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 2018 REPORT

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 18 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 2018, the Two Teas recorded an accumulated sales volume of over 4.8 billion bags, with an accumulated sales amount of over RMB6.2 billion. Since April 2015, the Group commenced cooperation with Zhejiang Hisun Pharmaceutical Co., Ltd. ("**Hisun Pharmaceutical**") to sell LARLLY Orlistat slimming medicine and 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 that the Group has expanded from the market of slimming therapeutic teas to that of slimming medicines and has 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 13.82%; and that of Besunyen Slimming Tea accounted for 33.19%, taking the first place in the market.

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 products of 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 to research, develop, formulate and produce 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 2018, the sales teams of the Group spanned across 31 provinces, autonomous regions and municipalities across the country. The Group had a total of 63 distributors and 232 sub-distributors for the Two Teas and LARLLY Orlistat. The whole sales team served about 100,000 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 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.

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

Mr. Huang Jingsheng
Mr. Ren Guangming
Mr. He Yuanping
Mr. Fu Shula

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

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 18 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. The Group cooperated with Hisun Pharmaceutical in 2015 to sell LARLLY Orlistat. In 2017, the Group acquired Zhongshan Wanhan and Wanyuan, the companies engaging in the research and development, production and sales of medicines such as Besunyen Orlistat, which enabled the Group to expand from the heath tea market segment to the medicine market segment. 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 2018.

In 2018, China's real economy faced significant challenges. From the perspective of industry development, consumption structure upgrade and policy bonus will be the major drivers for the rapid growth of the health food industry of China. In 2018, on top of continuing the remediation of the health food industry in 2017, the Food Safety Office of the State Council has eliminated various non-compliant health food companies in the industry to a certain extent, and has effectively curbed unhealthy competition in the industry. Such efforts have provided compliant enterprises with better and more opportunities.

For the past 18 years, the Group has put consumers first and ensured the quality of each bag of tea according to industrial requirements to bring about health value for consumers. In 2018, the Group kept on enhancing its health food research and development force as well as the development and introduction of new products via investment in branding, research and development and food safety. With continuous launch of new products, the Group has gradually optimised its big health industry chain. Leveraging the competitive edges on research and development in the pharmaceutical manufacturing sector of Zhongshan Wanhan and Wanyuan, the Group constantly developed and reserved new products in the pharmaceutical industry and gradually optimised its pharmaceutical product chain. The Group proactively adjusted its business operation model and marketing strategies, laying a solid foundation for future development with precise functions and market positioning.

In 2018, to eliminate the violation of the Group's management policies by distributors/sub-distributors and the sales of stockpiles at low price in the market, the Group has reduced the discount offered for bulk purchases by distributors/sub-distributors, while shifting the reward criteria for sales personnel from the "sales of distributors/sub-distributors" to the "sales of pharmacies". From a long-term perspective, such measures are beneficial to the reduction of market interruption acts, enhancement of channels management and promotion of direct sales to end users, and thus bringing along higher returns for shareholders. Nevertheless, the Group's product sales would be affected in short term, which is reflected in the Group's performance in 2018. Since September 2018, the Group has further adjusted the allocation mechanism for its sales teams, shifting the performance appraisal model for core personnel from "performance commission" to "operating results sharing". It is believed that such change would boost the operating results of the Group in the coming year.

Revenue of the Group in 2018 was RMB378.4 million, representing a decrease of 22.4% from RMB487.8 million in 2017. Gross profit decreased by 31.9% to RMB255.3 million in 2018 from RMB375.1 million in 2017. Meanwhile, gross profit margin dropped from 76.9% in 2017 to 67.5% in 2018. On the other hand, total operating expenses of the Group (including selling and marketing expenses, administrative expenses and research and development costs) in 2018 were RMB382.8 million, representing a decrease of 6.0% from RMB407.4 million in 2017. The Group recorded a total comprehensive loss of RMB93.5 million for 2018, compared to a total comprehensive income of RMB5.3 million for 2017.

INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute leading brand advantages when competing with the same types of products in the market. According to a survey report on national retail pharmacies issued by SMERI in March 2019, based on the retail sales of healthcare products, medicines and other types of products sold by retail pharmacies, Besunyen Slimming Tea continued to rank top in the market segment of slimming products for nine consecutive years, enjoying a market share of 33.19% in 2018, representing a year-on-year increase of 1.33 percentage points. Besunyen Detox Tea ranked top in the market segment of laxative products for eleven consecutive years, enjoying a market share of 13.82% in 2018, representing a year-on-year decrease of 0.73 percentage point.

BUSINESS REVIEW

2018 was the 18th anniversary of the Group since its establishment, and the 9th year of the listing of the shares of the Company. In 2018, the Group focused on the innovation of marketing patterns, exploration of internet marketing channels and expansion of brand promotion paths. While maintaining its existing Two Teas and Orlistat businesses, the Group continued to pursue brand rejuvenation, expand product portfolio, enhance efforts on research and development as well as the introduction of new products, and introduced products of Besunyen brand covering medicine, health food, food, etc. Meanwhile, the Group continued to optimise its business operation model and sales strategies. The structures and functions of the national offline sales system were segmented into offline management and principal customers management, and the Group continued to cultivate in the e-commerce area and established three major e-commerce operating centres in Beijing, Hangzhou and Guangzhou. The call centre and after-sale service team have been improved. Improvement has been achieved in respect of strategic breakthrough, product innovation and product services, and the value of the brand has been enhanced.

Concentrating on Market and Being Consumer-Oriented to Enhance Product Competitiveness

Launching Two Teas in New Classic Packaging to Carry on the Legacy of Herbal National Essence and Lead the New Trend of Healthy Tea Drink

In the first half of 2018, to enhance product brand image and offer consumers with better services, the Group launched product packaging showcasing national essence of Besunyen Detox Tea and Besunyen Slimming Tea under the brand development strategy. The cheongsam element and Besunyen products have been perfectly integrated to advocate the return of traditional culture and promote the national essence culture of China. Trial sales of the national essence packaging version were made in Beijing, Shanghai, Anhui and Yunnan, which were well received by customers. From the end of 2018, the packaging of the Two Teas was renamed from national essence version to classic version, and has been successively replaced to the new packaging of the classic version nationwide. The introduction of the new packaging of this classic version not only manifests the product characteristic of herbal functional tea but also promotes the traditional culture of cheongsam, leading the new trend of healthy tea drink of China.

Enhancing Market Competitiveness via Consumer-oriented Approaches and Product Lines Expansion

In 2018, the Group adhered to consumer-oriented concepts and expanded its product lines, introducing products including Besunyen meal replacement biscuits; Besunyen nutritional protein meal replacement milk shake; Besunyen Aloe soft capsule; Besunyen Runyuan Tea; product series including Besunyen vitamin B tablets, vitamin C tablets and vitamin C chewable tablets, vitamin E soft capsule, vitamin complex; Besunyen micronutrients capsule, granules and tablets series that contain calcium, iron, zinc and selenium; Besunyen rose and ginseng brown sugar ginger tea; Besunyen fruit and vegetable composite enzyme powder; and Besunyen slimmer collagen drink on the e-commerce platform, while launching LARLLY Menstruation Conditioning and Beauty Capsules and the reserved Besunyen Jinshutong (金舒通) capsule products in offline retail pharmacies. At present, the Group carries an array of slimming product offerings, comprising "OTC drug LARLLY Orlistat and Besunyen Orlistat + Health food Slimming Tea and Xian Xian Tea + Common food nutritious meal replacement milk shake, L-carnitine coffee and meal replacement biscuits", and an array of intestine healthcare product offerings, comprising "OTC drug Mei Yang Yang Glycerol Enema + Health food Detox Tea, Runyuan Tea, Jinshutong capsules and aloe soft capsules", and continues the development of the "Health food vitamin series and micronutrients series" under the product category of dietary supplements, and the health and beauty product categories of "OTC drug LARLLY Menstruation Conditioning and Beauty Capsules + Health food ginseng brown sugar ginger tea, fruit and vegetable composite enzyme powder and collagen drink".

Innovating Brand Strategies to Highlight our Brand Value

Title Sponsorship for Sakura Girls (《櫻花女生》), an Inke's Live Streaming Show, for Ongoing Brand Rejuvenation

As 2018 was the 18th anniversary of the establishment of the Group, in line with the Group's principal direction of marketing transformation and forging a new image of Besunyen as "a younger, healthier and trendier brand on its 18th anniversary", the Group provided a title sponsorship for Inke's Sakura Girls in 2018, a top-notch We Media programme in the live streaming industry. Such sponsorship has facilitated the rejuvenation of the brand and forged the path for scenario marketing.

The Group took advantage of the campaign of Sakura Girls in 2018, from the strategic launch conference in Hong Kong on 23 April 2018 to the celebrity festival in Guangzhou on 27 May 2018, which mainly integrated with IP channels, namely "celebrities", "e-commerce", "topics", "public relations", "live streaming contents", "creative interaction for festival", "offline promotion and releasing hard advertising" and "production of peripheral products by contestants", in order to realise a closed loop for brand scenario marketing. Under such closed loop, our brand concept as "weight management expert" was constantly delivered to target consumers. At the same time, "Besunyen Slimming Tea" and "Besunyen L-carnitine coffee (Sakura version)" under the name of Inke's Sakura Girls, were precisely embedded in the campaign, and thus further boosted the brand image and favourability of Besunyen brand among the youth.

Cooperating with Sakura Girls, the Group received brand reporting successively from over 180 media, with about 30 celebrities and artists assisting in brand popularity, and over 30 million views for live streaming contents. Meanwhile, the Group integrated e-commerce channels and launched customised IP box sets, which closely linked IP and the brand to thoroughly penetrate various channels of celebrities and Internet stars. Our online advertisements made redirection to pages of various secondary campaigns, and thus further empowered the e-commerce channel. This campaign became the youngest and the most eye-catching entertainment event in the first half of 2018. During the campaign, it achieved a total exposure for the brand of 4.68 billion times.

Leveraging Trendy Internet Platform to Promote Social Broadcasting of the Brand and Establish the Brand as a Young and Fashionable Synonym

In 2018, leveraging the Besunyen's Orlistat capsule, the Group joined force with platforms such as TikTok, WeChat and Weibo to employ multiple channels to jointly establish the "Besunyen's Small Blue Box" marketing campaign. The Group launched the "Small Blue Box, No Hard Time" challenge on the TikTok platform and the small blue box has become the "TikTok's Magic Medicine". Through the TikTok's topics challenge, innovative short videos were jointly created with the cooperation of TikTok's celebrities. The mindset of the youth was captured and expressed through the form of video, with the interesting and novelty elements favoured by the youth being included. Headed by dozens of super VIP and participated in imitation by hundreds of users, the small blue box received the crowd attention of the youth through Weibo topics. Meanwhile, a reading volume of over 300 million and a discussion volume of over 50 thousand were earned, as well as a topic attention volume of over 10 thousand. At the same time, the Group jointly cooperated with WeChat H5 and WeChat public account to disseminate the brand image and belief as well as to unlock the brand value, deeply explore the pain points of users, and capture the psychological needs of the youth, which allow the small blue box to be merged into the life of the youth. As an OTC drug emphasising oil expulsion and weight loss, Besunyen's Orlistat capsule has become another new slimming star after Besunyen Slimming Tea as well as the "besty" of numerous beauty lovers.

Expanding Product Placement into Movies and Television Dramas to Energise Brand Competitiveness with Contents Marketing and Scenario Marketing

In 2018, the Group exerted continuous efforts on contents marketing with placement into movies and television dramas as media to enhance the appeal to product functionality, and communicated with consumers through the utilisation of brand scenarios. In 2018, there were three programmes with placement broadcasted, namely Always with You (《陪讀媽媽》), an urban romance and family drama co-starred by Mei Ting and Xu Yajun premiered on China Blue Theater under Zhejiang Satellite TV and iQiyi; Mr. Swimmer (《游泳先生》), an inspirational and young idol drama co-starred by Ju Jingyi and Mike Angelo and broadcasted on Hunan Satellite TV and Mango TV; Goddesses in the Flames of War (《那些女人》), a main-rhythm red movie jointly released by Besunyen and co-starred by various stars and broadcasted on national cinema network. Six contracted programmes with placement have been confirmed, namely If Time Flies Back (《如果歲月可回頭》), an urban family life and workplace drama co-starred by Jin Dong and Rulu Jiang; Dare to Love Me (《愛我你敢嗎》), a television drama version of Ex-Files (《前任攻略》) co-starred by Han Geng and Wang Xiaochen; Action (《加油！你是最棒的》), a youth inspirational drama co-starred by Deng Lun and Sandra Ma; Mothers' Game (《媽媽的戰爭》), an educational and topical drama focusing on contemporary middle-class anxiety co-starred by Angelababy and Wei Daxun; Half a Lifelong Romance (《半生緣》), a remake of classics co-starred Carina Lau and Rulu Jiang;

Beijing Days and Nights (《北京晚九朝五》), a film directed by Jaycee Fong Jo Ming and co-starred by Berlin Chen and Amber Kuo. Leveraging product placement in movies and television dramas, the Group manages to enhance brand exposure, facilitates brand rejuvenation and unleashes the multiplier effect on brand promotion.

Broadening Brand Promotion Channels through New Media Marketing

In 2018, the Group continued to leverage the dissemination nature of new media, promoting brand awareness by the dissemination advantage of We Media such as Weibo and WeChat and formulated a set of column contents with the characteristics of Besunyen, which received attention from extensive fans. In the "Inke's Sakura Girls" contest with our title sponsorship, the fans coverage recorded multi-fold growth via the promotion and reporting on the initiation of the contest, competition rules, campaigns, roadshow and evening parties by various means of interaction, illustrations and composition, H5 and video clip shots, as well as joint promotion with various intra-group brands.

Joining Hands with Academy Award and Sponsoring Besunyen Cup Public Welfare Advertising Contest

In 2018, the Group provided the title sponsorship for the spring competition and the autumn competition of the Academy Award of 16th Advertisement and Art Festival for Chinese College Students and held "Besunyen Cup" Public Welfare Advertising Contest. The contest spanned 30 provinces and cities and involved 60 colleges and universities, with 35 creative lectures and 35 off-site product interactive experience sessions. The official proposition poster covered more than 1,500 schools across the country.

2018 witnessed the 18th birthday of the Group, and innovative seminars themed "Gratitude to 18 Years of Love" for spring competition of the Academy Award was widely welcomed by students. The contest was completed successfully, receiving 14,638 pieces of qualified works with charity theme in total, representing a record high in terms of the number of public welfare themed works. In the autumn competition of the Academy Award, Besunyen presented two main themes, namely "Love, Let it SHOW" (《愛，能SHOW出來》) and "Change the Curve, Change the World" (《改變曲線，改變世界》). While promoting healthy weight loss, the Group appealed to the youth that they should also pay attention to the health condition of their parents and the elderly, and expressed their love bravely. The Group received 19,857 pieces of qualified works in total, which refreshed the consumers' awareness of Besunyen and gained enormous support from student groups. Through the zero-distance contact with university students, the contest created a sound and profound brand reputation for Besunyen among the youth.

Innovating Marketing Model, Optimising Sales Structure and Focusing on Growth of Direct Sales to End Users

Adjusting Sales Team Structure and Enhancing Management Efficiency to Improve Team Competitiveness

From September 2018, the Group adjusted the structures and functions of the national sales system into the regional operating results sharing system — i.e. the partnership: the national offline market was divided into three major regions. All three of them are equal but also compete against and improve each other, which stimulates their sense of ownership. This has significantly improved the work motivation of the sales team and has enhanced the overall capability of the sales team. To further improve management efficiency as well as sale capability, all regions have made efforts in innovation, such as improving team development, making breakthrough in major chains, innovating marketing model, eliminating the lowest, developing membership base, introducing new models and new products.

Adjusting Performance Appraisal Orientation and Concentrating on Growth of Direct Sales to End Users

To make sales team focus on the growth of direct sales to end users, eliminate the violation of the Group's management policies by distributors/sub-distributors and avoid the sales of stockpile in the market at low price, the Group connected the data of shipment on the distributor/sub-distributor side and the data of terminal sales, and changed the performance appraisal from shipment appraisal into direct sales to end users appraisal. By establishing direct sales to end users as a PK parameter for the sales personnel, it allows the sales personnel to completely participate in terminal management and maintenance and the excessive stockpile along the sales channel has been avoided, leading to more solid and effective terminal management and terminal basic promotion.

Enhancing Flow Management and Maintaining a Smooth Operating Order of Market

To enhance the monitoring on commodity information, the Group strengthened its control over the commodity flow for distributors and upgraded PanPass logistics code management system. By monitoring the logistics information of distributors, the Group could timely obtain information on commodity flow and logistics. Meanwhile, the Group has made direct connection to the data of distributors' and sub-distributors' systems, which provides a real-time command of data such as stock-out, stock-in and serial number of distributors and sub-distributors. In 2018, the Group made full effort to eliminate batches of obsolete and aged commodities and largely achieved the objective by the end of the year. Meanwhile, the Group has strengthened regulation on product pricing and has adopted a series of measures to safeguard the price stability. The confidence of distributors/sub-distributors has been improved and this will be beneficial to the healthy and stable development of the market.

Adhering to Open and Innovative R&D Philosophy to Enhance Research and Development Capabilities and Strengthen Research and Development Cooperation

In 2018, the Group persisted in openness and innovation. With enhanced cooperation with research and development institutes, third party technology service companies, suppliers and outsourced processing manufacturers, the Group continued to promote the development of new products in four health foods, namely weight loss, laxation, throat clearing and liver caring.

Besides, building on the research and development capabilities of Zhongshan Wanhan and Wanyuan, in 2018, to enhance the strategy on products reserve, Zhongshan Wanhan and Wanyuan completed the registration and filing of 6 types of eye drops and submitted a total of 21 invention patent applications. Meanwhile, the research and development team of the Group actively participated in a project group led by Professor Wang Linyuan of the School of Chinese Materia Medica of Beijing University of Chinese Medicine. A joint declaration with 12 units was made and approved as the sub-item of the List of the Modernisation of Chinese Medicine in 2018 by the Ministry of Science and Technology. Besunyen Runyuan Tea was successfully selected as the demonstrative research product of laxative product.

SOCIAL WELFARE

The Group partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund" for conducting charity and public welfare undertakings 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 enterprise to participate in public welfare and charity, and created a practicable and efficient platform for the public welfare and charity undertakings to which the Group is committed.

In June 2018, the Group participated in a social welfare activity titled "Warm the Heart of Children — Walk with Love", to involve Beijing in charity and take care of children in difficulties hosted by Beijing Charity Foundation. The Group has been awarded the accolade of the national leading enterprise for welfare and caring.

The Group partnered with China Green Carbon Foundation and Beijing Green Sunshine Environmental Protection Public Welfare Foundation to entrust the Tencent's 9 September social welfare platform on 9 September 2018 to jointly initiate the "Defense for Children in Pasture" to build fence for herders and protect lives and properties of herders. The Group jointly developed and established "Policy Connected and Collaborated, Caring Focus Foundation" with the member of CPPCC of Fangshan District and Beijing Charity Foundation for public welfare and charity undertakings such as assistance in education, assistance in poverty and assistance in medicine.

AWARDS AND HONOURS

Winning Social Responsibility Outstanding Enterprise Award

On 28 December 2018, at the 2018 China Social Responsibility Public Welfare Ceremony & The 11th China Enterprises Social Responsibilities Summit, the Group received the "2018 China Social Responsibility Outstanding Enterprise Award". Over the years, the Group has actively taken part in various social welfare undertakings, stayed concerned about underprivileged groups and provided dedicated funds for the establishment of "Besunyen Special Charity Fund". For the implementation of social responsibility, 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. With efforts to encourage people around, the Group will continue to pursue welfare undertakings and promote "Small Welfare, Big Effect".

OUTLOOK

According to the publication of National Bureau of Statistics, China's economy achieved generally stable growth while making further progress in 2018. China's economy has transformed from rapid growth to a quality development phase. The 19th Central Committee of the Communist Party of China put forward the "Implementation of Healthy China Strategy" which suggested new objectives for improving health protection and enhancing structural reform on supply side. A series of policies encouraging and supporting big health industry have been introduced successively. At the same time, China has also strengthened the management on the regulations for the big health industry. The big health industry will face unprecedented development opportunities and challenges.

The Group will continue to regulate and manage its business, while highly focusing on the growth of direct sales to end users in the market. Leveraging the current excellent market base and brand recognition, the Group will boost the sales of new products. Through establishment of reasonable new product incentive policy, expansion of product range, and continuous introduction of new products based on independent research and development and outsourced processing, the Group will continue to develop its e-commerce business to achieve higher revenue growth.

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 at large. In particular, I would like to thank all the staff of our Group for their dedicated work in 2018!

Chairman and CEO
ZHAO Yihong

Hong Kong, 13 March 2019

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	
	2018	2017
	RMB'000	RMB'000
Revenue	**378,378**	542,870
Cost of sales	**(123,061)**	(112,677)
Gross profit	**255,317**	430,193
Other income	**22,675**	28,645
Selling and marketing expenses	**(246,849)**	(339,684)
Administrative expenses	**(112,417)**	(106,921)
Impairment loss of intangible asset	**(4,802)**	—
Research and development costs	**(23,548)**	(15,866)
Other expenses	**(9,829)**	(9,665)
Other gains/(losses), net	**6,054**	(3,305)
Finance costs	**(6,665)**	(180)
Share of (losses)/profits of investments accounted for using the equity method	**(1,295)**	9,599
Loss before income tax	**(121,359)**	(7,184)
Income tax credit	**27,887**	12,465
(Loss)/profit for the year	**(93,472)**	5,281
(Loss)/profit attributable to:		
— Owners of the Company	**(95,299)**	4,086
— Non-controlling interests	**1,827**	1,195
	(93,472)	5,281
Other comprehensive income	**—**	—
Total comprehensive (loss)/income for the year	**(93,472)**	5,281
Total comprehensive (loss)/income attributable to:		
— Owners of the Company	**(95,299)**	4,086
— Non-controlling interests	**1,827**	1,195
	(93,472)	5,281

Upon the adoption of International Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("**IFRS 15**"), certain promotion expenses have been net off against the Group's revenue. In 2018, the promotion expenses as net off against the Group's revenue amounted to RMB23.6 million. In 2017, the promotional expenses as separately recognised as selling and marketing expenses amounted to RMB55.0 million. The Group has used modified retrospective approach to adopt IFRS 15, and thus the comparative financial information for the same period has not been restated accordingly. For the "Financial Review" section, the revenue, gross profit and selling and marketing expenses for 2017 were adjusted assuming that the Group has adopted the IFRS 15 by using the full retrospective approach so as to illustrate a more comparable result.

