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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 926

—ANNUAL REPORT—
2019

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. The Company has dedicated itself to the marketing and sales of the Two Teas for the last 19 years. As at the end of 2019, the Two Teas recorded an accumulated sales volume of over 5.02 billion bags, with an accumulated sales amount of over RMB6.56 billion. Since April 2015, the Group commenced sale of 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 its launch, Besunyen Orlistat slimming medicine has been highly praised among consumers.

According to the latest report issued by China Southern Medicine Economy Research Institute ("**SMERI**"), the market share of the Group's core products, the Two Teas, maintained a leading position for several consecutive years. During the reporting period, in national retail pharmacies, based on the retail price of the laxative and slimming products, respectively, the market share of the Group's Besunyen Detox Tea represented 14.85%; and that of Besunyen Slimming Tea accounted for 26.22%, ranking top in the market. In addition, in 2019, according to the statistics of Alibaba "Business Consultant", the market share of the Besunyen Orlistat and LARLLY Orlistat totalled 34.34%, ranking top one in the market segment of Orlistat on Alibaba platforms.

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 health products for those with mild or recurring health problems in the laxative and weight management.

The Group's Orlistat production, research and development base is located in Zhongshan City, Guangdong Province. Its production plant and production process conform to the national GMP standards. It has a sound quality management system and hardware facilities, equipment and instruments that meet the demand of drug research and development as well as production. It also has production conditions and research and development conditions for hard capsules, film agents, Active Pharmaceutical Ingredient (API), etc. It has passed the certification of intellectual property management system, and is intellectual property demonstration enterprise in Guangdong Province and national intellectual property advantage enterprise, which provides high-quality and safe drugs and medical devices to sellers in a timely manner with high and new technologies.

As at 31 December 2019, the offline sales teams of the Group spanned across 31 provinces, autonomous regions and municipalities across the country. The Group had a total of 70 distributors and 246 sub-distributors for the Two Teas and 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. The online sales teams of the Group has established 53 shops on 14 e-commerce platforms to conduct the sales of Two Teas, Orlistat and other products and medicines. Meanwhile, new products were enabled to break into the market more quickly and effectively through the existing channels, thereby maintaining the leading position of the Group's products in the industry.

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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Ren Guangming *(Chairman)*
Mr. Zhao Yihong
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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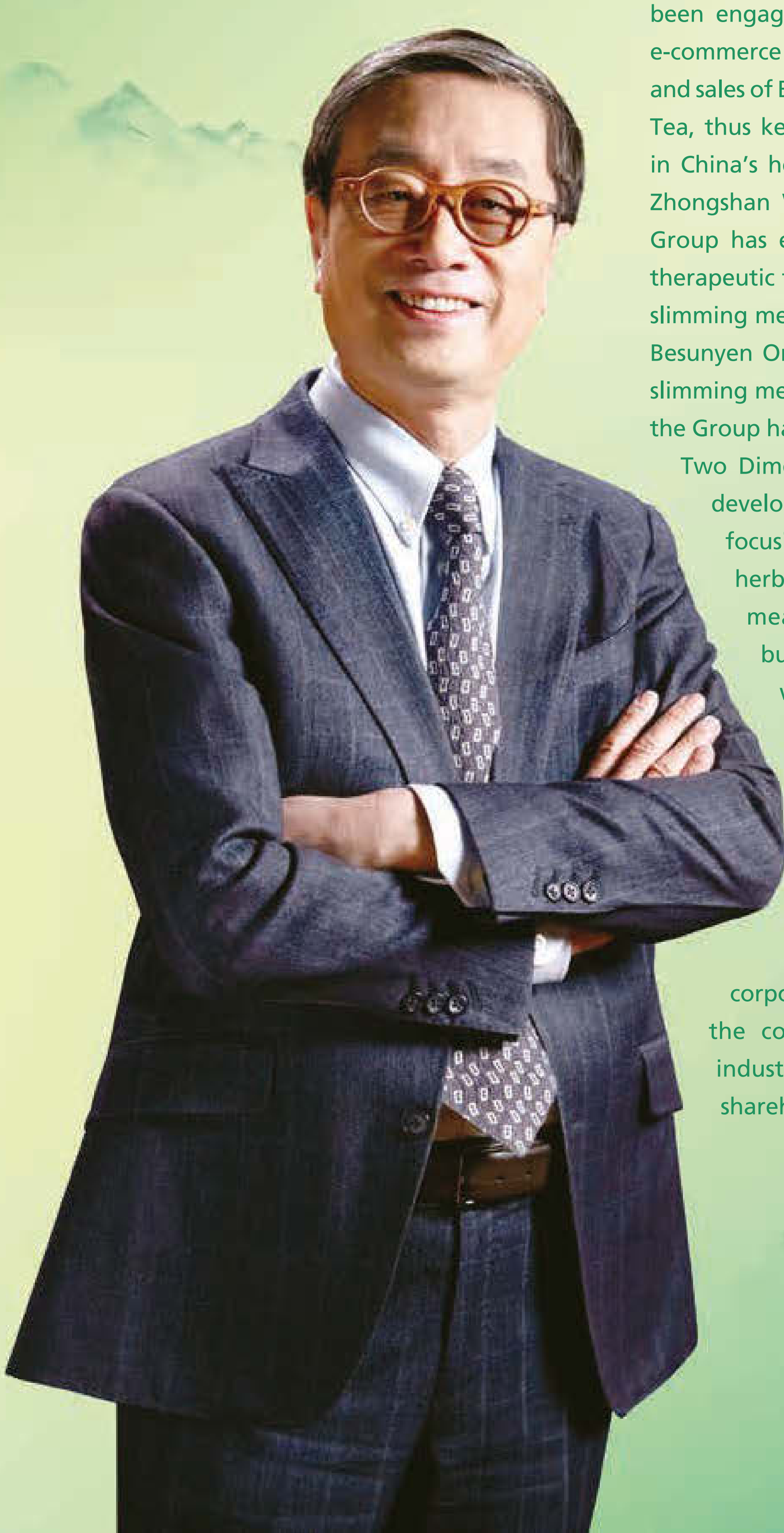
Chairman and CEO's Report



"Since its establishment for 19 years, the Group has been engaged in the product operation in OTC and e-commerce sales channels, focusing on the production and sales of Besunyen Detox Tea and Besunyen Slimming Tea, thus keeping the Two Teas in a leading position in China's health tea market. Since the acquisition of Zhongshan Wanhan Pharmacy Co., Ltd. in 2017, the Group has expanded its business from the slimming therapeutic teas market to the production and sales of slimming medicines. After nearly three years of efforts, Besunyen Orlistat has won a place in the e-commerce slimming medicine sector. 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 the businesses of Besunyen, so as to grasp the development opportunities arising from the big health industry, enhance the corporate's competitive advantages, strengthen the competitive position of Besunyen in the industry and hence bring more profits 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 2019.

In 2019, China's economy as a whole has steadily improved its quality in the process of structural adjustment. Judging from the stage changes, China's economy has now shifted from high-speed growth to high-quality development. From the perspective of industrial development, according to the 2019 Research Report on China's Health Care Industry Market Prospects released by the China Business Industry Research Institute, with the aging of the population, the post-80/90 generation in China will pay more attention to health, so the concept of health food is more popular, and the format of business is more abundant and the sales channels are more expanded; the popularization of the concept of "big health" directly leads the health food consumption to evolve from the light luxury consumption habits of the previous high-age group to the daily consumption habits of all ages, while the low-age group behaves more active and long-lasting in its consumption for health purpose. At the same time, the market supervision was stricter in 2019. In the past year, the Group passed more than 100 spot checks at or above the provincial level. While the product quality was recognized by consumers, the spot checks by regulatory agencies better explained the coexistence of quality and sales volume. For 19 years, the Group has based on consumers, controlling the quality of every bag of tea and every pill according to the requirements of the industry, and striving to create health value for consumers. At the same time, in the past year, with the changes in policies, market and communication environment, the interaction effect of health care industry, and the multiple effects of consumer information equality and consumer equality, the competition in the industry is more and more fierce. In 2019, the Group continued to increase its operational efficiency by increasing its investment in brand, research and development and food safety, and actively adjusted its business operation mode and marketing strategy. In the past year, the Group has strengthened its research and development team and invested more resources in the development and introduction of new products. In 2019, the diversification of weight-losing products and product forms have provided consumers with more choices and thus laid a solid foundation for the Group's future development.

Revenue of the Group in 2019 was RMB812.2 million, representing an increase of 114.6% from RMB378.4 million in 2018. Gross profit increased by 128.9% to RMB584.5 million in 2019 from RMB255.3 million in 2018. Meanwhile, gross profit margin raised from 67.5% in 2018 to 72.0% in 2019. On the other hand, total operating expenses of the Group (including selling and marketing expenses, administrative expenses and research and development costs) in 2019 was RMB605.1 million, representing an increase of 58.1% from RMB382.8 million in 2018. The Group recorded a total comprehensive income of RMB188.2 million in 2019, compared to a total comprehensive loss of RMB93.5 million in 2018.

Chairman and CEO’s Report

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 2020, based on the retail sales of health products, medicines or other types of products sold by retail pharmacies, Besunyen Slimming Tea ranked top in the market segment of slimming products for ten consecutive years, accounting for a market share of 26.22% in 2019, representing a year-on-year decrease of 6.97 percentage points. Besunyen Detox Tea ranked top in the market segment of laxative products for twelve consecutive years, accounting for a market share of 14.85% in 2019, representing a year-on-year increase of 1.03 percentage points. With respect to slimming medicine segment, in 2019, according to the statistics of Alibaba “Business Consultant”, the market share of the Besunyen Orlistat and LARLLY Orlistat totalled 34.34%, ranking top one in the market segment of Orlistat on Alibaba platforms.

