumption increased by 50 kilolitres.

The Group's energy consumption in 2016 and 2017 is shown in the diagram below:



2. *Water Conservation*

The Group mainly uses municipal water source. To support the national policy to conserve water resource and the need to build a water-saving society, the Group makes use of water reasonably based on its actual situation, increases water utilisation efficiency, advocates the philosophy of water conservation, and encourages all staff to take part in the water-saving initiative. Specific water-saving measures are as follows:

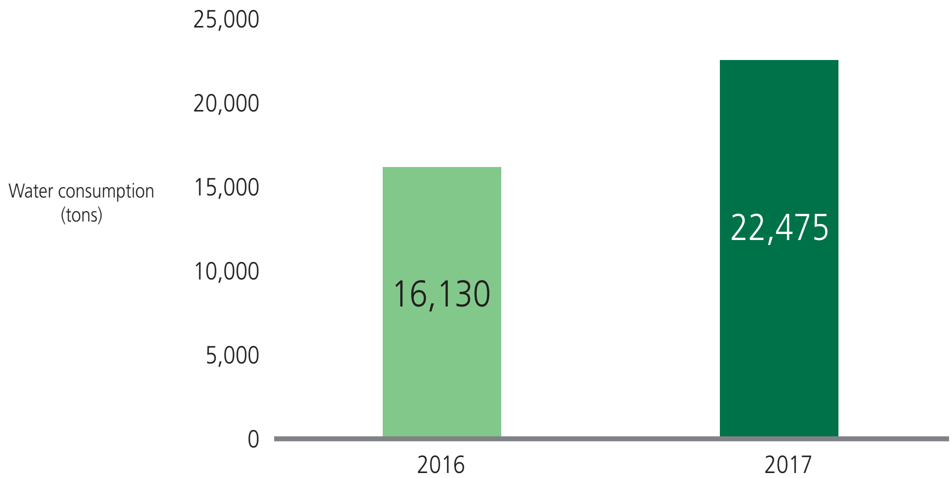
(1) examination of the circulating pipe network and implementation of water conservation management measures, including management of cooling equipment such as air conditioning to conserve water;

(2) installation of water-saving taps in the office to avoid water wastage;

(3) enhancement of daily maintenance and management of water-using equipment to stop leakage and running water.

In 2017, the Group consumed 22,475 tons of water in total, representing an increase of 6,345 tons as compared with the same period in 2016, and 30.70 tons of water for each ton of finished products.

The Group's water consumption in 2016 and 2017 is shown in the diagram below:



3. *Packaging Materials*

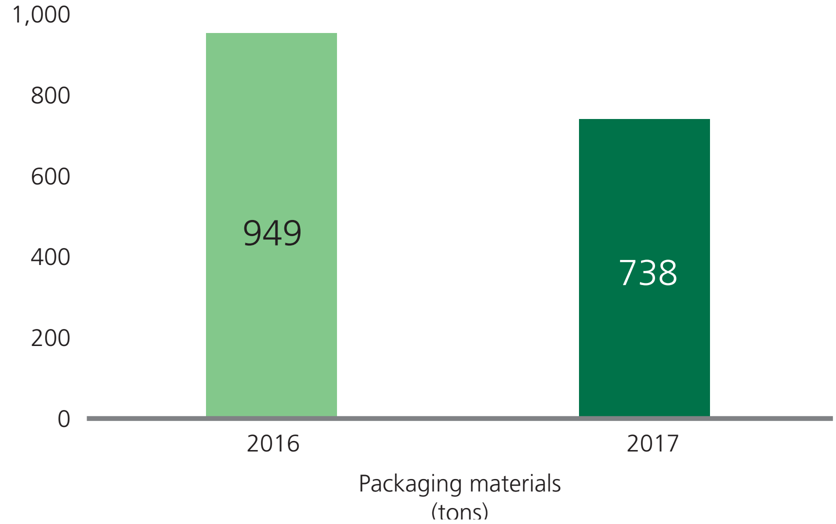
Packaging materials consumed by the Group mainly include packaging boxes, paper boxes, filter papers and PE packaging bags, which are in compliance with national food safety standards and are provided by professional suppliers. Under the premise of ensuring product quality and safety, the Group regulates aspects such as the procurement and usage of packaging materials rigorously and has adopted the following measures to improve the efficiency of the use of packaging materials to reduce packaging costs and to realize environmental protection:

(1) adjustment of production plan according to the size of sales orders, implementation of upper and lower limit warning system for frequently used packaging materials;

(2) enhancement of material-saving and material-protection promotion in the workshop and implementation of incentive and penalty system;

(3) reuse of damaged packaging materials (that were slightly damaged but did not affect product quality and safety).

In 2017, the Group consumed 738 tons of packaging materials in total, reflecting a decrease of 211 tons as compared with the same period in 2016, and 1 ton of packaging materials were used for one ton of finished products. The Group's packaging materials consumption in 2016 and 2017 is shown in the diagram below:



(III) Green Office

The Group actively responds to the national call and vigorously advocates "green office and low-carbon life" by continuing to emphasise on the publicity and education work on employees' environmental awareness. It strives to raise employees' environmental awareness and sense of responsibility starting from saving every piece of paper, every bit of electricity and every drop of water and takes the initiative in conserving the environment.

1. Office Automation

In 2017, the Group further promoted paperless office. The Group's official documents, various applications and approvals, internal communications and department archives can all be processed and accessed through the OA system and emails to realise office automation and reduce the amount of paper used in the office.

In 2017, video and teleconferencing and WeChat for office use were rapidly popularized and promoted. Communication between offices, branches and subsidiaries was expedited to enhance work efficiency and reduce the need for business trips, thereby achieving the results of energy conservation and emission reduction.

2. Office Energy Conservation Measures

The Group actively implements energy conservation measures to reduce energy consumption and emission of greenhouse gases.

The Group's headquarters adopts an open office environment. The Group increases office area usage, unifies the temperature of air conditioning and requires employees to switch off air-conditioning 30 minutes before going off duty. Moreover, the Group actively promotes energy-saving lighting and water-saving taps. LED and other energy-saving lighting devices are used in the office. Lighting in non-public areas are sound activated so that the lights will be switched off when no one is in the area to prevent daytime running lights and long burning lights. Unnecessary lighting in public areas is minimised and employees are required to check that all electrical appliances are switched off before going off duty.

II. WORK ENVIRONMENT FACTOR

The Group strictly abides by the relevant laws and regulations such as the *Labour Law of the People's Republic of China* and the *Labour Contract Law of the People's Republic of China*, for the purpose of effectively protecting the legitimate rights and interests of employees from infringement. The Group is also committed to providing a healthy and safe working environment for employees to better realize their self-worth and achieve the Group's development goals. In 2017, after seeking employees' opinions and suggestions on several occasions, the Group applied revisions and adjustments to the *Staff Manual* and other related policies involving employee hiring, labour contract, attendance management, holidays, compensation and benefits, training and development, performance management, employee health and safety management, information security, and network use. While applying these revisions, the Group has abided by guiding spirits such as respecting the employees, and being people-oriented. Relevant revisions are fully in line with the *Labour Contract Law of the People's Republic of China* and other national laws and regulations. The Group's major rules in relation to working environment include the followings:

(1) Employee attendance is taken on standard working hour schedule (no more than 8 hours per day, no more than 40 hours per week), combined working hour schedule and indefinite hours (applicable according to production, operating characteristics and special needs of work);

(2) All employees are entitled to annual leave, personal leave, sick leave, marital leave, maternity leave, and all national holidays;

(3) The Group does not encourage nor arrange overtime work for employees. In the event of special reasons for working overtime, primarily overtime leave is provided. Overtime pay is an alternative way to compensate for working overtime;

(4) The Group has established and keeps on improving the salary management system. It always adheres to the salary management principle characterized by "work-driven compensation, prioritizing on efficiency and focusing on fairness". The Group implements top-down performance assessment to establish a compensation system with position and ability as basis and performance as the cornerstone;

(5) The Group strictly abides by the national and local social insurance laws and regulations, and relevant policy provisions, and pays social insurance for all employees on time and in full.

The Group highly respects the value and dedication of its employees. Each employee is entitled to the same rights and opportunities in recruitment, remuneration, promotion, development, and etc. The Group opposes gender discrimination. It attaches emphasis to the professional development of female employees and protects their legitimate rights and interests. The Group strives to strengthen democratic management, to establish safe, environmentally friendly, and occupational health systems, to care for the disabled and minorities, and to create a good and harmonious work environment.

(I) Health and Safety

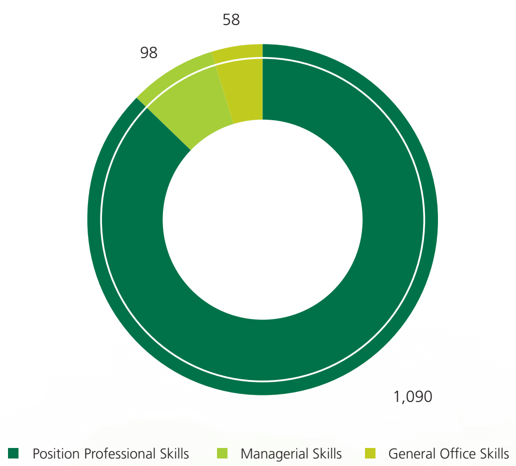
The Group firmly upholds the notion that protecting employees' life safety and occupational health is the core of enterprise development, insisting on being people-oriented and valuing employees 'life and property safety. In 2017, the Group strictly complies with the *Production Safety Law of the People's Republic of China* and other laws and regulations to promote the Group's workspace safety and occupational health development.

The Group always adheres to the concept of "prevention instead of rectification". It has established the safety and security department, and strengthened its organizational capacity-building. The Group has formulated and improved the *Safe Production Management Measures, Safety Production Accountability System* and other management policies and has implemented the accountability mechanism on all levels for safe production. It also carried out security checks to control safety risks, and organized safe production training to improve the safe production awareness among employees.

(II) Development and Training

For the common development of the Group and the employees, and to build the "joint fate" of the Group and the employees, the Group pays great attention to the training and studying of the employees, and regards improving the employees' quality, stimulating the employees' potential, and enhancing the employee's work performance as one of the enterprise's missions.

Through the continuous investment in staff development and training, the Group ensures that employees can quickly adapt to the development of the company. Guided by the correct outlook on life and value, the Group strives to realize a win-win situation where the employees and the enterprise can both realize their value. In 2017, the total number of the Group's employees trained was 1,246 people. In 2017, the Group's training highlights are shown in the following graph according to staff training content and participants:



In 2017, according to its own development needs, the Group has organized specific trainings to provide the following resources for staff career development and personal value enhancement:

(1) Organizing Besunyen group coordination and leadership enhancement consultancy programs, executive extension projects, and Geonol Graduate School of Business consulting programs to further improve the leadership and management capabilities of the management team;

(2) Providing customized training and learning program for the sales team, such as the 6-month "Sail Plan" sales training which enhances sales staff's sales management skills, sales techniques and business etiquette;

(3) Organizing business etiquette training to improve the staff's manners and demeanours. The professionalism of the staff is enhanced so that they can better participate in the daily work of the factory to build an upright corporate image in the future;

(4) Organizing special consultation and trainings for sales, marketing, HR, finance, audit and other departments;

(5) Providing full-staff Excel and PPT MS Office skill training, as well as personalized trainings to headquarters' personnel.

(III) Labour Standards

In 2017, the Group strictly adheres to the relevant legislation on the prevention of child labour or forced labour. The Group strictly prohibits the recruitment and use of child labour, and doesn't force employees to work. The Group strives to protect employees' reasonable working hours, to pay reasonable salaries and benefits to employees, to respect the rights of employees, to avoid discrimination upon employees, and to create a safe, healthy and orderly working environment in general.

III. OPERATIONAL CONVENTION

(I) Supply Chain Management

Good cooperation with suppliers and efficient supply chain management will help to improve the Group's sustainable development performance and reduce the environmental and social risks faced by the Group. The Group has formulated and issued the *Procurement Management Measures* and *the Sales Management Policy* and other management guidance to effectively manage the suppliers and distributors along the supply chain. This is to ensure proper and normative management of suppliers while effectively controlling operational risks in case of improper selection of suppliers, or fraud or deception by the suppliers.

The Group authorizes the procurement department to centralize control over suppliers, set up a list of qualified suppliers, conduct regular assessment along with the quality assurance department and user department on the supplier's qualification, supplying ability, production environment, funding capacity, delivery quality, contract fulfilment, after-sale service, integrity management, and etc. At the same time, the Group conducts on-site visits on important suppliers. After assessment, the Group will continue to cooperate with qualified suppliers, and directly eliminates unqualified suppliers.

The Group has a detailed supplier evaluation mechanism with regard to the production environment and product quality. The raw material suppliers should have certified production and operation qualifications and quality safety certification, and should strictly comply with the *Food Safety Law of the People's Republic of China* and other laws and regulations. The quality of their products should conform to the standard requirements stipulated in the *Pharmacopoeia of the People's Republic of China*. After the Group's production management centre has received the raw materials, the quality assurance department will test them in strict accordance with the product quality management standards. If any indicator concerning the product safety is identified as "failed" such as pesticide residues, heavy metals, sulphur dioxide, extract and others, the batch of goods will be returned, the corresponding raw material supplier's rating will be reduced, and the supplier will be degraded.

The Group has added the "Anti Commercial Bribery Clause" to the procurement contract, in order to form a clean and self-disciplined supply chain. The Group maintains a zero tolerance attitude towards any supply chain fraud.

(II) Product Responsibility

The Group builds up its brand in the health industry through faithful operation, and engages in research, development, and production of natural, healthy and safe products. The Group strictly fulfils the product responsibility of the production enterprises to provide quality services for the consumers' intestinal health and weight management. In 2017, the Group strictly complied with the *Food Safety Law*, set food safety as the most foundational requirement. From the original source of raw materials, the Group implemented necessary controls and standardized process operations, and engaged in quality testing in every key aspect to ensure that the products meet relevant quality standards.

In 2017, the Group was awarded "the Fifth Shanghai Science and Technology Exposition Gold Award", "Beijing Municipal Enterprise Science and Technology Research and Development Institution", "Golden Wheat Award-Tea Beverage Category", "Beijing Agricultural Industrialization Key Leading Enterprises", "National Food Nutrition Education and Demonstration Base", "User-satisfied Project", "User-satisfied Enterprise" and other honorary titles.

1. *Quality Testing and Product Recycling*

The Group abides by the principle featuring Quality First and Safety Foremost. Product quality is put as the core element of production and operation by the Group. The Group's production management centre has set up the laboratory and quality assurance department. Professional quality testing personnel carries out comprehensive testing and recording on the material procurement and warehousing, production process, product packaging and storage to eliminate any unqualified scenario in any link. Any unqualified products cannot be stored nor sold under any circumstance.