REVENUE

	For the year ended 31 December					
	2018		2017 (as if adjusted)		2017	
	RMB'000	**Percentage of total**	RMB'000	Percentage of total	RMB'000	Percentage of total
Revenue:						
Besunyen Detox Tea	**114,000**	**30.1%**	202,871	41.6%	225,764	41.6%
Besunyen Slimming Tea	**149,589**	**39.6%**	194,075	39.8%	215,975	39.8%
Slimming medicines	**66,985**	**17.7%**	56,337	11.5%	62,694	11.5%
Other products and medicines	**47,804**	**12.6%**	34,539	7.1%	38,437	7.1%
Total	**378,378**	**100.0%**	487,822	100%	542,870	100.0%

The revenue of the Group in 2017 was RMB487.8 million and the revenue in 2018 decreased by 22.4% to RMB378.4 million. Among these, the revenue of Besunyen Detox Tea decreased by 43.8%, from RMB202.9 million in 2017 to RMB114.0 million in 2018, while the sales volume decreased from 151.7 million tea bags in 2017 to 86.3 million tea bags in 2018. The revenue of Besunyen Slimming Tea decreased by 22.9%, from RMB194.1 million in 2017 to RMB149.6 million in 2018, while the sales volume decreased from 151.4 million tea bags in 2017 to 117.5 million tea bags in 2018. The revenue of the slimming medicine, Orlistat, increased by 19.0%, from RMB56.3 million in 2017 to RMB67.0 million in 2018.

The average selling price of Besunyen Detox Tea and Besunyen Slimming Tea in 2017 were RMB1.34 and RMB1.28 per bag respectively, and were RMB1.32 and RMB1.27 per bag respectively in 2018. The average selling price of Besunyen Detox Tea and Besunyen Slimming Tea slightly decreased by 1.5% and 0.8% as compared with those of the same period of 2017, respectively.

COST OF SALES AND GROSS PROFIT

	For the year ended 31 December					
	2018		2017 (as if adjusted)		2017	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Cost of sales	**123,061**	**32.5%**	112,677	23.1%	112,677	20.8%
Gross Profit	**255,317**	**67.5%**	375,145	76.9%	430,193	79.2%

The Group's cost of sales increased by 9.2% from RMB112.7 million in 2017 to RMB123.1 million in 2018. Cost of sales as a percentage of revenue increased from 23.1% in 2017 to 32.5% in 2018. The increase in cost of sales as a percentage of revenue was mainly due to the consolidation of the acquired companies by the Group since November 2017, namely Zhongshan Wanhan, Zhuhai Kangbaina Pharmaceutical Co., Ltd ("**Kangbaina**") and Zhuhai Aolixin Pharmaceutical Co., Ltd ("**Aolixin**"), which had higher cost of sales as a percentage of revenue.

Revenue decreased by 22.4% and cost of sales increased by 9.2% in 2018 as compared with 2017, the gross profit of the Group decreased by 31.9% from RMB375.1 million in 2017 to RMB255.3 million in 2018. Gross profit margin of the Group decreased from 76.9% in 2017 to 67.5% in 2018.

OTHER INCOME

In 2018, the Group's other income mainly comprised interest income and investment income from wealth management products of RMB1.0 million (2017: RMB1.3 million), government grants of RMB3.3 million (2017: RMB5.2 million) provided by the PRC government to support the Group's operation of business, and rental income from investment properties of RMB18.0 million (2017: RMB22.0 million).

SELLING AND MARKETING EXPENSES

	For the year ended 31 December					
	2018		2017 (as if adjusted)		2017	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Advertising costs	**50,575**	**13.4%**	99,753	20.5%	99,753	18.4%
Marketing and promotional expenses	**74,276**	**19.6%**	60,699	12.4%	108,218	19.9%
Employee benefit expenses	**86,658**	**22.9%**	91,373	18.7%	98,902	18.2%
Others	**35,340**	**9.3%**	32,811	6.7%	32,811	6.1%
Total	**246,849**	**65.2%**	284,636	58.3%	339,684	62.6%

Selling and marketing expenses of the Group decreased by 13.3% from RMB284.6 million in 2017 to RMB246.8 million in 2018. The advertising costs in 2018 decreased by RMB49.2 million as compared to 2017, but the marketing and promotional expenses increased by RMB13.6 million as compared to 2017, mainly due to the fact that the expenditure in advertising via traditional TV media decreased and gradual transition to marketing and promotion via internet media and channel network.

ADMINISTRATIVE EXPENSES

	For the year ended 31 December			
	2018		2017	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Employee benefit expenses	**42,967**	**11.4%**	40,432	7.5%
Office expenses	**5,358**	**1.4%**	5,892	1.1%
Professional service fees	**27,377**	**7.2%**	28,440	5.2%
Entertainment and travelling expenses	**5,992**	**1.6%**	6,642	1.2%
Others	**30,723**	**8.1%**	25,515	4.7%
Total	**112,417**	**29.7%**	106,921	19.7%

The administrative expenses of the Group increased by 5.1% from RMB106.9 million in 2017 to RMB112.4 million in 2018, mainly due to the inclusion of the administrative expenses of the companies acquired in November 2017 by the Group, namely Zhongshan Wanhan and Wanyuan, Kangbaina and Aolixin, in 2018.

RESEARCH AND DEVELOPMENT COSTS

	For the year ended 31 December			
	2018		2017	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**23,548**	**6.2%**	15,866	2.9%

The Group's research and development costs increased by 47.8% from RMB15.9 million in 2017 to RMB23.5 million in 2018. Research and development costs as a percentage of revenue increased from 2.9% in 2017 to 6.2% in 2018, mainly due to the inclusion of the research and development costs of the newly acquired companies, Zhongshan Wanhan and Wanyuan in 2018.

TAXATION

Income tax credit of the Group increased from RMB12.5 million in 2017 to RMB27.9 million in 2018, which was mainly due to the recognition of deferred income tax assets on the deductible temporary difference/tax losses by the Group.

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

Due to the aforementioned factors, the total comprehensive loss for the year was RMB93.5 million (2017: total comprehensive income of RMB5.3 million).

LIQUIDITY AND CAPITAL RESOURCES

In 2018, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities and bank borrowings.

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	
	2018	2017
	RMB'000	RMB'000
Net cash outflow from operating activities	**(82,138)**	(738)
Net cash outflow from investing activities	**(60,142)**	(102,608)
Net cash inflow from financing activities	**122,168**	31,152
	(20,112)	(72,194)
Effects of changes in exchange rate on cash and cash equivalents	**2,638**	(2,457)
Net decrease in cash and cash equivalents	**(17,474)**	(74,651)

In 2018, the Group's net cash outflow from operating activities was RMB82.1 million (2017: RMB0.7 million). The increase in outflow as compared to 2017 was mainly due to the decrease in operating profits as well as the net outflow of working capitals. In 2018, the net cash outflow from investing activities of the Group was RMB60.1 million, which was mainly for infrastructure projects and investments in wealth management products (2017: RMB102.6 million, mainly due to the net cash outflow (net of cash acquired) of RMB81.4 million for the acquisition of Zhongshan Wanhan and Wanyuan, Kangbaina and 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 2018, the net cash inflow from financing activities of the Group was RMB122.2 million, which was mainly due to the proceeds from the drawdown of borrowings (2017: net cash inflow from financing activities was RMB31.2 million, mainly due to the issuance of shares of the Company).

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 32.1% from RMB83.3 million as at 31 December 2017 to RMB56.6 million as at 31 December 2018. Meanwhile, the Group has a bank borrowing of RMB150.0 million as at 31 December 2018 (31 December 2017: RMB20.0 million).

CAPITAL EXPENDITURE

In 2018, cash payments for capital expenditure of the Group amounted to RMB49.0 million (2017: RMB30.9 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	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	**38,360**	25,288
Investment properties	**9,968**	—
Intangible assets	**656**	5,562
Total	**48,984**	30,850

INVESTMENT PROPERTIES

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Investment properties	**144,996**	48,881

The Group owns the eastern region plant located at No.18 Dadou Road, Doudian Town, Fangshan District, Beijing, 102433 (the "**Eastern Region Plant**") and certain properties in Changcheng Building located at No.3000, Zhongshan Road North, Putuo District, Shanghai. In 2018, the Eastern Region Plant was under construction, and 35% has been completed as at 31 December 2018. Among which, gross floor area of 7,501.51 sq.m. has been completed and obtained the housing license. It is expected to be completed in June 2019, and would be leased to independent third parties upon completion. Shanghai Changcheng Building has been in vacancy since July 2018. Until the Group repossesses the units due to future business development needs, the above property held for leasing is classified as investment property.

On 31 December 2018, the Group reclassified the properties leased to independent third parties of 8,392.32 sq.m. and self-occupied properties of 3,235.89 sq.m. (totaling 11,628.21 sq.m.) in Besunyen Building, which is situated at Block D, Linglong Tiandi, No. 160 West 4th Ring Road, North Haidian District, Beijing 100036, from "investment property" and "property, plant and equipment" to "assets held for sale". Such change was due to the signing of the equity transfer agreement in relation to disposal of Beijing Chang Sheng Business Consulting Co., Ltd. between A Li Yun Shan (Beijing) Business Consulting Co., Ltd., a subsidiary of the Group, and Tosalco Pte. Ltd. Please refer to the section headed "Material Acquisition or Disposal" for details.

As at 31 December 2018, carrying values of the investment properties amounted to RMB145.0 million (2017: RMB48.9 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. On 31 December 2018, the Group assessed the fair values of the investment properties based on a valuation carried out by an independent valuation company and determined that the related fair values exceed the carrying values of such investment properties.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Investments accounted for using the equity method	**94,019**	96,112

As at 31 December 2018, 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 RMB94.0 million. On 18 July 2018, the board of directors of the associate, Yunzhi Besunyen Pharmaceutical Co., Ltd. ("**Yunzhi Besunyen**"), has made a resolution to liquidate Yunzhi Besunyen voluntarily. As at 31 December 2018, the carrying value of the investment in Yunzhi Besunyen has been reduced to zero.

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 at the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials and packaging materials	**11,201**	7,969
Work in progress	**1,249**	1,803
Finished goods	**18,022**	7,914
Total inventories	**30,472**	17,686

The turnover days of the Group's inventories in 2018 (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 71 days (2017: 64 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 2018, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2017: Nil).

MATERIAL ACQUISITION OR DISPOSAL

On 31 December 2018, A Li Yun Shan (Beijing) Business Consulting Co., Ltd., an indirect wholly-owned subsidiary of the Group, entered into an equity transfer agreement with Tosalco Pte. Ltd., pursuant to which A Li Yun Shan (Beijing) Business Consulting Co., Ltd. has conditionally agreed to sell and Tosalco Pte. Ltd. has conditionally agreed to acquire 100% equity interest of Beijing Chang Sheng Business Consulting Co., Ltd. (the "**Target Company**", together with Beijing Besunyen Property Management Co., Ltd. ("**Besunyen Property**"), its wholly-owned subsidiary, collectively the "**Target Group**") at a consideration of RMB555.0 million, all of which will be paid by Tosalco Pte. Ltd. in cash. Besunyen Property's major asset is Besunyen Building. Upon completion of the above disposal, the Target Company will cease to be a subsidiary of the Company, and the financial results of members of the Target Group will cease to be incorporated into the Group's financial statements. The equity transfer agreement and the transactions contemplated thereunder have been approved at the extraordinary general meeting held on 22 February 2019 by the shareholders of the Company. For details, please refer to the announcements of the Company dated 31 December 2018 and 22 February 2019, and the circular of the Company dated 4 February 2019.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures in 2018.

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 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. For the year ended 31 December 2018, Yuanyuan Liuchang Fund did not invest in new projects.

Save as disclosed above, there were no other significant investments held by the Group in 2018. 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 at 31 December 2018, the Group had bank borrowings of RMB150.0 million, through pledging properties with total net book value of RMB88.3 million and land use rights with total net book value of RMB24.9 million with banks and guarantee companies (2017: the Group had bank borrowings of RMB20.0 million, through pledging land use rights with net book value of RMB19.4 million with banks).

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 27.00% (2017: 17.79%).

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2018, the Group had no material contingent liabilities or guarantees (2017: Nil).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments of RMB78.6 million (2017: RMB12.7 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 quality and safety control systems of product production are relatively comprehensive and impose effective control on design and execution. The Group 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 2018, the Group provided generous social security benefits to its employees to motivate their proactivity at work and heighten 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 2018, 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 2018, the Group had 1,121 employees in the PRC mainland and Hong Kong (2017: 1,020 employees), which included 13 promotional staff employed by employment agents (2017: 25 employees). The staff costs of the Group (including remunerations of the Directors) were RMB156.2 million for the year ended 31 December 2018 (2017: RMB161.7 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 52, 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 29 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 Technology and Business University, 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 50, 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 Director

Mr. ZHUO Fumin, aged 67, 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 44 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 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), Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648) and Dazhong Transportation (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600611) and an independent non-executive director of 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). He has served as an independent director of China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600675) and an independent non-executive director of Shenwan Hongyuan (H.K.) Limited (a company listed on the Stock Exchange, stock code: 218). Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997.

Independent Non-executive Directors

Mr. HUANG Jingsheng, aged 61, 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 54, 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 NavInfo Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002405). He has served as an independent director of United Electronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002642). 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 52, 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 served 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**") from June 2007 to March 2018. 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 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. FU Shula, aged 63, was appointed as an independent non-executive Director of our Company in April 2019. He is a member of the audit committee, the remuneration committee and the nomination committee of our Company. From 1984 to 2015, Mr. Fu held various senior positions in Aviation Industry Corporation of China, Ltd. ("**AVIC**"), including President of China National Aero-Technology Import and Export Corporation, Deputy Chief Economist of AVIC, Chairman and President of AVIC International Holding Corporation, Chairman of AVIC Aero-Engine Holding Corporation and Chairman of AVIC Economics & Technology Research Establishment. Currently, he is an independent non-executive director of BOC Aviation Limited (a company listed on the Stock Exchange, stock code: 2588). Mr. Fu graduated from Northwestern Polytechnical University with a master's degree in aero engine design in 1984.

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 43, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 22 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.

Directors and Senior Management Profile

Ms. PENG Wei, aged 56, is our Vice President principally in charge of our research and development, production and operation of medicines. Ms. Peng is also a director and the legal representative of some subsidiaries of our Group. Ms. Peng joined our Group in October 2017 and has more than 30 years of experience in the pharmaceutical industry. Between 1995 and October 2012, she held various senior positions in The United Laboratories International Holdings Limited (a company listed on the Stock Exchange, stock code: 3933), including vice chairman, executive director and general manager. Ms. Peng founded Zhongshan Wanhan and Wanyuan, which were acquired by our Group in October 2017. She graduated from the Department of Medicine of Xi'an Medical University in 1983 and obtained an Executive MBA degree from Lingnan College of Sun Yat-Sen University in 2006.

Mr. YU Hongjiang, aged 54, is our Vice President principally in charge of our internal audit. 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 28 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 50, is our Vice President principally in charge of our public relationships and the market promotion of certain brands. Mr. Lin joined our Group in September 2012 and has over 29 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. Since December 2018, Mr. Lin was appointed as the Vice Chairman of the Big Health Committee under the Pharmaceutical Division of All-China Federation of Industry and Commerce.

Mr. ZHAO Yiyin, aged 35, is our Vice President principally in charge of our sales and marketing. Mr. Zhao joined our Group in July 2007 till September 2013, re-joined our Group in June 2015 and has more than 11 years of experience in the field of sales and marketing. Between October 2013 and May 2015, Mr. Zhao served as the national OTC director at Zhejiang Senyu Holding Group. Mr. Zhao graduated from the Department of Information Engineering of Beijing Institute of Graphic Communication in 2007 and obtained a bachelor's degree in engineering with a major focus in automation.

* *For identification purpose only*

Environmental, Social and Governance Report

GROUP PROFILE

The Group's operating headquarters is located at No. 160 West 4th Ring Road North, Haidian District, Beijing. Its production and R&D bases are located in the Qiushi Industrial Park, Fangshan District, Beijing and Southern China Modern Chinese Medicine City and Scientific Innovation Park, Nanlang Town, Zhongshan. The Group currently has more than 1,000 employees and its sales teams cover 31 provinces, autonomous regions and municipalities across the country, providing first-class service and technical support to customers and consumers nationwide through e-commerce platforms and local offline sales.

Taking the approach of combining the R&D capabilities of its own and external institutions, and fully leveraging on the "production, study and research" cooperation platform, the Group has preliminarily established its health product segment focusing on the Two Teas, its general food segment focusing on herbal tea and its pharmaceutical segment focusing on Orlistat. While manufacturing and conducting researches and development for new products, the Group continued to introduce quality new OEM products. As a result, the Group has formulated an array of slimming product offerings and an array of intestine healthcare product offerings. Such approach did not only realize product diversity and satisfy consumption needs for different stages and scenarios among consumers, but also further expanded the Group's influence in the healthcare product and pharmaceutical sectors.

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

The Group has been pursuing the philosophy of "Using traditional Chinese medicine and Chinese tea to help Chinese people manage their weight and health", and advocating the lifestyles of "light" living, burden-relieving living and green living. At the same time, the Group has taken the people's desire for a better and healthy life as its ultimate goal. The Group develops, produces and sells products from the aspects of weight management and intestinal health, and continuously introduces products for reducing weight and intestinal burden, with a view to further reducing people's risks of suffering from diseases.

Since its establishment, the Group has been adhering to the concept of achieving synchronised growth of business with the development of the motherland. The Group has also integrated the Chinese Dream of realising the great rejuvenation of the Chinese nation into the ordinary course of operation and management. The Group attaches great importance to patriotism education for its employees and vigorously advocates the spirit of making contributions to the society.

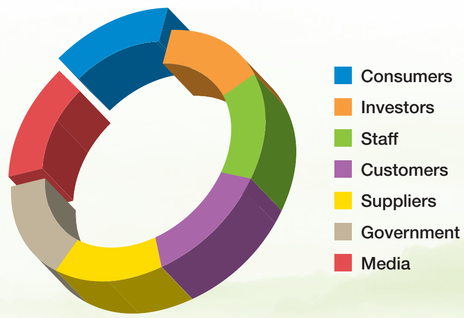
The Group actively advocates and participates in social public welfare undertakings. The Group partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund", while jointly developed and established "Policy Connected and Collaborated, Caring Focus Foundation" with the member of CPPCC of Fangshan District and Beijing Charity Foundation. Besides, the Group also actively participated in social welfare activities, including "Warm the Heart of Children — Walk with Love" hosted by Beijing Charity Foundation. In 2018, the Group advocated and initiated "Acting in All Conscience", an initiative promoting the learning and practice of excellent Chinese traditional culture. Through various activities such as visiting social welfare institutions including nursing homes, welfare homes and organising home visits to employees, the Company made concrete efforts to pursue the vision of universal unity and harmonious community underlying "care for my own aged parents and extend the same care to the aged parents of others; love my own young children and extend the same love to the children of others".

The Group adheres to the philosophy of strict management of product quality and regards product quality and safety as the top priority of the life of the enterprise. The Group pursues the philosophy of achieving public health and customer satisfaction, and the quality and safety awareness is deeply-rooted in the hearts of our staff, thus laying a solid foundation for the implementation of product quality and safety.

The Group adheres to the human resource management concept of "Fighter-oriented and Respect for Talents", and further strengthens the interest relationship between the enterprise and employees through scientific assessment and incentive policies. Staff members could enjoy the achievements 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 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 also strives to develop a mutually beneficial and win-win relationships with the stakeholders by encouraging their involvement. The Group maintains communication and contact with its stakeholders on different issues through various channels and methods such as general meetings, roadshows, official website, trade unions and customer visits, in which way the stakeholders are able to understand and supervise the Group's operation.



In 2018, the Group maintained communication with major stakeholders on issues including the following six aspects:

1. Investors' concerns about the Group's operation and interests of investors: the Group communicated with investors and timely disclosed its operation conditions via multiple ways such as general meetings, board meetings, roadshows, consultation through calls and emails, information disclosure on its website, etc. to protect the interests of investors.

2. Employees' concerns about their rights and obligations: the Group further strengthened our relationship with employees by convening employee representative meetings, communicating and discussing on the "Staff Manual", organising training and learning sessions for employees, formulating scientific and reasonable performance appraisal policies, and holding team building activities. At the same time, the Group's trade union organises cultural entertainment activities and professional training for employees from time to time to provide them with a healthy and safe working environment.

3. Customers' and suppliers' concerns about product quality and contract compliance, etc: 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 our daily operation and management, the Group has always adhered to the principle of good faith operation and respected the spirit of contract, opposed to commercial bribery, fulfilled our obligations under the contracts, and ensured legal and compliant operation. We had no major contract dispute in 2018.