BUSINESS REVIEW

The year 2019 marks the 19th anniversary of the establishment of the Group and the 10th year of the Company’s listing. The Group continued to explore innovative marketing models, strengthened internet marketing channels and broadened brand promotion paths. In 2019, the Group launched brand upgrade campaign in full scale. It has initiated a new brand marketing model of communication socialization and marketing scenario, and actively promoted the brand rejuvenation. At the same time of promoting brand exposure, the Group continued to promote brand rejuvenation, joined hands with college awards at the college advertising festival, and comprehensively deepened online and offline marketing activities to empower the brand, enhancing brand value by strategic breakthrough.

In 2019, the Group focused on innovative marketing modes, changing from traditional supermarkets and pharmacies to a new retail mode, resulting in a "win-win" between sellers and consumers. In the sales of products online, the expansion from health products to "health products + drugs" has been realized, and in the sales channels, the expansion from traditional channels to "traditional channels + Internet" has been realized.

Enhancing Brand Influence via Leveraging CCTV and CNR and Using Customer-oriented Approaches

Joining Hands with CNR —— CNR-1 and MusicRadio to Launch Audio Advertisements Nationwide

On 26 March 2019, the advertisement of Besunyen Detox Tea was first posted on CNR's CNR-1 and MusicRadio channels. With the high coverage of CNR media, the drinking methods, functional demands and free samples of Besunyen Detox Tea were spread to about 70 million listeners every day and attracted a large number of consumers. From trial to purchase, a marketing ecological chain has been formed.

Besunyen Advertisement Re-entering CCTV-3 and CCTV-8

In September 2019, after several years, the advertisement for Besunyen brand and its products re-entered CCTV-3 and CCTV-8, which enables the Group to take advantage of the credibility and coverage of CCTV to spread the brand and cooperate with Xinchao Media and CNR to develop a new marketing mode.

Developing Variety Show Marketing and Sponsoring DRAGON TV's "Living It Up" (《人生加減法》)

In April 2019, the variety show Living It Up (《人生加減法》), which was specially sponsored by Besunyen Slimming Tea, was broadcast on Dragon TV, iQiYi, Tencent Video and YouKu concurrently. Compared with traditional healthcare shows that focus on body changes, Living It Up puts forward the concept of "quality life" of "adding wisdom and reducing anxiety" for the first time, bringing "healthy life style" to the screen in the form of immersion experience. The program has reached a high integration with the product positioning of Besunyen Slimming Tea, which further echoes the "wisdom and health, quality and health" between the product and the program.

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

We take the people's desire for a healthy life as our goal. In 2019, the Group adhered to consumer-oriented concepts and expanded its product lines, introducing new products including Besunyen Miao Miao Jiao Enzyme Jelly, Besunyen Day and Night White Collagen Powder, Besunyen red bean and adlay tea, Besunyen lotus leaf green tea and Besunyen yeast recombine collagen dressing paste on the e-commerce platform. Focusing on an array of weight management product offerings and intestine health product offerings, comprising "OTC drug + health food + ordinary food", the Group continues to develop "OTC drug + health food + ordinary food + medical instruments" under the product categories of dietary supplements as well as health and beauty products. The Group captured consumer demand while pursuing innovation and change to enable the continuous creation of popular products.

Chairman and CEO's Report

Upgrading Marketing Strategy and Pinpointing Family Groups in the New Retail Era

From 29 June 2019 to the end of 2019, the Group officially released elevator advertisement on Xinchao Media. The Group cooperated with Xinchao Media on Besunyen brand upgrades, channel innovation and other aspects, aiming to deeply integrate with the nearby drugstores through the big data and elevator scenes to make Besunyen Detox Tea and services accurately and effectively delivered to consumers' life circles. Through the convenient service of drug stores, more families can drink Besunyen Detox Tea. The era of consumption upgrading is actually an era of competing for and managing consumers of all walks. Besunyen joins hands with Xinchao Media to utilize elevator TV's great brand power, to target family groups for brand exposure and take the lead in the category competition.

Fully Upgrading Product Placement into Movies and Television Dramas to Create New Branding Models of Community Dissemination and Scenario Marketing

In 2019, the Group fully upgraded its brand promotion campaigns to create new branding models of community dissemination and scenario marketing, actively promote brand rejuvenation and step up product placement into web dramas and variety shows, which improved brand awareness among young internet users and enhanced brand competitiveness with content marketing and scenario marketing. The online drama "The Best Partner" (《精英律師》) starring by Jin Dong and Lyric Lan and broadcasting with Besunyen as title sponsor, was aired in December 2019. The show's popularity has not waned for a while, making it on the list of top trending searches many times.

Meanwhile, the Group increased its joint film distribution efforts in 2019, gaining a greater competitive advantage and more development opportunities. Besunyen co-marketed "Wish You Were Here", directed by Kenneth Bi, a genius director in Hong Kong, and starred by Faye Yu, a famous actor from mainland China. The film was premiered in ZYED Cinema of Solana Lifestyle Shopping Park. The movie "Jinpa", which was jointly released by Besunyen, produced by Karwai Wong and directed by Pema Tseden (萬瑪才旦), was released in April 2019.

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

In 2019, the Group provided the title sponsorship for the spring competition and the autumn competition of the Academy Award of the 17th 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 and strategy sheet covered more than 1,500 schools across the country.

In the spring competition of the Academy Award, the Group was the only enterprise which used public welfare as its main proposition. 2019 was the year that the Group launched brand new "classic packages", and the theme of "Classic Beauty and Slimming Tea" was well received by the students. The contest was completed successfully, receiving 17,781 groups including 22,325 pieces of qualified works 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 its new products- Besunyen's Orlistat capsule with two themes, namely "Me with My Little Blue Friend" (《我和我的小藍朋友》) and "SHOW TRUE YOUNG – Starts with Lose Weight" (《SHOW TRUE YOUNG 一進取從減肥開始》), which refreshed the consumers' perception of Besunyen and gained enormous followers among student groups. Through the zero-distance contact with university students, the contest created a sound and profound brand reputation for Besunyen among the youth.

Targeting E-commerce, from the Main Battlefield Offline to the New Retail Trend of E-commerce

In 2019, the Group further strengthened the e-commerce layout, by adding drug stations and Xi'an stations on the basis of the original three stations of Beijing, Hangzhou and Guangzhou, upgrading the original customer service team to customer service center, and establishing a new TV shopping department and cross-border business group. To ensure the rapid development of e-commerce business, the Group improved the e-commerce and integrated marketing center, supply chain group and sales support group. The Group has successfully realized the transformation of sales model from the traditional offline model to Internet+offline model. The e-commerce sales of the Group performed well on platforms such as Alibaba, JD.com, Pinduoduo and VIPShop. The e-commerce performance in 2018 increased by 75% compared with 2017. The e-commerce performance in 2019 increased by 185% compared with 2018. In 2019, with the steady development of health products, the Group increased the efforts in sales of Besunyen Orlistat slimming medicines, and achieved significant increase in sales volume and performed outstanding during each big online promotion.

Orlistat as a Unicorn in Medicine E-commerce

In 2019, according to the statistics of Alibaba "Business Consultant", Orlistat accounted for 13.9% of the sales of OTC sector in the year. The market share of Besunyen Orlistat in all Orlistat products on Alibaba platforms was 33.56%. In November 2019, the Group started the e-commerce sales of LARLLY Orlistat, with a planned target that the two brands as a whole to achieve more than 50% of the market share of this e-commerce single product.

The Customer Service Center Ready to Upgrade

By the end of 2019, the customer service center comprising of more than 100 members has established a sound service mechanism. Through in-depth one-to-one service to customers, it has accumulated a large number of regular customers, the product re-purchase rate is higher than the industry average, and even many staff of the customer service center have established personal relations with the customers who highly recognized the brand. At the same time, the customer service center has established a complete training, assessment and promotion mechanism, and recorded rapid growth in its performance. In 2020, the customer service center will make a special overall plan for the consumption upgrading of regular customers and strive to create a new growth point of the revenue of the Group.

Shining in the Industry in 99 Jvhuasuan, Double 11 and Double 12

After the Group became the core customer of Jvhuasuan in the first half of 2019, it pursued its success in the second half of the year. The Group sponsored Jvhuasuan 99 big promotion, which enabled the Group to overfulfill its target performance of 2019 and brought about massive online topics and significant growth in daily sales. It has achieved outstanding performance of RMB62.99 million and RMB20 million in Double 11 and Double 12, respectively.

Sales on each Platform Growing Strongly

In 2019, the e-commerce team of the Group exerted its strength on Ali Health's Platforms and strengthened team building and internal communication to make up its weakness. It has achieved excellent performance on platforms such as JD.com and Pinduoduo. For example, JD.com 912 promotion boosted its results to RMB3.33 million. The sales performance of the Group's products on JD. com and Pinduoduo each exceeded RMB10 million in the second half of 2019.