The Group has developed a series of product quality testing related policies and control procedures. Its production and operation are in line with the health food GMP requirements. It has successfully passed the ISO9001, ISO22000 and HACCP Quality Management System certifications, which guarantee the product quality from various perspectives and on all levels.

The Group has formulated *Food Quality and Safety Management Manual* and *Product Return and Exchange Management Policy* to regulate and illustrate the scope of product recycling and recycling workflows. Products that need to be recycled include unqualified products, wrongly packaged products, and near-expiration (including expired) products. The Group's quality assurance department is in charge of recycling and destroying recycled products to eliminate potential harm to consumers.

2. *Product and Service Complaint*

The Group attaches importance to the management of customer complaints information. It takes the views and suggestions of customers seriously, and endeavours to identify the causes of complaints and timely implement proper and effective measures to resolve complaints to protect the customers' interests. The Group continues to create a professional customer service team, and standardize customer service process, which can guarantee that when the Group receives consumer enquires and complaints, it can timely help customers by answering questions. The customer service team's service satisfaction rating has been leading for years.

3. *Customer Privacy*

The Group strictly complies with the *Network Security Law of the People's Republic of China* and other laws and regulations. It has strengthened the information protection of stakeholders (including consumers, clients, suppliers and other stakeholders) to prevent the stakeholders' private data from being stolen or leaked.

The Group's information management department conducts annual information security training and information security knowledge sharing, in order to enhance employees' network security awareness, and establish a culture featuring customer privacy information protection. Through the establishment of identity authentication, access control, traffic monitoring, disaster backup plan, server maintenance and other measures, the Group has greatly improved the network security. At the same time, the Group hires external experts to assess the Group's overall network security to reduce the occurrence of network security incidents, and safeguard corporate information and customer privacy to the greatest extent possible.

(III) Anti-corruption

In order to timely tackle the problems and deficiencies of the Group in the process of operation and management and effectively prevent the employees at all levels from dereliction of duty, as well as prevent the management team and all employees from committing illegal acts such as corruption, bribery and money laundering and establish a clean and self-disciplined enterprise culture, the Group formulates the *Staff Violation Disciplinary Measures* and *the Staff Manual* and other internal control systems and policies in accordance with the relevant national policies and regulations.

The Group alerts all employees against risks, and consolidates the staff's integrity and self-discipline awareness through the continuous staff integrity education and advocacy.

IV. PARTICIPATION IN COMMUNITY

"Practise what we advocates; start from small things" is the Group's basic strategy to fulfil its social responsibilities. The Group is actively involved in community construction and investment in response to the State's policy of promoting the migrant workers employment through creating jobs and increasing local employment rate. Through practical action, the Group has alleviated the employment pressure in the vicinity of our production base in Doudian Town, Fangshan District, creating harmonious relations with local community. The Group also keeps the annual tradition of nationwide university tour via the "Star Program" and "Student Advertising Festival", attracting outstanding new graduates to join the Besunyen team.

The Group is greatly concerned about education and public welfare. It has invested in the construction of Hope School, and donated materials to financially challenged primary schools in mountainous areas. The Group also actively carries out social assistance activities, and provides services for the groups in need of help. Long-term cooperation with non-profit organizations was strengthened to carry out public welfare undertakings consistently to repay the society.

Since 2014, the Group has been honoured to receive social welfare awards in "China Social Responsibility Public Welfare Festival" for four consecutive years, and in 2017, the Group won the "2017 China Social Responsibility Outstanding Enterprise Award".

In 2017, the Group was awarded the "The 1st Compassionate and Charitable Enterprise Award" by the the Growth and Love Foundation, which was initiated by the China Medical Pharmaceutical Material Association and established under the Red Cross Society of China and the "Beijing Outstanding 100 Non-public Ownership Enterprises Fulfilling Social Responsibility" by the Social Work Committee of the Beijing Municipal Committee.

(I) Social Welfare

The Group has always prioritized integrity and repaying the community as its core business philosophy. It has been devoted to public welfare undertakings, and actively undertakes social responsibility of the enterprise on a regular basis. In 2017, the Group has maintained close collaboration with the Beijing Charitable Association, China Green Carbon Foundation and other professional social welfare organizations. Through the annual donation and organization of employees to participate in public welfare activities, the Group strives to fulfil its corporate social responsibility.

In 2017, the Group cooperated with China Green Carbon Foundation to launch the public welfare project themed "To Be the Snow Leopard Photographer". The purpose of this project is to conduct snow leopard survival status investigation in Qiangtang, Tibet. Through the deployment of infra-red camera cloth, door-to-door interviews, on-site research and other methods, the ecological information of snow leopard was collected for the assessment of the extinction threat. The Group also called on employees to actively participate in public welfare activities. A donation event was launched during the "99 Charity Day" which formed a cultural atmosphere of "everyone cares about public welfare; everyone participates in public welfare" within the company.

In Beijing, the Group co-organized the "Public Lecture on the Wisdom of Avoiding Cancer" and "The 2nd Top Ten Anti-Cancer Hero Selection Roadshow", appealing more people to participate in this activity and contribute their own efforts in the healthcare cause.

Ms. Gao Yan, vice chairman of the Company, has been visiting Beijing Tongzhou Care Centre, Beijing Fangshan Children's Welfare Community for years and donated materials on behalf of the Group and its staff. At the beginning of 2017, the Group donated rehabilitation equipment to the nursing home of Fengtai District, Beijing, to provide services for the daily health care and rehabilitation of the elderly.

(II) Care for Employees

The Group has been practising the "Company, the Second Home" and "Expressing Gratitude" corporate cultures. Through rich and diverse staff activities like the "Friday Tea Party", "Monthly Staff Birthday", "Parent-child Summer Camp", outdoor expedition, visiting impoverished workers, knowledge-sharing lectures, union activities and other forms and continue to care about the work and life of employees. The Group always strives to create a family culture and atmosphere with rich and special Besunyen characteristics.

Corporate Governance Report

CORPORATE GOVERNANCE

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

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of The Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the year ended 31 December 2017, 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 2017.

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.

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 25 to 29.

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 28 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 2017.

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 2017, 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 2017, 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 2016 and 2017;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2016 auditors' report issued by PricewaterhouseCoopers;

(iv) reviewed and approved the 2016 annual report and audited financial statements, the 2016 annual results announcement, the 2017 interim report and the 2017 interim results announcement;

(v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2016;

(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 2017, the fees payment by the Group to PricewaterhouseCoopers and its member firm for audit services amounted to RMB2.6 million, while a fee amounting to RMB0.27 million is payable for non-audit services (for the report on discounted future estimated cash flow for the valuation of Zhongshan Wanhan by income approach).

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 2017, 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 2017, 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	Number of Attending/Convening Meetings Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meetings
Executive Directors					
Mr. Zhao Yihong	6/6	—	2/2	2/2	1/1
Ms. Gao Yan	6/6	—	—	—	1/1
Non-executive Directors					
Mr. Zhuo Fumin	5/6	—	—	—	1/1
Ms. Zhang Guimei	5/6	—	—	—	1/1
Independent Non-executive Directors					
Mr. Huang Jingsheng	5/6	4/4	2/2	2/2	1/1
Mr. Ren Guangming	5/6	4/4	2/2	2/2	1/1
Mr. He Yuanping	5/6	4/4	2/2	2/2	1/1

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for each financial year, which gives a true and fair view of the state of affairs of the Group and of the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimated which are reasonable and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group.

The Directors' and auditor's responsibilities for the financial statements of the Company are set out in the independent auditor's report on pages 95 and 96 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 important business procedures of each 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 2017

For the year ended 31 December 2017, 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, financial reporting and internal audit functions are adequate.

Significant Risks and Response Plans

In 2017, the Group reviewed each of the identified risks of the Group and assessed the potential risks arising from the existing and new businesses in accordance with the aforesaid risk management structure and risk management procedures. The significant risks identified by the Group in 2017 are as follows:

Major Risks	Risk Description	Change in 2017	Risk Countermeasures and Plans
Policy Environment	An array of wide-ranging food and drug administration laws, regulations, rules and related normative documents were released in 2017. National policy measures on health food and its regulatory environment were tightened significantly. CFDA stipulated that the food safety sampling scheme and its requirements should be strictly implemented on an unannounced basis in 2017. The Administrative Measures for the Registration and Filing of Health Food stipulates that words that are false, exaggerated or definitive or express or imply preventive or treatment functions shall not be used in the names of health food, and provides that no names with functional description or wording related to the expression of product functions shall be used for promotional purposes. The implementation of relevant health food administrative policies marked the beginning of the rectification of the healthcare product market, which is set to face more stringent measures going forward with the introduction of various related standards and intensifying competition.	↑	The Group obtained CFDA's approval on 15 November 2016 to change the Chinese name of its product from "碧生源牌減肥茶" to "碧生源牌常菁茶" and relevant production licences thereafter. "碧生源牌減肥茶" resumed normal operation in 2017 after the change of name. The Group has set up a dedicated public relations centre to coordinate the work of marketing, design, sales and legal departments, formulate a vetting system for the publication of advertisements, designate the person responsible for advertisement publication, combat false advertising vigorously, and maintain the brand images of the Company. The public relations centre is responsible for monitoring the publication of advertisements contents on television, newspaper, internet, self-media, micronet, etc. to ensure the compliance of the Group's promotional materials with relevant laws and regulations. The Group has mature communication channels and dedicated personnel to collect and compile national policies and regulations, administrative measures on industrial food, health food and drugs, to analyse their implications on business, and to circulate the latest requirements in relation to food and drugs to management and related departments and staff in a timely manner.

Corporate Governance Report

Major Risks	Risk Description	Change in 2017	Risk Countermeasures and Plans
Product strategy and product structure	For new products that are 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 secure 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. Research and development: The strengthened investment in research and development has helped to expand the product offering of the Group. However, the common food products haven't made significant change to the product structure. In the future, the Group will focus on the introduction of critical products and fundamentally reduce the risk of product structure. Merger and acquisition: In 2017, the Group acquired 51% equity interest in Zhongshan Wanhan and Wanyuan, which encompasses the production, research and development and sale of drugs and is developing and has launched a series of products such as Besunyen Orlistat Capsules. Enrichment of product line: 1. LARLLY Orlistat has become one of the major revenue sources of the Group; 2. the launch of Besunyen Orlistat Capsules quickly gained a foothold on e-commerce platforms; 3. the influence of Besunyen Xian Xian Tea continued to grow; 4. meal replacement milkshake, probiotic products, fruit and vegetable composite enzyme powder, L-carnitine coffee powder drink and vitamin C and E products are sold on e-commerce channels.

Major Risks	Risk Description	Change in 2017	Risk Countermeasures and Plans
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 hygiene and safety accidents, which will have a material adverse effect on the reputation of the Group. The Group adopts various models of sales channels and shall establish and implement an effective price monitoring mechanism. Any inadequate supervision over the selling price enforcement 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 individual distributors on sub-distributors 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. A dedicated department and personnel have been designated for channel and price management. The sales management department is responsible for tracking online prices on a daily basis, and deals with any price lower than normal immediately. Through continuous special treatment, online prices have substantially met the requirements of the Group. Supervision departments are responsible to check offline channels and market prices. Increasing examinations played a positive role in controlling the prices at the terminals.
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 standing.		The Group's marketing department has dedicated personnel in place to keep abreast of the development of and report on the industry, attach great importance to the analysis of competition in formulating product strategies. The Group established and consummated 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. The Group conducts periodical analysis of strategies for corporate objectives and status based on market feedbacks and analysis, and makes adjustment to corporate strategies as and when necessary.

Major Risks	Risk Description	Change in 2017	Risk Countermeasures and Plans
Risk relating to product quality and safety	Product quality and safety is the number one lifeline of an enterprise. Issue in product quality and safety may lead to customer complaints, which affects the brand and reputation of the Company or, it might lead to severe risks such as fine, recall, suspension, off-shelf, and even the risk of revocation of the production and operation permit.	⬇	The Group's existing product quality and safety control system is sound with effective control design and execution. The risk of product quality and safety is well-managed. The Group's production and operation meet the GMP requirements for health food and have obtained quality management system certifications such as ISO9001, ISO22000 and HACCP, ensuring product quality and safety on a comprehensive and in-depth basis. The Group administered the entire process to ensure product quality. Product quality management was assessed thoroughly and feedback on product quality was collected through daily monitoring, third-party testing and evaluation, supplier assessment, consumer review and examinations by government agencies including CFDA to mitigate the risk of product quality and safety.

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 from time to time 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

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

The Group maintains 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 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and sales of therapeutic tea products and pharmaceuticals. 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 fair review of the Group's business, a discussion of the principal risks, uncertainties facing the Group, an indication of likely future developments in the Group's business and the compliance with the relevant laws and regulations, 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 2017 are set out in the Consolidated Statement of Comprehensive Income on page 97 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 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2018 to 28 May 2018, 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 28 May 2018 will be 28 May 2018. 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 21 May 2018.

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 184 of this annual report.

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 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2017 amounted to RMB1,108 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 100 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017:

(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 56% of the purchases of the Group;

(c) the purchases attributable to the largest supplier of the Group accounted for 28% of the purchases of the Group; and

(d) none of the Directors, their close 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. Ren Guangming
Mr. He Yuanping

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhuo Fumin, Mr. Huang Jingsheng and Ms. Zhang Guimei will retire by rotation at the forthcoming annual general meeting and, being eligible, 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 41 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 2017**	Number of individuals in 2016
Under HK$1,000,000	—	1
HK$1,000,001 – HK$1,500,000	**3**	1
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	—	—
HK$2,500,001 – HK$3,000,000	—	1
HK$3,000,001 – HK$3,500,000	—	—

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 2017, 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]	53.57%
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]	53.57%
Mr. Zhuo Fumin	Beneficial owner and interest of his spouse	1,136,000[4][L]	400,000[4][L]	600,000[4][L]	0.07%
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]	0.06%
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 TMF Trust (HK) 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 1,630,207,820 Shares, being the number of Shares in issue as at 31 December 2017. 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 74,370,000, representing approximately 4.56% 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 2017:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2017	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2017
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	—	(500,000)	—	500,000
Employees and consultant in aggregate	6.5.2010	1st	3.5 Years	33,830,000	—	(150,000)	—	33,680,000
	6.5.2010	2nd	4 Years	3,490,000	—	—	—	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
				37,620,000	—	(150,000)	—	37,470,000
	Total			75,020,000	—	(650,000)	—	74,370,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the year								74,370,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the year ended 31 December 2017.