4. Government's high concerns about legal, compliant operations and performance of social responsibility of enterprises: the Group was awarded various honorary titles, including the "Top Ten Brand with Public Credibility among China Health Care Products" for five consecutive years, "Beijing's Leading Entity in Employment and Entrepreneurship", "China's Model Health Brand in the 40th Anniversary of Reform and Opening up", "China Social Responsibility Outstanding Enterprise Award", "Honorary Member of Beijing Red Cross" and "Enterprise of Love of National Charity Association", all of which further recognised the contributions and achievements of the Group in legal and compliant operation and performance of social responsibility.

5. Media's concerns about the timeliness and accuracy of information disclosure of listed companies: the Group has long established good relationship with the media, and has repeatedly stressed the importance of media supervision. The Group maintained active and effective communication with the media through various ways such as organising press meetings, participating in seminars and forums, sponsoring College Students Advertising Festival, and made timely and accurate information disclosure.

6. Consumers' concerns about product quality and service: the Group provides consumers with high quality products through strict quality management system, and offers product services to consumers in a timely manner through sales networks and sales personnel across the country. The Group has always highly valued consumers' opinions and suggestions. In order to better protect consumers' rights, the Company built a professional customer service team with multiple health consultants, conducting one-on-one communications between manufacturers and consumers. During the year, the Group received and replied to more than 340,000 queries and opinions from consumers in total, and the customer satisfaction rate reached nearly 100%.

REPORTING CRITERIA AND SCOPE

This 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 from 1 January 2018 to 31 December 2018. The Group has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide in 2018.

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 Pincha Online E-Commerce Co., Ltd.

iii. Hei Longjiang Besunyen Trading Co., Ltd.

iv. Guangzhou Runliang Pharmaceutical Co., Ltd.

v. Zhongshan Wanhan Pharmacy Co., Ltd.

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

vii. Zhuhai Kangbaina Pharmaceutical Co., Ltd.

I. ENVIRONMENTAL PROTECTION

The Group considers building a resource-saving, environmentally-friendly and green enterprise as an important strategic goal for its sustainable and healthy development. While promoting its operating performance, the Company has made significant progress in "cleaner production". Meanwhile, the Company also encouraged employees to take part in charity events for environmental protection.

The Group strictly abides by related laws, regulations, standards and local regulations on environmental protection, including the Environmental Protection Law of the PRC, Cleaner Production Promotion Law of the PRC, and the Integrated Emission Standard of Air Pollutants. The Company highly values enterprises' responsibility to the environment and adheres to the philosophy of scientific and green development. Such efforts included continually optimising production processes, improving environmental protection facilities, enhancing recycling, improving energy efficiency, reducing energy consumption during production, reducing pollutant emissions, while keeping reducing negative impact on the environment.

(I) Emissions

1. Exhaust Gas and Greenhouse Gas Emission

In 2018, the Group strictly 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, while leveraging on continuously optimised technologies and management measures, we realised energy conservation and emission reduction, reduced emission of pollutants, developed low-carbon economy, and mitigated the impact on the environment, society and lives of residents. Specific measures included:

(1) Optimisation of energy structure, expansion of scope of application of clean energy such as natural gas, clean kerosene and solar power, as well as improvement in the combustion efficiency of energy;

(2) Optimisation of the production process and reduction of pollutant emissions by pollution control measures throughout the whole production process;

(3) Further increase of green area, improvement in greening rate of the production park, and the establishment of garden-like factories.

In the years 2017 and 2018, the Group's emission of exhaust gas and greenhouse gas was as follows:

Item	Year	Unit	Emission
Industrial waste gas	2018	m^3	1,627,668
	2017	m^3	1,336,430
Sulphur dioxide	2018	Kg	6
	2017	Kg	5
Nitrogen oxides	2018	Kg	223
	2017	Kg	184
Greenhouse gas	2018	t	2,890
	2017	t	3,194

In 2018, the Group had approximately 1,464 m^3 of industrial exhaust gas produced for one ton of finished products, and approximately 2.6 tons of greenhouse gas produced for one ton of finished products, both representing a decline as compared with that of 2017.

2. *Sewage Treatment*

The sewage produced by the Group is mainly from machines and equipment cleaning and the sewage generated by employees during their cleaning works. The Group strictly implemented the provisions of the Law of the PRC on the Prevention and Control of Water Pollution, took comprehensive prevention and control measures against production sewage, strengthened the discharge and treatment of sewage. All sewage was discharged to special sewage treatment companies through city pipe network for centralised sewage treatment, thus ensuring the compliant treatment of sewage.

In 2018, the Group took various measures to prevent and control the generation of sewage. Specific measures were as follows:

(1) Optimisation of production process, reduction of water consumption in production, strengthening recycling, increase in the reuse rate of water, as well as reduction of the discharge of wastewater and pollutants;

(2) Regular analysis and test of the discharge of sewage, establishment of reasonable water-saving targets based on the actual production, strengthening water management, and reduction of waste of water;

(3) Strengthening training and education, enhancement in the operational skills and environmental awareness of employees at all levels, especially the laboratory operators, and reduction of the generation of wastewater arising from accidents.

In 2018, the Group discharged 4,533 tons of industrial sewage, representing 4 tons of sewage discharged for one ton of finished products. Compared with that of 2017, industrial sewage discharged increased by 3,582 tons, which was mainly due to the cancellation of self-owned wells of plants with replacement by municipal water supply and the inclusion of production water consumption data of Zhongshan Wanhan, a company acquired in November 2017.

3. Generation of Hazardous and Non-hazardous Wastes

The hazardous wastes produced by the Group were mainly laboratory reagents. Non-hazardous wastes mainly included packaging material wastes and domestic garbage. The Group strictly complied with the requirements of the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, and strictly observed the requirements of the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes and other management regulations when dealing with solid wastes. Hazardous wastes were collected and stored in strict compliance with relevant requirements, and were disposed in professional manners by third parties with relevant qualifications, thus reducing pollution to the environment. Non-hazardous wastes were collected by categories and treated collectively by cleaning companies.

In 2018, the Company adopted the following measures to reduce discharge of wastes and mitigate the harm caused by discharge of wastes:

(1) Promotion of "cleaner production", reduction of the generation of wastes from the outset. Recoverable wastes were recovered and recycled by factories to the maximum extent. Wastes that could not be recycled were collected by categories and treated collectively;

(2) Strengthening supervision and management of the procurement of experimental raw materials for R&D purpose, and reducing waste of materials and wastes generated from expired materials;

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

In the years 2017 and 2018, the Group's discharge of hazardous and non-hazardous wastes was as follows:

Item	Year	Unit	Discharge
Hazardous wastes	2018	Kg	200
	2017	Kg	78
Non-hazardous wastes	2018	t	112
	2017	t	100

In 2018, the total amount of hazardous wastes produced by the Group was 200 kg, representing 0.2 kg of hazardous wastes for one ton of finished products; the total amount of non-hazardous solid wastes produced by the Group was 112 tons, representing 0.1 ton of non-hazardous wastes for one ton of finished products.

Compared with 2017, the amount of hazardous wastes increased by 122 kg, while the amount of non-hazardous wastes increased by 12 tons. The increase in hazardous wastes was mainly due to the increase in laboratory inspection on externally processed products. The increase in non-hazardous wastes was mainly due to the inclusion of the production and operation data of Zhongshan Wanhan and Wanyuan, the companies newly acquired by the Group in November 2017, which produced non-hazardous solid wastes.

(2) Use of Resources

1. Energy Conservation

As a product manufacturer, the Group mainly consumes electricity, natural gas and water. The Group attaches great importance to energy conservation, and has formulated internal energy management regulations as well as diversified energy conservation and emission reduction indicators, energy conservation and emission reduction targets, and has designated relevant responsible personnel for specific tasks.

The Group's energy consumption was mainly concentrated in the production management centre. To conserve energy, the production management centre implements standardised production and improves utilisation efficiency of energy, through various measures such as engineering transformation and technological upgrade of environmental facilities.

In the years 2018 and 2017, the Group's consumption of energy was as follows:

Item	Year	Unit	Emission
Electricity	2018	kWh	3,120,238
	2017	kWh	2,299,019
Natural gas	2018	m^3	115,171
	2017	m^3	139,089
Fuel	2018	L	346,526
	2017	L	384,773

In 2018, the Group's energy consumption was dominated by electricity with a total consumption of 3,120 thousand kWh, representing 2,795 kWh per ton of finished products, followed by natural gas, water and fuel, representing 103 m^3 natural gas per ton of finished products and 310 L fuel per ton of finished products.

Compared with 2017, electricity consumption increased by 821 thousand kWh, natural gas consumption decreased by 23,918 m^3 and fuel consumption decreased by 38,247 L. The increase in electricity consumption was mainly due to the inclusion of the energy data of both Zhongshan Wanhan and Zhongshan Wanyuan.

2. Water Conservation

The Group mainly uses municipal water which could satisfy its production needs. All employees of the Group endeavoured to practice the water-saving and environmental protection commitments. Practical water-saving measures were formulated to improve the utilisation efficiency of water resources based on the operation conditions of various departments. The Company also strengthened the promotion of the environmental protection concept of water conservation, and made concrete efforts in promoting the building of a water-saving society by starting from the daily acts such as saving every drop of water. Specific water-saving measures were as follows:

(1) Formulation of reasonable water conservation goals, strengthening water management and reducing waste of water resources;

(2) Enhancement of daily maintenance and management of water-using equipment, implementation of water-saving management measures, such as inspecting the circulating water pipe network and managing cooling equipment including air conditions, and stopping leakage and running water.

(3) Posting water-saving reminder cards besides the drinking water equipment in the office area to remind employees of saving water at all times.

In 2018, the Group consumed 35,145 tons of water in total, and 31 tons of water for each ton of finished products. Compared with 2017, water consumption increased by 12,670 tons, which was mainly due to the complete replacement of self-owned well of the production center with municipal water source as well as the inclusion of water consumption data of Zhongshan Wanhan and Wanyuan.

3. Packaging Materials

Packaging materials consumed by the Group mainly include packaging boxes, paper boxes, filter papers and PE packaging bags, which are provided by professional suppliers and are in compliance with national food safety standards. The Group has formulated the "System of Procurement of Packaging Materials" and "System of Request and Utilization of Production Materials" to regulate the procurement of packaging materials, request and utilization of production materials and other procedures, and to reduce the occurrence of non-conforming products or defective products in the procurement of packaging materials.

The production management centre of the Group coordinates production plan according to the size of sales orders, promoted the management of "zero inventory", and implemented upper and lower limit warning system for frequently used packaging materials. Packaging materials that are slightly damaged but do not affect product quality and safety are reused. At the same time, training of production personnel has been strengthened, the operational skills and environmental awareness of operators at all levels have been enhanced, the use efficiency of packaging materials has been improved, and wastes have been reduced.

In the years 2018 and 2017, the Group's consumption of packaging materials was as follows:

Item	Year	Unit	Consumption
Packaging materials	2018	t	1,106
	2017	t	738

In 2018, the Group's total consumption of packaging materials was 1,106 tons, representing 1 ton of packaging materials per ton of finished product. Compared with 2017, the consumption of packaging materials increased by 368 tons, which was mainly due to the packaging materials used for production by Zhongshan Wanhan, a company acquired by the Company in November 2017.

(III) Green Office

The Group advocates the philosophy of "green office and low-carbon life" and connects it with information system, vigorously promoted intelligent office, and utilised the CloudHub system integration platform to integrate various information systems and reduce the use of office consumables. With the application of the 365 field system designed for mobile phone, video conferencing system, teleconferencing system, WeChat, etc., communication between the headquarters and the sales offices, branches and subsidiaries across the country has been expedited, which enhanced work efficiency and reduced energy consumption in the office.

After years of efforts, the awareness of energy conservation and environmental protection and sense of responsibility has been deeply rooted in the hearts of employees, and every employee has contributed to environmental protection through practical acts, such as turning off electronic office equipment before going off duty, using LED and other energy-saving lighting devices.

II. WORK ENVIRONMENT FACTOR

The Group strictly abides by various laws and regulations applicable to labour employment 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 protecting the legitimate rights and interests of employees, and not discriminating the employees due to factors such as age, gender, marital status, disability and race in terms of employment, training, salary and promotion. The Company cares for employees' lives, actively fosters a harmonious working environment, and provides a broad career path for employees to realise self-value better.

The Group strictly abides by national laws and regulations, and takes the initiative to sign labour contracts with employees and pay social insurance for them in the course of labour employment.

Based on the laws and regulations such as the Labour Law of the People's Republic of China and the Social Insurance Law of the People's Republic of China, the Group has formulated a human resources system including human resource management, employee training and development, employee health and safety management, and other related policies involving employee hiring, labour contract, attendance management, holidays, compensation and benefits, training and development, employee health and safety management, information security, and network use, which are in line with the requirements of laws and regulations. Specifically include:

For recruitment, the Group's recruitment has always placed great emphasis on the ethics and characters of job applicants, followed by capability and experience. The Company attracts talents by way of professional headhunters, recruitment websites and job fairs, and matching talents' capability and experience with suitable positions to full extent.

For working hours, pursuant to the requirements under national laws, the Group has executed different working schedules for employees of different positions based on their job nature, including standard working hour schedule (no more than 8 hours per day), comprehensive working hour schedule and flexible working schedule, which in turn secures the interests of employees and enhances working efficiency.

For remuneration and performance, the Group has established a normalised 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. The employee remunerations includes basic salary, seniority remuneration, performance remuneration, bonus and piece rate wage. Remuneration is adjusted based on factors such as work performance and capability as well as job responsibilities.

For resignation, the Group clearly stipulates that employees are entitled to resign from the Company during the performance of labour contract. Written resignation letter shall be submitted to the person-in-charge of the respective department 3 days in advance during the probation period, while resignation letter shall be submitted to the person-in-charge of the respective department 30 days in advance upon official employment. In case of malpractices, violation of management rules and operation standards which results in injuries or fatalities or losses, criminal punishment or criminal detention, the Company is entitled to terminate the labour contract.

Promotion is made based on working performance and capability. No discrimination shall exist due to factors such as gender and disability, and female and disabled staff shall enjoy the same promotion opportunities as other staff. The Group insists on employing the disabled and securing their employment opportunities, who shall enjoy the same remuneration, benefits and career development opportunities such as promotion and training.

The Group is in strict compliance with the national requirements on labour holidays, and ensures its employees could completely enjoy annual leave, personal leave, sick leave, marriage leave, parental leave and other statuary holidays. Meanwhile, apart from social security contribution by the Group for all employees, staff could also enjoy benefits such as meal subsidies, travel subsidies, high temperature subsidies, festival benefits, team building and staff birthday parties, which could enhance the cohesion among staff.

(I) Health and Safety

The Group always puts the health and safety of employees at the most important position, and regards providing employees with a safe and healthy working environment as corporate responsibility.

In 2018, the Group strictly complied with the Production Safety Law of the People's Republic of China and other laws and regulations, adhered to the concept of "focusing on prevention, combining it with control", fully implemented the accountability of safety production, and conscientiously implemented the Safe Production Management Measures, Safety Production Accountability System and other systems. It strengthened occupational health education and training, enhanced employees' awareness of safety production and responsibility, carried out health and security checks to control safety risks, and created a safe, healthy and comfortable working environment for employees to the full, so as to effectively prevent occupational diseases and reduce the probability of occurrence of safety accidents.

(II) Development and Training

One of the core objectives of the Group's operation is to cultivate talents who have a sense of operator. The Group attaches importance to the growth of employees and the development of talents, and builds a systematic capacity development system to improve the employees' quality, stimulate the employees' potential, and provide support for the growth of employees.

The Group advocates the joint development of the enterprise and employees, and engages external professional organizations to train employees on professional skills and management capabilities. In addition, as guest lecturer, excellent employees conduct lectures or training on business practices and customer management through the "micro-class" from time to time. The employees' professional ability and comprehensive management ability are enhanced through continuous employee development and training investment, thereby realising a win-win situation where the employees and the enterprise can both realise their value.

In 2018, the Group organised various trainings according to its own development needs, and the total number of the Group's employees trained was 1,555 people. These trainings provided the following resources for staff career development and personal value enhancement:

(1) Organising the Amoeba (阿米巴) series training for the headquarters, plants, all e-commerce employees, sales management and core business personnel of the Company to improve the proactive operation awareness and management ability of all employees.

(2) Organising all employees of the Company to conduct internal training through "micro-class", aiming at improving business practices, customer management, internal collaboration, product knowledge and other business operations capabilities.

(3) Organising each functional department to conduct open class training on professional skills for external assignment.

(4) Organising internal training by the sales team to enhance sales staff's sales management skills, sales techniques and business etiquette.

(III) Labour Standards

The Group strictly abides by the Regulation on Prevention of Child Labour and prohibits hiring minors under the age of sixteen. The Company enters into labour contracts with employees on a voluntary basis, respects the willingness of employees, ensures that the employees' working hours are reasonable and can enjoy holiday benefits, pays employees' salaries and benefits reasonably, and creates a safe, healthy and orderly working environment.

III. OPERATIONAL MANAGEMENT

(I) Supply Chain Management

As an enterprise engaging in R&D, production and sales, the Group attaches great importance to supply chain management and maintenance. The quality of healthcare product is directly related to the health of the people, the quality of raw materials directly affects the quality of product, and good supply chain management system is one of the foundations of enterprise operational risk management.

The Group has developed a supplier evaluation mechanism with regard to the production environment and product quality, which requires the raw material suppliers to comply with the Food Safety Law of the People's Republic of China and other laws and regulations. In addition, the Company also formulated and issued the Procurement Management Measures and the Sales Management Policy and other management guidances to effectively manage the suppliers and distributors along the supply chain.

The Group sets up a list of qualified suppliers, and conducted annual audit on suppliers by professionals. The audit includes supplier's qualification, supplying ability, production environment, funding capacity, delivery quality, contract fulfillment, after-sale service, integrity, etc. After assessment, the Group will continue to cooperate with qualified suppliers, and directly eliminate unqualified suppliers.

The Group specifies the "Anti-Bribery Clause" in the supply chain contract entered into by it, and maintains anti-commercial bribery communication with suppliers in the annual supplier audit, in order to keep forming a clean and self-disciplined supply chain. The Company maintains a zero tolerance attitude towards any supply chain fraud.

(II) Product Responsibility

Since its establishment, the Group has always prioritised integrity as its core business philosophy. It pursues the green development of traditional Chinese medicine industry, and helps the Chinese people to manage their weight and health by traditional Chinese medicine and Chinese tea, and strictly fulfills the product responsibility of a production enterprise, so as to be really responsible for society and consumers.

The Group strictly complies with the Food Safety Law of the People's Republic of China, and formulates various standards and operating procedures for products according to the Pharmacopoeia of the People's Republic of China, in order to standardise the production process, supervises and tests each production process, and ensures the safety production.

In 2018, the Group won the "Top Ten Brand with Public Credibility among China Health Care Products" for five consecutive years, and won the "Beijing's Leading Entity in Employment and Entrepreneurship", "China's Model Health Brand in the 40th Anniversary of Reform and Opening up" and the "First Batch of Member Companies of China Healthcare Brand Cluster" and other honorary titles.

The Group reminds consumers of the ingredients, effects, unsuitable groups and consumption methods of its products on the packaging labels. The labels have unique serial numbers to help consumers understand the functions of the products. Upon completing production, products are only packaged and sold until being tested to be in line with national food and drugs inspection standards tests.

The Group is in strict compliance with the Advertisement Law of the People's Republic of China and its relevant policies and regulations. In the production, sale and after-sale aspects, no exaggerating and fraudulent promotion information is allowed, while prohibited languages are not used in external promotions. Promotion language is normalised to ensure compliance with the requirements under the Advertisement Law and that no consumer is deceived and misled.

1. Intellectual Property Right Protection

The Group strictly abides by the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Copyright Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China and other laws and regulations. It continues to strengthen the development and management of intellectual property rights, and effectively protects its proprietary intellectual property rights by trademark registration applications, patent applications and patent maintenance, so as to give full play to its independent intellectual property rights, which effectively enhances the Group's market competitiveness and core competitiveness.

2. *Quality Testing and Product Recycling*

Product quality and safety are the core elements of production and operation of the Group, and the product quality is put as the first mission of the operation and management of the Group. The Group's production management centre has set up laboratory and quality assurance department to formulate a series of systems and control procedures related to product quality testing. Professional quality testing personnel are arranged to carry out comprehensive testing and recording on the material procurement and warehousing, materials request and usage in production, production process, product packaging and storage to ensure the up-to-standard quality in each aspect of production, and eliminate the sub-standard products. Sub-standard products are not allowed to flow out of the warehouse and sold on the market.

The Group's production and operation are in line with the GMP requirements for health foods. 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's recyclable products are mainly comprised of sub-standard products, unqualifiedly packaged products, near-expiration (including expired) and unsaleable products. The Group has formulated the Product Quality Control and Product Return Management Policy to regulate and illustrate the scope of product recycling and recycling workflows. For the recycled products, the quality assurance department designates special personnel to break the package and destroy the products according to the applicable requirements for the purpose of eliminating potential harm to consumers.

3. *Product and Service Complaint*

The Group always adheres to the principle of customer orientation, attaches importance to the management of consumer complaints information, deals with customers' comments and suggestions seriously, accepts, transmits, processes, tracks and responds to customer complaints, takes effective measures to deal with complaints in a timely manner, so as to protect the rights and interests of customers. It also analyses the complaint information, solves the problem thoroughly and prevents recurrence of common problems.

In 2018, there were no significant complaints or lawsuits arising from the quality of the products and service of the Group. The Group received over 340,000 comments in total from the consumers in 2018, among which 99.5% were product enquiries and 0.5% were complaints, respectively.

4. Customer Privacy

The Group strictly complies with the Network Security Law of the People's Republic of China and other laws and regulations, and continuously improves information security monitoring to prevent the stakeholders' private data from being stolen or leaked.

The Group's information centre carries out information safety trainings and information safety knowledge sharing on a regular basis every year, in order to enhance employees' network security awareness. To safeguard customers' information, hardware protection measures such as firewall and barriers are added. Full-time personnel monitors operation logs, controls IP access and makes dual copies for core data on regular basis. Such measures could ensure the security of the Group's information and prevent its leakage or theft.