Service Department Better Equipped

In 2019, the integrated marketing center of the Group set up a established design team which solved the Company's weakness; and the outer package and quality of the products have been improved; the shop details page has attracted more attention; the marketing facilities have been improved; the promotion quality on the platform has been improved; and thus the Group has been highly praised by platforms such as Ali. By enhancing the equipment of supply chain team, the Group achieved quick products circulation, which guaranteed the optimized inventory of products. Meanwhile, supply chain team provided the e-commerce team with efficient and forward-looking service. The sales support group greatly optimized warehousing and logistics process, established e-commerce Yiwu warehouse, reduced logistics costs, offered the strongest support to the e-commerce teams, and ensured the needs of business operations.

Upgrading Traditional Offline Sales, Establishing a Nationwide Large-Scale Drugstore Chain Service System, and Forming the Three Major Regions

Adjusting the Structure and Functions of the Sales Team, Making Full Increment and Concentrating on Growth of Direct Sales to End Users

In 2019, the Group adjusted the organizational structure and functions of the national sales system, realizing flat organization, optimized structure and simplified process. On the basis of the original three major regions, key customers ("KA") chain management was added to the national offline sales management and thus a model of "3+1"management has been formed. The business achievement sharing system, that is, the partnership system, has been implemented. The national offline competition, mutual promotion, master and boss sense have greatly improved the enthusiasm of the sales team and the overall combat effectiveness of the sales team. At the same time, new product department and innovation department are set up in all offline business sectors to develop various kinds of new products, thereby enriching and enhancing the product competitiveness of the Group.

In 2019, the Group set up 22 direct sales departments and provincial business departments in secondary regions on top of the three major regions for offline sales, which is mainly responsible for the distribution channel management and terminal promotion, perfecting the dealer assessment system, optimizing dealer resources, further improving the channel penetration rate by adjusting and controlling the number of days of dealer inventory turnover, maintaining the freshness of inventory batch numbers, combing the circulation channels, building a more reasonable matching of distributors/sub-distributors. Retail terminal work focuses on the prevention of supply shortage, price maintenance, terminal display, promotion and publicity, approaching customers of competitors and other key work, increasing the rate of first time launch, enriching the terminal promotion mode, building the construction of image terminal, and increasing the sales level.

In 2019, the Group also established KA management department to facilitate centralised management of the products and customers of the Group in pharmacy chains and improve the sales teams's overall operation of the chains. The KA management department is mainly responsible for refined management of six core chains across the country, and establishing different sales policies and model chains targeting at different market chains. Through strengthening the deep cooperation with the chain drugstores, the Group has greatly improved the business quality and work communication with the retail terminals, realizing rapid growth of sales.

Offline Sales Team and KA Team Complementing Each Other and Cooperating Well, Aiming to Promote Regional Sales to End Users

Innovating marketing mode with brand upgrade campaign in an all-round way

In order to get more orders and better results, the three major regions are making great efforts in innovation, such as focusing on key chains, targeting small-scale 400 phone calls and developing member in all districts, community marketing, and OTO new business model. More than one million free samples have been directly distributed to customers, which helps consumers understand how to take the Two Teas, strengthens information interaction with customers, further broadens sales channels and improves management efficiency.

In 2019, the Group increased its advertising investment and publicity efforts. It has invested heavily in elevator advertising of CNR and Xinchao Media successively, and has achieved initial results. By cooperating with Xinchao Media which covers more than 70 cities and 300,000 elevator smart screens, the Group targeted at home users and developed community precision marketing, and by leveraging CCTV's two major channels' prime-time joint high-frequency broadcasting, the Group launched and activated the chain resource exchange and sharing activities nationwide, greatly improving the cooperation enthusiasm of all levels of cooperative customers, and achieving significant growth in sales volume. In 2019, the Group launched the brand upgrade in an all-round way, created a new mode of communication socialization and marketing scenario, and actively promoted the content marketing and scenario construction of brand rejuvenation.

Establishing New Performance Appraisal Orientation and Focusing on Growth of Sales to End Users

To make sales team focus on the growth of direct sales to end users, the Group opened up the data channel for shipments to the terminal via distributors/sub-distributors in 2019. The sales team's performance appraisal standard was changed from sales to distributors to sales to end users. By establishing direct sales to end users as a PK parameter for the sales staff, it allows the sales staff to participate in terminal management and maintenance, and avoid excessive stock hoisting by distributors/sub-distributors, and make terminal management and terminal foundation promotion more solid and effective. During the year of 2019, the Group strengthened its internal team building and launched a secondary distribution of employee pay performance and a Black and White List System, further improving employee motivation and work efficiency.

Strengthening the Flow Direction Management of the Products, Maintaining a Good Market Operation Order, and Curbing Fleeing Goods and Other Market Misconduct

In 2019, in order to maintain the freshness of the products in the market and avoid obsolete products and returns due to stockpiling, with respect to flow control of distributors, the Group controlled the inventory turnover days of distributors from the delivering source, upgraded PanPass logistics code management system, and monitored the logistics information of distributors to further enhance the timely acquisition and strengthen supervision of logistics information. For the data in respect of distributors/sub-distributors, the Group made direct connection to the systems of distributors/sub-distributors, which provided an accurate and real-time command of data such as stock-out, stock-in and product serial number of distributors/sub-distributors, allowing the acquisition of accurate flow data, avoiding overstocking and better supervising of customers and channels.

Making Use of the Current Good Market Foundation and Formulating Reasonable Incentive Policies for New Products, Aiming to Promote the Sale of New Products

The sales of Mei Yang Yang Glycerol Enema in Yunnan, Hunan, Beijing, Jilin and other regions and LARLLY Menstruation Conditioning and Beauty Capsules in Sichuan region have increased significantly. The offline sales of Jianfei Orlistat (簡肥牌奥利司他) has also been started, and new products such as SaiQumei (賽曲美) are also steadily advancing. The Day and Night White Collagen series products, which takes the meaning from the poem "the Sun for the day, the Moon for the night, and you are the Sun and Moon forever", is being upgraded and ready for sales. These new products have laid a good foundation and paved the way for the second take-off of offline sales in 2020 and the rapid development of the Group.

Adhering to the Concept of Open and Innovative Research and Development, Enhancing Research and Development Capabilities, and Strengthening Research and Development Cooperation

In 2019, the research and development work embraces China's "Health for All" principle, focusing on the two major health function areas of weight management and gastrointestinal health, actively lays out new health function markets, and promotes the development process of several new health products. In addition, we will actively maintain the existing approval documents, actively declare patents, and do a good job in the layout of the Company's intellectual property rights.

With respect to the actively research and development of new health products, the Group has successfully and newly launched Besunyen Runyuan Tea, red bean and adlay tea, lotus leaf green tea, Eight Assorted herbal tea, Yanyuan Granules, Changwuyin Granules, Xian Xian Shake and Day and Night White Collagen Powder currently. There are 4 products in reserve or in preparation for launching and 12 products under self-research and development. The Group participates in the key research and development plan of the Ministry of Science and Technology, "the Modernisation of Chinese Medicine", and is conducting proofing tests for powder and paste. 2 new patent application for health products or health food were filed and the Group was granted the authorization for 2 national invention patents.

In addition, relying on Wanhan and Wanyuan teams' advantages in drug research and development, the Group completed the filing of 3 kinds of API, completed the supplementary research of 4 drugs, newly filed 11 medical invention patents, obtained 9 national invention patent authorization, and newly commenced the development for 4 drugs in 2019.

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 Group's public welfare and charity undertakings.

In order to make its own contribution to the ecological construction public welfare undertakings, the Group donated funds to Beijing Green Sunshine Environmental Protection Public Welfare Foundation to support it in promoting sustainable conservation practices with scientific approach, so as to achieve the goal of maintaining regional ecological balance and ecological security. The Group and Fangshan civil affairs bureau launched "spring breeze brings warmth" activity which is a part of "Love Warm Sun" themed social donation in Fangshan district in 2019. The donation funds will be used for student aid and poverty relief. The Group also cares for the children of Tongzhou Care Center, hoping that our actions, including book donation and visit, may call on more social forces to join in the activities of caring for the disadvantaged, to further strengthen the whole society's awareness of helping the disabled, and to disseminate the love seeds. At the same time, the Group actively participated in "I Want to Go to School 1200 Student Aid Programme" jointly promoted by the China Children and Teenagers' Fund and MusicRadio of CNR, and sponsored RMB1.2 million to make contributions to the schooling of children in poor mountainous areas.

AWARDS AND HONOURS

Winning Social Responsibility Outstanding Enterprise Award

On 26 December 2019, at the 2019 China Social Responsibility Public Welfare Ceremony & The 12th China Enterprises Social Responsibilities Summit, the Group received the "2019 China Social Responsibility Outstanding Enterprise Award". Over the years, as an enterprise that actively fulfills its social responsibilities, the Group has focused on the quality of the products and constantly sought for new and breakthrough in the practice of social responsibility. The Group has always placed integrity and social contribution at the heart of its business philosophy, and regarded its responsibility to the shareholders, customers, employees and society as the key to its sustainable development, so as to retain good performance. In public welfare, Besunyen adheres to the principle of "small actions, wide dissemination". Through adhering to some public welfare actions, Besunyen spreads public welfare and enables more people to participate in it. Besunyen actively participates in various social public welfare undertakings, and continues to engage in public welfare undertakings.

OUTLOOK

Macro Economy

According to the publication of National Bureau of Statistics, in 2019, China's economy recorded overall stable performance, with its development level reaching a new level and its development quality improving steadily. 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 of supply side. A series of policies encouraging and supporting big health industry have been introduced successively. As a result, the big health industry has ushered in an unprecedented development opportunity and will become one of the key industries leading China's industrial transformation.