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 2017 (2016: 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 10.31% 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	Fair value of option at grant date
					HK$	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 2017:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2017	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2017
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
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
				1,200,000	—	—	—	—	1,200,000
Employees and consultant in aggregate	27.10.2014	1st	4 Years	7,800,000	—	—	—	—	7,800,000
	27.10.2014	2nd	4 Years	10,560,000	—	—	(1,620,000)	—	8,940,000
	27.10.2014	3rd	4 Years	600,000	—	—	(600,000)	—	—
	10.8.2015	4th	4 Years	400,000	—	—	—	—	400,000
	10.8.2015	5th	4 Years	—	—	—	—	—	—
	15.3.2016	6th	4 Years	500,000	—	—	—	—	500,000
	20.12.2016	7th	4 Years	400,000	—	—	(400,000)	—	—
				20,260,000	—	—	(2,620,000)	—	17,640,000
	Total			27,060,000	—	—	(2,620,000)	—	24,440,000
Weighted average exercise price (HK$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the year									17,980,000

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 2017. 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 RMB887,000 for the year ended 31 December 2017 (2016: RMB2,169,000) 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.

On 14 February 2017, 1,000,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 17 March 2017. On 14 December 2017, 200,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 15 January 2018.

As at 31 December 2017, 35,601,567 Shares (31 December 2016: 36,801,567 Shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized a total expense of RMB550,000 for the year ended 31 December 2017 (2016: Nil) 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 2017 and outstanding at 31 December 2017:

Employees	**Number of awarded shares**
Outstanding as at 1 January 2017	200,000
Granted during the year	1,200,000
Vested during the year	(1,200,000)
Outstanding as at 31 December 2017	200,000

The closing prices of the Company's shares immediately before 14 February 2017 and 14 December 2017, the dates of grant of the restricted shares, were HK$0.50 and HK$0.52 respectively.

Save as disclosed above, during the year ended 31 December 2017, 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 2017, 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 (%)[4]
Foreshore Holding Group Limited[1]	816,259,176[L]	50.07%
TMF Trust (HK) Limited[1]	816,259,176[L]	50.07%
Sea Network Holdings Limited[1]	816,259,176[L]	50.07%
China Hui Yuan Juice Holdings Co., Ltd.[2]	167,143,424[L]	10.25%
Huiyuan International Holdings Limited[2]	167,143,424[L]	10.25%
Mr. ZHU Xinli[2]	167,143,424[L]	10.25%
Ms. PENG Wei[3]	128,115,000[L]	7.86%
Everyoung Investment Holdings Limited[3]	123,750,000[L]	7.59%

(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 TMF Trust (HK) 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) The entire issued share capital of Everyoung Investment Holdings Limited is directly owned by Ms. Peng Wei. Ms. Peng beneficially owns 4,365,000 Shares.

(4) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 31 December 2017.

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

Save as disclosed above, as at 31 December 2017, 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 RMB91.6 million in 2017, representing an increase of 31.6% from RMB69.6 million in 2016. The gross profit of Pincha has increased from RMB29.7 million in 2016 to RMB40.3 million in 2017, reflecting a year-on-year increase of 35.7%. Meanwhile, the gross profit margin has increased from 42.7% in 2016 to 44.0% in 2017. On the other hand, Pincha's total operating costs (including sales and marketing expenses, administrative expenses, etc.) amounted to RMB45.0 million in 2017, representing an increase of 45.6% from RMB30.9 million in 2016. Due to the reasons above, Pincha has recorded a net loss of RMB4.0 million in 2017.

As at 31 December 2017, the total assets of Pincha amounted to RMB25.9 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 ended 31 December 2017 have been approved by the independent shareholders of the Company.

Termination of Structure Contracts and Transfer of 100% Equity Interest in Pincha

Beijing Outsell, Pincha, Mr. Zhao Yihong and Ms. Gao Yan entered into the termination agreement on 25 July 2017 to terminate the New Structure Contracts and the related confirmation and undertaking. On the same date, Beijing Outsell entered into the equity transfer agreement with Mr. Zhao Yihong, pursuant to which Mr. Zhao agreed to transfer 100% equity interest in Pincha to Beijing Outsell at nil consideration payable by Beijing Outsell. Upon the completion of the reorganization (the "**Reorganization**") above, Pincha became a wholly-owned subsidiary of Beijing Outsell, and thus become an indirect wholly-owned subsidiary of the Company.

When the Group attempted to explore e-commerce platform, the Company and its wholly-owned subsidiaries in the PRC, including Beijing Outsell, could not directly carry out e-commerce business in the PRC due to the restrictions on foreign investment imposed on value-added telecommunications business in the PRC. As such, Pincha was established in the PRC in June 2010 as a domestic enterprise and subsequently obtained a Telecom and Information Service Operation License. After that, on 28 March 2011, Beijing Outsell, Mr. Zhao and Pincha entered into the Structure Contracts, as supplemented by a supplemental contract dated 12 July 2012 and renewed on 27 October 2014, in order to conduct e-commerce activities in the PRC for the Group through the contractual arrangements between Beijing Outsell and Pincha. After entering into the Structure Contracts, the Company has the control over Pincha and the rights to variable returns from its control, and thus Pincha was considered as an indirect wholly-owned subsidiary of the Company under the International Financial Reporting Standard 10.

In view of gradual clarification of regulatory policies on foreign investment in valued-added telecommunications business in the PRC as well as the change of trend in business development of Pincha, the Company consulted with the industry regulatory authority regarding the current business of Pincha, and the industry regulatory authority confirmed that the value-added telecommunications service license is expressly not required for the self-operated and self-distributing e-commerce business currently engaged into by Pincha, only ICP filing shall be completed. As no restriction on foreign investment for ICP filing represents that the Group is allowed to directly carry out Pincha's existing business under applicable laws, Pincha has cancelled its Telecom and Information Service Operation License and maintained its existing ICP filing. Through the Reorganization, Pincha will become an indirect wholly-owned subsidiary of the Company.

The Company's PRC legal advisor, Jia Yuan Law Offices, has provided written opinion to the Company confirming that direct sales of goods by Pincha via its own network platform does not fall into the scope of operating telecommunications business under the current laws and regulations of the PRC, no value-added telecommunications services license is required, and the business is not subject to any restrictions or prohibitions on foreign investment under the relevant laws and regulations. As such, upon the completion of the Reorganization, Pincha, as an enterprise wholly-owned by Beijing Outsell, a foreign invested enterprise, may continue its existing business.

The Board is of the view that the Reorganization will eliminate the possible risks involved in adopting contractual arrangements and is in compliance with the regulatory requirements of the Guidance on Listed Issuers Using Contractual Arrangements for Their Businesses, the Reorganization will reduce the connected transactions of the Group, will benefit the business development of Pincha in the future and is in the interests of the Company and its shareholders as a whole.

The Company confirms that the execution and performance of the specific agreements under the above continuing connected transactions during the year ended 31 December 2017 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 2017 are shown below:

	Annual cap (RMB)	**Actual transaction amount** (RMB)
New Distribution Agreement	98,770,000	38,707,974
New Lease Agreement	786,600	624,286
New Structure Contracts	982,000	685,377

The independent non-executive Directors have reviewed and confirmed that the above-mentioned continuing connected transactions for the year ended 31 December 2017 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 2017:

(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 2017.

Save as disclosed above, for the year ended 31 December 2017, there is no related party transaction or continuing related party transaction as set out in note 40 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.

ISSUE OF SHARES

On 10 March 2017, the Company entered in to the 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 ordinary shares of the Company with an aggregate nominal value of US$1,375.00 (the "**Subscription Shares**") at the subscription price of HK$0.5 per share, subject to 1-year lock-up period. The Subscription Price equals to the closing price of HK$0.5 per share of the Company as quoted on the Stock Exchange on 10 March 2017. The issue of Subscription Shares are conditional upon, among others, the Listing Committee of the Stock Exchange granting and not having withdrawn or revoked the approval for the listing of, and permission to deal in, the Subscription Shares. The net proceeds from the subscription of approximately HK$82.4 million 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. The net price per Subscription Share is approximately HK$0.5. The Company has completed the issue and allotment of all Subscription Shares on 25 July 2017. For details, please refer to the announcements issued by the Company on 10 March 2017, 28 April 2017, 22 June 2017 and 25 July 2017, respectively.

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 2017 are as follows:

Month	No. of Shares repurchased	Price per Share Highest	Price per Share Lowest	Total consideration
		HK$	HK$	HK$'000
January	15,267,000	0.50	0.47	7,378
Total	15,267,000	0.50	0.47	7,378

The above repurchase was made to stabilise share price, alleviate the impact brought by share price fluctuation and increase 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 2017.

DONATION

The Company made charitable donations of RMB1.4 million in aggregate during the year ended 31 December 2017.

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 2017. 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, 14 March 2018

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Besunyen Holdings Company Limited
(incorporated in the Cayman Islands 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 97 to 183, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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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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 in connection with the Group's acquisitions of equity interests in entities engaged in the pharmaceutical business.

Key Audit Matter	How our audit addressed the Key Audit Matter
Acquisitions of equity interests in entities engaged in the pharmaceutical business	
As further explained in Note 39 to the consolidated financial statements, the Group has completed the following acquisitions during the year ended 31 December 2017: On 31 October 2017, the Group completed the acquisition of 51% equity interests in Zhongshan Wanhan Pharmacy Co., Ltd. (the "**Zhongshan Wanhan**") and Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (the "**Zhongshan Wanyuan**"), respectively, both companies operate pharmaceutical business in the People's Republic of China, for consideration of RMB122,090,000 and RMB15,610,000, respectively.	In connection with the acquisitions, we have performed the following procedures: • Obtained an understanding of the competency, objectivity and independence of the external valuer as engaged by the Company; • Assessed the identification of intangible assets and methodologies used in determining the fair values of the identifiable assets and assumed liabilities; • Discussed with the external valuer on the scope of the valuation works and assessed the appropriateness of the valuation methodologies used in determining the fair values based on our knowledge on the industry and market practices; • Assessed the reasonableness of valuation parameters (e.g. discount rate) and also the key assumptions as adopted in the valuation (e.g. revenue growth rates, sales margins and useful life of the Medicine Production License) by reviewing the documentation supporting key judgements and assumptions, considering external evidence and historical accuracy of management's assumptions and forecasts;

Key Audit Matter	How our audit addressed the Key Audit Matter
Acquisitions of equity interests in entities engaged in the pharmaceutical business (continued)	
Intangible assets of medicine production license ("**Medicine Production License**") amounted to of approximately RMB126,000,000 have been identified and recognised and goodwill arising from the acquisitions amounted to approximately RMB52,337,000. The identification of assets acquired, and the liabilities assumed and the determination of their corresponding fair values, require significant management judgement and estimations. Management has engaged an independent valuer to assist in performing the valuation and purchase price allocation assessment on the fair values of assets acquired and liabilities assumed as at the acquisition date. We consider the aforesaid acquisitions constitute a key audit matter because significant management judgement and estimations are involved in the determination of valuation parameters (e.g. discount rates) and also the assumptions in the operating and financial performance (e.g. revenue growth rates, sales margins and useful life of Medicine Production Licenses etc.) and the reasonableness of these judgement and estimates have a significant impact on the accounting treatment for the aforesaid acquisitions.	• Checked the arithmetical accuracy on the calculation of the fair values of identified net assets and the purchase price allocations. We found the assumptions as adopted by management in relation to the valuation of fair values of the identifiable assets and liabilities to be supportable by the available evidence.

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.

- 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 those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters 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, 14 March 2018

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	5	**542,870**	514,749
Cost of sales	6	**(112,677)**	(89,229)
Gross profit		**430,193**	425,520
Other income	7	**28,645**	40,736
Selling and marketing expenses	6	**(339,684)**	(428,415)
Administrative expenses	6	**(106,921)**	(76,964)
Research and development costs	6	**(15,866)**	(12,570)
Other expenses	6	**(9,665)**	(10,912)
Other losses, net	8	**(3,305)**	(5,069)
Finance costs		**(180)**	—
Share of profits/(losses) of investments accounted for using the equity method	11	**9,599**	(2,997)
Loss before income tax		**(7,184)**	(70,671)
Income tax credit/(expense)	12	**12,465**	(3,895)
Profit/(loss) for the year		**5,281**	(74,566)
Profit/(loss) attributable to:			
— Owners of the Company		**4,086**	(68,714)
— Non-controlling interests		**1,195**	(5,852)
		5,281	(74,566)
Other comprehensive income		**—**	—
Total comprehensive income/(loss) for the year		**5,281**	(74,566)
Total comprehensive income/(loss) attributable to:			
— Owners of the Company		**4,086**	(68,714)
— Non-controlling interests		**1,195**	(5,852)
		5,281	(74,566)
Earnings/(losses) per share attributable to owners of the Company for the year (RMB cents)			
— Basic earnings/(losses) per share	13	**0.27**	(4.56)
— Diluted earnings/(losses) per share	13	**0.27**	(4.56)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

	Note	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**364,996**	381,640
Land use rights	15	**345,624**	364,358
Investment properties	16	**48,881**	55,632
Intangible assets	17	**200,158**	8,397
Non-current deposits	18	**8,726**	8,402
Investments accounted for using the equity method	11	**96,112**	66,933
Deferred income tax assets	30	**49,645**	34,237
Total non-current assets		**1,114,142**	919,599
Current assets			
Inventories	19	**17,686**	22,720
Trade and bills receivables	20	**52,976**	31,504
Deposits, prepayments and other receivables	21	**26,994**	13,175
Restricted bank deposits	22	**299**	3,911
Term deposits with initial term of over three months	23	**4,185**	—
Cash and cash equivalents	24	**78,790**	153,884
		180,930	225,194
Assets classified as held for sale	25	**94,325**	—
Total current assets		**275,255**	225,194
Total assets		**1,389,397**	1,144,793

Consolidated Balance Sheet

	Note	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	26	**94**	86
Share premium		**1,120,685**	1,055,961
Other reserves	27	**322,414**	319,050
Accumulated losses		**(383,956)**	(385,565)
		1,059,237	989,532
Non-controlling interests		**83,046**	—
Total equity		**1,142,283**	989,532
LIABILITIES			
Non-current liabilities			
Deferred government grants	29	**20,953**	8,639
Deferred income tax liabilities	30	**39,570**	7,066
Other non-current liabilities		**1,296**	1,396
Total non-current liabilities		**61,819**	17,101
Current liabilities			
Trade and bills payables	31	**13,336**	14,780
Other payables and accrued expenses	32	**143,920**	121,175
Borrowing	33	**20,000**	—
Current income tax liabilities		**673**	2,205
		177,929	138,160
Liabilities directly associated with assets classified as held for sale	25	**7,366**	—
Total current liabilities		**185,295**	138,160
Total liabilities		**247,114**	155,261
Total equity and liabilities		**1,389,397**	1,144,793

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 97 to 183 were approved by the Board of Directors on 14 March 2018 and were signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