In 2018, there were no incidents of infringement of customer privacy such as customer information disclosure, theft and loss or receipt of confirmed complaints.

(III) Anti-corruption

The Group strictly complied with the relevant national laws and regulations regarding anti-corruption by establishing a legal and compliant business philosophy. All unfair competition behaviours such as commercial bribery were prohibited in the process of operation, ensuring the legitimacy and compliance of the channels and the authenticity of product information.

The Group has formulated the Sales Management Policy and supplementary requirements to strictly regulate its operation and management disciplines. Employees encroaching the Group's properties or impairing the Group's interests would be held liable. At the same time, the Group and its suppliers sign contracts including clauses on anti-commercial bribery. The Group strictly abides laws and regulations and prohibits commercial corruption practices, so as to protect the interests of contractual parties and foster sound business development. With complaint procedures in place, if any employee violates any stipulated practices, one could make complaints and reports via mail or by phone.

The Group alerts all employees against risks, establishes employees' fair competition, integrity and self-discipline awareness through systemic restraint, publicity, education and strict supervision, so as to prevent the management team and all employees from committing illegal acts such as corruption, bribery, blackmail and fraud and establish a clean and self-disciplined enterprise culture.

IV. PARTICIPATION IN COMMUNITY

The Group has always prioritised integrity and repaying the community as its core business philosophy since its establishment. It keeps paying attention to public welfare undertakings and disadvantaged groups by advocating the practice way of starting from the humblest of steps with oneself, and believing that a small charitable act can make a huge effect on society. With tiny efforts to motivate people around us, the Company continues to devote to public welfare undertakings.

The Group proactively responded to the nation's appeal for helping employment of peasant workers and fresh graduates, and carried out in the practical action. For example, the Company gave priority to peasant workers from nearby villages in its employment of production bases, increasing local employment, and took the opportunity of speaking tour of the Chinese University Students Advertisement Show in universities across the country to attract outstanding graduates to join.

In 2018, the Group won the "2018 China Social Responsibility Outstanding Enterprise Award", representing being honoured to receive social welfare awards in "China Social Responsibility Public Welfare Festival" for five consecutive years, which is an encouragement and inspiration by society towards the performance of social responsibility of the Company.

(I) Public Welfare

"Practise what we advocate; start from small things" is the Group's basic strategy to fulfil its social responsibilities. The Group has always insisted on repaying the society, actively performing social responsibilities of corporate citizen and participating in social public welfare undertakings.

In 2018, the Group has maintained close collaboration with the Beijing Charitable Association, Beijing Green Sunshine Environmental Protection Public Welfare Foundation and other professional social welfare organizations. Through donation, charity promotion, and organization of employees to participate in public welfare undertakings, the Company strives to perform its corporate social responsibility.

The Group, together with the China Green Carbon Foundation and the Beijing Green Sunshine Environmental Protection Public Welfare Foundation and leveraging on Tencent's 9 September social welfare platform, launched the "Pastoral Children's Defense" public welfare project to eliminate the threat of children's growth in pastoral areas, protect their homes and wild animals they love, in order to guard the Qiangtang, the last wildness on the earth.

In 2018, the Group jointly developed and established "Policy Connected and Collaborated, Caring Focus Foundation" with the member of CPPCC of Fangshan District and Beijing Charity Foundation. The Group also actively participated in the respective project, namely the targeted poverty alleviation of "10,000 enterprises assisting 10,000 villages" jointly launched by the China Federation of Industry and Commerce and the State Council Leading Group Office of Poverty Alleviation and Development, carried forward the spirit that the people got rich first help those being rich later, actively participated and focused on the poverty-stricken regions. Through poverty alleviation in connection with industry, employment, education, health and public welfare, the Company strives to build a long-term mechanism for poverty alleviation.

Ms. Gao Yan, the vice chairman of the Group, has been insisting on visiting the Tongzhou Care Center in Beijing and the Fangshan District Children's Welfare Institute in Beijing for many years and making donations on behalf of the Company and all employees. Meanwhile, the employees' social responsibility awareness was better motivated through the study of "Acting in All Conscience". Everyone actively participated in the social welfare fund activities, and practised the big love activities of "helping the elderly and disabled ".

(II) Care for Employees

The Group has been practising the "Home" and "Gratitude" corporate cultures, helping employees relax during breaks, enlivening up employees' lives, and improving employees' cohesion by various activities such as "Friday Tea Party", "Single Staff Activity", "Staff Birthday" and staff team building. Through visiting impoverished workers and afternoon tea party for genetic test explanation and other activities, the Company continues to care about the lives and health of employees, and creates an enterprise culture with 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 2018, 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 2018.

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

As at 31 December 2018, the Board comprises six Directors, including two executive Directors, namely Mr. Zhao Yihong (Chairman and Chief Executive Officer) and Ms. Gao Yan (Vice Chairman); one non-executive Director, namely Mr. Zhuo Fumin; and three independent non-executive Directors, namely Mr. Huang Jingsheng, Mr. Ren Guangming and Mr. He Yuanping. Mr. Fu Shula joined the Board on 1 April 2019, serving as an independent-non-executive Director. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 24 to 27.

Under code provision A.2.1 of the CG Code, 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 29 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 strategies 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 making 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 briefings 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, Mr. Zhao Yihong, Ms. Gao Yan, Mr. Zhuo Fumin, Mr. Huang Jingsheng, Mr. Ren Guangming and Mr. He Yuanping participated in comprehensive trainings on topics including Listing Rules compliance, director's duties, capital raisings, corporate governance and environment, social and governance, etc. by attending training courses conducted by qualified professionals and reading relevant update materials. Each of the above-mentioned Directors received more than 15 hours of training in 2018.

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, unless less number of days has been consented by all Directors, 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:

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

COMMITTEES UNDER THE BOARD

Audit Committee

In 2018, 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 2018, 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 2018, 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 2017 and 2018;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2017 auditors' report issued by PricewaterhouseCoopers;

(iv) reviewed and approved the 2017 annual report and audited financial statements, the 2017 annual results announcement, the 2018 interim report and the 2018 interim results announcement;

(v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2017;

(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 2018, the fees payment by the Group to PricewaterhouseCoopers and its member firm for audit services amounted to RMB2.8 million, while none of these is payable for non-audit services.

On 28 March 2019, Mr. Fu Shula was appointed as a member of the Audit Committee with effect from 1 April 2019.

Remuneration Committee

In 2018, 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 2018, 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.

On 28 March 2019, Mr. Fu Shula was appointed as a member of the Remuneration Committee with effect from 1 April 2019.

Nomination Committee

In 2018, 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 directors. 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 the merits and contributions that the selected candidates will bring to the Board.

In the Nomination Committee meetings held in 2018, 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.

On 28 March 2019, Mr. Fu Shula was appointed as a member of the Nomination Committee with effect from 1 April 2019.

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

	Number of Attending/Convening Meetings				
DIRECTORS	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meetings**	**General Meeting**
Executive Directors					
Mr. Zhao Yihong	8/8	—	2/2	2/2	1/1
Ms. Gao Yan	8/8	—	—	—	1/1
Non-executive Directors					
Mr. Zhuo Fumin	7/8	—	—	—	1/1
Ms. Zhang Guimei (resigned on 17 August 2018)	3/3	—	—	—	1/1
Independent Non-executive Directors					
Mr. Huang Jingsheng	7/8	3/3	2/2	2/2	1/1
Mr. Ren Guangming	7/8	3/3	2/2	2/2	1/1
Mr. He Yuanping	7/8	3/3	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 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates which are reasonable and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group.

The Directors' and auditor's responsibilities for the financial statements of the Company are set out in the independent auditor's report on pages 81 and 82 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. The systems aim at providing 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 Group and the environment within which it operates are continually evolving together with the risks it faces. The Group continues to review the adequacy of its risk management and internal control framework and looks for opportunities to make improvements and add appropriate resources when necessary to cope with risks 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 reviewing 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

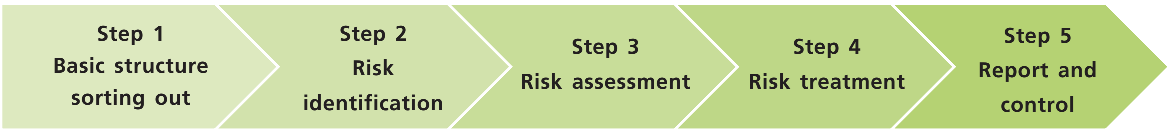
(iii) the external auditor submits reports on control issues identified during its works on a regular basis, and discusses the review scope and results of various issues with the Audit Committee.

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 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 communicate 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 objective of risk management is to secure safety to the maximum extent with the lowest cost. By adopting the following risk management procedures, the Group prudently manages the risks associated with the Group's business and operations:



Major contents of risk management procedures

Step 1: sorting out the structure of the risk management system, and determining the functions and responsibilities of the risk management department;

Step 2: organizing internal research to identify risks with potential impacts on important procedures of business and identifying risk events and potential impacts;

Step 3: analyzing and evaluating risk events through risk identification, including risk characteristics, risk causes, triggers, possibilities and degrees of impacts;

Step 4: evaluating existing risk counter-measures, including the effectiveness of implementing the control measures;

Step 5: preparing risk assessment reports, and reporting the same to and communicate with management at appropriate level.

Reviewing the effectiveness of risk management and internal control systems in 2018

For the year ended 31 December 2018, the Board has reviewed the effectiveness of the risk management and internal control systems and 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 in respect of the accounting, financial reporting and internal audit functions are adequate.

Significant Risks and Response Plans

In 2018, 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 2018 are as follows:

Major Risks	Risk Description	Change in 2018	Risk Counter-measures and Plans
Risk relating to competition	In the course of market expansion, the Group does not only need to beware of traditional competitors, but also stays alert of potential and cross-sector competition. Currently, during operation, the Internet commercial model has significant impact on the traditional one. We shall always keep abreast of the source of competitors and stay alert all the time.	↑	The Group was always beware of the changes in market environment and business model. Apart from continuous enhancement of the management of our own research, production and sales, the Group also kept abreast of the status of our competitors. With rapid development of e-commerce in recent years, sales in traditional channels are seriously affected, with some channels showing a declining trend for sales. During the year, the Group has established three e-commerce work stations, namely Beijing station, Hangzhou station and Guangzhou station. The Group consolidated and expanded its e-ecommerce team and attempted to motivate sales teams and boost sales growth by means such as segmenting operation units and independent accounting. Meanwhile, the Group integrated its increasingly rich product lines and developed new platforms such as Pinduoduo, VIPShop and Ping An Good Doctor, on the foundation of Taobao and JD.com platform. With efforts of both online and offline channels, the Group captured markets share and boosted sales results.

Major Risks	Risk Description	Change in 2018	Risk Counter-measures and Plans
External policy environment	In 2018, the State Administration for Market Regulation was established. Following the principles on the tightest standards, the most stringent supervision, the most severe punishments and the most serious accountability system, the Administration complies with the law to enhance food safety, industrial products quality and safety as well as specialty equipment safety supervision. With strengthened on-site inspection, the Administration imposes severe punishments on any violation and effectively prevents systematic risks, so that the public can rest assured that they buy and use safe products and eat safe food. Pursuant to the requirements under the Notice on Proposal to Rectify Fraudulent and False Advertising of Food and Health Food from nine departments including the Food Safety Office of the State Council (Shi An Ban [2017] No.20) (《國務院食品安全辦公室等9部門關於印發食品、保健食品欺詐和虛假宣傳整治方案的通知》(食安辦 [2017] 20號), stringent inspection and punishment would be imposed nationwide for health food on suspected false, exaggerating or absolute names as well as expressions with expressed or implied prevention or treatment effects. It is clearly defined that no effect names or wordings related to describing product functions shall be used for promotion. With increasing concern on food and drugs, the PRC continues to strengthen the respective supervision. Business GSP certification will be more stringent, while the frequency of relevant unannounced inspection, random inspection and various specific inspection will also increase.	↔	Since its establishment, the Group has always been operating in compliance with laws, and places particular emphasis on the publication and approval of advertisements. Promotion is made in compliance with laws and regulations. The Group has established the product advertisement approval mechanism, appointed the person-in-charge for advertisement publication, strictly combated false advertisement and promotion, and maintained corporate brand image. The Group has established the public relations centre, with designated personnel in charge of collecting and compiling, among others, external policies and regulations as well as food and drugs supervision policies. The respective personnel are also responsible for monitoring the advertisement contents published on media such as television, newspaper, internet, self-owned media and social media commerce, to ensure that the Group's published advertisements and promotion comply with laws and regulations.

Corporate Governance Report

Major Risks	Risk Description	Change in 2018	Risk Counter-measures and Plans
Risk related to product strategy and structure	In case a new product is not marketable because its design is old-fashioned or too advanced and does not cater for the needs of the market and customers, it will significantly hamper the Company's results, and will also affect the accomplishment of the strategic targets of the Company's products. The Group mainly sources its income from Besunyen Detox Tea and Besunyen Slimming Tea. The sales of its existing products are heavily influenced by market environment, consumers preference and competing products.	↓	The Group constantly increased the investment in its research and development team and resources. Through in-house and externally engaged research and development, the Group's product portfolio was further enriched, offering food such as meal replacement milkshake, probiotic products, L-carnitine coffee and vitamin C and E products. In November 2017, the Group acquired 51% equity interests in Zhongshan Wanhan and Wanyuan. Besunyen Orlistat Capsules produced by Zhongshan Wanhan records stable sales growth in e-commerce sector. Apart from health products, drugs will become another driving force of the Company's results growth in the future.
Price and channel management	Sales price is a key factor affecting sales results. Prolonged low price or channel conflict will seriously hamper the Company's performance results. The Group's sales model covers the entire online and offline channel, and has currently built up an effective price and goods flow supervision mechanism. In case of insufficient supervision on online and offline selling price and product flow, it may cause market price difference and affect normal sales. Positive inventory at channels and terminals is also a key factor affecting the sales results. In case any channel intentionally stocked up, certain effects may be achieved in a short term, but in the long run, such act will significantly hinder positive growth of sales.	↓	The Group strictly implements management requirements on pricing and channel conflict. For customers found to have low pricing and channel conflict, the supervision department might undertake measures such as warning and deduction of rebates. For serious violations, the qualification of sales agency would be revoked. On the basis of the sales support department, the Group consolidated the resources from various departments to establish the operation and management centre, which supervises sales orders, refund, delivery and selling price. During the year, the Group strengthened its management on sales and delivery amount. Through setting the safe inventory and safe turnover day for channel customers, the risks of stockpiles and return of goods were reduced, which in turn guaranteed a positive sales development.

Major Risks	Risk Description	Change in 2018	Risk Counter-measures and Plans
Risk related to product quality and safety	Product quality and safety are vital to the Company and are also our bottom line. Issues on production quality and safety may cause customer complaints which would affect the Company's brand and reputation, or to a serious extent, the Company will be subject to fines, recall, suspension of production, products being took down from the shelves, or even risk of suspending the production and operation permits.	⬇	The Group implemented management on product quality throughout the whole process. In-depth assessment via supervision and examination of production process, inspection report from external third-party professional institutions, suppliers' audit, consumer interview and inspection by government authorities such as the CFDA and feedback on product quality management helped to lower the product quality and safety risks. During the year, the Group began to introduce OEM products and exercised management and control on the quality of OEM products. Product quality and safety are ensured via qualification audit on suppliers, supervision on production process, product check and acceptance as well as laboratory quality inspection.

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 responsibilities 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 also requires registration and filing of those who are aware of inside information, or requires them to sign confidentiality agreement, and timely report the conditions of those who are aware of inside information to internal control department to conduct control over them. The Company reviews 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 provided by the external auditor is strictly implemented 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, the Group 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.

The Company recognises and embraces the benefits of allowing the shareholders of the Company to participate in the Group's distributable profits and reserves and retaining adequate reserves for the Group's future development. The Company has adopted a dividend policy, according to which, the Board shall consider the following factors before approving declaration and payment, or recommendation for declaration and payment, of a dividend:

- the actual and expected financial performance of the Group;
- the distributable profits and reserves of the Group;
- the working capital requirements, capital expenditure requirements and future expansion plans of the Group;

- the liquidity position of the Group;
- macroeconomic conditions, the Group's business cycle and other internal or external factors that may have an impact on the business, financial performance and position of the Group; and
- other factors that the Board deems relevant.

The declaration and payment, or recommendation for declaration and payment, of a dividend is also subject to the compliance with applicable laws and regulations, including the laws of Cayman Islands and the memorandum and articles of association of the Company. The Company has no assurance for the amount, ratio and timing of payment of dividend, unless otherwise specified.

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 2018.

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 11 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, relationships with employees, customers and suppliers, 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. The above sections form part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the Consolidated Statement of Comprehensive Income on page 83 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 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2019 to 28 May 2019, 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 2019 will be 28 May 2019. 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 22 May 2019.

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 180 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 15 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 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2018 amounted to RMB1,145 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 86 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018:

(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 43% of the purchases of the Group;

(c) the purchases attributable to the largest supplier of the Group accounted for 26% 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 (resigned on 17 August 2018)

Independent Non-executive Directors

Mr. Huang Jingsheng
Mr. Ren Guangming
Mr. He Yuanping
Mr. Fu Shula (appointed on 1 April 2019)

In accordance with article 16.2 of the articles of association of the Company, Mr. Fu Shula will retire at the forthcoming annual general meeting, and being eligible, offer himself for re-election.

In accordance with article 16.18 of the articles of association of the Company, Mr. Ren Guangming and Mr. He Yuanping 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 40 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 2018**	Number of individuals in 2017
Under HK$1,000,000	**1**	—
HK$1,000,001 – HK$1,500,000	**2**	3
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	—
HK$2,500,001 – HK$3,000,000	**—**	—
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 contributions to the Group. The Group has adopted a share option scheme and a restricted share award scheme for its employees.

DIRECTORS' INTEREST IN CONTRACTS

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 2018, 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 (resigned on 17 August 2018)	—	—	—	—	—
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 2018. 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 73,170,000, representing approximately 4.49% of the issued shares as at the date of this annual report.

The consideration for accepting a share option is HK$1.00. The exercise price for the share option granted under Pre-IPO Share Option Scheme shall be such price as the Board in its absolute discretion shall determine. Please see the table below with specific amounts.

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 movements of the Company's share options held by the Directors, employees and consultants under the Pre-IPO Share Option Scheme for the year ended 31 December 2018:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2018	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2018
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 Director								
Zhuo Fumin	6.5.2010	2nd	4 Years	400,000	—	—	—	400,000
				400,000	—	—	—	400,000
Independent Non-executive Director								
Huang Jingsheng	6.5.2010	2nd	4 Years	500,000	—	—	—	500,000
				500,000	—	—	—	500,000
Employees and consultants in aggregate	6.5.2010	1st	3.5 Years	33,680,000	—	(900,000)	—	32,780,000
	6.5.2010	2nd	4 Years	3,490,000	—	(300,000)	—	3,190,000
	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
				37,470,000	—	(1,200,000)	—	36,270,000
	Total			74,370,000	—	(1,200,000)	—	73,170,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the year								73,170,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the year ended 31 December 2018.

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 2018 (2017: 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.

The consideration for accepting a share option is HK$1.00. The exercise price for the share option granted under Share Option Scheme shall be such price as the Board in its absolute discretion shall determine. Please see the table below with specific amounts.

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 movements of the Company's share options held by the Directors, employees and consultants under the Share Option Scheme for the year ended 31 December 2018:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2018	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2018
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 Director									
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 consultants in aggregate	27.10.2014	1st	4 Years	7,800,000	—	—	(1,000,000)	—	6,800,000
	27.10.2014	2nd	4 Years	8,940,000	—	—	(1,820,000)	—	7,120,000
	27.10.2014	3rd	4 Years	—	—	—	—	—	—
	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	—	—	—	—	—	—
				17,640,000	—	—	(2,820,000)	—	14,820,000
	Total			24,440,000	—	—	(2,820,000)	—	21,620,000
Weighted average exercise price (HK$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the year									21,397,083

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 2018. The inputs into the model were as follows:

	Options 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 options 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 RMB94,000 for the year ended 31 December 2018 (2017: RMB887,000) 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, with the opportunities 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.

On 4 December 2018, 200,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 4 January 2019.

As at 31 December 2018, 35,401,567 Shares (31 December 2017: 35,601,567 Shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized a total expense of RMB88,000 for the year ended 31 December 2018 (2017: RMB550,000) in relation to the restricted shares granted under the Restricted Share Award Scheme.

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the year ended 31 December 2018 and outstanding as at 31 December 2018:

Employees	Number of awarded shares
Outstanding as at 1 January 2018	200,000
Granted during the year	200,000
Vested during the year	(200,000)
Outstanding as at 31 December 2018	200,000

The closing price of the Company's shares immediately before 4 December 2018, the date of grant of the restricted shares, was HK$0.335.

Save as disclosed above, during the year ended 31 December 2018, 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 2018, 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%
Sea Network Holdings Limited[1]	816,259,176[L]	50.07%
TMF Trust (HK) Limited[1]	816,259,176[L]	50.07%
Alliedray Holdings Limited[2]	816,259,176[L]	50.07%
Ms. Yin Qiuping[2]	816,259,176[L]	50.07%
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) Alliedray Holdings Limited acquired a security interest in the 816,259,176 Shares on 10 December 2018. 90% of the issued share capital of Alliedray Holdings Limited is directly owned by Ms. Yin Qiuping.

(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 2018.

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

Save as disclosed above, as at 31 December 2018, 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. There were no non-exempt connected transactions carried out by the Group for the year ended 31 December 2018.

Save as disclosed above, for the year ended 31 December 2018, there is no related party transaction or continuing related party transaction as set out in note 39 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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group during the year.