Continuously Developing Personalized and Younger E-commerce Platforms

The Group will continue to focus its strategic development on e-commerce platforms, keep up with industry development trends and promote the upgrading of e-commerce platforms. The Group will develop retail members of e-commerce platforms, strengthen communication with end members, and promote a refined and personalized member service system. Targeting at different platforms and promotion channels, the Group will develop different new products, and continue to promote the personalization and rejuvenation of the e-commerce platform.

E-commerce sector achieved a substantial growth in 2019 which is attributable to the fact that the internal team kept fast learning and enterprising, and that the Group seized the only draught in the fast transformation, kept up with the trend of the industry and cooperated with excellent partners. In the next step, the Group will continue to upgrade its e-commerce system, coordinate the whole process and data of e-commerce work, and continue to strengthen its business capabilities seeking for better tools and methods while retaining and serving the consumers.

Promoting Marketing Mode Innovation and Enhancing the Strength of Offline Sales Teams

The Group will continue to pay attention to the growth of direct sales to end users in the market, build a more reasonable distributors/sub-distributors mix and further improve the channel penetration rate. On the basis of the current good market foundation, the Group will promote the innovation of new product sales and sales mode, and formulate reasonable new product incentive policies, expand the range of product lines and continuously introduce new products through measures such as self-research and development and entrusted processing, so as to facilitate the Group achieving higher growth in various fields.

Optimizing Product Structure and Enhancing Brand Competitiveness

The Group will continue to implement the "One Focus and Two Dimensions" product strategy, focusing on the three major health care functional areas of weight management, gastrointestinal health and beauty treatment, and expand herbal health-care functional health products, push forward preparations for the launching of related drugs and medical devices and other new products. The Group will continue to pay close attention to relevant policies and continue to steadily push forward the development and testing of various new products. At the same time, the Group will continue to make use of the research and development advantages and product reserves of Beijing and Zhongshan area, continue to optimize the product structure and improve its overall layout in the pharmaceuticals, health products and big health industries.

Putting Forward Diversified Promotion Paths to Revitalise the Brand

The Group will continue to innovate the promotion model and output a more youthful brand tonality with the help of new media's communication characteristics. Through high-exposure and diversified Internet marketing channels, the Group will broaden the brand promotion path. While improving brand exposure, the Group will continue to promote brand rejuvenation, refresh the brand with new vigor and vitality, so as to build a new revenue increment of the Group.

To initiate the new marketing mode under the impact of COVID-19

In response to the impact of the COVID-19 epidemic on the national market and economy, the Group has taken various measures. Taking advantage of the working at home during the outbreak of the epidemic, the Group has integrated all staff in online marketing activities, developed a direct selling business model through various new media promotion channels, and implemented strict cost control mechanisms, which to some extent made up for the loss of offline sales. According to the expectation of the management, after the epidemic, there will be no substantial impact on the overall business of the Group along with the full recovery of sales.

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 2019!

Chairman and Chief Executive Officer
Zhao Yihong

Hong Kong, 24 March 2020

Management Discussion and Analysis

FINANCIAL REVIEW

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	**812,160**	378,378
Cost of sales	**(227,708)**	(123,061)
Gross profit	**584,452**	255,317
Other income	**12,642**	22,675
Selling and marketing expenses	**(449,987)**	(246,849)
Administrative expenses	**(107,770)**	(112,417)
Impairment loss of intangible assets	**–**	(4,802)
Research and development costs	**(47,363)**	(23,548)
Other expenses	**(4,454)**	(9,829)
Other (losses)/gains, net	**(1,443)**	1,144
Gain on disposal of subsidiaries	**222,276**	4,910
Operating profit/(loss)	**208,353**	(113,399)
Finance income	**3,309**	–
Finance costs	**(5,593)**	(6,665)
Finance costs, net	**(2,284)**	(6,665)
Share of losses of investments accounted for using the equity method	**(12,862)**	(1,295)
Profit/(loss) before income tax	**193,207**	(121,359)
Income tax (expense)/credit	**(4,961)**	27,887
Profit/(loss) for the year	**188,246**	(93,472)
Profit/(loss) attributable to:		
– Owners of the Company	**162,348**	(95,299)
– Non-controlling interests	**25,898**	1,827
Other comprehensive income	**–**	–
Total comprehensive income/(loss) for the year	**188,246**	(93,472)
Total comprehensive income/(loss) attributable to:		
– Owners of the Company	**162,348**	(95,299)
– Non-controlling interests	**25,898**	1,827
	188,246	(93,472)

REVENUE

	For the year ended 31 December			
	2019		2018	
	RMB'000	**Percentage of total**	RMB'000	Percentage of total
Revenue:				
Besunyen Detox Tea	**176,541**	**21.7%**	114,000	30.1%
Besunyen Slimming Tea	**185,764**	**22.9%**	149,589	39.6%
Besunyen Xian Xian Tea	**62,828**	**7.7%**	16,106	4.2%
Slimming medicines	**324,508**	**40.0%**	66,985	17.7%
Other products and medicines	**62,519**	**7.7%**	31,698	8.4%
Total	**812,160**	**100.0%**	378,378	100.0%

The revenue of the Group in 2018 was RMB378.4 million and the revenue in 2019 increased by 114.6% to RMB812.2 million.

The revenue of Besunyen Detox Tea increased by 54.8% from RMB114.0 million in 2018 to RMB176.5 million in 2019, while the sales volume increased from 86.3 million tea bags in 2018 to 127.1 million tea bags in 2019, and the average selling price increased from RMB1.32 per bag in 2018 to RMB1.39 per bag in 2019.

The revenue of Besunyen Slimming Tea increased by 24.2% from RMB149.6 million in 2018 to RMB185.8 million in 2019, while the sales volume increased from 117.5 million tea bags in 2018 to 141.0 million tea bags in 2019, and the average selling price increased from RMB1.27 per bag in 2018 to RMB1.32 per bag in 2019.

The revenue of Besunyen Xian Xian Tea increased by 290.1% from RMB16.1 million in 2018 to RMB62.8 million in 2019, mainly due to increased sales on e-commerce platform.

Slimming medicines mainly consists of Besunyen Orlistat, LARLLY Orlistat and other Orlistat medicines. The revenue increased by 384.3% from RMB67.0 million in 2018 to RMB324.5 million in 2019, mainly due to the enhanced promotion of Besunyen Orlistat on e-commerce platform, seizing the market share of Orlistat, so as to achieve sales growth in the platform promotion.

Other products and medicines mainly consists of Besunyen Qingyuan Tea, Besunyen meal replacement products and dietary supplements products. The revenue increased by 97.2% from RMB31.7 million in 2018 to RMB62.5 million in 2019.

COST OF SALES AND GROSS PROFIT

	For the year ended 31 December			
	2019		2018	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Cost of sales	**227,708**	**28.0%**	123,061	32.5%
Total gross profit	**584,452**	**72.0%**	255,317	67.5%

The Group's cost of sales increased by 85.0% from RMB123.1 million in the 2018 to RMB227.7 million in 2019, which was in line with the increase in revenue. Cost of sales as a percentage of revenue decreased from 32.5% in 2018 to 28.0% in 2019.

Revenue increased by 114.6% and cost of sales increased by 85.0% in 2019 as compared to 2018. As a result, gross profit of the Group increased by 128.9% from RMB255.3 million in 2018 to RMB584.5 million in 2019. Gross profit margin of the Group increased from 67.5% in 2018 to 72.0% in 2019.

OTHER INCOME

In 2019, the Group's other income mainly comprised interest income of RMB2.0 million (2018: RMB0.3 million), government grants of RMB6.5 million (2018: RMB3.3 million) provided by the PRC government to support the Group's operation of business, and rental income from investment properties of RMB3.1 million (2018: RMB18.0 million).

SELLING AND MARKETING EXPENSES

	For the year ended 31 December			
	2019		2018	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising costs	**116,372**	**14.3%**	50,575	13.4%
Marketing and promotional expenses	**169,853**	**20.9%**	74,276	19.6%
Employee benefit expenses	**114,059**	**14.1%**	86,658	22.9%
Others	**49,703**	**6.1%**	35,340	9.3%
Total	**449,987**	**55.4%**	246,849	65.2%

Selling and marketing expenses of the Group increased from RMB246.8 million in 2018 to RMB450.0 million in 2019.

The advertising costs in the 2019 increased by RMB65.8 million as compared to the same period of 2018, mainly due to the addition of advertising via pre-show media, elevator advertisement, radio media, etc. apart from advertising via TV media and internet media, resulting in the increase in the cost.

The marketing and promotional expenses increased by RMB95.6 million in 2019 as compared to the same period of 2018, mainly due to the increase in the expenditure of marketing and promotion via e-commerce platform.

In 2019, employee benefit expenses increased by RMB27.4 million as compared to the same period of 2018, mainly due to the increase in performance salary of sales personnel as a result of the increase in revenue in 2019.

ADMINISTRATIVE EXPENSES

	For the year ended 31 December			
	2019		2018	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Employee benefit expenses	**42,679**	**5.3%**	42,967	11.4%
Office expenses	**7,157**	**0.9%**	5,358	1.4%
Professional service fees	**25,642**	**3.1%**	27,377	7.2%
Entertainment and travelling expenses	**7,816**	**1.0%**	5,992	1.6%
Others	**24,476**	**3.0%**	30,723	8.1%
Total	**107,770**	**13.3%**	112,417	29.7%

Administrative expenses of the Group decreased by 4.1% from RMB112.4 million in 2018 to RMB107.8 million in 2019, mainly due to the decrease in depreciation fee upon disposal of Block D of Linglong Tiandi.