Consolidated Statement of Changes in Equity

	Notes	Attributable to owners of the Company						
		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 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		—	—	(9,892)	—	(9,892)	(108)	(10,000)
Repurchase and cancellation of shares	26	(3)	(45,834)	—	—	(45,837)	—	(45,837)
Dividends	35	—	(127,969)	—	—	(127,969)	—	(127,969)
Balance at 31 December 2016		86	1,055,961	319,050	(385,565)	989,532	—	989,532
Balance at 1 January 2017		**86**	**1,055,961**	**319,050**	**(385,565)**	**989,532**	**—**	**989,532**
Total comprehensive income for the year		**—**	**—**	**—**	**4,086**	**4,086**	**1,195**	**5,281**
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	**9**	**—**	**—**	**887**	**—**	**887**	**—**	**887**
Non-controlling interests on acquisitions of subsidiaries	**39**	**—**	**—**	**—**	**—**	**—**	**81,851**	**81,851**
Repurchase and cancellation of shares	**26**	**(1)**	**(7,026)**	**—**	**—**	**(7,027)**	**—**	**(7,027)**
Appropriation to statutory surplus reserve		**—**	**—**	**2,477**	**(2,477)**	**—**	**—**	**—**
Issue of shares	**26**	**9**	**71,750**	**—**	**—**	**71,759**	**—**	**71,759**
Balance at 31 December 2017		**94**	**1,120,685**	**322,414**	**(383,956)**	**1,059,237**	**83,046**	**1,142,283**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	34(a)	**93**	(53,979)
Income taxes (paid)/refund, net		**(2,125)**	2,604
Interest received		**1,294**	6,752
Net cash used in operating activities		**(738)**	(44,623)
Cash flows from investing activities			
Purchases of short-term investments		**(25,000)**	(171,000)
Proceeds from maturity of short-term investments		**25,074**	171,794
Placement of term deposits with initial term of over three months		**(685)**	—
Withdrawal of term deposits with initial term of over three months		**—**	51,201
Placement of restricted bank deposits		**(3,257)**	16,446
Withdrawal of restricted bank deposits		**6,869**	(20,357)
Purchases of property, plant and equipment		**(25,288)**	(32,294)
Purchases of intangible assets		**(5,562)**	(1,912)
Investments in associate and joint ventures	11	**(19,580)**	(69,930)
Acquisition of subsidiaries, net of cash acquired	39	**(81,364)**	—
Acquisition of additional interest in a subsidiary		**—**	(10,000)
Proceeds from disposals of land use rights, property, plant and equipment	34(b)	**1,893**	8,525
Receipt of asset-related government grants		**19,292**	3,100
Advance payment received in connection with a subsidiary to be disposed	25	**5,000**	—
Net cash used in investing activities		**(102,608)**	(54,427)
Cash flows from financing activities			
Dividends paid to owners of the Company		**—**	(127,969)
Repurchase of shares	26	**(7,027)**	(45,837)
Proceed from issue of shares		**71,759**	—
Repayments to non-controlling interests		**(33,400)**	—
Interest paid		**(180)**	—
Net cash from/(used in) in financing activities		**31,152**	(173,806)
Net decrease in cash and cash equivalents		**(72,194)**	(272,856)
Cash and cash equivalents at the beginning of year		**153,884**	425,858
Exchange (loss)/gain on cash and cash equivalents		**(2,457)**	882
Cash and cash equivalents at end of year		**79,233**	153,884
Including:			
— Bank balances and cash		**78,790**	153,884
— Bank balances and cash classified as held for sale	25	**443**	—
		79,233	153,884

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 and other 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.

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

The acquisitions of Zhuhai Kangbaina Pharmaceutical Co., Ltd. ("**Kangbaina**") and Zhuhai Aolixin Pharmaceutical Co., Ltd. ("**Aolixin**") as completed in August 2017 and the acquisitions of Zhongshan Wanhan and Zhongshan Wanyuan as completed in October 2017. Details of the assets acquired and the liabilities assumed in the aforesaid acquisitions have been set out in Note 39 to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards 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 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses — Amendments to IAS 12; and
- Disclosure Initiative — Amendments to IAS 7

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

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) New and amended standards adopted by the Group (Continued)

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 34(d).

(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 on or after 1 January 2018 and have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of the new standards that are applicable to the Group is set out below:

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. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the areas that will be affected,including the appropriate treatment for certain promotion expenses paid or payable to ultimate customers of the distributors of the Group's products under IFRS 15.

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in accumulated losses as of 1 January 2018 and that comparatives will not be restated.

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.

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 9 Financial instruments (Continued)

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 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

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.

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 mandatory 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 new standards, amendments or interpretation that are not yet effective that would be expected to have a material impact on the Group.

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

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) Associate

Associate is entity over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting (see (d) below), after initially being recognised at cost.

(c) Joint arrangements

Under IFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group only has joint ventures.

Interests in joint ventures are accounted for using the equity method (see (d) below), after initially being recognised at cost in the consolidated balance sheet.

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

2.2 Principles of consolidation and equity accounting *(Continued)*

(d) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associate and joint ventures are recognised as a reduction in the carrying amounts of the investments.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

(e) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS.

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

2.2 Principles of consolidation and equity accounting *(Continued)*

(e) Changes in ownership interests (Continued)

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

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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

2.3 Business combinations *(Continued)*

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 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.

2.5 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 the 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.

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

2.6 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains/losses — net'.

(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.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

2.6 Foreign currency translation *(Continued)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associate or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("**CIP**"), are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Construction in progress 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.

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

2.7 Property, plant and equipment *(Continued)*

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 derecognized when replaced. 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.

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 and are recognised in profit or loss and presented in the consolidated statement of comprehensive income within 'other gains/losses — net'.

2.8 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields, and are not occupied by the Group. Investment properties are initially measured at costs, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognised so as to write off the cost 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.11. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

(c) Research and development costs

Research and development costs incurred by the Group to design and listing of new or improved products comprised of salaries, employee benefits and other headcount-related costs, raw material consumable and depreciation associated with the research and development activities. The Group expensed all research and development costs as incurred in view of the amount of intangible assets eligible for capitalisation is insignificant.

(d) Trademarks, brand name, patents, licenses and other intangible assets

Separately acquired trademarks and patents are shown at historical cost. Trademarks, brand name, patents and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, brand name, patents and licenses have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses (if any).

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

2.10 Intangible assets *(Continued)*

(e) Amortisation methods and periods

The Group amortises intangible assets with a finite useful life using the straight-line method over the following periods:

Trademarks and brand name	5–10 years
Computer software	2–5 years
Good Supply Practice ("GSP") license	10 years
Medicine production licenses	15 years
Patents and others	5–10 years

2.11 Impairment of non-financial assets

Goodwill and 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, or more frequently if events in circumstances indicate impairment. Other assets that are tested 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).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

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

2.12 Non-current assets (or disposal groups) held for sale *(Continued)*

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

2.13 Investments and other financial assets

2.13.1 Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. During the years ended 31 December 2017 and 2016, the Group only has financial assets in the categories of loans, 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. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise 'trade and bills receivables', 'deposits, prepayments and 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

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories of financial assets are also included in the available-for-sale category.

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

2.13 Investments and other financial assets *(Continued)*

2.13.1 Classification (Continued)

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

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

2.13.2 Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.13.3 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

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

2.13 Investments and other financial assets *(Continued)*

2.13.4 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income.

- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Dividends on available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest on available-for-sale securities and loans and receivables calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined and disclosed in Note 3.3.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has 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.

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

2.15 Impairment of financial assets

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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) Assets carried at amortised cost

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 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.

Impairment testing of trade and bills receivables is described in Note 20.

(b) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period 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.

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

2.16 Inventories

Raw materials, packing materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.17 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are generally due for settlement within 180 days and therefore are all classified as current.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.13 for further information about the Group's accounting for trade and other receivables and Note 2.15 for a description of the Group's impairment policies.

2.18 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.19 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)*

2.20 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 180 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

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

2.21 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.22 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

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

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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

Deferred income tax is provided in full, 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. Deferred income tax is also 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 substantially enacted by the end of the reporting period 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 if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

2.23 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Deferred income tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income 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.

2.24 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government mandated multi-employer defined contribution plan that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current other payables and accrued expenses in the balance sheet.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when employment is terminated.

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

2.25 Share-based payments

Share-based compensation benefits are provided to employees via Share Option Scheme and Restricted Share Award Scheme. Information relating to these schemes are set out in Note 28.

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

2.26 Provisions

Provisions for legal claims and make good obligations 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 can be reliably estimated. Provisions are not recognised for future operating losses.

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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.27 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 rebates, 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.

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

2.27 Revenue recognition *(Continued)*

(a) Sales of goods

Wholesales

The Group produces and sells detox tea, slimming tea, other tea products, slimming and other medicine in the wholesale market. Sales are recognised when products are delivered to the wholesaler. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and the wholesaler has accepted the products in accordance with the sales contract.

The products are often sold with volume rebates. Revenue from sales is based on the price specified in the sales contracts, net of the estimated volume rebates at the time of sale. Accumulated experience is used to estimate and provide for the rebates. The volume rebates 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 properties is recognised in profit or loss on a straight-line basis over the term of the lease.

2.28 Interest income

Interest income is recognised using the effective interest method. When a 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 is recognised using the original effective interest rate.

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

2.29 Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

2.30 Government grants

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 the purchases of property, plant and equipment and land use rights 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.

2.31 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.

2.32 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.

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 and interest rate 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. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

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:

	2017 **RMB'000**	2016 RMB'000
US$		
Assets	**35**	41
Liabilities	**(13)**	—
Net	**22**	41
HK$		
Assets	**6,594**	14,820
Liabilities	**—**	—
Net	**6,594**	14,820

As at 31 December 2017 and 2016, if RMB strengthened/weakened by 5% against US$ and HK$ with all other variables held constant, the post-tax profit for the year would have been approximately RMB320,000 lower/higher (2016: post-tax loss RMB703,000 higher/lower), mainly as a result of foreign exchange loss on translation of US$ and HK$ denominated cash and cash equivalents and other receivables.

(b) Interest rate risk

Interest rate risk may arise from borrowing with variable rates, which expose the Group to cash flow interest rate risk. As of 31 December 2017, the Group's only borrowing bears fixed interest rate (2016: not applicable) (Note 33). As a result, the Group is not exposed to any significant cash flow interest rate risk.

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 2017					
Borrowing	**—**	**20,602**	**—**	**20,602**	**20,602**
Trade and bills payables	**13,188**	**148**	**—**	**13,336**	**13,336**
Other payables and accrued expenses	**85,756**	**—**	**—**	**85,756**	**85,756**
Other non-current liabilities	**—**	**—**	**1,296**	**1,296**	**1,296**
	98,944	**20,750**	**1,296**	**120,990**	**120,990**
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

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 2017, the Group's liability-to-asset ratio was 17.79% (2016: 13.56%).

3.3 Fair value estimation

The Group has no financial assets and liabilities that are measured at fair value as at 31 December 2017 and 2016.

The disclosure in respect of the fair value of the Group's investment properties has been set out in Note 16 and the fair value hierarchy levels used for determining the fair value for disclosure purpose are as below:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

(a) 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.

(b) Goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit ("**CGU**") is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the growth rates as estimated by management by reference to certain internal and external market data. Details of key assumptions are disclosed in Note 17.

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

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) Purchase price allocation in business combinations

The Group recognises identifiable assets, liabilities and contingent liabilities at fair value at the date of acquisition. In applying the acquisition method, the Group recognises the goodwill with the excess of the acquisition cost over the fair values of the identified net assets of acquirees. The accounting for business combination involves the use of significant management judgment and estimates including identifying assets acquired and the liabilities assumed and the determination of their corresponding fair values. Management engages an independent valuer to assist in performing the purchase price allocation assessment on the fair values of assets acquired and liabilities assumed as at the acquisition date, which involves significant management judgement and estimations in the determination of valuation parameters (e.g. discount rates) and also the assumptions in the operating and financial performance (e.g. revenue growth rates, sales margins and useful life of Medicine Production License etc.).

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 and other medicine as separate reportable segments, namely the tea products segment and the slimming and other 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.

Revenue

The revenue segment information reported to CODM for the years ended 31 December 2017 and 2016 is as follows:

	2017 RMB'000	2016 RMB'000
Tea products segment		
— Detox tea	**225,764**	189,129
— Slimming tea	**215,975**	209,292
— Others	**32,262**	22,862
	474,001	421,283
Sliming and other medicine segment		
— Slimming medicine	**62,694**	93,466
— Other medicine	**6,175**	—
	68,869	93,466
	542,870	514,749

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 31 December 2017 are as follows:

	Tea products segment RMB'000	Slimming and other medicine segment RMB'000	Total RMB'000
Total revenue	474,001	68,869	542,870
Inter-segment revenue	—	—	—
Revenue from external customers	474,001	68,869	542,870
Cost of sales	(88,340)	(24,337)	(112,677)
Gross profit	385,661	44,532	430,193
Selling and marketing expenses	(288,603)	(51,081)	(339,684)
Research and development costs	(10,297)	(5,569)	(15,866)
Segment results	86,761	(12,118)	74,643
Other income			28,645
Other losses, net			(3,305)
Administrative expenses			(106,921)
Other expenses			(9,665)
Finance costs			(180)
Share of profits of investments accounted for using the equity method			9,599
Loss before income tax			(7,184)
Income tax credit			12,465
Profit for the year			5,281
Other segment information:			
Depreciation	(31,911)	(1,256)	(33,167)
Amortisation	(10,772)	(2,789)	(13,561)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	Tea products segment RMB'000	Slimming and other 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)

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 2017 and 2016.