PERMITTED INDEMNITY PROVISION

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands where the Company is incorporated.

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2018.

DONATION

The Company made charitable donations of RMB0.9 million in aggregate during the year ended 31 December 2018.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group considers building a resource-saving, environment-friendly and green enterprise as an important strategic goal for its sustainable and healthy development. The Group strictly abides by related laws, regulations and standards, highly values enterprises' responsibility to the environment and adheres to the philosophy of scientific and green development. The Group is dedicated to use clean energy, actively promotes "cleaner production", continues to optimise production processes, improves environmental protection facilities, practises energy conservation and emission reduction, and enhances recycling. At the same time, the Group also advocates "green office and con-carbon life", improves energy saving and environmental protection awareness of staff, and encourages employees to take part in charity events for environmental protection. The Group has continuously reduced the adverse impacts on environment by the Group.

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 the auditor of the Company for the year ended 31 December 2018. 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, 13 March 2019

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 83 to 179, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") 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.

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are impairment assessment of property, plant and equipment and impairment assessment of goodwill.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of property, plant and equipment	
Refer to Note 4.1(b) "Critical accounting estimates and assumptions" and Note 15 "Property, plant and equipment" to the consolidated financial statements. The Group's revenue from the sales of detox and slimming tea products decreased significantly during the year ended 31 December 2018. Management considered that this constitutes a triggering event for reassessing the recoverable amounts of the key operating assets (including plant and machinery) of the cash-generating unit for the manufacturing of tea products (the "**Manufacturing of Tea Products CGU**"). As at 31 December 2018, the carrying amounts of the key operating assets of the Manufacturing of Tea Products CGU (the "**Key Operating Assets**") amounted to approximately RMB40,299,000. Management has assessed the recoverable amounts of the Key Operating Assets by reference to a valuation report as issued by an independent valuer. The recoverable amounts were determined based on "value-in-use" calculations using the discounted cash flow model. Based on the result of the assessment, management has concluded that no impairment loss has to be recognised as of 31 December 2018.	In response to this key audit matter, we have performed the following procedures: • Discussed with management and understood and evaluated management's control processes for preparing the budget and future cash flow forecast of the Group's tea products segment (which were used as the source input data for the impairment assessment) and reconciled the input data for the impairment assessment to supporting evidence, such as approved budgets; • Inquired with the independent valuer and assessed the appropriateness of the valuation model with the assistance of our internal valuation expert. We have assessed the competence and objectivity of the independent valuer; • Assessed the reasonableness of the key assumptions as adopted by management in the discounted cash flow model for the impairment assessment (primarily with respect to the revenue growth rates, sales margin and discount rate) by reference to external industry data, the Group's historical and subsequent sales information and the cost of capital for the Group and comparable companies in the industry; • Tested the mathematical accuracy of the calculations in the discounted cash flow model;

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of property, plant and equipment (Continued)	
We focused on this matter due to the significance of the Key Operating Assets and given that significant management judgement and estimates were involved in determining the key assumptions (in particular the revenue growth rates, sales margin and discount rate) for the impairment assessment.	• Evaluated the sensitivity analysis prepared by management around the key assumptions to assess the potential impact of a range of possible outcomes; and • Assessed adequacy of related disclosures in the consolidated financial statements. We considered the key judgements and estimates adopted by management in the impairment assessment are supportable based on the evidence derived from our procedures performed.
Impairment assessment of goodwill	
Refer to Note 4.1(c) "Critical accounting estimates and assumptions" and Note 18 "Intangible assets" to the consolidated financial statements. As at 31 December 2018, the Group's goodwill amounted to approximately RMB56,453,000 and management has performed an annual impairment assessment on the goodwill. To assess the impairment, the goodwill was allocated to the respective relevant cash generating units (CGUs) and management has assessed the recoverable amounts of the goodwill by reference to the valuation reports as issued by an independent valuer. The recoverable amounts of the goodwill of the respective CGUs were determined by management based on "value-in-use" calculations using the discounted cash flow model. Based on the result of the assessment, management has concluded that no impairment loss has to be recognised as of 31 December 2018. We focused on this matter due to the significance of the goodwill and given that significant judgement and estimates were involved in determining the key assumptions (in particular the revenue growth rates, sales margins, terminal growth rates and discount rates applicable to the respective CGUs) for the impairment assessment.	In response to this key audit matter, we have performed the following procedures: • Discussed with management and assessed the appropriateness of the Group's identification of the CGUs to which the goodwill was allocated; • Discussed with management and understood and evaluated management's control processes for preparing the budget and future cash flow forecast of relevant CGUs (which were used as the source input data for the impairment assessment) and reconciled the input data for the impairment assessment to supporting evidence, such as approved budgets; • Inquired with the independent valuer and assessed the appropriateness of the valuation model with the assistance of our internal valuation expert. We have assessed the competence and objectivity of the independent valuer;

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill (Continued)	
	• Assessed the reasonableness of the key assumptions as adopted by management in the discounted cash flow model for the impairment assessment (primarily with respect to the revenue growth rates, sales margins, terminal growth rates and discount rates applicable to the respective CGUs) by reference to external industry data, the Group's historical and subsequent sales information and the cost of capital for the Group and comparable companies in the industry; • Tested the mathematical accuracy of the calculations for the respective CGUs in the discounted cash flow model; • Evaluated the sensitivity analysis prepared by management around the key assumptions applicable to respective CGUs to assess the potential impact of a range of possible outcomes; and • Assess the adequacy of related disclosures in the consolidated financial statements. We considered the key judgements and estimates adopted by management in the impairment assessment of the goodwill are supportable based on the evidence derived from our procedures performed.

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 IFRSs 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, 13 March 2019

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	5	**378,378**	542,870
Cost of sales	6	**(123,061)**	(112,677)
Gross profit		**255,317**	430,193
Other income	7	**22,675**	28,645
Selling and marketing expenses	6	**(246,849)**	(339,684)
Administrative expenses	6	**(112,417)**	(106,921)
Impairment loss of intangible assets	18	**(4,802)**	—
Research and development costs	6	**(23,548)**	(15,866)
Other expenses	6	**(9,829)**	(9,665)
Other gains/(losses), net	8	**6,054**	(3,305)
Finance costs	10	**(6,665)**	(180)
Share of (losses)/profits of investments accounted for using the equity method	12	**(1,295)**	9,599
Loss before income tax		**(121,359)**	(7,184)
Income tax credit	13	**27,887**	12,465
(Loss)/profit for the year		**(93,472)**	5,281
(Loss)/profit attributable to:			
— Owners of the Company		**(95,299)**	4,086
— Non-controlling interests		**1,827**	1,195
		(93,472)	5,281
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(93,472)**	5,281
Total comprehensive (loss)/income attributable to:			
— Owners of the Company		**(95,299)**	4,086
— Non-controlling interests		**1,827**	1,195
		(93,472)	5,281
(Losses)/earnings per share attributable to owners of the Company for the year (RMB cents)			
— Basic (losses)/earnings per share	14	**(5.98)**	0.27
— Diluted (losses)/earnings per share	14	**(5.98)**	0.27

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

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**210,266**	364,996
Land use rights	16	**117,176**	345,624
Investment properties	17	**144,996**	48,881
Intangible assets	18	**182,029**	200,158
Non-current deposits	19	**12,573**	8,726
Investments accounted for using the equity method	12	**94,019**	96,112
Deferred income tax assets	32	**64,353**	49,645
Total non-current assets		**825,412**	1,114,142
Current assets			
Inventories	20	**30,472**	17,686
Trade receivables	21	**37,054**	52,976
Bills receivables	21	**13,747**	—
Deposits, prepayments and other receivables	22	**40,522**	26,994
Restricted bank deposits		**—**	299
Short-term investments	23	**38,300**	—
Term deposits with initial term of over three months	24	**—**	4,185
Cash and cash equivalents	25	**56,575**	78,790
		216,670	180,930
Assets classified as held for sale	26	**394,686**	94,325
Total current assets		**611,356**	275,255
Total assets		**1,436,768**	1,389,397

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	27	**94**	94
Share premium		**1,120,685**	1,120,685
Other reserves	28	**321,384**	322,414
Accumulated losses		**(478,131)**	(383,956)
		964,032	1,059,237
Non-controlling interests	11	**84,873**	83,046
Total equity		**1,048,905**	1,142,283
LIABILITIES			
Non-current liabilities			
Deferred government grants	30	**35,167**	20,953
Deferred income tax liabilities	32	**36,867**	39,570
Other non-current liabilities	31	**14,647**	1,296
Total non-current liabilities		**86,681**	61,819
Current liabilities			
Trade and bills payables	33	**8,752**	13,336
Other payables and accrued expenses	34	**92,057**	143,920
Contract liabilities	34	**34,896**	—
Borrowings	35	**150,000**	20,000
Current income tax liabilities		**547**	673
		286,252	177,929
Liabilities directly associated with assets classified as held for sale	26	**14,930**	7,366
Total current liabilities		**301,182**	185,295
Total liabilities		**387,863**	247,114
Total equity and liabilities		**1,436,768**	1,389,397

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

The financial statements on pages 83 to 179 were approved by the Board of Directors on 13 March 2019 and were signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

Consolidated Statement of Changes in Equity

	Notes	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
		Attributable to owners of the Company						
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		—	—	—	—	—	81,851	81,851
Repurchase and cancellation of shares	27	(1)	(7,026)	—	—	(7,027)	—	(7,027)
Appropriation to statutory surplus reserve		—	—	2,477	(2,477)	—	—	—
Issue of shares		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
Balance at 1 January 2018		**94**	**1,120,685**	**322,414**	**(383,956)**	**1,059,237**	**83,046**	**1,142,283**
Total comprehensive income for the year		**—**	**—**	**—**	**(95,299)**	**(95,299)**	**1,827**	**(93,472)**
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	**9**	**—**	**—**	**94**	**—**	**94**	**—**	**94**
Appropriation to statutory surplus reserve		**—**	**—**	**60**	**(60)**	**—**	**—**	**—**
Liquidation of a subsidiary		**—**	**—**	**(1,184)**	**1,184**	**—**	**—**	**—**
Balance at 31 December 2018		**94**	**1,120,685**	**321,384**	**(478,131)**	**964,032**	**84,873**	**1,048,905**

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 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	36(a)	**(82,096)**	93
Income taxes paid		**(410)**	(2,125)
Interest received		**368**	1,294
Net cash outflow from operating activities		**(82,138)**	(738)
Cash flows from investing activities			
Purchases of short-term investments		**(150,850)**	(25,000)
Proceeds from maturity of short-term investments		**113,097**	25,074
Placement of term deposits with initial term of over three months		**—**	(685)
Withdrawal of term deposits with initial term of over three months		**4,511**	—
Placement of restricted bank deposits		**—**	(3,257)
Withdrawal of restricted bank deposits		**299**	6,869
Purchases of property, plant and equipment		**(38,360)**	(25,288)
Addition to investment property		**(9,968)**	—
Purchases of intangible assets		**(656)**	(5,562)
Investments in associate and joint ventures	12	**(1,254)**	(19,580)
Distribution from a joint venture		**2,052**	—
Acquisition of subsidiaries, net of cash acquired		**—**	(81,364)
Disposal of a subsidiary, net of cash disposed	8(a)	**4,775**	—
Proceeds from disposals of land use rights, property, plant and equipment	36(b)	**212**	1,893
Receipt of asset-related government grants		**15,000**	19,292
Advance payment received in connection with a subsidiary to be disposed	26(a)	**1,000**	5,000
Net cash outflow from investing activities		**(60,142)**	(102,608)
Cash flows from financing activities			
Repurchase of shares		**—**	(7,027)
Proceed from issue of shares		**—**	71,759
Repayments to non-controlling interests		**—**	(33,400)
Repayment of borrowings		**(20,000)**	—
Proceeds from borrowings		**150,000**	—
Bank loan interest and other finance costs paid		**(7,832)**	(180)
Net cash inflow from financing activities		**122,168**	31,152
Net decrease in cash and cash equivalents		**(20,112)**	(72,194)
Cash and cash equivalents at the beginning of year		**79,233**	153,884
Exchange gain/(loss) on cash and cash equivalents		**2,638**	(2,457)
Cash and cash equivalents at end of year		**61,759**	79,233
Representing:			
— Bank balances and cash		**56,575**	78,790
— Bank balances and cash classified as held for sale	26	**5,184**	443
		61,759	79,233

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 manufacturing and sales of therapeutic tea products (including detox tea, slimming tea and other tea products) and slimming and other medicines.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 ("**IFRSs**") and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets which were measured at fair value either through other comprehensive income ("**FVOCI**") or through profit or loss ("**FVPL**").

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Annual Improvements 2014–2016 Cycle
- Transfer to Investment Property — Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

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)

Except for the impact on the adoption of the IFRS 9 and IFRS 15 as described below. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

IFRS 9 "Financial Instruments"

From 1 January 2018 onwards, the Group classifies its financial assets, depending on the Group's business model for managing the financial assets and the contractual terms of the related cash flows, under the following measurement categories:

- those to be measured at amortised cost, and
- those to be measured at fair value (either through other comprehensive income, or through profit or loss).

Bills receivables where the contractual cash flow were solely principal and interest were reclassified from financial assets at amortised cost to FVOCI as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. As of 1 January 2018, bills receivable with a carrying amount of approximately RMB31,546,000 were reclassified from financial assets at amortised cost to FVOCI. The Group has adopted the IFRS 9 in accordance with the transactional provisions and the related comparative financial information has not been restated accordingly.

Bills receivables are all bank acceptance notes with maturity dates within six months. The fair value of bills receivables approximate to its carrying amount due to the short maturities.

In addition, the Group has adopted the simplified expected credit loss model for its trade receivables and bills receivables upon the adoption of IFRS 9. Applying the new expected credit loss model did not result in any significant changes to the loss allowances for trade and bills receivable as at 31 December 2018 and 1 January 2018.

Other financial assets at amortised cost include cash and cash equivalents, term deposits and other receivables, etc. They are considered to be of low credit risk and thus the impairment provision recognised is limited to 12 months expected losses. Management considers that the expected credit loss is insignificant.

Other than the reclassification of bills receivable as FVOCI as described above, there is no other significant impact on the Group's consolidated financial statement upon adoption of IFRS 9.

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)

IFRS 15 "Revenue from Contracts with Customers"

The Group has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to amounts recognised in the financial statements. The Group's adoption of IFRS 15 did not result in any significant changes in the timing of revenue as recognised by the Group.

Prior to the adoption of IFRS 15, certain promotion expenses were recognised separately as selling and marketing expenses. Due to the more specific guidance on the determination of sales transaction price has been set out in IFRS 15, this type of promotion expenses have been net off against the Group's revenue with effect from 1 January 2018. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the related comparative financial information has not been restated accordingly. The aforesaid promotion expenses for the years ended 31 December 2018 and 2017 amounted to approximately RMB23,606,000 and RMB55,048,000 respectively.

In addition, the Group has reclassified the non-refundable advance from customers, which was previously recorded in other payable and accrued expenses prior to the adoption of IFRS 15, as contract liabilities with effect from 1 January 2018.

Please refer to Note 2.26 for the details of accounting policies of revenue recognition.

(b) New and amended standards early adopted by the Group

The Group has early adopted IFRS 3 (Amendments) — "Definition of a business" for the first time for their annual reporting period commencing 1 January 2018.

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 and amended standards early adopted by the Group (Continued)

The IFRS 3 (Amendments) clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendment is effective on or after 1 January 2020 and earlier application is permitted. The Group has early adopted and choose to apply to certain assets/business transfers within the Group retrospectively as applying the amendment will more represent the commercial substance of the intra-group transfers. The early adoption of IFRS 3 (Amendments) has no impact on the Group's consolidated financial statements.

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

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(c) New standards and interpretations not yet adopted

The following accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting period and have not been early adopted by the Group:

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Prepayment Features with Negative Compensation — Amendments to IFRS 9	1 January 2019
Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
Plan Amendment, Curtailment or Settlement — Amendments to IAS 19	1 January 2019
Sale or contribution of assets between an investor and its associate or joint venture — Amendments to IFRS 10 and IAS 28	Not determined

Out of these accounting standards and interpretations, the Group's assessment of the impact of these new standards and interpretations that are applicable to the Group is set out below:

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

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(c) New standards and interpretations not yet adopted (Continued)

IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, 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 Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB2,640,000 (Note 38). Of these commitments, approximately RMB1,140,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss. For the remaining lease commitments of RMB1,500,000, the Group expects to recognise right-of-use assets and lease liabilities on 1 January 2019 respectively.

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).

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

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

(a) Subsidiaries *(Continued)*

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.

(d) Equity method

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.

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

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

(d) Equity method *(Continued)*

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 11(c)), a controlled structured entity, is stated at cost in "Loan to the subsidiary" first, and then will be transferred to the "Shares held for share award scheme" under equity when the contribution is used for the acquisition 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.

(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'.

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

2.6 Foreign currency translation *(Continued)*

(c) Group companies

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

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

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

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

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.

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

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised 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
Furniture 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Land use rights

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

2.10 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3. 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 has expensed all research and development costs as incurred in view of the amount eligible for capitalisation is insignificant.

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

Separately acquired trademarks and patents are shown at historical cost. Trademarks, brand name, patents, distribution right and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, brand name, patents, distribution right 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 definite useful lives by using the straight-line method as follows:

Trademarks and brand name	5–10 years
Computer software	3–5 years
Exclusive medicine distribution right	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 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 income 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.

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.

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

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

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

From 1 January 2018, the Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI. As of 31 December 2018, the Group only has investments in debt instruments.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.13.2 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.

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

2.13 Investments and other financial assets *(Continued)*

2.13.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

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

2.13 Investments and other financial assets *(Continued)*

2.13.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.13.5 Accounting policies applied until 31 December 2017

Until 31 December 2017, 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, the Group only had financial assets in the categories of loans and receivables and available-for-sale financial assets.

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

2.13 Investments and other financial assets *(Continued)*

2.13.5 Accounting policies applied until 31 December 2017 *(Continued)*

(a) Reclassification

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

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

(b) 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)*

2.13.5 Accounting policies applied until 31 December 2017 *(Continued)*

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

2.13 Investments and other financial assets *(Continued)*

2.13.5 Accounting policies applied until 31 December 2017 *(Continued)*

(d) 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.

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 3.1.2.

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)*

2.14 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.

2.15 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.

2.16 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 90 days and therefore are all classified as current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.13 for further information about the Group's accounting for trade and other receivables and a description of the Group's impairment policies.

2.17 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.

2.18 Share capital and shares held for employee share scheme

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)*

2.18 Share capital and shares held for employee share scheme *(Continued)*

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

Shares held under the Restricted Share Award Scheme as described in Note 29(b) are disclosed as treasury shares and deducted from other reserves.

2.19 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.

2.20 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. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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 finance costs.

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

2.20 Borrowings *(Continued)*

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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.

2.21 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.

2.22 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.

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

2.22 Current and deferred income tax *(Continued)*

(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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 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.

2.24 Share-based payments

Share-based compensation benefits are provided to employees through the Group's Share Option Scheme and Restricted Share Award Scheme. Information relating to these schemes are set out in Note 29.

(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.

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

2.24 Share-based payments *(Continued)*

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

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.

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

2.26 Revenue recognition

(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 control of the products has transferred, being when the products are delivered to the wholesaler, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. 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 either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume rebates based on aggregate sales over a specific period as defined in the contracts. Revenue from sales are 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, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Expected volume rebates payable to customer (included in other payables and accrued expenses) in relation to sales made until the end of reporting period are assessed based on anticipated annual purchases. During the year ended 31 December 2018 and 2017, the wholesalers have no right to return any goods after its acceptance of the products, therefore there was no any refund liability and right to returned goods have been recognised.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due

In addition, if a customer pays consideration that is unconditional (ie a receivable), before the entity transfers a good to the customer, the entity shall present the contract as a contract liability when the payment is made. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.

As a result, the Group has reclassified the non-refundable advance from customers, which was previously recorded in other payable and accrued expenses prior to the adoption of IFRS 15, as contract liabilities with effect from 1 January 2018.

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

2.26 Revenue recognition *(Continued)*

(a) Sales of goods *(Continued)*

Internet sales

Revenue from the sale of goods on the internet is recognised when control of the products has transferred, being the acceptance of the delivery of the products by the customer. Payment of the transaction price is due immediately when the customer place the order for the products online. It is the PRC regulation to sell any products online to the end customer with a right of return within 7 days. Therefore, a refund liability (included in other payables and accrued expenses) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale. As of 31 December 2018 and 2017, there was no any refund liability and right to returned goods have been recognised since the estimated return is immaterial.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2.27 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is also presented as other income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.28 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

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

2.28 Earnings per share *(Continued)*

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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 Lease

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee 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.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 7). The respective leased assets are included in the balance sheet based on their nature.

2.32 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

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.

3.1.1 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:

	2018 **RMB'000**	2017 RMB'000
US$		
Assets	**44**	35
Liabilities	**—**	(13)
Net	**44**	22
HK$		
Assets	**6,486**	6,594
Liabilities	**—**	—
Net	**6,486**	6,594

As at 31 December 2018 and 2017, if RMB strengthened/weakened by 5% against US$ and HK$ with all other variables held constant, the post-tax loss for the year would have been approximately RMB316,000 higher/lower (2017: post-tax profit RMB320,000 lower/higher), mainly as a result of foreign exchange loss on translation of US$ and HK$ denominated cash and cash equivalents and other receivables.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk *(Continued)*

(b) Interest rate risk

Interest rate risk may arise from borrowings with variable rates, which expose the Group to cash flow interest rate risk. As of 31 December 2018 and 2017, the Group's borrowings as set out in Note 35 bear only fixed interest rate. As a result, the Group is not exposed to any significant cash flow interest rate risk.