RESEARCH AND DEVELOPMENT COSTS

	For the year ended 31 December			
	2019		2018	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**47,363**	**5.8%**	23,548	6.2%

The Group's research and development costs increased by 101.7% from RMB23.5 million in 2018 to RMB47.4 million in 2019, mainly because of the increased self-research and development as well as outsourced research and development.

GAIN ON DISPOSAL OF SUBSIDIARIES

Gain on disposal of subsidiaries was RMB222.3 million in 2019, in which approximately 225.6 million was attributed to disposal of 100% equity interest in Beijing Chang Sheng Business Consulting Co., Ltd ("**Beijing Chang Sheng**") and its wholly-owned subsidiary Beijing Besunyen Property Management Co., Ltd., which is now known as Beijing Chang Sheng Property Management Co., Ltd (北京暢升物業管理有限公司) ("**Besunyen Property**"). The investment loss on the disposal of 100% equity interest of Beijing Besunyen Food and Beverage Co., Ltd. ("**Besunyen Food and Beverage**") was RMB3.3 million. Please refer to the section headed "Material Acquisitions or Disposals" below for details of such disposal (for the same period of 2018: investment gain on disposal of 100% equity interest in Beijing Besunyen Pharmaceutical Co., Ltd. of RMB4.9 million was reclassified from "other (losses)/gains, net" to "gain on disposal of subsidiaries" for comparative purposes).

TAXATION

The income tax expenses of the Group in 2019 was RMB5.0 million whereas in 2018 was an income tax credit of RMB27.9 million. The income tax expense in 2019 was mainly attributable to the utilisation of the losses and deductible temporary difference which there was no deferred income tax recognised previously by the Group.

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

Due to the aforementioned factors, the total comprehensive income for the year was RMB188.2 million (2018: total comprehensive loss of RMB93.5 million).

LIQUIDITY AND CAPITAL RESOURCES

In 2019, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities, proceeds from the disposal of subsidiaries 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	
	2019	2018
	RMB'000	RMB'000
Net cash outflow from operating activities	**(42,921)**	(82,138)
Net cash inflow/(outflow) from investing activities	**481,399**	(60,142)
Net cash (outflow)/inflow from financing activities	**(228,946)**	122,168
	209,532	(20,112)
Effects of changes in exchange rate on cash and cash equivalents	**(488)**	2,638
Net increase/(decrease) in cash and cash equivalents	**209,044**	(17,474)

In 2019, net cash outflow from operating activities of the Group was RMB42.9 million (2018: RMB82.1 million). The decrease of cash outflow as compared to 2018 was mainly due to the decrease in operating loss during the current period. In 2019, the net cash inflow from investing activities of the Group was RMB481.4 million, which was mainly attributable to the net cash received from the sale of 100% equity interest of Beijing Chang Sheng and its wholly-owned subsidiary Besunyen Property as well as the sale of 100% equity interest of Besunyen Food and Beverage (2018: net cash outflow of RMB60.1 million, mainly comprised infrastructure construction expenditure and investment in wealth management products). In 2019, the net cash outflow from financing activities of the Group was RMB228.9 million, which was mainly due to the distribution of dividends and the repayment of borrowings (2018: net cash inflow from financing activities of RMB122.2 million, mainly due to the cash inflow from the drawdown of borrowings).

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, increased by 445.6% from RMB56.6 million as at 31 December 2018 to RMB308.8 million as at 31 December 2019. Meanwhile, the Group has a bank borrowing of RMB94.8 million as at 31 December 2019 (31 December 2018: RMB150.0 million).

CAPITAL EXPENDITURE

In 2019, cash payments for capital expenditure of the Group amounted to RMB118.3 million (2018: RMB49.0 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	
	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**45,880**	38,360
Investment properties	**57,870**	9,968
Assets classified as held for sale	**14,204**	–
Intangible assets	**338**	656
Total	**118,292**	48,984

INVESTMENT PROPERTIES

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Investment properties	**9,424**	144,996

The Group owns certain properties in Changcheng Building located at No.3000, Zhongshan Road North, Putuo District, Shanghai. The above properties of the Group are held for leasing and therefore classified as investment properties.

In 2019, the eastern region plant located at No.18 Dadou Road, Doudian Town, Fangshan District, Beijing, 102433 (the "**Eastern Region Plant**") of the Group was under construction, and 80% has been completed as at 31 December 2019. Among which, gross floor area of 7,501.51 sq.m. has been completed and obtained the housing license. It is expected that the rest part will be completed in June 2020. On 8 December 2019, the Eastern Region Plant was reclassified from "investment property" to "assets held for sale", such change was due to the signing of a framework agreement in relation to the disposal of a wholly-owned subsidiary of the Group with an independent third party by the Group. Please refer to the announcement of the Company dated 8 December 2019 for details.

As at 31 December 2019, the carrying values of the investment properties amounted to RMB9.4 million (2018: RMB145.0 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 2019, 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	
	2019	2018
	RMB'000	RMB'000
Investments accounted for using the equity method	**79,276**	94,019

As at 31 December 2019, the carrying value of the Group's investments in the joint ventures, Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. and Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) ("**Yuanyuan Liuchang Fund**"), was RMB78.8 million.

On 21 October 2019, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**"), an indirect wholly-owned subsidiary of the Group, invested RMB0.5 million to set up Weihai Huisheng Bioscience Technology Co., Ltd. (the "**Weihai Huisheng**") and holds 10% equity interests. As at 31 December 2019, the carrying amounts of the Group's investments in Weihai Huisheng (a joint venture of the Company) was approximately RMB0.5 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. As at 31 December 2018, the carrying value of the investment in Yunzhi Besunyen has been reduced to zero. On 23 July 2019, the liquidation of Yunzhi Besunyen was completed.

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	
	2019	2018
	RMB'000	RMB'000
Raw materials and packaging materials	**15,550**	11,201
Work in progress	**2,443**	1,249
Finished goods	**42,191**	18,022
Total inventories	**60,184**	30,472

The turnover days of the Group's inventories in 2019 (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 73 days (2018: 71 days).

RISKS IN FOREIGN EXCHANGE RATE

Almost all of the operating income, cost of sales and 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 2019, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2018: Nil).

MATERIAL ACQUISITIONS OR DISPOSALS

On 31 December 2018, A Li Yun Shan (Beijing) Business Consulting Co., Ltd. ("**A Li Yun Shan**"), 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 has conditionally agreed to sell and Tosalco Pte. Ltd. has conditionally agreed to acquire 100% equity interest of Beijing Chang Sheng together with its wholly-owned subsidiary, Besunyen Property, at a consideration of RMB555.0 million, which shall all be settled by Tosalco Pte. Ltd. in cash. Besunyen Property's major asset is Block D of Linglong Tiandi. 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, and such transaction was completed on 8 March 2019. For details, please refer to the announcements of the Company dated 31 December 2018, 22 February 2019 and 26 March 2019, and the circular of the Company dated 4 February 2019. The increase in the Group's net profit for 2019 is mainly attributable to the gain on the aforesaid disposal.

On 15 November 2019, Beijing Outsell completed the disposal of 100% equity interest of Beijing Besunyen Food and Beverage. For details, please refer to the announcements of the Company dated 10 March 2017, 25 July 2017, 31 December 2018, 26 March 2019 and 10 July 2019.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures in 2019.

OTHER MATTERS

In order to revitalize idle assets, on 10 July 2019, Beijing Outsell entered into a construction general contracting agreement with Beijing Hengtong Innovation Whole House Assembly Co., Ltd. (the "**Contractor**"), pursuant to which, the Contractor agreed to undertake the construction and installation of the No. 2 Production Workshop. The total consideration payable to the Contractor under the construction general contracting agreement is RMB113,783,798.65. For details, please refer to the announcement of the Company dated 10 July 2019.

On 8 December 2019, the Company, Beijing Outsell and Basic Venture Limited ("**Basic Venture**") entered into a framework agreement, pursuant to which, Beijing Outsell agreed to dispose of, and Basic Venture agreed to purchase, all equity interest of the Beijing Shenhuibiyuan Cloud Computing Technology Company Limited ("**Target Company**") ("**Target Equity Interest**"). All parties of the Framework Agreement agreed to proceed with the transaction on the basis of a consideration of RMB463.0 million (assuming that both the cash and liabilities of the Target Company are zero), which is subject to the audit, valuation, internal approval procedure and regulatory approval procedure that must be performed, as required by the laws and regulations of the place of listing of the Company and the Listing Rules. The assets that will soon be owned by the Target Company comprise of a state-owned industrial land located in Fang Shan District, Beijing, and the buildings and facilities built and to be completed soon on it. The parties will further negotiate and enter into an equity transfer agreement based on the terms, conditions and principles of the framework agreement regarding the specific arrangements for the transfer of the Target Equity Interest. The rights and obligations of the parties with respect to the transfer of the Target Equity Interest shall be subject to the equity transfer agreement. For details, please refer to the announcement of the Company dated 8 December 2019.

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 2019, Yuanyuan Liuchang Fund did not invest in new projects.