6. EXPENSES BY NATURE

	2017 RMB'000	2016 RMB'000
Changes in inventories of finished goods and work in progress	**9,187**	(14,899)
Raw materials and consumables used	**53,337**	57,290
Provision for impairment of trade receivables	**69**	201
Advertising costs	**99,753**	159,994
Employee benefit expenses (Note 9)	**161,746**	162,320
Marketing and promotional expenses	**108,218**	118,111
Depreciation and amortisation	**46,728**	44,780
Entertainment and travelling expenses	**16,280**	16,755
Professional service fees	**25,570**	13,638
Stamp duties, property and other taxes	**8,097**	7,923
Rental expense	**7,001**	7,027
Logistics expenses	**6,236**	5,605
Office expenses	**5,892**	6,709
Maintenance and testing costs	**4,778**	4,881
Researching and development outsource expenses	**4,187**	3,302
Auditors' remunerations		
— audit	**2,600**	2,728
— non-audit	**270**	250
Others	**24,864**	21,475
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**584,813**	618,090

7. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Rental income from investment properties	**22,004**	19,242
Government grants	**5,237**	13,468
Bank interest income	**1,198**	6,679
Interest income from short–term investment	**102**	794
Others	**104**	553
	28,645	40,736

8. OTHER LOSSES, NET

	2017 RMB'000	2016 RMB'000
Gain on disposals of land use rights and property, plant and equipment	**(510)**	(2,514)
Donation	**1,441**	1,521
Net foreign exchange loss	**2,528**	1,365
Penalty expense	**23**	3,714
Others	**(177)**	983
	3,305	5,069

9. EMPLOYEE BENEFIT EXPENSES

	2017 RMB'000	2016 RMB'000
Salaries, bonus and other allowances	**151,038**	150,634
Share-based compensation	**887**	2,169
Pension cost — defined contribution plan	**9,821**	9,517
	161,746	162,320

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2016: two) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments payable to the remaining three (2016: three) individuals during the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, bonus and other allowances	**4,491**	4,419
Share-based compensation	**349**	631
Pension cost — defined contribution plan	**147**	141
	4,987	5,191

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands (in HK$)		
HK$1,000,001—HK$1,500,000	**2**	1
HK$1,500,001—HK$2,000,000	**1**	1
HK$2,000,001—HK$2,500,000	**—**	—
HK$2,500,001—HK$3,000,000	**—**	1

10. SUBSIDIARIES

(a) Subsidiaries

The Group's principal subsidiaries at 31 December 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2017	2016	**2017**	2016
Besunyen BVI	Cayman, Limited liability company	Investment holding in BVI	US$1	**100%**	100%	**–**	–
Besunyen (Hong Kong) Co., Ltd. 碧生源(香港)有限公司	Hong Kong, Limited liability company	Investment holding in Hong Kong	HK$1	**100%**	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	Manufacture and sales of therapeutic tea products in PRC	RMB829,413,849	**100%**	100%	**–**	–
Beijing Besunyen Trading Co.,Ltd. (note i) 北京碧生源商貿有限公司	The PRC, Limited liability company	Sales of therapeutic tea products in PRC	RMB5,000,000	**100%**	100%	**–**	–
Beijing Besunyen Food and Beverage Co., Ltd. (notes i and vii and note 25) 北京碧生源食品飲料有限公司	The PRC, Limited liability company	Sales of tea products in PRC	RMB100,000,000	**100%**	100%	**–**	–
Guangzhou Outsell Trading Co., Ltd. (notes i and vi) 廣州澳特舒爾商貿有限公司	The PRC, Limited liability company	Sales of therapeutic tea products in PRC	RMB5,000,000	**100%**	100%	**–**	–
Beijing Pincha Online E-Commerce Co., Ltd. (notes ii and v) 北京品茶在綫電子商務有限公司	The PRC, Limited liability company	Sales of therapeutic tea products in PRC	RMB6,000,000	**100%**	(note v)	**–**	–
Jiangxi Besunyen Trading Co., Ltd. (notes i and vi) 江西碧生源商貿有限公司	The PRC, Limited liability company	Sales of therapeutic tea products in PRC	RMB2,000,000	**100%**	100%	**–**	–
Heilongjiang Besunyen Trading Co., Ltd. (note i) 黑龍江碧生源商貿有限公司	The PRC, Limited liability company	Sales of therapeutic tea products in PRC	RMB5,000,000	**100%**	100%	**–**	–
Beijing Besunyen Pharmaceutical Co., Ltd. (note i) 北京碧生源藥業有限公司	The PRC, Limited liability company	Research, manufacturing and sales of herbal and medical tea in PRC	RMB106,700,000	**100%**	100%	**–**	–
Guangzhou Runliang Phameceutical Co.,Ltd. (note iii) 廣州潤良藥業有限公司	The PRC, Limited liability company	Sales of slimming medicine in PRC	RMB35,000,000	**100%**	100%	**–**	–

10. SUBSIDIARIES *(Continued)*

(a) Subsidiaries *(Continued)*

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Ownership interest held by the Group 2017	Ownership interest held by the Group 2016	Ownership interest held by non-controlling interests 2017	Ownership interest held by non-controlling interests 2016
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	Sales of therapeutic tea products in PRC	RMB500,000	**100%**	100%	**–**	–
Khorgos Besunyen Venture Investment Co.,Ltd. (note viii) 霍爾果斯碧生源創業投資有限公司	The PRC, Limited liability company	Investment holdings in PRC	RMB55,700,000	**100%**	–	**–**	–
Beijing Besunyen Property Management Co.,Ltd. (notes i and viii) 北京碧生源物業管理有限公司	The PRC, Limited liability company	Management for property in PRC	RMB500,000	**100%**	–	**–**	–
Zhuhai Kangbaina Pharmaceutical Co.,Ltd. (notes iv and ix and Note 39) 珠海康百納藥業有限公司	The PRC, Limited liability company	Sales of medicines in PRC	RMB1,000,000	**100%**	–	**–**	–
Zhuhai Aolixin Pharmaceutical Co.,Ltd. (notes iv and ix and Note 39) 珠海奧利新醫藥有限公司	The PRC, Limited liability company	Sales of medicines in PRC	RMB2,000,000	**100%**	–	**–**	–
Zhongshan Wanhan Pharmacy Co.,Ltd. (notes iv and ix and Note 39) 中山萬漢製藥有限公司	The PRC, Limited liability company	Research, manufacturing and sales of medicines in PRC	RMB18,471,429	**51%**	–	**49%**	–
Zhongshan Wanyuan New Medicine Research and Development Co.,Ltd. (notes iv and ix and Note 39) 中山萬遠新藥研發有限公司	The PRC, Limited liability company	Research and development of medicine in PRC	RMB10,204,082	**51%**	–	**49%**	–
Guangzhou Wanhan Qianshun Medical Technology Co., Ltd. (notes ix and x) 廣州萬漢謙順醫藥科技有限公司	The PRC, Limited liability company	Sales of medicines in PRC	–	**35.7%**	–	**64.3%**	–
Tibet Besunyen Trading Co.,Ltd. (note viii) 西藏碧生源商貿有限公司	The PRC, Limited liability company	Sales of therapeutic tea products in PRC	–	**100%**	–	**–**	–
Tibet Qianruiwanfu Venture Investment Co., Ltd. (notes i and viii) 西藏千瑞萬福創業投資有限公司	The PRC, Limited liability company	Investment holdings in PRC	RMB10,000,000	**100%**	–	**–**	–
Beijing Besunyen E-Commerce Co., Ltd. (notes ii and viii) 北京碧生源電子商務有限公司	The PRC, Limited liability company	E-Commerce business	RMB5,000,000	**100%**	–	**–**	–
Beijing Anliyashan Business Consulting Co., Ltd. (notes i and viii) 安利亞山(北京)商務諮詢有限公司	The PRC, Limited liability company	Business consulting	RMB700	**100%**	–	**–**	–

10. SUBSIDIARIES *(Continued)*

(a) Subsidiaries *(Continued)*

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2017	2016	**2017**	2016
Beijing Lifan Business Consulting Co., Ltd. (note viii) 北京利泛商務諮詢有限公司	The PRC, Limited liability company	Business consulting	–	**100%**	–	**–**	–
Beijing Bishenglinxi Property Management Co., Ltd. (notes i and viii) 北京碧生林溪物業管理有限公司	The PRC, Limited liability company	Management for property in PRC	RMB1,000,000	**100%**	–	**–**	–
Beijing Bishengcaotang Property Management Co., Ltd. (notes i and viii) 北京碧生草堂物業管理有限公司	The PRC, Limited liability company	Management for property in PRC	RMB1,000,000	**100%**	–	**–**	–
Shanghai Bisheng Property Management Co., Ltd. (notes i and viii) 上海碧生物業管理有限公司	The PRC, Limited liability company	Management for property in PRC	RMB1,000,000	**100%**	–	**–**	–
Beijing Bihaidongyuan Property Management Co., Ltd. (notes i and viii) 北京碧海東源物業管理有限公司	The PRC, Limited liability company	Management for property in PRC	RMB700	**100%**	–	**–**	–
Beijing Yize Qingshan Business Consulting Co., Ltd. (note viii) 北京易澤青山商務諮詢有限公司	The PRC, Limited liability company	Business consulting	–	**100%**	–	**–**	–

Notes:

(i) These companies are limited liability companies which are wholly owned by Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**").

(ii) These companies are limited liability companies which are wholly owned by Tibet Qianruiwanfu Venture Investment Co.,Ltd. ("**Tibet Qianruiwanfu**").

(iii) These companies are limited liability companies are wholly owned by Tibet Besunyen Trading Co.,Ltd. ("**Tibet Besunyen**").

(iv) The Group's equity interests in these limited liability companies are owned by Khorgos Besunyen Venture Investment Co.,Ltd. ("**Besunyen Venture Investment**").

10. SUBSIDIARIES *(Continued)*

(a) Subsidiaries *(Continued)*

Notes: *(Continued)*

(v) The PRC regulations restrict foreign ownership companies to provide value-added telecommunications services, which include activities and services operated by Beijing Pincha Online E-commerce Co., Ltd. ("**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, the "**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.

On 25 July 2017, the Group announced that Beijing Outsell, Pincha, Mr. Zhao Yihong and Ms. Gao Yan entered into the termination agreement to terminate the Structure Contracts and the related confirmation and undertaking. On the same date, Beijing Outsell entered into the equity transfer agreement with Mr. Zhao, pursuant to which Mr. Zhao agreed to transfer 100% equity interest in Pincha to Beijing Outsell at nil consideration.

The Group has completed the aforesaid transaction on 13 November 2017 and Pincha became a wholly-owned subsidiary of Beijing Outsell, and thus became an indirect wholly-owned subsidiary of the Company since then. On 5 December 2017, Beijing Outsell has transferred its 100% equity interest in Pincha to Tibet Besunyen, a wholly-owned subsidiary of the Group.

10. SUBSIDIARIES *(Continued)*

(a) Subsidiaries *(Continued)*

Notes: *(Continued)*

(vi) These companies are in the process of liquidation since no material business operated by these companies during the years ended 31 December 2017 and 2016.

Subsequently, the liquidation of Jiangxi Besunyen Trading Co., Ltd. was completed in January 2018.

(vii) In March 2017, the directors of the Company decided to sell Beijing Besunyen Food and Beverage Co., Ltd. ("**Besunyen Food and Beverage**"). Beijing Outsell has received advance payment of RMB5,000,000 from the acquirer and the transaction is expected to be completed before the end of 2018. As a result, assets and liabilities of Besunyen Food and Beverage are classified as assets classified as held for sale and liabilities directly associated with assets classified as held for sale respectively as at 31 December 2017 (Note 25).

(viii) These subsidiaries were newly established by the Group in 2017.

(ix) These subsidiaries were newly acquired by the Group in 2017.

(x) Zhongshan Wanhan holds 70% of equity interests in Guangzhou Wanhan Qianshun Medical Technology Co., Ltd. ("**Wanhan Qianshun**"). On 31 October 2017, the Group completed the acquisition of 51% equity interest in Zhongshan Wanhan and therefore, Wanhan Qianshun became a subsidiary of the Group. The Group has an effective interest of 35.7% in Wanhan Qianshun.

(xi) None of the subsidiaries have issued any debt securities as at 31 December 2017 and 2016.

(b) Significant restrictions

Cash and cash equivalents and term deposits of approximately RMB72,336,000 (2016: RMB97,352,000) 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.

10. SUBSIDIARIES *(Continued)*

(c) Consolidation of structured entities

As mentioned in Note 10(a)(vi) above, the Company had consolidated the operating entity, Pincha, within the Group without any legal equity interest therein in the past. In addition, the Company has also set up a trust ("**Share Scheme Trust**") for the implementation of the restricted share award scheme of the Company mentioned in Note 28(b), and details of which 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 2017, the Share Scheme Trust held 35,401,567 (2016: 36,601,567) shares which have not yet been granted to employees.

(d) Non-controlling interests ("NCI")

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are post inter-company eliminations.

Summarised balance sheet

	Zhongshan Wanhan At 31 December 2017 RMB'000	Zhongshan Wanyuan At 31 December 2017 RMB'000
Current assets	50,123	3,494
Current liabilities	(9,612)	(6,382)
Net current assets/(liabilities)	40,511	(2,888)
Non-current assets	166,707	33,499
Non-current liabilities	(66,147)	(1,995)
Net non-current assets	100,560	31,504
Net assets	141,071	28,616
Accumulated NCI	69,024	14,022

10. SUBSIDIARIES *(Continued)*

(d) Non-controlling interests ("NCI") *(Continued)*

Summarised statement of comprehensive income

	Zhongshan Wanhan Period from 1 November 2017 to 31 December 2017 RMB'000	Zhongshan Wanyuan Period from 1 November 2017 to 31 December 2017 RMB'000
Revenue	15,220	2,897
Profit for the period	409	2,070
Other comprehensive income	—	—
Total comprehensive income	409	2,070
Profit allocated to NCI	181	1,014
Dividends paid to NCI	—	—

Summarised cash flows

	Zhongshan Wanhan Period from 1 November 2017 to 31 December 2017 RMB'000	Zhongshan Wanyuan Period from 1 November 2017 to 31 December 2017 RMB'000
Cash flows generated from/(used in) operating activities	22,069	(12,558)
Cash flows used in investing activities	(2,090)	(919)
Cash flows used in financing activities	(33,580)	—
Net decrease in cash and cash equivalents	(13,601)	(13,477)

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Associate (a)	**3,861**	8,256
Joint ventures (b)	**92,251**	58,677
	96,112	66,933

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

	2017 RMB'000	2016 RMB'000
Associate (a)	**(4,395)**	(1,544)
Joint ventures (b)	**13,994**	(1,453)
	9,599	(2,997)

(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 as at 31 December 2017, the Group has contributed capital of RMB9,800,000 to Yunzhi Besunyen.

Details of investment in the associate as at 31 December 2017 and 2016 are as below:

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

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

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

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

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 2017 RMB'000	As at 31 December 2016 RMB'000
Current		
Cash and cash equivalents	**4,557**	16,259
Other current assets	**2,781**	1,035
Total current assets	**7,338**	17,294
Trade and other payables	**(1,015)**	(1,298)
Total current liabilities	**(1,015)**	(1,298)
Non-current assets	**1,556**	852
Net assets	**7,879**	16,848

Summarised statement of comprehensive income

	2017 RMB'000	Period from 9 May 2016 (date of incorporation) to 31 December 2016 RMB'000
Revenue	**10,465**	38
Cost of sales	**(6,222)**	(27)
Selling and marketing expenses	**(7,222)**	(1,511)
Administrative expenses	**(6,020)**	(1,677)
Other expenses	**30**	25
Loss before income tax	**(8,969)**	(3,152)
Income tax expense	**—**	—
Loss for the year/period	**(8,969)**	(3,152)
Other comprehensive income	**—**	—
Total comprehensive loss	**(8,969)**	(3,152)

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

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

Summarised statement of comprehensive income *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Opening net assets	**16,848**	—
Capital injected by the shareholders of the associate	—	20,000
Loss for the year	**(8,969)**	(3,152)
Closing net assets	**7,879**	16,848
Interest in the associate (49%)	**3,861**	8,256
Carrying amount	**3,861**	8,256

(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
Carrying amounts at 1 January 2016	—	—	—
Capital contributed by the Group during the year	500	59,630	60,130
Share of losses	(15)	(1,438)	(1,453)
Carrying amounts at 31 December 2016	485	58,192	58,677
Carrying amounts at 1 January 2017	**485**	**58,192**	**58,677**
Capital contributed by the Group during the year	**—**	**19,580**	**19,580**
Share of profit/(loss)	**(99)**	**14,093**	**13,994**
Carrying amounts at 31 December 2017	**386**	**91,865**	**92,251**

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

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

Details of investments in joint ventures as at 31 December 2017 and 2016 are as below:

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%	Joint venture	Equity method
Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the "**Fund**") (Notes i and ii)	The PRC	89.5%	Joint venture	Equity method

Notes:

(i) 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 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 2017, the Group has already contributed capital of RMB500,000 and RMB79,210,000 (2016: 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 health care 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.