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; for bills receivables, the Group only accepts bank acceptance notes issued by 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 receivables and other receivables. Ageing analysis of the Group's trade receivables is disclosed in Note 21. The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and forward-looking information. Management does not expect any significant losses from non-performance by these counterparties except for those recognised. The Group's other receivables mainly consist deposits for rental from lessees in connection with rental of properties, deposits for the use of e-commerce platform and sales agent right for certain products. Management considers there was no significant credit risk associated with these other receivables.

(a) Impairment of financial assets

The Group only has following types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of goods,
- bills receivables carried at FVOCI, and;
- other receivables.

While cash and cash equivalents, term deposits with initial term of over three months and restricted bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk *(Continued)*

(a) Impairment of financial assets (Continued)

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables.

To measure the expected credit losses, trade receivables, bills receivables and other receivables have been grouped based on shared credit risk characteristics and the aging of these receivables.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the China mainland in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Applying the new expected credit loss model for assessing impairment of the financial assets did not result in any significant changes to the loss allowance for trade receivables, bills receivables and other receivables as at 31 December 2018 and 1 January 2018.

(b) Financial assets at fair value through profit or loss

The Group is also exposed to credit risk in relation to short-term investments that are measured at FVPL. As at 31 December 2018, the maximum exposure at the end of the reporting period is the carrying amount of these investments of RMB38,300,000 (2017: Nil).

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

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 3 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018					
Borrowings	**56,975**	**96,118**	**—**	**153,093**	**153,093**
Trade and bills payables	**7,256**	**1,496**	**—**	**8,752**	**8,752**
Other payables and accrued expenses (excluding non-financial liabilities)	**52,496**	**7,196**	**—**	**59,692**	**59,692**
	116,727	**104,810**	**—**	**221,537**	**221,537**
At 31 December 2017					
Borrowings	—	20,602	—	20,602	20,602
Trade and bills payables	13,188	148	—	13,336	13,336
Other payables and accrued expenses (excluding non-financial liabilities)	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

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 2018, the Group's liability-to-asset ratio was approximately 27.00% (2017: 17.79%).

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The Group has two types of financial assets that are measured at fair value as at 31 December 2018 (2017: Nil), which are the Group's bills receivables and short-term investments. The Group does not have any financial liabilities that are measured at fair value.

The bills receivables are all bank acceptance notes with maturity dates within six months where the contractual cash flow were solely principal and interest. The Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The fair value of bills receivables approximate to its carrying amount due to the short maturities.

The short-term investments represent the Group's investments in wealth management products as issued by banks which retain the possible loss of the principal amount invested. These wealth management products are with variable return rates indexed to the performance of certain underlying assets and are maturing within one year.

The following table presents the Group's financial assets that are measured at fair value at 31 December 2018:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2018				
Assets				
Financial assets at fair value through profit or loss	—	—	**38,300**	**38,300**
Financial assets at fair value through other comprehensive income	—	—	**13,747**	**13,747**

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2018.

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000
Opening balance	—	31,546
Additions	150,850	81,977
Disposals	(112,550)	(99,776)
Closing balance	38,300	13,747
Total gains for the year recognised in profit or loss under "other income"	633	—

The disclosure in respect of the fair value of the Group's investment properties has been set out in Note 17 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) Current and deferred income 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) Impairment of property, plant and equipment

At each reporting period date, the Group reviews whether there is any indication that property, plant and equipment might have been impaired. If impairment indication exists, the recoverable amount of the asset (i.e. the greater of its fair value less costs of disposal and value-in-use) is estimated in order to determine the extent, if any, of the impairment loss.

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

Changes in the assumption selected by management, in particular the revenue growth rate, sales margin and discount rate assumption used in the cash flow projections, could significantly affect the Group's impairment assessment results. Details of the impairment assessment as conducted by management have been set out in Note 15(c) to the consolidated financial statements.

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

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) 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 18.

5. REVENUE AND SEGMENT INFORMATION

The 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 (including detox, slimming and other 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 2018 and 2017 is as follows:

	2018 **RMB'000**	2017 RMB'000
Tea products segment		
— Detox tea	**114,000**	225,764
— Slimming tea	**149,589**	215,975
— Others	**34,834**	32,262
	298,423	474,001
Slimming and other medicine segment		
— Slimming medicine	**66,985**	62,694
— Other medicine	**12,970**	6,175
	79,955	68,869
	378,378	542,870

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 31 December 2018 are as follows:

	Tea products segment RMB'000	Slimming and other medicine segment RMB'000	Total RMB'000
Total revenue	**298,423**	**79,955**	**378,378**
Inter-segment revenue	**—**	**—**	**—**
Revenue from external customers	**298,423**	**79,955**	**378,378**
Timing of revenue recognition			
At a point in time	**298,423**	**79,955**	**378,378**
Cost of sales	**(75,308)**	**(47,753)**	**(123,061)**
Gross profit	**223,115**	**32,202**	**255,317**
Selling and marketing expenses	**(197,975)**	**(48,874)**	**(246,849)**
Research and development costs	**(9,630)**	**(13,918)**	**(23,548)**
Segment results	**15,510**	**(30,590)**	**(15,080)**
Other income			**22,675**
Administrative expenses			**(112,417)**
Impairment loss of intangible assets			**(4,802)**
Other expenses			**(9,829)**
Other gains, net			**6,054**
Finance costs			**(6,665)**
Share of losses of investments accounted for using the equity method			**(1,295)**
Loss before income tax			**(121,359)**
Income tax credit			**27,887**
Loss for the year			**(93,472)**
Other segment information:			
Impairment loss of intangible assets	**—**	**(4,802)**	**(4,802)**
Depreciation	**(30,771)**	**(6,249)**	**(37,020)**
Amortisation	**(11,735)**	**(10,915)**	**(22,650)**

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
Timing of revenue recognition			
At a point in time	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
Administrative expenses			(106,921)
Other expenses			(9,665)
Other losses, net			(3,305)
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)

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 2018 and 2017.

6. EXPENSES BY NATURE

	2018 RMB'000	2017 RMB'000
Changes in inventories of finished goods and work in progress	**(9,554)**	9,187
Raw materials and consumables used	**76,405**	53,337
Write-off of inventories	**4,003**	1,336
(Reversal of)/provision for impairment of trade receivables	**(547)**	69
Advertising costs	**50,575**	99,753
Employee benefit expenses (Note 9)	**156,232**	161,746
Marketing and promotional expenses	**74,276**	108,218
Depreciation and amortisation	**59,670**	46,728
Entertainment and travelling expenses	**16,322**	16,280
Professional and consulting service fees	**24,577**	25,570
Stamp duties, property and other taxes	**8,094**	8,097
Rental expense	**6,908**	7,001
Logistics expenses	**7,751**	6,236
Office expenses	**5,358**	5,892
Maintenance and testing costs	**8,230**	4,778
Researching and development outsource expenses	**3,349**	4,187
Auditors' remunerations		
— audit	**2,800**	2,600
— non-audit	**—**	270
Others	**21,255**	23,528
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**515,704**	584,813

7. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Rental income from investment properties	**17,986**	22,004
Government grants	**3,334**	5,237
Bank interest income	**343**	1,198
Investment income from short-term investments	**633**	102
Others	**379**	104
	22,675	28,645

8. OTHER GAINS/(LOSSES), NET

	2018 RMB'000	2017 RMB'000
Gain on disposal of a subsidiary (a)	**4,910**	—
Net (loss)/gain on disposals of land use rights and property, plant and equipment	**(1,385)**	510
Donation	**(937)**	(1,441)
Net foreign exchange gains/(losses)	**2,668**	(2,528)
Penalty expense	**—**	(23)
Others	**798**	177
	6,054	(3,305)

(a) Gain on disposal of a subsidiary

	2018 RMB'000
Consideration received — Cash	**5,000**
Carrying amounts of net assets sold	**(90)**
Gain on sale before income tax	**4,910**
Income tax expenses on gain	**(737)**
Gain on sale after income tax	**4,173**

Note:

Beijing Outsell Health Product Development Co., Ltd ("**Beijing Outsell**"), a subsidiary of the Group, entered into an equity transfer agreement with Tibet Kanghong Lihua Venture Investment Co., Ltd. ("**Kanghong Lihua**") in September 2018, pursuant to which Beijing Outsell agreed to dispose of its entire 100% equity interest in Beijing Besunyen Pharmaceutical Co., Ltd. ("**Besunyen Pharmaceutical**") to Kanghong Lihua at an aggregate consideration of RMB5,000,000. The disposal was completed on 31 December 2018.

8. OTHER GAINS/(LOSSES), NET *(Continued)*

(a) Gain on disposal of a subsidiary *(Continued)*

The carrying amounts of assets and liabilities as at the date of disposal were as below:

	At 31 December 2018 RMB'000
Property, plant and equipment	**871**
Intangible assets	**—**
Inventories	**120**
Deposits, prepayment and other receivables	**621**
Cash and cash equivalents	**225**
Total assets	**1,837**
Trade and bills payable	**(26)**
Other payables and accrued expenses	**(1,715)**
Contract liabilities	**(6)**
Total liabilities	**(1,747)**
Net assets	**90**

9. EMPLOYEE BENEFIT EXPENSES

	2018 RMB'000	2017 RMB'000
Salaries, bonus and other allowances	**144,344**	151,038
Share-based compensation	**94**	887
Pension cost — defined contribution plan	**11,794**	9,821
	156,232	161,746

9. EMPLOYEE BENEFIT EXPENSES *(Continued)*

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2017: two) directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining three (2017: three) individuals during the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, bonus and other allowances	**4,692**	4,491
Share-based compensation	**57**	349
Pension cost — defined contribution plan	**142**	147
	4,891	4,987

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands (in HK$)		
HK$1,000,001—HK$1,500,000	**1**	2
HK$1,500,001—HK$2,000,000	**1**	1
HK$2,000,001—HK$2,500,000	**1**	—

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expenses	**6,618**	180
Guarantee fee for bank borrowings	**1,427**	—
	8,045	180
Amount capitalised (note)	**(1,380)**	—
	6,665	180

Note:

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year ended 31 December 2018 which was 6.74%.

11. SUBSIDIARIES

(a) Subsidiaries

The Group's principal subsidiaries at 31 December 2018 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 2018	Ownership interest held by the Group 2017	Ownership interest held by non-controlling interests 2018	Ownership interest held by non-controlling interests 2017
Besunyen BVI	BVI, 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	–	**–**	100%	**–**	–
Beijing Besunyen Food and Beverage Co., Ltd. (Note 26(a)) 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. (note i) 廣州澳特舒爾商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	–	**–**	100%	**–**	–
Beijing Pincha Online E-Commerce Co., Ltd. (note iv) 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%**	100%	**–**	–
Jiangxi Besunyen Trading Co., Ltd. (note i) 江西碧生源商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	–	**–**	100%	**–**	–
Heilongjiang Besunyen Trading Co., Ltd. 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 8(a)) 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	RMB10,000,000	**–**	100%	**–**	–

11. 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	
				2018	2017	**2018**	2017
Guangzhou Runliang Pharmaceutical Co., Ltd. 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%	**–**	–
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	–	**–**	100%	**–**	–
Khorgos Besunyen Venture Investment Co., Ltd. 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%**	100%	**–**	–
Beijing Besunyen Property Management Co., Ltd. (Note 26(b)) 北京碧生源物業管理有限公司	The PRC, limited liability company	Management for property in PRC	RMB1,000,000	**100%**	100%	**–**	–
Zhuhai Kangbaina Pharmaceutical Co., Ltd. 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%**	100%	**–**	–
Zhuhai Aolixin Pharmaceutical Co., Ltd. 珠海奧利新醫藥有限公司	The PRC, limited liability company	Sales of medicine in PRC	RMB2,000,000	**100%**	100%	**–**	–
Zhongshan Wanhan Pharmacy Co., Ltd. ("Zhongshan Wanhan") 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%**	51%	**49%**	49%
Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("Zhongshan Wanyuan") 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%**	51%	**49%**	49%
Guangzhou Wanhan Qianshun Medical Technology Co., Ltd. ("Wanhan Qianshun") (note iii) 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%**	35.7%	**64.3%**	64.3%
Tibet Besunyen Trading Co., Ltd. 西藏碧生源商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB30,000	**100%**	100%	**–**	–
Tibet Qianruiwanfu Venture Investment Co., Ltd. 西藏千瑞萬福創業投資有限公司	The PRC, limited liability company	Investment holdings in PRC	RMB10,040	**100%**	100%	**–**	–
Beijing Anliyashan Business Consulting Co., Ltd. (note i) 安利亞山(北京)商務諮詢有限公司	The PRC, limited liability company	Provision of business consulting service in PRC	–	**–**	100%	**–**	–

11. 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	
				2018	2017	**2018**	2017
Beijing Aliyunshan Business Consulting Co., Ltd. (note ii) 阿利雲山(北京)商務諮詢有限公司	The PRC, limited liability company	Provision of business consulting service in PRC	RMB1,000,000	**100%**	–	**–**	–
Beijing Bihai Yuanyuan Enterprise Management Co., Ltd. (note ii) 北京碧海淵源企業管理有限公司	The PRC, limited liability company	Management for property in PRC	RMB100,000,000	**100%**	–	**–**	–
Beijing Changsheng Business Consulting Co., Ltd. (note ii and Note 26(b)) 北京暢升商務諮詢有限公司	The PRC, limited liability company	Provision of business consulting service in PRC	RMB150,000	**100%**	–	**–**	–

Notes:

(i) These companies have been liquidated during the year ended 31 December 2018 since no material business activities were conducted by these companies.

(ii) These subsidiaries were newly established by the Group in 2018.

(iii) Zhongshan Wanhan holds 70% of equity interests in 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.

Wanhan Qianshun has been subsequently liquidated in January 2019.

11 SUBSIDIARIES *(Continued)*

(a) Subsidiaries *(Continued)*

Notes: *(Continued)*

(iv) 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.

(v) None of the subsidiaries have issued any debt securities as at 31 December 2018 and 2017.

11. SUBSIDIARIES *(Continued)*

(b) Significant restrictions

Cash and cash equivalents and term deposits of approximately RMB49,753,000 (2017: RMB72,336,000) are held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(c) Consolidation of structured entities

The Company has set up a trust ("**Share Scheme Trust**") for the implementation of the restricted share award scheme of the Company mentioned in Note 29(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 2018, the Share Scheme Trust held 35,201,567 (2017: 35,401,567) shares which have not yet been granted to employees.

11. SUBSIDIARIES *(Continued)*

(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		Zhongshan Wanyuan	
	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000	**At 31 December 2018 RMB'000**	At 31 December 2017 RMB'000
Current assets	**67,205**	50,123	**2,756**	3,494
Current liabilities	**(35,204)**	(9,612)	**(15,346)**	(6,382)
Net current assets/(liabilities)	**32,001**	40,511	**(12,590)**	(2,888)
Non-current assets	**171,643**	166,707	**44,502**	33,499
Non-current liabilities	**(59,847)**	(66,147)	**(1,997)**	(1,995)
Net non-current assets	**111,796**	100,560	**42,205**	31,504
Net assets	**143,797**	141,071	**29,915**	28,616
Accumulated NCI	**70,215**	69,024	**14,658**	14,022

Summarised statement of comprehensive income

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2018 RMB'000	Period from 1 November 2017 to 31 December 2017 RMB'000	**2018 RMB'000**	Period from 1 November 2017 to 31 December 2017 RMB'000
Revenue	**61,387**	15,220	**—**	2,897
Profit for the year/period	**2,726**	409	**1,299**	2,070
Other comprehensive income	**—**	—	**—**	—
Total comprehensive income	**2,726**	409	**1,299**	2,070
Profit allocated to NCI	**1,191**	181	**636**	1,014
Dividends paid to NCI	—	—	**—**	—

11. SUBSIDIARIES *(Continued)*

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

Summarised cash flows

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2018 RMB'000	Period from 1 November 2017 to 31 December 2017 RMB'000	**2018 RMB'000**	Period from 1 November 2017 to 31 December 2017 RMB'000
Net cash flows (outflow)/inflow from operating activities	**(1,038)**	22,069	**(3,710)**	(12,558)
Net cash flows (outflow)/inflow from investing activities	**(29,224)**	(2,090)	**1,640**	(919)
Net cash flows outflow from financing activities	**(817)**	(33,580)	**—**	—
Net decrease in cash and cash equivalents	**(31,079)**	(13,601)	**(2,070)**	(13,477)

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Associate (a)	**—**	3,861
Joint ventures (b)	**94,019**	92,251
	94,019	96,112

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

	2018 RMB'000	2017 RMB'000
Associate (a)	**(5,115)**	(4,395)
Joint ventures (b)	**3,820**	13,994
	(1,295)	9,599

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

(a) Investment in an associate

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

The Group has committed to contribute capital of RMB24,500,000 to Yunzhi Besunyen in accordance with the investment agreement and the Group has contributed capital of RMB11,054,000 to Yunzhi Besunyen up to 31 December 2018.

On 18 July 2018, the board of directors of Yunzhi Besunyen made a resolution to liquidate Yunzhi Besunyen voluntarily. The Group has recognised an impairment provision of approximately RMB564,000 to write down the Group's interest in the associate to zero as at 31 December 2018.

Details of investment in the associate as at 31 December 2018 and 2017 are as below:

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 2018 RMB'000	As at 31 December 2017 RMB'000
Current		
Cash and cash equivalents	**127**	4,557
Other current assets	**3,641**	2,781
Total current assets	**3,768**	7,338
Trade and other payables	**(2,693)**	(1,015)
Total current liabilities	**(2,693)**	(1,015)
Non-current assets	**76**	1,556
Net assets	**1,151**	7,879

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

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

Summarised statement of comprehensive income

	2018 RMB'000	2017 RMB'000
Revenue	**6,416**	10,465
Cost of sales	**(2,947)**	(6,222)
Selling and marketing expenses	**(8,083)**	(7,222)
Administrative expenses	**(4,443)**	(6,020)
Other expenses	**(230)**	30
Loss before income tax	**(9,287)**	(8,969)
Income tax expense	**—**	—
Loss for the year	**(9,287)**	(8,969)
Other comprehensive income	**—**	—
Total comprehensive loss	**(9,287)**	(8,969)

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

	2018 RMB'000	2017 RMB'000
Opening net assets	**7,879**	16,848
Capital injected by the shareholders of the associate	**2,559**	—
Loss for the year	**(9,287)**	(8,969)
Closing net assets	**1,151**	7,879
Interest in the associate (49%)	**564**	3,861
Impairment provision	**(564)**	—
Carrying amount	**—**	3,861

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

(b) Investments in joint ventures

	Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. RMB'000	Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) RMB'000	Total RMB'000
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 (loss)/profit	(99)	14,093	13,994
Carrying amounts at 31 December 2017	386	91,865	92,251
Carrying amounts at 1 January 2018	**386**	**91,865**	**92,251**
Capital distributed to the Group during the year	**—**	**(2,052)**	**(2,052)**
Share of profit	**384**	**3,436**	**3,820**
Carrying amounts at 31 December 2018	**770**	**93,249**	**94,019**

Details of investments in joint ventures as at 31 December 2018 and 2017 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

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

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

Notes:

(i) Fund Management Company was 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 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 is owned by Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company as to 89%, 10% and 1%, respectively. As of 31 December 2018, the Group has already contributed capital of RMB500,000 and RMB79,210,000 (2017: RMB500,000 and RMB79,210,000) to the Fund Management Company and the Fund respectively.

In 2018, Besunyen Pharmaceutical transferred its entire equity interests of the Fund Management Company and the Fund to Beijing Bihai Yuanyuan Enterprise Management Co., Ltd., a wholly owned subsidiary of the Group.

(ii) The principal business of the Fund is 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. The Fund finance its operation from the capital injection from the Group and Co-Partner.

The Fund made investments in some preferred shares and ordinary shares of certain private companies which have no quoted market prices available for their shares. After considering the Fund's investment objectives and intentions, the Fund classified these investment as FVPL. The fair value of the aforesaid investment portfolio is determined within level 3 of the fair value hierarchy (i.e. inputs for the assets that are not based on observable market data (that is, unobservable inputs)). The Fund's maximum exposure to loss from these investments at the reporting date is the carrying value of these investments. The Group's maximum exposure to the loss from its investment in the Fund at the reporting date is the carrying amount of its investment in the Fund.

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.