Save as disclosed above, there were no other significant investments held by the Group in 2019. 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 2019, the Group received certain bank borrowings of RMB86.8 million, through pledging properties with total book value of RMB109.5 million and land use rights with total book value of RMB43.5 million to banks and guarantee companies (2018: the Group received certain bank borrowings of RMB150.0 million, through pledging properties with book value of RMB88.3 million and land use rights with total book value of RMB24.9 million to banks and guarantee companies).

GEARING RATIO

As at 31 December 2019, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 35.3% (2018: 27.0%).

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2019, the Group had no material contingent liabilities or guarantees (2018: Nil).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments of RMB117.0 million (2018: RMB78.6 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 2019, 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 2019, 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 2019, the Group had 1,187 employees in the PRC mainland and Hong Kong (2018: 1,121 employees), which included 12 promotional staff employed by employment agents (2018: 13 employees). The staff costs of the Group (including remunerations of the Directors) were RMB156.2 million for the year ended 31 December 2019 (2018: 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 53, 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 30 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 51, 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 68, 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 45 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. REN Guangming, aged 55, 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 31 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 53, 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 64, from 1984 to 2015, 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 directors' profile above.

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

Ms. WANG Juan, aged 44, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 23 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 57, 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 31 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 55, 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 29 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 51, is our Vice President principally in charge of our public relationships. Mr. Lin joined our Group in September 2012 and has over 30 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 36, 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 12 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

In 2019, all industries were faced with a severe test of surviving an economic cycle. Confronted with the uncertainties of the external environment, the Group unswervingly implemented systematic reform and business model innovation, so as to successfully transform from a traditional enterprise to an Internet enterprise. By segmenting operation units, and introducing the "partner mechanism" to flexibly entrust the business decision-making power with operation units, it has greatly stimulated the enthusiasm and systematic innovation vitality of front-line employees, allowed more business managers to participate in the decision-making and execution of major projects, effectively improved the response speed to customers and the market, and gave full play to the wisdom and strength of the team. The new sales system matrix which consists of "sales region + KA chain" and "e-commerce workstation + customer service center" has produced initial results, e-commerce platforms made rapid progress, and sales revenue increased substantially.

Business of Besunyen Detox Tea and Besunyen Slimming Tea has continued to consolidate, and new product businesses such as OEM product are gaining momentum and showing vitality. In 2019, Besunyen Orlistat Capsules (also known as "Small Blue Box") made a splash and became an "hot product" on e-commerce platforms such as Alibaba, JD.com and Pinduoduo, leading the OTC slimming medicine. The achievement of sale was brilliant.

The Group now has more than 1,200 employees, with its sales channels covering the entire network and sales customers across China. In 2019, the Group began to plan and deploy overseas market, and attempted to explore cross-border e-commerce business.

On the original of the manufacturing and sales of therapeutic tea, the Group has actively laid out the big health industry, forming a product pattern based on health food R&D and production base in Fangshan, Beijing, pharmaceutical R&D and production base in Zhongshan, Guangdong and OEM products as an extension. The Group's product line has been further enriched and improved, with continuous focus on weight management and intestinal health products, and based on this, extending to other health products, such as consumer demand categories (e.g.beautifying, anti-sugar, liver protection, anti-aging, etc.).

As a health food enterprise with a history of nearly 20 years, the Group has been exploring and practicing the brand youthfulness, deeply exploring the brand connotation, and creating various health products favored by the young people born in the 1980s, 1990s and 2000s, such as meal replacement milkshake, collagen jelly, dietary fiber powder, L-carnitine coffee, Miao Miao Jiao Enzyme, Mr.COOKIE and other products.

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

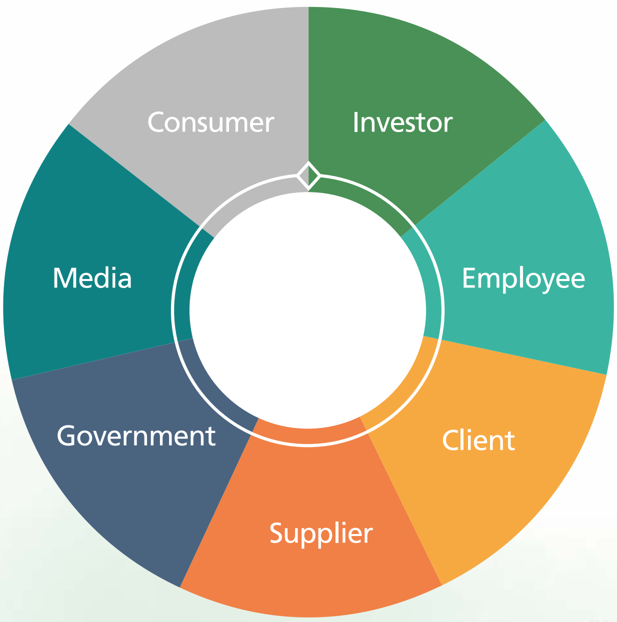
The Group has always attached great importance to the environmental, social and governance activities, and earnestly performed supervision duties, which have been an important facilitator of the environmental, social and governance activities. Through Board meetings and daily activities, the Group communicates and understands a range of environmental, social and governance initiatives taken by the Group, such as approval of social donations, budget for production equipment upgrading and transforming, etc.

Product quality and safety are the lifeline for an enterprise to survive and develop, and also top priorities. Adhering to the concepts of "Healthy China" and "Green Economy", the Group, through the use of Chinese herbal medicines with good texture, continuously launched a series of products for reducing weight and intestinal burden, with a view to consistently promote and improve the healthy and happy life of people.

The Group considers building a resource-saving, environment-friendly and green enterprise as an important strategic goal for its sustainable and healthy development. Environmental protection has become one of the important measurement standards of enterprise operation and management. While vigorously expanding business and developing business performance, the Group continues to promote the two innovation plans of "lean production" and "clean production". By optimizing the production process, upgrading and transforming machinery and equipment, and coordinating production and marketing, the Group continues to improve energy efficiency and reduce the harm caused to the environment during operation. At the same time, the Group advocates a green work and life style, and calls on and encourages employees to participate in activities, such as planting trees to protect the ecological environment.

Talents are always the core part of enterprises' business development. The Group pays great attention to the capacity of building the key talents echelon. Through external attraction and internal training, the Group has identified a large number of young talents who practice corporate culture values and have business awareness, so as to support the Group to achieve high-quality growth. Meanwhile, the Group is committed to creating the most competitive salary in the industry, based on striver, pooling talents, and fully implementing the talent appointment mechanism of "cultivating talents in accordance with the survival of the fittest" and the performance appraisal mechanism of "no pains, no gains" to fully arouse the creative vitality of all kinds of talents, and provide young people with sufficient room for growth. The Group continues to enrich and improve welfare guarantee systems to give employees a stronger sense of belonging, honor and happiness.

The Group actively advocates and participates in social public welfare undertakings. It has been adhering to the concept of achieving synchronised growth of business with the development of the motherland. In this regard, the Group attaches great importance to the patriotism education of employees, and vigorously advocates the spirit of dedication to society. The Group actively responded to the targeted poverty alleviation project of "10,000 enterprises assisting 10,000 villages" launched by the Beijing Municipal Government, by assisting Putaokou Village of Quyang County in Hebei Province to contribute to the achievement of the "two centenary" goals proposed by General Secretary Xi Jinping.



COMMUNICATION WITH STAKEHOLDERS OF THE GROUP

Stakeholders' participation is a vital component in the positive sustainable 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, board meetings, roadshows, results publication, and media, in which way the stakeholders are able to understand and supervise the Group's operation.

In 2019, the Group maintained communication with major stakeholders on the following issues:

Firstly, investors' concerns about the Group's operation conditions and interests of investors: the Group communicated with investors and disclosed its operation conditions via multiple ways such as regular general meetings, board meetings, roadshows and annual report disclosure, etc. to timely disclose the operation of the Group and protect the interests of investors.

Secondly, employees' concerns about rights and obligations: the Group communicated and discussed the employee compensation and performance appraisal policy by convening employee representative meetings. The Group carried out staff safety education regularly, implemented safety production responsibility, and created a safe and healthy working environment. The Group Set up a learning platform for employees, carried out various skills training, and improved their professional ability and comprehensive management ability. The Group implemented the team building of employees to further strengthen the relationship between the Company and employees.

Thirdly, customers' and suppliers' concerns about product quality and contract compliance: The Group strictly complied with ISO9001 and ISO22000 and other quality management system requirements to organize production and business activities, improve the supply chain management system and the alternative system implemented for important raw material suppliers, strengthen product quality self-inspection and third-party inspection, so as to ensure product quality. The purchase and sale contract specified the "anti-bribery clause" to ensure the operation in accordance with the law.

Fourthly, consumers' concerns about product quality and service: the Group provides consumers with high quality products through strict quality management system. The Group insists that unqualified products are not put into storage or sold, and the defective products are prohibited from entering the market. The Group has set up a customer service center, hired professional pharmacists and nutritionists to provide consumers with a full range of health consulting services, and established and strictly implemented the consumer complaint management system.

Fifthly, government's concerns about legal, compliance operations and performance of social responsibility of enterprises: honest and law-abiding operation has always been the standard of the Group. At the same time, the Group calls on and organizes employees to actively participate in various social welfare undertakings, and fulfills the corporate social responsibility in poverty alleviation, public welfare of education, assistance for the disabled, the weak, the orphans and the widows, disaster relief, environment and wildlife protection, etc.