Although the Group owns more than half of the equity interests in the Fund, 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.

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

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

Commitments and contingent liabilities in respect of joint ventures

	2017 RMB'000	2016 RMB'000
Commitment to provide funding if called	**9,790**	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 2017 and 2016

	The Fund Management Company		The Fund		Total	
	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000	**As at 31 December 2017 RMB'000**	As at 31 December 2016 RMB'000
Current						
Cash and cash equivalents	**56**	658	**198**	292	**254**	950
Other current assets	**67**	—	**2,009**	—	**2,076**	—
Total current assets	**123**	658	**2,207**	292	**2,330**	950
Trade and other payables	**(240)**	(360)	**—**	—	**(240)**	(360)
Total current liabilities	**(240)**	(360)	**—**	—	**(240)**	(360)
Non-current						
Financial assets at fair value through profit or loss	**—**	—	**100,892**	65,061	**100,892**	65,061
Other non-current assets	**889**	672	**—**	—	**889**	672
Total non-current assets	**889**	672	**100,892**	65,061	**101,781**	65,733
Net assets	**772**	970	**103,099**	65,353	**103,871**	66,323

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

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

Summarised statement of comprehensive income

	The Fund Management Company		The Fund		Total	
	Year ended 31 December 2017 RMB'000	Period from 8 March 2016 to 31 December 2016 RMB'000	**Year ended 31 December 2017 RMB'000**	Period from 5 April 2016 to 31 December 2016 RMB'000	**Year ended 31 December 2017 RMB'000**	Period from 8 March 2016 and 5 April 2016 to 31 December 2016 RMB'000
Revenue	**1,942**	1,438	**—**	—	**1,942**	1,438
Administrative expenses	**(2,138)**	(1,463)	**(95)**	(1,610)	**(2,233)**	(3,073)
Other (expenses)/income	**(2)**	(5)	**1**	3	**(1)**	(2)
Fair value changes on financial assets at fair value through profit or loss	**—**	—	**15,840**	—	**15,840**	—
Profit/(loss) before income tax	**(198)**	(30)	**15,746**	(1,607)	**15,548**	(1,637)
Income tax expense	**—**	—	**—**	—	**—**	—
Profit/(loss) for the year	**(198)**	(30)	**15,746**	(1,607)	**15,548**	(1,637)
Other comprehensive income	**—**	—	**—**	—	**—**	—
Total comprehensive income/(loss)	**(198)**	(30)	**15,746**	(1,607)	**15,548**	(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.

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

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

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	Fund Management Company RMB'000	Fund RMB'000	Total RMB'000
Opening net assets at 1 January 2016	—	—	—
Capital contributed by the shareholders of the joint ventures	1,000	66,960	67,960
Loss for the year	(30)	(1,607)	(1,637)
Closing net assets at 31 December 2016	970	65,353	66,323
Interest in joint venture (50% and 89.5% respectively)	485	58,491	58,976
Others	—	(299)	(299)
Carrying amounts at 31 December 2016	485	58,192	58,677
Opening net assets at 1 January 2017	**970**	**65,353**	**66,323**
Capital contributed by the shareholders of the joint ventures	**—**	**22,000**	**22,000**
Profit/(loss) for the year	**(198)**	**15,746**	**15,548**
Closing net assets at 31 December 2017	**772**	**103,099**	**103,871**
Interest in joint venture (50% and 89.5% respectively)	**386**	**92,274**	**92,660**
Others	**—**	**(409)**	**(409)**
Carrying amounts at 31 December 2017	**386**	**91,865**	**92,251**

12. INCOME TAX (CREDIT)/EXPENSE

	2017 RMB'000	2016 RMB'000
Current income tax:		
Current income tax on profit for the year	**593**	1,932
Adjustments in respect of the prior year	**—**	(1,160)
	593	772
Deferred income tax (Note 30):		
Origination and reversal of temporary differences	**(13,058)**	3,123
Income tax (credit)/expense	**(12,465)**	3,895

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

The tax rate applicable to the Group's subsidiary incorporated and operated in Hong Kong is 16.5% (2016: 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 2017 and 2016.

In August 2017, Beijing Outsell, a subsidiary of the Group, has obtained the High and New Technology Enterprise ("**HNTE**") qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

In November 2015, Besunyen Food and Beverage 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%.

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

Zhongshan Wanhan, a subsidiary newly acquired by the Group in October 2017 (Note 39(c)), has obtained the HNTE qualification for three years from 2016 to 2018, in which the applicable income tax rate during the approved period is 15%.

In November 2017, Zhongshan Wanyuan, a subsidiary newly acquired by the Group in October 2017 (Note 39(d)), has obtained the HNTE qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

Besunyen Venture Investment, a subsidiary established by the Group in July 2017, is entitled to the preferential policy of newly established enterprise in Kashgar and Khorgos Special Economic Development Zone in Xinjiang to exempt from enterprise income tax from 2017 to 2020.

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2016: 25%).

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the PRC statutory enterprise income tax rate as follows:

	2017 **RMB'000**	2016 RMB'000
Loss before income tax	**(7,184)**	(70,671)
Tax at PRC statutory enterprise income tax rate of 25% (2016: 25%)	**(1,796)**	(17,668)
Effect of preferential tax rate granted	**444**	5,767
Re-measurement of deferred tax due to change of tax rate	**14,123**	(5,577)
Tax losses or temporary differences for which no deferred income tax was recognised	**(1,707)**	21,116
Utilisation or recognition of previously unrecognised tax losses/deductible temporary differences	**(30,162)**	(324)
Tax effect of expenses not deductible for tax purposes and others	**6,633**	1,741
Adjustment in respect of the prior year	**—**	(1,160)
Income tax (credit)/expenses	**(12,465)**	3,895

13. EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the profit/(losses) 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 28(b)).

	2017	2016
Profit/(loss) attributable to owners of the Company (RMB'000)	**4,086**	(68,714)
Weighted average number of ordinary shares in issue (thousand)	**1,510,216**	1,506,515
Basic earnings/(losses) per share (RMB cents per share)	**0.27**	(4.56)

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the earnings/(losses) per share. Diluted earnings/(losses) 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 earnings/(losses) per share). The share options had anti-diluted effect to the Group for the years ended 31 December 2017 and 2016. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2017 and 2016. Accordingly, the diluted earnings/(losses) per share is same as the basic earnings/(losses) per share for the years ended 31 December 2017 and 2016.

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 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
At 1 January 2017	261,907	216,519	33,328	67,668	579,422
Additions	124	1,730	3,103	20,083	25,040
Transfer	—	495	1,312	(1,807)	—
Acquisitions of subsidiaries (Note 39)	7,211	4,322	3,075	16,725	31,333
Transfer from investment properties (Note 16)	5,496	—	—	—	5,496
Asset classified as held for sale (Note 25)	(39,947)	(8,684)	(156)	(2,354)	(51,141)
Disposals/write-off	(190)	(1,449)	(2,108)	—	(3,747)
At 31 December 2017	234,601	212,933	38,554	100,315	586,403
ACCUMULATED DEPRECIATION					
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
At 1 January 2017	47,761	109,331	27,453	—	184,545
Charge for the year	9,203	19,200	2,788	—	31,191
Transfer from investment properties (Note 16)	721	—	—	—	721
Asset classified as held for sale (Note 25)	(3,704)	(1,840)	(126)	—	(5,670)
Disposals/write-off	(42)	(568)	(2,007)	—	(2,617)
At 31 December 2017	53,939	126,123	28,108	—	208,170
ACCUMULATED IMPAIRMENT					
At 1 January 2016, 31 December 2016 and 31 December 2017	1,630	11,607	—	—	13,237
NET BOOK VALUE					
At 31 December 2017	179,032	75,203	10,446	100,315	364,996
At 31 December 2016	212,516	95,581	5,875	67,668	381,640

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

(a) At 31 December 2016, the Group was in the progress of obtaining property ownership certificates of certain buildings located in the PRC with carrying amount of approximately RMB24,835,000. The Group has subsequently obtained the property ownership certificates of these buildings during the year ended 31 December 2017.

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

	2017 RMB'000	2016 RMB'000
Cost of sales	**22,533**	23,046
Administrative expenses	**6,344**	6,574
Research and development costs	**1,659**	1,830
Selling and marketing expenses	**655**	728
	31,191	32,178

(c) In 2017, the Group has terminated the lease arrangement with a lessee in respect of the first and second floors of the Group's property, Linglongtiandi, as located in Beijing as management has decided to use these properties for the Group's own operations in the future. Accordingly, these investment properties have been transferred to property, plant and equipment as and when the properties become self-occupied.

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:

	2017 RMB'000	2016 RMB'000
At 1 January	**364,358**	377,100
Amortisation	**(9,165)**	(9,064)
Acquisition of subsidiaries (Note 39)	**39,010**	—
Transfer to assets classified as held for sale (Note 25)	**(48,326)**	—
Disposals	**(253)**	(3,678)
At 31 December	**345,624**	364,358

At 31 December 2016, the Group was in the progress of obtaining ownership certificates of certain land use rights located in the PRC with carrying amount of approximately RM229,660,000. The Group has subsequently obtained the ownership certificates of these land use rights during the year ended 31 December 2017.

15. LAND USE RIGHTS *(Continued)*

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

	2017 **RMB'000**	2016 RMB'000
Cost of sales	**417**	383
Other expenses	**5,644**	6,502
Administrative expenses	**3,104**	2,179
	9,165	9,064

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2016 and 31 December 2016	66,075
At 1 January 2017	66,075
Transfer to property, plant and equipment (Note 14(c))	(5,496)
At 31 December 2017	60,579
ACCUMULATED DEPRECIATION	
At 1 January 2016	8,381
Charge for the year	2,062
At 31 December 2016	10,443
At 1 January 2017	10,443
Charge for the year	1,976
Transfer to property, plant and equipment (Note 14(c))	(721)
At 31 December 2017	11,698
NET BOOK VALUE	
At 31 December 2017	48,881
At 31 December 2016	55,632

16. INVESTMENT PROPERTIES *(Continued)*

(a) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

	As at 31 December 2017		As at 31 December 2016	
	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	**10,373**	**14,000**	10,856	17,500
Commercial property units located in Beijing	**38,508**	**44,000**	44,776	46,000

The Group's investment properties were valued at 31 December 2017 and 2016 by Asia-Pacific Consulting and Appraisal Limited and DTZ Debenham Tie Leung Limited respectively, who are independent qualified valuers. 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 terminal yield, reversionary yield, and market unit rent of individual unit as disclosed below:

Description	Fair value at 31 December 2017 RMB'000	31 December 2016 RMB'000	Unobservable inputs	Range of inputs 2017	2016	Relationship of unobservable inputs to fair value
Commercial property units	58,000	63,500	Terminal yield	4%–5.5%	4%–6%	The higher the terminal yield and
			Revisionary yield	4.5%–6%	4.5%–6.5%	revisionary yield, the lower the fair value
			Market unit rent of individual unit	RMB6.1–12.5 sq.m/day	RMB6.1–11.2 sq.m/day	The higher the market unit rent of individual unit, the higher the fair value

There had been no change from the valuation technique for commercial property used in the prior year.

16. INVESTMENT PROPERTIES *(Continued)*

(b) At 31 December 2016, the Group was in the progress of obtaining property ownership certificates of certain investment properties located in the PRC with carrying amount of approximately RMB44,776,000. The Group has subsequently obtained the property ownership certificates of these investment properties during the year ended 31 December 2017.

(c) Property rental income earned during the year ended 31 December 2017 was approximately RMB22,004,000 (2016: RMB19,242,000). All of the properties held as at 31 December 2017 have committed tenants for the next 1 to 2 years (2016: 1 to 3 years). As at 31 December 2017, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	2017 **RMB'000**	2016 RMB'000
No later than 1 year	**27,954**	20,057
Later than 1 year and no later than 5 years	**18,620**	27,112
	46,574	47,169

(d) Depreciation charges of approximately RMB1,976,000 for the year ended 31 December 2017 (2016: RMB2,062,000) have been charged in 'other expenses' in profit or loss.

17. INTANGIBLE ASSETS

	Goodwill (note(a) and Note 39) RMB'000	Trademarks and brand name RMB'000	Computer software RMB'000	GSP license RMB'000	Medicine production licenses RMB'000	Patents and others RMB'000	Total RMB'000
COST							
At 1 January 2016	—	11,498	846	7,740	—	7,287	27,371
Additions	—	—	265	—	—	—	265
Disposal/write-off	—	—	—	—	—	(2,262)	(2,262)
At 31 December 2016	—	11,498	1,111	7,740	—	5,025	25,374
At 1 January 2017	—	11,498	1,111	7,740	—	5,025	25,374
Additions	—	—	7,222	—	—	—	7,222
Acquisitions of subsidiaries (Note 39)	56,453	1,900	16	—	126,000	4,566	188,935
At 31 December 2017	56,453	13,398	8,349	7,740	126,000	9,591	221,531
ACCUMULATED AMORTISATION							
At 1 January 2016	—	10,004	46	535	—	3,855	14,440
Charge for the year	—	247	370	801	—	58	1,476
Disposal/write-off	—	—	—	—	—	(2,262)	(2,262)
At 31 December 2016	—	10,251	416	1,336	—	1,651	13,654
At 1 January 2017	—	10,251	416	1,336	—	1,651	13,654
Charge for the year	—	338	1,567	801	1,401	289	4,396
At 31 December 2017	—	10,589	1,983	2,137	1,401	1,940	18,050
ACCUMULATED IMPAIRMENT							
At 1 January 2016, 31 December 2016 and 31 December 2017	—	—	—	—	—	3,323	3,323
NET BOOK VALUE							
At 31 December 2017	56,453	2,809	6,366	5,603	124,599	4,328	200,158
At 31 December 2016	—	1,247	695	6,404	—	51	8,397

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

	2017 RMB'000	2016 RMB'000
Cost of sales	**2,885**	1,056
Administrative expenses	**1,344**	377
Selling and marketing expenses	**167**	43
	4,396	1,476

17. INTANGIBLE ASSETS *(Continued)*

(a) Impairment tests for goodwill

Goodwill is monitored by management at the level of the following two CGUs:

	Total RMB'000
Zhongshan Wanhan and Zhongshan Wanyuan	**52,337**
Kangbaina and Aolixin	**4,116**
	56,453

The following table sets out the key assumptions for those CGUs with goodwill allocated to them:

	Zhongshan Wanhan and Zhongshan Wanyuan	**Kangbaina and Aolixin**
2017		
Revenue growth rate (%)	**12%–62%**	**7%–60%**
Sales margin (%)	**55%–57%**	**13%–16%**
Terminal growth rate (%)	**3%**	**3%**
Pre-tax discount rate (%)	**17%**	**19%**

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Revenue growth rate	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Sales margin	Based on past performance and management's expectations for the five-year forecast period.
Terminal growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rate is refer to forecasts included in industry practice.
Pre-tax discount rate	Reflect specific risks relating to the operation of the business in PRC.