Commitments and contingent liabilities in respect of joint ventures

	2018 **RMB'000**	2017 RMB'000
Commitment to provide funding if called	**9,790**	9,790

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

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

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

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

	The Fund Management Company		The Fund		Total	
	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000	**As at 31 December 2018 RMB'000**	As at 31 December 2017 RMB'000	**As at 31 December 2018 RMB'000**	As at 31 December 2017 RMB'000
Current						
Cash and cash equivalents	**90**	56	**188**	198	**278**	254
Other current assets	**1,780**	67	**2,000**	2,009	**3,780**	2,076
Total current assets	**1,870**	123	**2,188**	2,207	**4,058**	2,330
Trade and other payables	**(1,195)**	(240)	**—**	—	**(1,195)**	(240)
Total current liabilities	**(1,195)**	(240)	**—**	—	**(1,195)**	(240)
Non-current						
Financial assets at fair value through profit or loss	**—**	—	**102,698**	100,892	**102,698**	100,892
Other non-current assets	**865**	889	**—**	—	**865**	889
Total non-current assets	**865**	889	**102,698**	100,892	**103,563**	101,781
Net assets	**1,540**	772	**104,886**	103,099	**106,426**	103,871

Summarised statement of comprehensive income

	The Fund Management Company		The Fund		Total	
	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	**Year ended 31 December 2018 RMB'000**	Year ended 31 December 2017 RMB'000	**Year ended 31 December 2018 RMB'000**	Year ended 31 December 2017 RMB'000
Revenue	**1,780**	1,942	**—**	—	**1,780**	1,942
Administrative expenses	**(1,004)**	(2,138)	**(11)**	(95)	**(1,015)**	(2,233)
Other (expenses)/income	**(8)**	(2)	**1**	1	**(7)**	(1)
Fair value changes on financial assets at fair value through profit or loss	**—**	—	**3,849**	15,840	**3,849**	15,840
Profit/(loss) before income tax	**768**	(198)	**3,839**	15,746	**4,607**	15,548
Income tax expense	**—**	—	**—**	—	**—**	—
Profit/(loss) for the year	**768**	(198)	**3,839**	15,746	**4,607**	15,548
Other comprehensive income	**—**	—	**—**	—	**—**	—
Total comprehensive income/(loss)	**768**	(198)	**3,839**	15,746	**4,607**	15,548

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

12. 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	The Fund Management Company RMB'000	The Fund RMB'000	Total RMB'000
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
(Loss)/profit 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
Opening net assets at 1 January 2018	**772**	**103,099**	**103,871**
Capital distributed to the shareholders of the joint ventures	**—**	**(2,052)**	**(2,052)**
Profit for the year	**768**	**3,839**	**4,607**
Closing net assets at 31 December 2018	**1,540**	**104,886**	**106,426**
Interest in joint venture (50% and 89.5% respectively)	**770**	**93,873**	**94,643**
Others	**—**	**(624)**	**(624)**
Carrying amounts at 31 December 2018	**770**	**93,249**	**94,019**

13. INCOME TAX CREDIT

	2018 **RMB'000**	2017 RMB'000
Current income tax:		
PRC enterprise income tax	**284**	593
Deferred income tax (Note 32):		
Origination and reversal of temporary differences	**(28,171)**	(13,058)
Income tax credit	**(27,887)**	(12,465)

The Company was incorporated in the Cayman Islands and Besunyen Investment (BVI) Co. Ltd. was incorporated in the 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 subsidiaries incorporated and operated in Hong Kong is 16.5% (2017: 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 2018 and 2017.

In August 2017, Beijing Outsell, a subsidiary of the Group, 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 December 2016, Zhongshan Wanhan, a subsidiary acquired by the Group in October 2017, 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 acquired by the Group in October 2017, obtained the HNTE qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

Khorgos Besunyen Venture Investment Co., Ltd., 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% (2017: 25%).

13. INCOME TAX CREDIT *(Continued)*

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:

	2018 **RMB'000**	2017 RMB'000
Loss before income tax	**(121,359)**	(7,184)
Tax at PRC statutory enterprise income tax rate of 25% (2017: 25%)	**(30,340)**	(1,796)
Effect of preferential tax rate granted	**2,820**	444
Re-measurement of deferred tax due to change of tax rate	**(5,722)**	14,123
Tax losses or temporary differences for which no deferred income tax asset was recognised	**9,339**	(1,707)
Utilisation or recognition of previously unrecognised tax losses/ deductible temporary differences	**(12,270)**	(30,162)
Reversal of deferred tax assets	**5,825**	—
Tax effect of expenses not deductible for tax purposes and others	**2,461**	6,633
Income tax credit	**(27,887)**	(12,465)

14. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (losses)/earnings 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 29(b)).

	2018	2017
(Loss)/profit attributable to owners of the Company (RMB'000)	**(95,299)**	4,086
Weighted average number of ordinary shares in issue (thousand)	**1,594,799**	1,510,216
Basic (losses)/earnings per share (RMB cents per share)	**(5.98)**	0.27

14. EARNINGS/(LOSSES) PER SHARE *(Continued)*

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the (losses)/earnings per share. Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted losses per share). The share options had anti-diluted effect to the Group for the years ended 31 December 2018 and 2017. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2018 and 2017. Accordingly, the diluted (losses)/earnings per share is same as the basic (losses)/earnings per share for the years ended 31 December 2018 and 2017.

15. 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 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	7,211	4,322	3,075	16,725	31,333
Transfer from investment properties	5,496	—	—	—	5,496
Asset classified as held for sale (Note 26(a))	(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
At 1 January 2018	**234,601**	**212,933**	**38,554**	**100,315**	**586,403**
Additions	**385**	**4,139**	**3,158**	**25,208**	**32,890**
Transfer	**13,741**	**2,656**	**—**	**(16,397)**	**—**
Transfer to investment properties (note d)	**(45,020)**	**(2,758)**	**—**	**(81,145)**	**(128,923)**
Asset classified as held for sale (Note 26(b))	**(36,080)**	**—**	**—**	**—**	**(36,080)**
Disposals/write-off	**—**	**(481)**	**(694)**	**(1,405)**	**(2,580)**
Disposal of a subsidiary	**—**	**(1,078)**	**(14)**	**—**	**(1,092)**
At 31 December 2018	**167,627**	**215,411**	**41,004**	**26,576**	**450,618**

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

	Buildings and facilities RMB'000	Plant and machinery RMB'000	Furniture and others RMB'000	Construction in progress RMB'000	Total RMB'000
ACCUMULATED DEPRECIATION					
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	721	—	—	—	721
Asset classified as held for sale (Note 26(a))	(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
At 1 January 2018	53,939	126,123	28,108	—	208,170
Charge for the year	9,979	19,591	4,793	—	34,363
Transfer to investment properties (note d)	(4,631)	(359)	—	—	(4,990)
Asset classified as held for sale (Note 26(b))	(9,224)	—	—	—	(9,224)
Disposals/write-off	—	(322)	(661)	—	(983)
Disposal of a subsidiary	—	(215)	(6)	—	(221)
At 31 December 2018	50,063	144,818	32,234	—	227,115
ACCUMULATED IMPAIRMENT					
At 1 January 2017, 31 December 2017 and 31 December 2018	1,630	11,607	—	—	13,237
NET BOOK VALUE					
At 31 December 2018	115,934	58,986	8,770	26,576	210,266
At 31 December 2017	179,032	75,203	10,446	100,315	364,996

(a) Depreciation charges have been expensed in profit or loss as follows:

	2018 RMB'000	2017 RMB'000
Cost of sales	**23,252**	22,533
Administrative expenses	**6,020**	6,344
Research and development costs	**4,385**	1,659
Selling and marketing expenses	**706**	655
	34,363	31,191

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

(b) As at 31 December 2018, buildings with the carrying amounts of approximately RMB88,273,000 (2017: Nil) were pledged to a third party guarantee company as the security for the guarantee of the Group's bank borrowings of RMB100,000,000 (2017: Not applicable) (Note 35(a)).

(c) Impairment test assessment:

The Group's revenue from the sales of detox and slimming tea products have been decreased significantly during the year ended 31 December 2018. Management considered that this constitutes a triggering event for reassessing the recoverable amounts of the key operating assets (including plant and machinery) (the "**Key Operating Assets**") of the cash-generating unit for manufacturing the Group's tea products (the "**Tea Products CGU**"). Therefore, management has involved an independent qualified valuer, Asia Pacific Consulting and Appraisal Limited to perform an impairment assessment to assess the 'value-in-use' (determined by management as the recoverable amount) of the Key Operating Assets of the Tea Products CGU as at 31 December 2018 by using the discounted cash flow model.

The key assumptions as adopted in the impairment assessment to assess the recoverable amounts of the Key Operating Assets of the Tea Products CGU in the current year were referenced to the latest financial budget as approved by management covering the upcoming three-year period. The annual revenue growth rate used in the financial budgets for the three-year period ranged from 10% to 35%. The growth rate considers the average growth rate for the industry in the recent years and the expected market penetration of the Group's products. The sales margin for the three-year period ranged from 77% to 79% which is estimated based on past performance and management's expectations over the upcoming three-year period. The pre-tax discount rate used was 19%.

The recoverable amount of the Tea Products CGU is estimated to exceed the carrying amount at 31 December 2018 by approximately RMB3,500,000.

The recoverable amount of the Manufacturing of Tea Products CGU would equal its carrying amount if the key assumptions were to change as follows:

	2018	
	From	**To**
Revenue growth rate	**10% to 35%**	**10% to 32%**
Sales margin	**77% to 79%**	**76% to 79%**
Pre-tax discount rate	**19%**	**49%**

Based on the result of the aforesaid impairment assessment, the Directors of the Company concluded that no further provision for impairment on the Key Operating Assets of the Tea Products CGU has to be recognised as of 31 December 2018.

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

(d) In March 2017, Beijing Outsell entered into a lease agreement, pursuant to which: (1) Beijing Outsell agree to lease the self-occupied property located in Fangshan, Beijing, to a third party company (the "**Leasee**"); (2) Beijing Outsell will follow the reconstruction plan provided by the Leasee; and (3) the leasee will pay Beijing Outsell advance rental payment amounting to RMB50,000,000 based on milestone of reconstruction plan as predetermined in the lease agreement.

In June 2018, Beijing Outsell has received the reconstruction permission from the Beijing Municipal Commission of Housing and Urban-rural Development so that Beijing Outsell can commence the construction works in accordance with the reconstruction plan as provided by the Leasee. Accordingly, the property has been transferred to investment properties at the commencement of when the reconstruction is permitted. As of 31 December 2018, the Group has received advance rental payment of RMB20,000,000 from the Lessee (Note 31).

16. 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:

	2018	2017
	RMB'000	RMB'000
At 1 January	**345,624**	364,358
Amortisation	**(8,667)**	(9,165)
Acquisition of subsidiaries	**—**	39,010
Transfer to assets classified as held for sale (Note 26)	**(219,781)**	(48,326)
Disposals	**—**	(253)
At 31 December	**117,176**	345,624

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

	2018	2017
	RMB'000	RMB'000
Cost of sales	**351**	417
Other expenses	**5,585**	5,644
Administrative expenses	**2,731**	3,104
	8,667	9,165

As at 31 December 2018, land use rights with the carrying amounts of approximately RMB6,392,000 (2017: Nil) have been pledged to a third party guarantee company as the security for the guarantee of the Group's bank borrowings of RMB100,000,000 (2017: Nil) (Note 35(a)).

As at 31 December 2018, land use rights with the carrying amounts of approximately RMB18,468,000 (2017: RMB19,361,000) have been pledged to Zhongshan Rural Commercial Bank Co., Ltd. as the security for a bank borrowing of RMB20,000,000 (2017: RMB20,000,000) (Note 35(a)).

17. INVESTMENT PROPERTIES

	Buildings and facilities RMB'000	Plant RMB'000	Investment property in constructions RMB'000	Total RMB'000
COST				
At 1 January 2017	66,075	—	—	66,075
Transfer to property, plant and equipment	(5,496)	—	—	(5,496)
At 31 December 2017	60,579	—	—	60,579
At 1 January 2018	60,579	—	—	60,579
Transfer from property, plant and equipment (Note 15(d))	45,020	2,758	81,145	128,923
Addition	—	—	11,091	11,091
Transfer to assets classified as held for sale (Note 26(b))	(45,285)	—	—	(45,285)
At 31 December 2018	60,314	2,758	92,236	155,308
ACCUMULATED DEPRECIATION				
At 1 January 2017	10,443	—	—	10,443
Charge for the year	1,976	—	—	1,976
Transfer to property, plant and equipment	(721)	—	—	(721)
At 31 December 2017	11,698	—	—	11,698
At 1 January 2018	11,698	—	—	11,698
Charge for the year	2,614	43	—	2,657
Transfer from property, plant and equipment (Note 15(d))	4,990	—	—	4,990
Transfer to assets classified as held for sale (Note 26(b))	(9,033)	—	—	(9,033)
At 31 December 2018	10,269	43	—	10,312
NET BOOK VALUE				
At 31 December 2018	50,045	2,715	92,236	144,996
At 31 December 2017	48,881	—	—	48,881

17. INVESTMENT PROPERTIES *(Continued)*

(a) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

	As at 31 December 2018		As at 31 December 2017	
	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	**10,073**	**14,000**	10,373	14,000
Commercial property units located in Beijing (Note 26(b))	**—**	**—**	38,508	44,000
Industrial property units located in Fangshan, Beijing	**134,923**	**138,765**	—	—

The Group's investment properties were valued at 31 December 2018 and 2017 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation for commercial property units in 2017 was determined on the basis of capitalisation of the net rental income with due provisions for reversionary income potential of the respective properties as of 31 December 2017. The key inputs were terminal yield, reversionary yield, and market unit rent of individual unit. The valuation technique for commercial property units in 2018 has been changed as the commercial property is currently vacant and intended to be sold. The valuation for commercial property units in 2018 was determined on the basis of comparison approach assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market as of 31 December 2018.

The valuation for industrial property units located in Fangshan as of 31 December 2018 was determined on the basis of replacement cost due to no sufficient evidence of transaction prices for similar property or identifiable actual or notional income stream that would accrue to the owner of the related property.

(b) Property rental income earned during the year ended 31 December 2018 was approximately RMB17,986,000 (2017: RMB22,004,000). The commercial property located in Shanghai has been in vacancy since July 2018 and does not have any committed tenant as of 31 December 2018. The industrial property located in Fangshan, Beijing has committed tenants for the next 20 years as disclosed in Note 15(d). As at 31 December 2018, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	2018 RMB'000	2017 RMB'000
No later than 1 year	**2,213**	27,954
Later than 1 year and no later than 20 years	**318,974**	18,620
	321,187	46,574

(c) Depreciation charges of approximately RMB2,657,000 for the year ended 31 December 2018 (2017: RMB1,976,000) have been charged in 'other expenses' in profit or loss.

18. INTANGIBLE ASSETS

Intangible assets

	Goodwill (note a) RMB'000	Trade-marks and brand name RMB'000	Computer software RMB'000	Exclusive medicine distribution right RMB'000	Medicine production licenses RMB'000	Patents and others RMB'000	Total RMB'000
COST							
At 1 January 2017	—	11,498	1,111	7,740	—	5,025	25,374
Additions	—	—	7,222	—	—	—	7,222
Acquisitions of subsidiaries	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
At 1 January 2018	56,453	13,398	8,349	7,740	126,000	9,591	221,531
Additions	—	—	656	—	—	—	656
Disposal of a subsidiary (Note 8)	—	—	—	—	—	(4,620)	(4,620)
At 31 December 2018	56,453	13,398	9,005	7,740	126,000	4,971	217,567
ACCUMULATED AMORTISATION							
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
At 1 January 2018	—	10,589	1,983	2,137	1,401	1,940	18,050
Charge for the year	—	415	3,816	801	8,318	633	13,983
Disposal of a subsidiary (Note 8)	—	—	—	—	—	(1,297)	(1,297)
At 31 December 2018	—	11,004	5,799	2,938	9,719	1,276	30,736
ACCUMULATED IMPAIRMENT							
At 1 January 2017 and 31 December 2017	—	—	—	—	—	3,323	3,323
Addition (note (c))	—	—	—	4,802	—	—	4,802
Disposal of a subsidiary (Note 8)	—	—	—	—	—	(3,323)	(3,323)
31 December 2018	—	—	—	4,802	—	—	4,802
NET BOOK VALUE							
At 31 December 2018	56,453	2,394	3,206	—	116,281	3,695	182,029
At 31 December 2017	56,453	2,809	6,366	5,603	124,599	4,328	200,158

18. INTANGIBLE ASSETS *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Cost of sales	**11,231**	2,885
Administrative expenses	**2,098**	1,344
Research and development costs	**333**	—
Selling and marketing expenses	**321**	167
	13,983	4,396

(a) Impairment assessment 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 management has involved an independent qualified valuer, Asia-Pacific Consulting and Appraisal Limited, to perform goodwill impairment assessment to assess the 'value-in-use' (determined by management as the recoverable amount) of the two CGUs as at 31 December 2018 by using the discounted cash flow model.

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

	Zhongshan Wanhan and Zhongshan Wanyuan	Kangbaina and Aolixin
2018		
Revenue growth rate for next 5 years	**10%–35%**	**5%–30%**
Sales margin for next 5 years	**45%–55%**	**40%**
Terminal growth rate for next 5 years	**3%**	**3%**
Pre-tax discount rate	**18%**	**22%**
2017		
Revenue growth rate for next 5 years	12%–62%	7%–60%
Sales margin for next 5 years	55%–57%	13%–16%
Terminal growth rate for next 5 years	3%	3%
Pre-tax discount rate	17%	19%

18. INTANGIBLE ASSETS *(Continued)*

(a) Impairment tests for goodwill *(Continued)*

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.

(b) Impact of possible changes in key assumptions

Zhongshan Wanhan and Zhongshan Wanyuan CGU:

As at 31 December 2018, the recoverable amount of the Zhongshan Wanhan and Zhongshan Wanyuan CGU is estimated to exceed the carrying amount of the CGU at 31 December 2018 by approximately RMB14,132,000.

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	2018	
	From	To
Revenue growth rate	**10%–35%**	**10%–30%**
Sales margin	**45%–55%**	**42%–55%**
Terminal growth rate	**3%**	**2%**
Pre-tax discount rate	**18%**	**19%**

The Directors and management have considered and assessed reasonable possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the Zhongshan Wanhan and Zhongshan Wanyuan CGU to exceed its recoverable amount.

18. INTANGIBLE ASSETS *(Continued)*

(b) Impact of possible changes in key assumptions *(Continued)*

Kangbaina and Aolixin CGU:

The recoverable amount of the Kangbaina and Aolixin CGU is estimated to exceed the carrying amount of the CGU at 31 December 2018 by RMB1,627,000.

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	2018	
	From	**To**
Revenue growth rate	**5%–30%**	**5%–24%**
Sales margin	**40%**	**39%**
Terminal growth rate	**3%**	**1%**
Pre-tax discount rate	**22%**	**23%**

The Directors and management have considered and assessed reasonable possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the Kangbaina and Aolixin CGU to exceed its recoverable amount.

Based on the results of the aforesaid impairment assessments, the Directors of the Company concluded that no provision for impairment on the goodwill has to be recognised as of 31 December 2018.

(c) Due to the changes in the Group's strategies in the sales of a slimming medicine (Larlly Orlista), the carrying amount of the related exclusive medicine distribution right of RMB4,802,000 has been fully written off during the year ended 31 December 2018.

19. NON-CURRENT DEPOSITS

	2018	2017
	RMB'000	RMB'000
Prepayment for purchases of intangible assets	**6,705**	7,020
Prepayment for construction of property, plant and equipment	**5,868**	1,706
Total	**12,573**	8,726

20. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials and packaging materials	**11,201**	7,969
Work in progress	**1,249**	1,803
Finished goods	**18,022**	7,914
	30,472	17,686
Less: provision for impairment	**—**	—
	30,472	17,686

The cost of inventories recognised as expense and included in 'cost of sales' and 'research and development costs' amounted to approximately RMB61,914,000 and RMB4,937,000 (2017: RMB61,053,000 and RMB1,471,000), respectively.

21. TRADE RECEIVABLES AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**37,844**	22,767
Bills receivables (a)	**—**	31,546
	37,844	54,313
Less: allowance for doubtful debts	**(790)**	(1,337)
	37,054	52,976

(a) Bills receivables are reclassified from financial assets at amortised cost to FVOCI (Note 2.1.1(a)) upon the adoption of IFRS 9 with effective from 1 January 2018. As of 31 December 2018, bills receivables amounted to RMB13,747,000 were all bank acceptance notes with maturity date within 6 months.

(b) The Group allows a credit period of 20–90 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:

	2018 RMB'000	2017 RMB'000
0–90 days	**35,321**	39,285
91–180 days	**994**	13,495
181–365 days	**637**	83
Over 365 days	**102**	113
	37,054	52,976

21. TRADE RECEIVABLES AND BILLS RECEIVABLES *(Continued)*

(c) The Group's trade receivables are all denominated in RMB.

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

	2018 **RMB'000**	2017 RMB'000
Opening loss allowance as at 1 January	**1,337**	402
Increase in loss allowance recognised in profit or loss during the year	**286**	109
Acquisitions of subsidiaries	**—**	1,056
Receivables written off during the year as uncollectible	**—**	(190)
Unused amount reversed	**(833)**	(40)
At 31 December	**790**	1,337

(e) As at 31 December 2018 and 2017, the carrying amounts of trade receivables approximate their fair values due to the short maturities of the related assets.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Prepayment for advertisement	**17,510**	8,926
Prepayment to suppliers	**7,757**	6,521
Other receivables	**9,739**	7,732
Interest receivables	**86**	351
Others	**5,430**	3,464
	40,522	26,994

Deposits, prepayment and other receivables are all denominated in RMB, except that an other receivable of approximately RMB228,000 (2017: RMB208,000) 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.

23. SHORT-TERM INVESTMENTS

	2018 RMB'000	2017 RMB'000
Investments in wealth management products	**38,300**	—

The short-term investments represent the Group's investments in wealth management products as issued by banks which retain possible loss of the return on investment and are classified as financial assets measured at fair value through profit or loss. These wealth management products are with variable return rates indexed to the performance of certain underlying assets and are maturing within one year. As at 31 December 2018, the carrying amounts of these investments approximate to their fair values as determined within level 3 of the fair value hierarchy(i.e.: inputs for the assets that are not based on observable market data (that is, unobservable inputs)).

24. 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.

25. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	**56,575**	78,790

Cash and cash equivalents which are denominated in currencies other than RMB are as follows:

	2018 RMB'000	2017 RMB'000
United States Dollars ("**US$**")	**37**	35
Hong Kong Dollars ("**HK$**")	**6,258**	6,386

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

(a) On 10 March 2017, Beijing Outsell entered into an equity transfer agreement (the "**Initial Agreement**") with Zhonghang Tuohong (Xi'an) Property Co., Ltd. ("**Zhonghang Tuohong**") and Beijing Outsell's wholly-owned subsidiary, Beijing 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.