Last, The Group has been maintaining active and effective communication with the media, and has initially established a multi-channel and all-weather communication channel. Through the media meeting, forum, sponsorship of advertising festival for college students and other forms, the Group disclosed various kinds of information to ensure its accuracy and timeliness for supervision and inspection of the media.

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 2019 to 31 December 2019.

The Group has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide in 2019.

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. Heilongjiang Besunyen Trading Co., Ltd.

iv. Beijing Aliyunshan Business Consulting Co., Ltd.

v. Guangzhou Runliang Pharmaceutical Co., Ltd.

vi. Zhongshan Wanhan Pharmacy Co., Ltd.

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

viii. Zhuhai Kangbaina Pharmaceutical Co., Ltd.

The Group optimizes production process, upgrades and transforms machinery and equipment, coordinates production and marketing plans, and regularly checks the safety of the production environment to improve energy efficiency, reduce energy consumption, and cut down emissions of greenhouse gas, exhaust gas, and sewage.

The Group strictly abides by related laws, regulations, standards and local regulations, including the Environmental Protection Law of the PRC, Cleaner Production Promotion Law of the PRC, and the Integrated Emission Standard of Air Pollutants. The Group has always advocated living and working in eco-friendly ways, reducing energy consumption by encouraging employees to use public transportation, using office waste paper, and advocating video teleconferencing, etc.

I. ENVIRONMENTAL PROTECTION

Faced with increasingly severe environmental problems, the Group always persists in protecting environment, reduces environmental damage caused by production and operation, and regards protecting environment and building an environment-friendly enterprise as one of its basic goals for long-term stable development.

(I) Emissions

1. *Exhaust Gas and Greenhouse Gas Emission*

In 2019, the Group's exhaust gas and greenhouse gas emissions were mainly generated from the exhaust gas and greenhouse gas of operation, cooling and heating activities of equipment such as boilers. For key emission projects, the Group formulated rigorous monitoring measures, optimized production plans, updated and modified equipment, and optimized management measures to continuously reduce energy consumption and cut down emissions of exhaust gas and greenhouse gas in operation.

The emission of exhaust gas by 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 introducing of "lean production" and "clean production" programs, combined with the continuous optimization of technology and management measures, the Group has implemented energy conservation and emission reduction, reduced the emission of pollutants, developed a low-carbon economy, and reduced the impact on the environment, society and residents' lives.

Specific measures included:

(1) automation modification of dust collector to reduce dust pollution and improve recovery rate;

(2) implementation of production and marketing coordination, promotion of the summer off-peak production plan, reducing energy consumption;

(3) operation of the boiler and water pump in stages according to weather and temperature, and minimum boiler starting temperature during holidays;

(4) modification of canteen oil-smoke purification equipment and laboratory exhaust purification equipment to reduce exhaust pollution.

In the years 2018 and 2019, the Group's emission of exhaust gas and greenhouse gas was as follows:

Item	Year	Unit	Emission
Natural gas	2019	m^3	60,578
	2018	m^3	115,171
Industrial waste gas	2019	m^3	1,108,827
	2018	m^3	1,627,668
Sulphur dioxide	2019	Kg	4
	2018	Kg	6
Nitrogen oxides	2019	Kg	152
	2018	Kg	223
Greenhouse gas	2019	t	3,212
	2018	t	2,890

The Group's total amount of greenhouse gas discharged in 2019 was 3,212 tons, representing approximately 1.9 tons of greenhouse gas per ton of finished products. Compared with 2018, greenhouse gas emission increased by 322 tons and greenhouse gas per ton of finished products decreased by approximately 0.7 tons. The increase in the total greenhouse gas emission is mainly due to the significant increase of production quantity of Zhongshan Wanhan Pharmacy Co., Ltd..

The emissions of natural gas, industrial waste gas, sulphur dioxide and nitrogen oxides decreased compared with that of 2018. The environmental protection measures implemented by the Group, such as off-peak production, transformation of production equipment, transformation of oil-smoke purification equipment and exhaust gas purification equipment, have achieved initial results.

2. *Sewage Treatment*

Sewage discharge management is the crucial part of water resource management. The Group strictly implemented the provisions of the Law of the PRC on the Prevention and Control of Water Pollution, Technical Policy on Municipal Sewage and Water Treatment and Pollution Prevention and Discharge Standards for Pollutants from Urban Sewage Treatment Plants, and strengthened the control of waste water generated from production, research and development, and office activities.

All sewage of the Group was discharged to special sewage treatment companies through city pipe network for centralised sewage treatment, thus ensuring the compliant treatment of sewage. Waste water was reduced by recycling.

In 2019, the Group took various measures to prevent and control the generation of sewage. Specific measures were as follows:

(1) organize energy saving production training to improve the operation skills of employees and their awareness of water environmental protection;

(2) upgrade and modify water equipment, use water repeatedly, reuse water, and reduce sewage generation; and

(3) regularly check the sewage discharge equipment to avoid leakage of sewage and pollution.

In 2019, the Group discharged 4,283 tons of industrial sewage, representing 2.5 tons of sewage discharged per ton of finished products. Compared with that of 2018, industrial sewage discharged decreased by 250 tons, and sewage discharged per ton of finished products decreased by 1.5 tons. Water conservation and wastewater management and control measures have been effective.

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

The hazardous wastes produced by the Group were mainly from the waste of laboratory testing reagents and pharmaceutical production. Non-hazardous wastes mainly included packaging material wastes and domestic garbage. Wastes management is a crucial part of pollution prevention. Proper disposal of wastes was essential to ensure production and public health and safety.

The Group strictly complied with laws and regulations such as the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste and Measures of the PRC on the Prevention and Control of Environmental Pollution by Waste Chemicals, and applied the management concepts of reduction and harmlessness to the process of waste generation, collection, storage, transportation and disposal, reducing environmental pollution.

In 2019, the Group adopted the following measures to reduce discharge of wastes and mitigate the harm caused by discharge of wastes:

(1) strengthen the recycling of packaging materials such as cartons;

(2) coordinate production and marketing in a scientific and reasonable way, set up channel safety inventory, reduce the return of expired products;

(3) carry out procurement and production in a scientific way, and conduct centralized testing to reduce the use of chemical reagents; and

(4) collection and storage of hazardous waste in a standardized way, hire a professional company for centralized disposal.

In the years 2018 and 2019, the Group's discharge of hazardous and non-hazardous wastes was as follows:

Item	Year	Unit	Discharge
Hazardous wastes	2019	Kg	8,990
	2018	Kg	200
Non-hazardous wastes	2019	t	22.5
	2018	t	112

In 2019, the total amount of hazardous wastes produced by the Group was 8,990 kg, representing 5.32 kg of hazardous wastes per ton of finished products. The increase in hazardous wastes is mainly attributable to the waste generated by the production line of API of Zhongshan Wanhan Pharmacy Co., Ltd..

In 2019, the Group produced 22.5 tons of non-hazardous wastes, representing 0.01 tons of non-hazardous wastes per ton of finished products. Compared with that of 2018, non-hazardous wastes decreased by 89.5 tons, which was mainly due to the decrease in packaging materials and damaged goods of Beijing Outsell Health Product Development Co., Ltd..

(2) Use of Resources

1. *Energy Conservation*

The Group's production of health foods and pharmaceuticals mainly consumes electricity, natural gas and water. In order to save energy, the Group vigorously promotes new energy-saving technologies, improves the energy management system, and standardizes production process. It sets emission reduction targets, and holds each levels accountable to energy-saving and emission reduction target of each staff of various positions.

In the years 2018 and 2019, the Group's consumption of energy was as follows:

Item	Year	Unit	Emission
Electricity	2019	kW·h	4,622,671
	2018	kW·h	3,120,238
Natural gas	2019	m^3	60,578
	2018	m^3	115,171
Fuel	2019	L	431,912
	2018	L	346,526

In 2019, the Group's consumption of electricity totalled 4,623 thousand kWh, representing 2,735 kWh per ton of finished products. Compared with 2018, electricity consumption increased by 1,503 thousand kWh, representing a decrease of 60 kWh per ton of finished products.

In 2019, the Group's natural gas consumption totalled 60,578 m^3, representing 36 m^3 per ton of finished products. Compared with 2018, natural gas consumption decreased by 54,593 m^3, representing a decrease of 67 m^3 per ton of finished products.

In 2019, the Group's fuel consumption totalled 431,912 L, representing 256 L per ton of finished products. Compared with 2018, fuel consumption increased by 85,386 L, representing a decrease of 54 L per ton of finished products.

The increase in electricity consumption and fuel consumption was mainly due to the increase in production of Zhongshan Wanhan Pharmacy Co., Ltd.. The increase in natural gas energy was mainly due to the use in Fangshan Foundation and energy conservation measures in 2019 are significantly effective.

2. *Water Conservation*

The Group mainly uses municipal water, which can meet the production demand. The Group's management and employee fully implement the commitment of water conservation and environmental protection, and formulate practical water-saving measures to improve the utilization efficiency of water resources based on the actual operating of each department. The Group strengthens the publicity of the environmental protection concept of water conservation, starts from saving every drop of water and other small things, and strives to build a water-saving society.

In 2019, the Group continued to use the water-saving measures of 2018, upgraded water facilities, attached importance to the daily patrol and maintenance of water equipment, and continuously strengthened water management to protect water resources.

In 2019, the Group consumed 44,348 tons of water in total, representing 26 tons of water per ton of finished products. Compared with 2018, water consumption increased by 9,203 tons, but water consumption per ton of finished products decreased by approximately 5 tons. The increase in the water consumption was due to the significant increase in production and addition of new API line of Zhongshan Wanhan.