18. NON-CURRENT DEPOSITS

	2017 **RMB'000**	2016 RMB'000
Deposits for purchases of property, plant and equipment and intangible assets	**8,726**	8,402

19. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials and packaging materials	**7,969**	3,816
Work in progress	**1,803**	1,028
Finished goods	**7,914**	17,876
	17,686	22,720
Less: provision for impairment	**—**	—
	17,686	22,720

The cost of inventories recognised as expense and included in 'cost of sales' and 'research and development costs' amounted to approximately RMB61,053,000 and RMB1,471,000 (2016: RMB41,294,000 and RMB1,097,000), respectively.

20. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**22,767**	5,756
Bills receivables (a)	**31,546**	26,150
	54,313	31,906
Less: allowance for doubtful debts	**(1,337)**	(402)
	52,976	31,504

(a) Bills receivables 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:

	2017 RMB'000	2016 RMB'000
0–90 days	**39,285**	24,417
91–180 days	**13,495**	6,914
181–365 days	**83**	158
Over 365 days	**113**	15
	52,976	31,504

As at 31 December 2017, trade receivables of approximately RMB1,337,000 (2016: RMB402,000) which are all aged more than 180 days (2016: 180 days) were impaired and full provisions for impairment have been recognised.

20. TRADE AND BILLS RECEIVABLES *(Continued)*

(b) (Continued)

As at 31 December 2017, the Group's trade receivables of approximately RMB196,000(2016: RMB173,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 **RMB'000**	2016 RMB'000
181–365 days	**83**	158
Over 365 days	**113**	15
	196	173

The other classes within trade and bills receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

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

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
At 1 January	**402**	201
Provision for impairment	**109**	220
Acquisitions of subsidiaries	**1,056**	—
Write-off	**(190)**	—
Unused amount reversed	**(40)**	(19)
At 31 December	**1,337**	402

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

(e) As at 31 December 2017 and 2016, 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

	2017 RMB'000	2016 RMB'000
Prepayment for advertisement	**8,926**	2,436
Prepayment to suppliers	**6,521**	4,703
Other receivables	**7,732**	3,575
Interest receivables	**351**	95
Others	**3,464**	2,366
	26,994	13,175

Deposits, prepayment and other receivables are all denominated in RMB, except that an other receivable of approximately RMB208,000 (2016: RMB206,000) are denominated in HK$.

The carrying amounts of the deposits 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 (generally 3–12 months) of the related assets.

The term deposits are all denominated in RMB.

24. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Cash at bank and on hand	**78,790**	112,606
Term deposits and highly liquid investments with initial terms within three months	**—**	41,278
Cash and cash equivalents	**78,790**	153,884

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

	2017 RMB'000	2016 RMB'000
US$	**35**	41
HK$	**6,386**	14,820

25. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 10 March 2017, Beijing Outsell has entered into an equity transfer agreement and its supplementary agreement with Zhonghang Tuohong (Xi'an) Property Co., Ltd. ("**Zhonghang Tuohong**") and Beijing Outsell's wholly-owned subsidiary, 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 "**Consideration**") (the "**Disposal**"); and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell within 45 days upon the completion of the registration of the related equity transfer. On 27 December 2017, the Group received a deposit at RMB5,000,000 from Zhonghang Tuohong.

The assets and liabilities attributable to Besunyen Food and Beverage, which were expected to be sold within twelve months from 31 December 2017, were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 31 December 2017 and are analysed as below:

	2017 RMB'000
Cash and cash equivalents	443
Deposits, prepayment and other receivables	77
Inventories	8
Property, plant and equipment	45,471
Land use right	48,326
Total assets	**94,325**
Other payable and accrued expenses	(79)
Deferred government grant	(7,287)
Total liabilities	**(7,366)**
Net assets	**86,959**

26. 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 2016, 31 December 2016 and 31 December 2017	6,000,000	50,000	341
Issued and fully paid:			
At 1 January 2016	1,566,971	13,058	89
Repurchase and cancellation of shares (note a)	(85,496)	(712)	(3)
At 31 December 2016	1,481,475	12,346	86
At 1 January 2017	1,481,475	12,346	86
Repurchase and cancellation of shares (note a)	(16,267)	(136)	(1)
Issue of shares (note b)	165,000	1,375	9
At 31 December 2017	1,630,208	13,585	94

(a) During the year ended 31 December 2017, the Company has acquired 16,267,000 (2016: 85,496,000) 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$7,884,000 (equivalent to approximately RMB7,027,000) (2016:HK$52,591,000,equivalent to approximately RMB45,837,000) and has been deducted from share capital and share premium within shareholder's equity.

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

On 22 June 2017, the Company has issued 90,000,000 ordinary shares to the Subscribers at HK$0.5 per share totaling HK$45,000,000 (equivalent to approximately RMB39,343,000). On 25 July 2017, the Company has further issued remaining 75,000,000 ordinary shares to the Subscribers at HK$0.5 per share totaling HK$37,500,000 (equivalent to approximately RMB32,416,000).

As at 31 December 2017, 35,401,567 shares (2016: 36,601,567 shares) were held by the Company's Restricted Share Award Scheme (Note 28(b)).

27. 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 2016	230,864	6	—	(23,718)	64,233	55,388	326,773
Share-based payments	—	—	—	—	—	2,169	2,169
Changes in ownership interests in subsidiary without change of control (note)	—	—	(9,892)	—	—	—	(9,892)
At 31 December 2016	230,864	6	(9,892)	(23,718)	64,233	57,557	319,050
At 1 January 2017	**230,864**	**6**	**(9,892)**	**(23,718)**	**64,233**	**57,557**	**319,050**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**887**	**887**
Vesting of restricted shares under restricted share award scheme	**—**	**—**	**—**	**773**	**—**	**(773)**	**—**
Transfer to statutory surplus reserve	**—**	**—**	**—**	**—**	**2,477**	**—**	**2,477**
At 31 December 2017	**230,864**	**6**	**(9,892)**	**(22,945)**	**66,710**	**57,671**	**322,414**

Note:

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 at a consideration of RMB10,000,000. The carrying amount of the non-controlling interest acquired at the date of acquisition amounted to approximately RMB108,000 (the "**NCI Acquired**") and the consideration paid in excess of NCI Acquired of approximately RMB9,892,000 has been debited to the capital reserve.

28. 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.

28. 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 2016	1.23	76,980,000	1.01	38,260,000	115,240,000
Granted	—	—	1.00	1,900,000	1,900,000
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
At 1 January 2017	**1.23**	**75,020,000**	**1.01**	**27,060,000**	**102,080,000**
Lapsed	**1.23**	**(650,000)**	**1.00**	**(2,620,000)**	**(3,270,000)**
At 31 December 2017	**1.23**	**74,370,000**	**1.01**	**24,440,000**	**98,810,000**
Exercisable as at 31 December 2017	**1.23**	**74,370,000**	**1.00**	**17,980,000**	**92,350,000**

28. SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(ii) Outstanding share options

		Number of share options	
Expiry Date	**Exercise price**	**31 December 2017**	31 December 2016
10 years commencing from the date of the grant of options Pre-IPO share option scheme	RMB1.23	**74,370,000**	75,020,000
8 years commencing from the date of the commencement of options Share option scheme	HK$1–HK$1.16	**24,440,000**	27,060,000

There is no option granted to any eligible employee during the year ended 31 December 2017. The weighted average fair value of options granted during the year ended 31 December 2016 as determined using the binomial valuation model was HK$0.34 per option.

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
Grant date share price (HK$)	0.53–0.92
Exercise price (HK$)	1.00
Expected volatility	52%–53%
Option life	8 years
Dividend yield	3.53%–6.13%
Risk-free interest rate	1.30%–1.92%
Annual post-vesting forfeit rate	16.0%–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.

28. SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(ii) Outstanding share options *(Continued)*

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.

(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.

28. SHARE-BASED PAYMENTS *(Continued)*

(b) Restricted Share Award Scheme *(Continued)*

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 2016	36,801,567	—	36,801,567
Granted	(200,000)	200,000	—
At 31 December 2016	36,601,567	200,000	36,801,567
At 1 January 2017	**36,601,567**	**200,000**	**36,801,567**
Granted	**(1,200,000)**	**1,200,000**	**—**
Vested and transferred	**—**	**(1,200,000)**	**(1,200,000)**
At 31 December 2017	**35,401,567**	**200,000**	**35,601,567**

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 2017 was HK$0.52 per share (equivalent to approximately RMB0.44 per share) (2016: HK$0.55 per share (equivalent to approximately RMB0.49 per share)).

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	2017 RMB'000	2016 RMB'000
Options issued under employee share option plan	**337**	2,169
Shares issued under restricted share award scheme	**550**	—
	887	2,169

29. DEFERRED GOVERNMENT GRANTS

The government grants were received for subsidising the Group's construction/purchases of certain property, plant and equipment and land use rights and are recognised over the estimated useful lives the relevant assets. Movements of these asset-related government grants are as below:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**8,639**	6,325
Amounts received during the year	**19,292**	3,100
Amortisation for the year	**(891)**	(786)
Acquisitions of subsidiaries (Note 39)	**1,200**	—
Transfer to liabilities directly associated with assets classified as held for sale (Note 25)	**(7,287)**	—
At 31 December	**20,953**	8,639

30. DEFERRED INCOME TAX

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

	2017 **RMB'000**	2016 RMB'000
Deferred income tax assets:		
— Deferred income tax assets to be recovered after more than 12 months	**13,763**	7,200
— Deferred income tax assets to be recovered within 12 months	**35,882**	27,037
	49,645	34,237
Deferred income tax liabilities:		
— Deferred income tax liabilities to be settled after more than 12 months	**(37,360)**	(6,866)
— Deferred income tax liabilities to be settled within 12 months	**(2,210)**	(200)
	(39,570)	(7,066)
Deferred income tax assets (net)	**10,075**	27,171

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

	2017 **RMB'000**	2016 RMB'000
At 1 January	**27,171**	30,294
Acquisitions of subsidiaries	**(30,154)**	—
Credited/(charged) to profit or loss (Note 12)	**13,058**	(3,123)
At 31 December	**10,575**	27,171

30. 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	Unrealised profit for intra-group transaction (note) RMB'000	Total RMB'000
At 1 January 2016	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
Acquisitions of subsidiaries	—	—	2,961	—	2,961
Credited/(charged) to profit or loss	(3,919)	1,578	3,060	11,728	12,447
At 31 December 2017	11,281	2,963	23,673	11,728	49,645

Note: In November 2017, Beijing Outsell has transferred its investment properties and partial of its self-occupied properties to other subsidiaries within the Group (the "**Transfer**") which resulted in a gain on the Transfer of approximately RMB47,183,000. The gain on the Transfer has been eliminated at consolidation as this is an intra-group transfer of properties and hence the gain is an unrealised gain from the Group's perspective. During the year ended 31 December 2017, the deferred income tax assets as recognised in respect of this unrealised gain amounted to approximately RMB11,796,000.

Deferred income tax liabilities	Withholding tax on undistributed earnings (Note c) RMB'000	Interests receivable RMB'000	Intangible assets identified in acquisition of a subsidiary RMB'000	Land use rights appreciation in business combination RMB'000	Total RMB'000
At 1 January 2016	(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)
Acquisitions of subsidiaries	—	—	(31,430)	(1,685)	(33,115)
Credited to profit or loss	—	—	601	10	611
At 31 December 2017	(5,464)	—	(32,431)	(1,675)	(39,570)

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.

30. DEFERRED INCOME TAX *(Continued)*

(a) As of 31 December 2017 and 2016, 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	2017 RMB'000	2016 RMB'000
2017	—	15,407
2018	**16,824**	16,824
2019	**11,213**	13,897
2020	**11,364**	11,364
2021	**14,478**	14,478
2022	**2,549**	—
	56,428	71,970

(b) As at 31 December 2017, 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 2012 to 2017 and other accrued expenses of approximately RMB256,476,000 (2016: RMB308,079,000)), 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. As of 31 December 2016, 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 undistributed earnings of the PRC subsidiaries of approximately RMB54,640,000 may be distributed to their foreign parent company in the foreseeable future and the related deferred income tax liabilities of approximately RMB5,464,000 have been recognised accordingly. As of 31 December 2017, the undistributed earnings of those PRC subsidiaries amounted to approximately RMB93,492,000. The Directors have revisited the latest business and investment plan and considered that a portion of the undistributed earnings of these PRC subsidiaries of approximately RMB38,852,000 will be reinvested in their operations in the PRC and will not be distributed to their foreign parent company. Therefore, the Directors concluded that it is not required to further recognise any deferred income tax liabilities on the undistributed earnings of those PRC subsidiaries for the year ended 31 December 2017.

31. TRADE AND BILLS PAYABLES

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

	2017 RMB'000	2016 RMB'000
0–90 days	**13,188**	10,772
91–180 days	**148**	4,008
	13,336	14,780

Trade payables are unsecured and are usually paid within 30 days from the date of initial recognition.

The carrying amounts of trade and bills payables are considered to be the same as their fair values, due to the short maturities of the related liabilities.

The trade and bill payables are all denominated in RMB.