On 31 December 2018, Beijing Outsell entered into an updated supplemental agreement (the "**Updated Supplemental Agreement**") with Zhonghang Tuohong, pursuant to which: (i) all the rights and obligations of Beijing Outsell under the Initial Agreement shall be assumed by Tibet Besunyen Trading Company Limited, a wholly-owned subsidiary of the Group; (ii) a performance deposit of RMB1,000,000 shall be paid by Zhonghang Tuohong to Tibet Besunyen Trading by 31 December 2018, which may in whole or in part be deducted from the Consideration; and (iii) the payment date for the rest of the Consideration shall be extended to 31 August 2019 after the payment of such performance deposit by Zhonghang Tuohong. On 31 December 2018, the Group received the performance deposit of RMB1,000,000 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 2018, were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 31 December 2018 and are analysed as below:

	2018 **RMB'000**	2017 RMB'000
Cash and cash equivalents	**158**	443
Deposits, prepayment and other receivables	**147**	77
Inventories	**—**	8
Property, plant and equipment	**47,351**	45,471
Land use rights	**48,326**	48,326
Total assets	**95,982**	94,325
Other payables and accrued expenses	**(48)**	(79)
Deferred government grants	**(7,287)**	(7,287)
Total liabilities	**(7,335)**	(7,366)
Net assets	**88,647**	86,959

26. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

(b) Pursuant to the equity transfer agreement as entered into by A Li Yun Shan (Beijing) Business Consulting Co., Ltd., an indirect wholly-owned subsidiary of the Company (the "**Vendor**"), and a third party, Tosalco Pte. Ltd. (the "**Purchaser**") dated on 31 December 2018 (the "**Agreement**"), the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 100% equity interests in Beijing Chang Sheng Business Consulting Co., Ltd. ("**Beijing Changsheng**", which is an indirect wholly-owned subsidiary of the Vendor as established on 18 July 2018) at a cash consideration of approximately RMB555.0 million (the "**Proposed Disposal**"). Beijing Changsheng is a vehicle company set up for the purpose of holding the equity investment in Besunyen Property Management Co., Ltd. ("**Besunyen Property**"), an indirect wholly-owned subsidiary of the Company which was established on 2 June 2017 and is the registered owner of a commercial building located in Beijing (the "**Besunyen Building**"). The Proposed Disposal was subsequently completed on 8 March 2019.

The assets and liabilities attributable to Besunyen Property were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 31 December 2018 and are analysed as below:

	2018 **RMB'000**
Cash and cash equivalents	**5,026**
Deposits, prepayments and other receivables	**29**
Investment properties	**36,252**
Property, plant and equipment	**26,856**
Land use rights	**219,781**
Deferred income tax assets	**10,760**
Total assets	**298,704**
Other payables and accrued expenses	**(6,299)**
Other non-current liabilities	**(1,296)**
Total liabilities	**(7,595)**
Net assets	**291,109**

27. 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 2017, 31 December 2017 and 31 December 2018	6,000,000	50,000	341
Issued and fully paid:			
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 and 31 December 2018	**1,630,208**	**13,585**	**94**

(a) During the year ended 31 December 2017, the Company acquired 16,267,000 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) and has been deducted from share capital and share premium within shareholder's equity.

(b) On 10 March 2017, the Company entered into a share subscription agreement with certain individuals and a company (collectively the "**Subscribers**"), pursuant to which the Subscribers conditionally agree to 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 2018, 35,201,567 shares (2017: 35,401,567 shares) were held by the Company's Restricted Share Award Scheme (Note 29(b)).

28. 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 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
At 1 January 2018	**230,864**	**6**	**(9,892)**	**(22,945)**	**66,710**	**57,671**	**322,414**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**94**	**94**
Vesting of restricted shares under restricted share award scheme	**—**	**—**	**—**	**129**	**—**	**(129)**	**—**
Transfer to statutory surplus reserve	**—**	**—**	**—**	**—**	**60**	**—**	**60**
Liquidation of subsidiary	**—**	**—**	**—**	**—**	**(1,184)**	**—**	**(1,184)**
At 31 December 2018	**230,864**	**6**	**(9,892)**	**(22,816)**	**65,586**	**57,636**	**321,384**

29. SHARE-BASED PAYMENTS

(a) Share Option Scheme

The Company's pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**"), was adopted pursuant to a resolution passed on 30 April 2010 for the primary purpose of providing incentives to eligible employees. Under the Pre-IPO Share Option Scheme, the board of directors of the Company may grant options to eligible directors, employees and consultant to subscribe for shares in the Company. The maximum number of shares which can be granted under the Pre-IPO Share Option Scheme is 151,200,000.

The Company's post-IPO share option scheme (the "**Share Option Scheme**"), was adopted pursuant to a resolution passed on 8 September 2010 for the purpose of providing incentives to eligible persons. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible directors, employees and consultant to subscribe for shares in the Company. The maximum number of shares which can be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme shall not, in aggregate, exceed 168,109,132, being 10% of the shares of the Company in issue immediately after 29 September 2010 (the initial public offering on the listing date) which is the effective date of such scheme.

(i) Movements in share options

	Pre-IPO Share Option Scheme		Share Option Scheme		
	Average exercise price (RMB)	Number of options	Average exercise price (HK$)	Number of options	Total number of options
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
At 1 January 2018	**1.23**	**74,370,000**	**1.01**	**24,440,000**	**98,810,000**
Lapsed	**1.23**	**(1,200,000)**	**1.00**	**(2,820,000)**	**(4,020,000)**
At 31 December 2018	**1.23**	**73,170,000**	**1.01**	**21,620,000**	**94,790,000**
Exercisable as at 31 December 2018	**1.23**	**73,170,000**	**1.01**	**21,397,083**	**94,567,083**

29. SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(ii) Outstanding share options

Expiry Date	Exercise price	Number of share options 31 December 2018	31 December 2017
10 years commencing from the date of the grant of options Pre-IPO Share Option Scheme	RMB1.23	**73,170,000**	74,370,000
8 years commencing from the date of the commencement of options Share Option Scheme	HK$1–HK$1.16	**21,620,000**	24,440,000

There is no option granted to any eligible employee during the years ended 31 December 2018 and 2017.

(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.

29. 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 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
At 1 January 2018	**35,401,567**	**200,000**	**35,601,567**
Granted	**(200,000)**	**200,000**	**—**
Vested and transferred	**—**	**(200,000)**	**(200,000)**
At 31 December 2018	**35,201,567**	**200,000**	**35,401,567**

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 2018 was HK$0.34 per share (equivalent to approximately RMB0.28 per share) (2017: HK$0.52 per share (equivalent to approximately RMB0.44 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:

	2018 **RMB'000**	2017 RMB'000
Options issued under employee share option plan	**6**	337
Shares issued under restricted share awarded scheme	**88**	550
	94	887

30. 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:

	2018 RMB'000	2017 RMB'000
At 1 January	**20,953**	8,639
Amounts received during the year	**15,000**	19,292
Amortisation for the year	**(786)**	(891)
Acquisitions of subsidiaries	**—**	1,200
Transfer to liabilities directly associated with assets classified as held for sale (Note 26(a))	**—**	(7,287)
At 31 December	**35,167**	20,953

31. OTHER NON-CURRENT LIABILITIES

	2018 RMB'000	2017 RMB'000
Advance rental payment from a third party (Note 15(d))	**20,000**	—
Rental deposit	**—**	1,296
	20,000	1,296
Less: current portion (note)	**(5,353)**	—
	14,647	1,296

Note:

The Leasee as mentioned in Note 15(d) has paid an advance rental payment of RMB20,000,000 to the Group in respect of the long term lease of a Group's property. The rental income from the lease of the property for the coming year is estimated to be approximately RMB5,353,000 and that estimated portion of the advance rental payments has therefore been classified as a current liability (Note 34).

32. DEFERRED INCOME TAX

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

	2018 **RMB'000**	2017 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	**18,898**	13,763
— Deferred income tax assets to be recovered within 12 months	**45,455**	35,882
	64,353	49,645
Deferred income tax liabilities:		
— Deferred income tax liability to be settled after more than 12 months	**(34,591)**	(37,360)
— Deferred income tax liability to be settled within 12 months	**(2,276)**	(2,210)
	(36,867)	(39,570)
Deferred income tax assets (net)	**27,486**	10,075

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

	2018 **RMB'000**	2017 RMB'000
At 1 January	**10,075**	27,171
Acquisitions of subsidiaries	**—**	(30,154)
Credited to profit or loss (Note 13)	**28,171**	13,058
Transfer to assets classified as held for sale (Note 26(b))	**(10,760)**	—
At 31 December	**27,486**	10,075

32. 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 2017	15,200	1,385	17,652	—	34,237
Acquisitions of subsidiaries	—	—	2,961	—	2,961
(Charged)/credited 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
Transfer to held-for-sale (Note 26(b))	—	—	(3,030)	(7,730)	(10,760)
(Charged)/credited to profit or loss	(3,581)	5,132	3,513	20,404	25,468
At 31 December 2018	**7,700**	**8,095**	**24,156**	**24,402**	**64,353**

Note: In November 2017, Beijing Outsell 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 2018, the deferred income tax assets as recognised in respect of this unrealised gain amounted to approximately RMB11,392,000 (2017: RMB11,796,000). In 2018, deferred income tax assets with carrying amount of approximately RMB7,730,000 has been transferred as assets held-for-sale due to the transaction as described in Note 26(b).

In November 2018, Beijing Outsell transferred 60% of its interest in Beijing Property to Beijing Changsheng in order to complete the proposed disposal as described in Note 26(b) which resulted in a gain on the disposal of approximately RMB138,264,000. The gain on the disposal has been eliminated at consolidation as this is an intra-group transfer of equity investment and hence the gain is an unrealised gain from the Group's perspective. During the year ended 31 December 2018, the deferred income assets as recognised in respect of this unrealised gain amounted to approximately RMB20,740,000.

32. DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities	Withholding tax on undistributed earnings (note c) RMB'000	Accelerated depreciation on Property, plant and equipment RMB'000	Intangible assets identified in business combinations RMB'000	Land use rights appreciation in a business combination RMB'000	Total RMB'000
At 1 January 2017	(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)
(Charged)/credited to profit or loss	—	(773)	3,416	60	2,703
At 31 December 2018	**(5,464)**	**(773)**	**(29,015)**	**(1,615)**	**(36,867)**

(a) 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.

As of 31 December 2018 and 2017, 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	2018 RMB'000	2017 RMB'000
2018	—	16,824
2019	**3,420**	11,213
2020	**12,437**	11,364
2021	**6,070**	14,478
2022	**18,189**	2,549
2023	**27,618**	—
	67,734	56,428

(b) As at 31 December 2018, 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 2013 to 2018 and other accrued expenses of approximately RMB196,079,000 (2017: RMB256,476,000)), deferred income tax assets have not been recognised on these deductible temporary differences as accumulated.

32. DEFERRED INCOME TAX *(Continued)*

(c) In accordance with the corporate income tax law in the PRC, a 10% withholding tax will be levied on the dividend declared by the subsidiaries which was established in the PRC to its foreign investor starting from 1 January 2008. 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 2018, the undistributed earnings of those PRC subsidiaries amounted to approximately RMB182,772,000 (2017: 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 RMB128,125,000 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 as of 31 December 2018.

33. TRADE AND BILLS PAYABLES

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

	2018 RMB'000	2017 RMB'000
0–90 days	**7,256**	13,188
91–180 days	**1,036**	148
Over 180 days	**460**	—
	8,752	13,336

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.

34. OTHER PAYABLES AND ACCRUED EXPENSES

	2018 RMB'000	2017 RMB'000
Advance from customers (Note)	—	16,820
Payroll and welfare payable	**17,495**	21,888
Accrued expenses	**12,696**	27,258
Accrued sales rebates	**25,745**	29,007
Taxes and surcharges payable	**3,517**	14,456
Payable to suppliers for:		
— purchases of property, plant and equipment	**1,461**	6,046
— advertisement	**4,704**	9,593
Advance payment received for a subsidiary to be disposed (Note 26(a))	**6,000**	5,000
Advance rental payment from a third party (Note 31)	**5,353**	—
Others	**15,086**	13,852
	92,057	143,920

Note:

Upon the adoption of IFRS 15 on 1 January 2018, the Company has reclassified the non-refundable advance from customers of approximately RMB16,820,000 from other payables and accrued expenses to contract liabilities. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the related comparative financial information has not been restated. During the year ended 31 December 2018, revenue recognised that was included in contract liabilities as at 1 January 2018 was approximately RMB16,820,000.

35. BORROWINGS

	2018 RMB'000	2017 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	**120,000**	20,000
Bank borrowing, unsecured (b)	**30,000**	—
	150,000	20,000

(a) In 2017, Zhongshan Wanyuan pledged its land use right of approximately RMB18,468,000 to Zhongshan Rural Commercial Bank as the security for a short-term borrowing of RMB20,000,000. The borrowing bore interests at fixed rate of 5.47% per annum. Interest was payable on a monthly basis and the principal was repaid on 20 July 2018. Afterwards, Zhongshan Wanyuan continued to pledged such land use right to Zhongshan Rural Commercial Bank as security for new short-term borrowing of RMB20,000,000. The new borrowing bore interests at fixed rate of 5.55% per annum. Interest is payable on a monthly basis and the principal is due for repayment on 26 July 2019.

Beijing Outsell pledged its land use right and buildings with carrying amounts of approximately RMB6,392,000 and RMB88,273,000 respectively to a third party guarantee company as the security for being the guarantor for short-term bank borrowings of RMB100,000,000 (applicable interest rates range from 5.655% to 5.67% per annum). Interests are payable quarterly and the principals are due for repayment prior to 28 June 2019.

(b) The unsecured bank borrowing of RMB30,000,000 bears interests at a pre-determined interest rate, which is by reference to the one-year benchmark lending rate as announced by the People's Bank of China, plus a margin. Interest is payable quarterly and the principal is due for repayment on 17 January 2019.

(c) The fair values of the borrowings are not materially different from their carrying amounts, considering the short remaining maturity period and also all of these borrowings bear fixed interest rates which are closed to the market interest rates.

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

36. CASH GENERATED FROM OPERATIONS

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

	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Loss before income tax	**(121,359)**	(7,184)
Adjustments for:		
Amortisation of land use rights	**8,667**	9,165
Amortisation of intangible assets	**13,983**	4,396
Depreciation of property, plant and equipment	**34,363**	31,191
Depreciation of investment properties	**2,657**	1,976
Impairment loss on intangible assets	**4,802**	—
Interest expense	**6,665**	180
Interest and investment income	**(976)**	(1,300)
Net loss/(gain) on disposals of land use rights and property, plant and equipment	**1,385**	(510)
Gain on disposal of a subsidiary	**(4,910)**	—
Amortisation of deferred government grants	**(786)**	(891)
(Reversal of)/provision for impairment of trade receivables	**(547)**	69
Share-based compensation	**94**	887
Foreign exchange (gain)/loss, net	**(2,668)**	2,457
Share of losses/(profits) of investments accounted for using the equity method	**1,295**	(9,599)
Operating cash flows before movements in working capital	**(57,335)**	30,837
(Increase)/decrease in inventories	**(12,898)**	14,451
Decrease/(increase) in trade and bills receivables	**2,722**	(19,733)
(Increase)/decrease in deposits, prepayments and other receivables	**(14,454)**	18,936
Decrease in trade and bills payables	**(4,558)**	(1,421)
Decrease in other payables and accrued expenses	**(31,674)**	(42,877)
Increase in contract liabilities	**21,454**	—
Increase/(decrease) in other non-current liabilities	**14,647**	(100)
Cash (outflow)/inflow from operations	**(82,096)**	93

36. CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Net book amount (Note 15)	**1,597**	1,383
Net (loss)/gain on disposals of land use right and property, plant and equipment	**(1,385)**	510
Proceeds from disposals of land use right and property, plant and equipment	**212**	1,893

(c) Major non-cash transactions

During the year ended 31 December 2018, bills receivables of RMB29,935,000 (2017: RMB26,536,000) have been endorsed to certain suppliers as the Group's settlement for the related purchases of raw materials and advertisement.

(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	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	**56,575**	78,790
Cash and cash equivalents classified as held for sale	**5,184**	443
Borrowing — repayable within one year	**(150,000)**	(20,000)
Net debt	**(88,241)**	59,233
Cash and cash equivalents	**61,759**	79,233
Gross debt — fixed interest rates	**(150,000)**	(20,000)
Net debt	**(88,241)**	59,233

36. CASH GENERATED FROM OPERATIONS *(Continued)*

(d) Net debt reconciliation *(Continued)*

	Cash and cash equivalents RMB'000	Borrowing due within 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 losses 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
Cash flows	**(20,112)**	**(130,000)**	**(150,112)**
Exchange gains on cash and cash equivalents	**2,638**	**—**	**2,638**
Net debt as at 31 December 2018	**61,759**	**(150,000)**	**(88,241)**

37. CONTINGENCIES

As at 31 December 2018 and 2017, the Group had no significant contingent liabilities.

38. COMMITMENT

(a) Capital commitments

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

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	**78,611**	12,686

(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:

	2018 RMB'000	2017 RMB'000
No later than 1 year	**1,819**	1,324
Later than 1 year and no later than 5 years	**821**	110
	2,640	1,434

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

39. RELATED PARTY TRANSACTIONS

Key management compensation

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

	2018 **RMB'000**	2017 RMB'000
Salaries, bonus and other allowances	**10,663**	8,688
Share-based compensation	**102**	606
Pension cost — defined contribution plan	**333**	245
	11,098	9,539

40. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

For the year ended 31 December 2018:

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	203	2,700	35	58	2,996
Gao Yan	203	2,080	9	58	2,350
	406	4,780	44	116	5,346
Non-executive directors:					
Zhuo Fumin	203	—	5	—	208
Zhang Guimei	127	—	—	—	127
	330	—	5	—	335
Independent non-executive directors:					
Huang Jingsheng	203	—	5	—	208
Ren Guangming	203	—	5	—	208
He Yuanping	203	—	—	—	203
	609	—	10	—	619
	1,345	4,780	59	116	6,300

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

(a) Directors' emoluments *(Continued)*

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

During the year ended 31 December 2018, no directors waived or agree to waive any emoluments (2017: Nil).

41. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**211,906**	211,818
Loans to subsidiaries	**960,000**	925,087
	1,171,906	1,136,905
Current assets		
Deposits, prepayments and other receivables	**1,357**	5,542
Cash and cash equivalents	**8,500**	1,426
	9,857	6,968
Total assets	**1,181,763**	1,143,873
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**94**	94
Share premium	**1,120,685**	1,120,685
Other reserves	**34,826**	34,732
Retained earnings/(accumulated losses)	**24,782**	(12,840)
Total equity	**1,180,387**	1,142,671
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	**1,376**	1,202
Total liabilities	**1,376**	1,202
Total equity and liabilities	**1,181,763**	1,143,873

The balance sheet of the Company was approved by the Board of Directors on 13 March 2019 and was signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

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

Reserve movement of the Company

	Share premium	Other reserves				(Accumulated losses)/ retained earnings	Total
		Share-based payment reserve	Capital redemption reserve	Treasury share reserve under restricted share award scheme	Total other reserves		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2018	**1,120,685**	**57,671**	**6**	**(22,945)**	**34,732**	**(12,840)**	**1,142,577**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**37,622**	**37,622**
Share-based payments under share option scheme and restricted share award scheme	**—**	**6**	**—**	**—**	**6**	**—**	**6**
Vesting of restricted share under share option scheme and restricted share award scheme	**—**	**(41)**	**—**	**129**	**88**	**—**	**88**
At 31 December 2018	**1,120,685**	**57,636**	**6**	**(22,816)**	**34,826**	**24,782**	**1,180,293**

42. EVENT OCCURRING AFTER THE BALANCE SHEET DATE

The Group has also entered into property lease contract with the Purchaser as mentioned in Note 26(b) to the financial statements (the "**Property Lease Contract**") on 31 December 2018. Subject to the completion of the Proposed Disposal, pursuant to the Property Lease Contract terms, the Group will lease back certain portion of Besunyen Building for three-year period. Considering the Proposed Disposal was completed on 8 March 2019, the Property Lease Contract becomes effective since then. Management has assessed the effects of applying IFRS 16 "Lease" on the Group's consolidated financial statements for this sales and leaseback, an right-of-use assets of RMB1.8 million, a lease liability of RMB16.1 million and gain of disposal assets of RMB199.5 million would be recognised in 2019.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	563,888	662,805	514,749	542,870	**378,378**
Gross profit	475,281	594,237	425,520	430,193	**255,317**
Operating (loss)/profit	44,530	64,439	(70,671)	(7,184)	**(116,557)**
Gain on disposal of a subsidiary	9,977	—	—	—	**—**
Impairment loss recognised in respect of intangible assets	—	—	—	—	**(4,802)**
Reversal of impairment of property, plant and equipment	—	28,507	—	—	**—**
(Loss)/profit before income tax	54,507	64,439	(70,671)	(7,184)	**(121,359)**
Investment (losses)/profit accounted for using the equity method	—	—	(2,997)	9,599	**(1,295)**
(Losses)/profit and total comprehensive (losses)/income for the year	45,035	88,214	(74,566)	5,281	**(93,472)**
(Losses)/earnings per share (RMB cents)					
Basic	2.94	6.02	(4.56)	0.27	**(5.98)**
Diluted	2.94	6.02	(4.56)	0.27	**(5.98)**

CONSOLIDATED BALANCE SHEET

	At 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	825,140	878,932	919,599	1,114,142	**825,412**
Net current assets	372,747	383,255	87,034	89,960	**310,174**
Total assets less current liabilities	1,197,887	1,262,187	1,006,633	1,204,102	**1,135,586**
Non-current liabilities	14,852	16,452	17,101	61,819	**86,681**
Net assets	1,183,035	1,245,735	989,532	1,142,283	**1,048,905**
Share capital	89	89	86	94	**94**
Reserves	1,182,946	1,239,686	989,446	1,059,143	**963,938**
	1,183,035	1,239,775	989,532	1,059,237	**964,032**
Non-controlling interests	—	5,960	—	83,046	**84,873**
Total equity	1,183,035	1,245,735	989,532	1,142,283	**1,048,905**

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