32. OTHER PAYABLES AND ACCRUED EXPENSES

	2017 RMB'000	2016 RMB'000
Advance from customers	**16,820**	18,851
Payroll and welfare payable	**21,888**	24,576
Accrued expenses	**27,258**	26,294
Accrued sales rebates	**29,007**	30,349
Taxes and surcharges payable	**14,456**	13,441
Payable to suppliers for:		
— purchases of property, plant and equipment	**6,046**	316
— advertisement	**9,593**	1,908
Advance payment received for a subsidiary to be disposed (Note 25)	**5,000**	—
Others	**13,852**	5,440
	143,920	121,175

33. BORROWING

	2017 RMB'000	2016 RMB'000
Bank borrowing, secured	**20,000**	—

The bank borrowing bears fixed interest rate of 5.74% per annum and is secured by first mortgages over the Group's land use rights of approximately RMB19,361,000 (Note 38). Interest is payable every month and the principal is due for repayment on 20 July 2018.

The fair value of the borrowing is not materially different to its carrying amounts, since the interest payable on the borrowing is close to current market rate.

Details of the Group's exposure to financial risks arising from the borrowing are set out in Note 3.1.1(b).

34. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of loss before income tax to cash used in operating activities

	2017 RMB'000	2016 RMB'000
Cash flows from operating activities		
Loss before income tax	**(7,184)**	(70,671)
Adjustments for:		
Amortisation of land use rights	**9,165**	9,064
Amortisation of intangible assets	**4,396**	1,476
Depreciation of property, plant and equipment	**31,191**	32,178
Depreciation of investment properties	**1,976**	2,062
Interest expense	**180**	—
Interest income	**(1,300)**	(7,473)
Gain on disposals of land use rights and property, plant and equipment	**(510)**	(2,514)
Amortisation of deferred government grants	**(891)**	(786)
Provision for impairment of trade receivables	**69**	201
Share-based compensation	**887**	2,169
Foreign exchange gain, net	**2,457**	(882)
Share of (profits)/losses of investments accounted for using the equity method	**(9,599)**	2,997
Operating cash flows before movements in working capital	**30,837**	(32,179)
Decrease/(increase) in inventories	**14,451**	(16,532)
Increase in trade and bills receivables	**(19,733)**	(14,301)
Decrease in deposits, prepayments and other receivables	**18,936**	10,872
(Decrease)/increase in trade and bills payables	**(1,421)**	3,203
Decrease in other payables and accrued expenses	**(42,877)**	(4,740)
Decrease in other non-current liabilities	**(100)**	(302)
Cash generated from/(used in) operations	**93**	(53,979)

34. CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Net book amount (Notes 14 and 15)	**1,383**	6,011
Gain on disposals of land use right and property, plant and equipment	**510**	2,514
Proceeds from disposals of land use right and property, plant and equipment	**1,893**	8,525

(c) Major non-cash transactions

During the year ended 31 December 2017, bills receivables of RMB26,536,000 (2016: RMB35,075,000) have been endorsed to certain suppliers as the settlement of purchases of raw materials and advertisement costs.

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	**78,790**	153,884
Cash and cash equivalents classified as held for sale	**443**	—
Borrowing — repayable after one year	**(20,000)**	—
Net debt	**59,233**	153,884
Cash and cash equivalents	**79,233**	153,884
Gross debt — fixed interest rates	**(20,000)**	—
Net debt	**59,233**	153,884

	Cash and cash equivalents RMB'000	Borrowing due after 1 year RMB'000	Total RMB'000
Net debt as at 31 December 2016	**153,884**	—	**153,884**
Cash flows	**(72,194)**	—	**(72,194)**
Exchange gains on cash and cash equivalents	**(2,457)**	—	**(2,457)**
Acquisition of subsidiary	—	**(20,000)**	**(20,000)**
Net debt as at 31 December 2017	**79,233**	**(20,000)**	**59,233**

35. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Ordinary final dividend in respect of the previous financial year, approved and paid during the current period, of nil (2016: HK$0.05 (equivalent to approximately RMB0.04)) per share	—	64,378
Special dividend in respect of the previous financial year, approved and paid during the current period, of nil (2016: HK$0.05 (equivalent to approximately RMB0.04)) per share	—	63,591
	—	127,969

The Board has resolved not to declare any dividend for the year ended 31 December 2017.

36. CONTINGENCIES

As at 31 December 2017 and 2016, the Group had no significant contingent liabilities.

37. COMMITMENT

(a) Capital commitments

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

	2017 RMB'000	2016 RMB'000
Property, plant and equipment	**12,686**	8,442

(b) Operating lease commitments

The Group as lessee

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

	2017 RMB'000	2016 RMB'000
No later than 1 year	**1,324**	1,105
Later than 1 year and no later than 5 years	**110**	353
	1,434	1,458

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

38. ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for the non-current borrowing are as below:

	2017 RMB'000	2016 RMB'000
Land use rights	**19,361**	—

Zhongshan Wanyuan has pledged its land use right (32,500 square meter) to Rural Bank of Zhongshan as the security for a short-term borrowing of RMB20,000,000 (Note 33).

39. BUSINESS COMBINATION

During the year ended 31 December 2017, the Group has acquired equity interests in the following entities which are all engaged in pharmaceutical businesses:

(a) 100% equity interest in Kangbaina

On 24 August 2017, the Group acquired 100% equity interest in Kangbaina, a company which is principally engaged in sales of medicine, at a cash consideration of RMB6,000,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The acquired business contributed revenues of approximately RMB5,440,000 and net loss of approximately RMB1,980,000 to the Group for the period from 25 August 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and loss for the year ended 31 December 2017 would have been RMB17,038,000 and RMB3,079,000 respectively.

(b) 100% equity interest in Aolixin

On 25 August 2017, the Group acquired 100% equity interest in Aolixin, a company which is principally engaged in sales of medicine, at a cash consideration of RMB1,500,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The acquired business contributed revenues of approximately RMB219,000 and net loss of approximately RMB438,000 to the Group for the period from 26 August 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and loss for the year ended 31 December 2017 would have been RMB762,000 and RMB990,000 respectively.

39. BUSINESS COMBINATION *(Continued)*

(c) 51% equity interest in Zhongshan Wanhan

On 31 October 2017, the Group acquired 51% equity interest in Zhongshan Wanhan, together with its non-wholly owned subsidiary Wanhan Qianshun ("**Zhongshan Wanhan Group**"), a company which is principally engaged in research, manufacturing and sales of medicine, at a cash consideration of RMB122,090,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The Group has elected to recognise non-controlling interests in an acquired entity at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The acquired business contributed revenues of approximately RMB14,178,000 and net profit of approximately RMB5,602,000 to the Group for the period from 1 November 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and profit for the year ended 31 December 2017 would have been RMB31,169,000 and RMB493,000 respectively.

(d) 51% equity interest in Zhongshan Wanyuan

On 31 October 2017, the Group acquired 51% equity interest in Zhongshan Wanyuan, a company which is principally engaged in research and development of medicine, at a cash consideration of RMB15,610,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The Group has elected to recognise non-controlling interests in an acquired entity at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The acquired business did not contribute any revenue but contributed a net loss of approximately RMB812,000 to the Group for the period from 1 November 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and loss for the year ended 31 December 2017 would have been RMB2,650,000 and RMB2,990,000 respectively.

These amounts have been calculated using the subsidiary's results and adjusting them for:

- Differences in the accounting policies between the Group and the subsidiaries, and
- The additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from acquisition date, together with the consequential tax effects.

39. BUSINESS COMBINATION *(Continued)*

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

	Kangbaina As at 24 August 2017 RMB'000	Aolixin As at 25 August 2017 RMB'000	Zhongshan Wanhan As at 31 October 2017 RMB'000	Zhongshan Wanyuan As at 31 October 2017 RMB'000	Total RMB'000
Fair Value					
Cash and cash equivalents	209	334	47,396	15,897	63,836
Term deposits with initial term of over three months	—	—	3,500	—	3,500
Intangible assets:					
— Patents and others	1,350	—	3,216	—	4,566
— Computer software	—	16	—	—	16
— Medicine production licenses	—	—	126,000	—	126,000
— Brand name	1,900	—	—	—	1,900
Inventories	291	260	8,873	1	9,425
Trade and bills receivables	1,401	—	407	—	1,808
Deposits, prepayments and other receivables	945	51	31,557	1,072	33,625
Property, plant and equipment	3,541	831	13,330	13,631	31,333
Land use rights	—	—	20,070	18,940	39,010
Non-current deposits	—	—	1,257	321	1,578
Deferred income tax assets	323	—	2,638	—	2,961
Trade and bills payables	(869)	(120)	(2,881)	(105)	(3,975)
Other payables and accrued expenses	(5,663)	(604)	(29,792)	(21,211)	(57,270)
Amounts due to shareholders	—	—	(33,400)	—	(33,400)
Borrowings	—	—	(20,000)	—	(20,000)
Deferred government grant	—	—	—	(1,200)	(1,200)
Deferred income tax liabilities	(812)	—	(31,503)	(800)	(33,115)
Non-controlling interest	—	—	165	—	165
Net identifiable assets acquired	2,616	768	140,833	26,546	170,763
Less: Non-controlling interests	—	—	(68,843)	(13,008)	(81,851)
Add: Goodwill	3,384	732	50,265	2,072	56,453
Purchase consideration	6,000	1,500	122,090	15,610	145,200

The goodwill is attributable to the potential growth and the high profitability of the acquired business. It will not be deductible for tax purpose. There were no acquisition in the year ended 31 December 2016.

39. BUSINESS COMBINATION *(Continued)*

	Kangbaina As at 24 August 2017 RMB'000	Aolixin As at 25 August 2017 RMB'000	Zhongshan Wanhan As at 31 October 2017 RMB'000	Zhongshan Wanyuan As at 31 October 2017 RMB'000	Total RMB'000
Net (outflow)/inflow of cash to acquire business, net of cash and cash equivalents acquired					
Cash consideration paid	(6,000)	(1,500)	(122,090)	(15,610)	(145,200)
Less: Cash and cash equivalents of the subsidiaries acquired	209	334	47,396	15,897	63,836
Cash (outflow)/inflow on acquisitions — investing activities	(5,791)	(1,166)	(74,694)	287	(81,364)

40. 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:

	2017 RMB'000	2016 RMB'000
Salaries, bonus and other allowances	**5,358**	9,647
Share-based compensation	**606**	1,096
Pension cost — defined contribution plan	**147**	244
	6,111	10,987

41. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

For the year ended 31 December 2017:

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	**208**	**2,050**	**205**	**49**	**2,512**
Gao Yan	**208**	**2,147**	**51**	**49**	**2,455**
	416	**4,197**	**256**	**98**	**4,967**
Non-executive directors:					
Zhuo Fumin	**208**	**—**	**31**	**—**	**239**
Zhang Guimei	**208**	**—**	**—**	**—**	**208**
	416	**—**	**31**	**—**	**447**
Independent non-executive directors:					
Huang Jingsheng	**208**	**—**	**31**	**—**	**239**
Ren Guangming	**208**	**—**	**31**	**—**	**239**
He Yuanping	**208**	**—**	**—**	**—**	**208**
	624	**—**	**62**	**—**	**686**
	1,456	**4,197**	**349**	**98**	**6,100**

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

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2016:

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	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 b)	165	—	—	—	165
He Yuanping (note a)	41	—	—	—	41
	616	—	112	—	728
	1,436	5,014	632	94	7,176

Notes:

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

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

During the year ended 31 December 2017, no directors waived or agree to waive any emoluments (2016: nil).

42. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**211,818**	211,268
Loans to subsidiaries	**925,087**	849,290
	1,136,905	1,060,558
Current assets		
Deposits, prepayments and other receivables	**5,542**	21,861
Cash and cash equivalents	**1,426**	49,028
	6,968	70,889
Total assets	**1,143,873**	1,131,447
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**94**	86
Share premium	**1,120,685**	1,055,961
Other reserves	**34,732**	33,845
Retained earnings/(accumulated losses)	**(12,840)**	40,525
Total equity	**1,142,671**	1,130,417
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	**1,202**	1,030
Total liabilities	**1,202**	1,030
Total equity and liabilities	**1,143,873**	1,131,447

The balance sheet of the Company was approved by the Board of Directors on 14 March 2018 and was signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

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

Reserve movement of the Company *(Continued)*

	Share premium	Other reserves: Share-based payment reserve	Other reserves: Capital redemption reserve	Other reserves: Treasury share reserve under restricted share award scheme	Other reserves: Total other reserves	(Accumulated losses)/ retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2017	**1,055,961**	**57,557**	**6**	**(23,718)**	**33,845**	**40,525**	**1,130,331**
Loss for the year	—	—	—	—	—	**(53,365)**	**(53,365)**
Share-based payments under share option scheme and restricted share award scheme	—	**338**	—	—	**338**	—	**338**
Vesting of restricted share under share option scheme and restricted share award scheme	—	**(224)**	—	**773**	**549**	—	**549**
Repurchase and cancellation of shares	**(7,026)**	—	—	—	—	—	**(7,026)**
Issue of shares	**71,750**	—	—	—	—	—	**71,750**
At 31 December 2017	**1,120,685**	**57,671**	**6**	**(22,945)**	**34,732**	**(12,840)**	**1,142,577**

43. EVENT OCCURRING AFTER THE BALANCE SHEET DATE

There has not been significant event took place after 31 December 2017 to the date of these consolidated financial statements.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	487,500	563,888	662,805	514,749	**542,870**
Gross profit	406,103	475,281	594,237	425,520	**430,193**
Operating (loss)/profit	(93,623)	44,530	64,439	(70,671)	**(7,184)**
Gain on disposal of a subsidiary	—	9,977	—	—	**—**
Impairment loss recognised in respect of intangible assets	(3,323)	—	—	—	**—**
Reversal of impairment of property, plant and equipment	—	—	28,507	—	**—**
(Loss)/profit before income tax	(96,946)	54,507	64,439	(70,671)	**(7,184)**
Investment profit/(losses) accounted for using the equity method	—	—	—	(2,997)	**9,599**
Profit/(losses) and total comprehensive income/(loss) for the year	(89,976)	45,035	88,214	(74,566)	**5,281**
Earnings/(losses) per share (RMB cents)					
Basic	(5.91)	2.94	6.02	(4.56)	**0.27**
Diluted	(5.91)	2.94	6.02	(4.56)	**0.27**

CONSOLIDATED BALANCE SHEET

	At 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	826,579	825,140	878,932	919,599	**1,114,142**
Net current assets	340,572	372,747	383,255	87,034	**89,960**
Total assets less current liabilities	1,167,151	1,197,887	1,262,187	1,006,633	**1,204,102**
Non-current liabilities	15,809	14,852	16,452	17,101	**61,819**
Net assets	1,151,342	1,183,035	1,245,735	989,532	**1,142,283**
Share capital	89	89	89	86	**94**
Reserves	1,151,253	1,182,946	1,239,686	989,446	**1,059,143**
	1,151,342	1,183,035	1,239,775	989,532	**1,059,237**
Non-controlling interests	—	—	5,960	—	**83,046**
Total equity	1,151,342	1,183,035	1,245,735	989,532	**1,142,283**

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