3. *Packaging Materials*

Packaging materials consumed by the Group mainly include packaging boxes, paper boxes, filter papers and PE packaging bags. The Group continues to improve internal systems such as Packaging Material Procurement System and Request and Utilization of Production Materials System to standardize the procurement, production requisition and other links of packaging materials. The packing materials are provided by qualified suppliers, and the purchased material are in compliance with the food safety standards stipulated by the state to prevent the packing materials of unqualified or defective goods.

The Group strictly standardized the procurement of packaging materials, request and utilization of production materials and other procedures. Through upgrading and transforming the key nodes of the production line equipment, the Group has promoted the degree of machine automation and achieved the goal of improving the production efficiency and reducing the damage rate of packaging materials, and standardized the use of product specifications and outsourcing boxes and saved packaging materials.

In the years 2018 and 2019, the Group's consumption of packaging materials was as follows:

Item	Year	Unit	Consumption
Packaging materials	2019	t	1,515
	2018	t	1,106

In 2019, the Group's total consumption of packaging materials was 1,515 tons, representing 0.9 ton of packaging materials per ton of finished product. Compared with 2018, total consumption of packing material increased by 409 tons, but packing material consumption per ton of finished products decreased by 0.1 ton. Such increase in total consumption was mainly due to the significant increase in production of Zhongshan Wanhan Pharmacy Co., Ltd..

(III) Green Office

Over the years, the Group has been advocating the concept of "green office, low carbon life" which was associated with information systems, and continue to promote intelligent office, the Group reduced office energy loss through the cloud home system platform, mobile phone 365 system, video conference system, teleconference system, etc, and strengthened the relationship between the head and branch offices and all departments, so as to greatly increase the efficiency.

Through many years of efforts, employees' awareness of economy, environment protection and responsibility has been continuously enhanced. Starting from daily work and life, employees consciously protect and improve the environment, such as the ban on disposable paper cups and disposable dishes and chopsticks for takeout and dining out, the reuse of document bags and envelopes, the promotion of double-sided copying, and the voluntary shutdown of electrical equipment after work.

II. WORK ENVIRONMENT FACTOR

Employees are one of the foundations for enterprises' sustainable development. Talent development is one of the important strategies for sustainable development and economic growth of enterprises. The Group strictly abides by various laws and regulations applicable to labor employment such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Employment Promotion Law of the People's Republic of China, and the Insurance Law of the People's Republic of China for the purpose of improving human resources mechanism continually, regulating employment, paying for the social insurance consciously and protecting the legitimate rights and interests of employees. In this way, it fosters a healthy and happy working environment and provides a broad career path for employees.

The Group has self-criticism for execution of its Staff Manual to further improve employee hiring, compensation, labor contract, attendance management, holidays, remuneration, benefits, training, development, performance, employee health and safety management, information security, network use and other aspects.

The Group's recruitment has placed great emphasis on the ethics and character of job applicants. Appointments will be made on merit basis. It promotes diversity and anti-discrimination, and provides equal employment opportunities, regardless of nationality, race, age, gender, marriage and religion.

The Group provides competitive remuneration and benefits. It formulates remuneration strategies in combination with corporate development strategies, and adheres to a remuneration management principle of "work-driven compensation, prioritizing on efficiency and focusing on fairness" to attract, motivate and retain talents. The Group has constantly revised and improved the Employee Performance Appraisal System to give full play to their subjective initiative, work harder and obtain more, and create value actively. The salary structure of employees includes: basic salary, seniority salary, performance salary, bonus, piecework salary, etc. The salary shall be adjusted according to the performance, ability, job responsibility adjustments of employees and other factors.

In strict accordance with 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 (7.5 hours in general) and flexitime system etc. The Group is strict in compliance with the national requirements on labour holidays, and ensures its employees could completely enjoy annual leave, compensatory leave, personal leave, sick leave, marriage leave, parental leave and other statuary holidays. At the same time, in addition to paying social insurance for all employees, employees can also enjoy housing provident fund, meal subsidy, travel subsidy, high temperature subsidy, holiday welfare fund, staff group construction, staff birthday party and other benefits to enhance the cohesion of employees.

The Group provides fair and equal promotion opportunities, with employees' performance and ability as the only criteria. The Group will not be discriminatory on gender, disability and other factors. Female employees and disabled employees enjoy equal promotion opportunities as others. The Group insists on hiring the disabled people who enjoy the same salary, benefits, promotion, training and other job development opportunities as other employees, so as to ensure their job opportunities. The Group shall, in strict accordance with laws and regulations, reasonably settle the remuneration, compensation and social security of the former employees.

(I) Health and Safety

The Group persists in protecting employees' life safety and occupational health, and strictly abides by requirement of laws and regulations including the Production Safety Law of the People's Republic of China and the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, implement the Group's system seriously such as Measures for Production Safety Management, Responsibility System in Production Safety. Guided by the principle of "safety first, prevention first and comprehensive management", the Group regularly carries out safety inspection, holds each level accountable for safety production, and timely discovers and eliminates hidden safety hazards from equipment, working environment and personnel operation. By doing this, the Company strengthens the occupation health and education training and improves employees' awareness of production safety and sense of responsibility, conducts health and safety checks, control the safety risk, and furthest create employees with a safe, healthy and comfortable working environment, prevent the occupational disease in a effective way, as well as reducing the probability of safety accidents.

In order to enhance employees' awareness of fire and disaster prevention, and improve the ability of self-rescue and mutual rescue, the production center organizes employees each year to hold the "be prepared for safety" emergency evacuation drills to prevent fire and disasters in the bud and make each employee be responsible for its own life.

(II) Development and Training

Guided by the people-oriented talent training philosophy, the Group builds a learning platform for employees, actively conducts skills training, and focuses on the cultivation of employees' personal qualities and abilities to stimulate employees' potential and enable employees to meet the evolving requirements of the enterprise through skill training. The Group attaches great importance to employee growth and talent training. Through skills-based training, objectives are enhanced and combat effectiveness, personal ability and work capabilities are improved. Such training focuses on improving labor productivity and individual satisfaction with occupations, and enhancing the professional ability and comprehensive management ability of employees to serve the organization's production and operation, thereby realising a win-win situation where the employees and the enterprise can both realise their value.

In 2019, the Group organised 2,629 people for training according to its own development needs. These trainings provided the following resources for staff career development and personal value enhancement:

- Zen tea training. The Group organized employees to experience the practice from tea to the heart, which was beneficial to the society and reflected their own life value. It combined theory with practise and suited both refined and popular tastes, as a way to understand the kind and peaceful family culture of Besunyen.

- Zhiliangzhi Quadrangle Courtyard Training. The Group organised its employees to participate in the training of the Zhiliangzhi Quadrangle Courtyard to learn from Wang Yang Ming's spirit of combining knowledge with practice, cultivate the quality of meditation, and promote the ideological state of employees to love their country, post, and family.

The Group has always attached great importance to the personal development and growth of its employees. In cooperation with the UMU online learning platform, online training is adopted to provide online courses, and video and exams are combined to conduct induction training for new employees with a view to assisting career development and improving personal professional skills of employees. Outstanding employees have contributed wisdom and worked hard during the continuous development and growth of respective regions. The "Sales Crown Project" promoted the deeds of outstanding employees, which received a warm response within the Company and motivated and inspired more employees to perform actively.

The Group organized employees to participate in a quality training themed with "gather strength, set sail to create a better future", so as to cultivate employees' optimistic attitude and strong will, improve communication initiative and skill, and establish mutual cooperation and mutual support team spirit. It also could relieve stress and release nature in game practice to improve teamwork spirit.

(III) Labour Standards

The Group strictly complied with the relevant laws and regulations such as the Regulation on Prevention of Child Labour and those in respect of prohibiting forced labor. This year, no minors were employed in each position, and no forced labor occurred. All employees are required to submit photocopies of identification cards to ensure that they meet the age requirement of the Group. The Group enters into labour contracts with employees on a voluntary basis, to ensure reasonable working hours and vacation benefits for employees, prevent the occurrence of child labor and forced labor, and create safe and healthy working environment.

III. OPERATIONAL MANAGEMENT

(I) Supply Chain Management

The Group believes that maintaining a good relationship with suppliers and customers is the substantial cornerstones for the Company to grow in a sustainable way. The Group values the management and maintenance of the supply chain and is committed to establishing healthy and mutually beneficial cooperative relationships with suppliers for a long-term.

The Group has formulated management guidance including the Supplier Management Procedures, the Procurement Management Measures, List of Qualified Suppliers and Supplier File Management Procedure to improve supplier evaluation system on production environment and product quality. The Group requires raw material suppliers to comply with the Food Safety Law of the People's Republic of China and other laws and regulations, to ensure that raw materials purchased meet quality standards and ensure product safety.

The Group continue to standardize the supplier audit procedures to ensure scientific, effective and reliable audit results, including but not limited to supplier qualification, supply capacity, production environment, capital advance ability, product quality, contract performance, after-sales service, integrity management, etc. We will continue to work with qualified suppliers and eliminate unqualified suppliers. The supply chain contract specifies the "Anti-Bribery Clause" 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

The Group always take integrity management as one of the core operation philosophy of the enterprise, using traditional Chinese medicine, Chinese tea to help Chinese people to manage weight and health. The Group has regarded the product quality as its lifeline to produce high-quality products for consumers. It strictly fulfills the product responsibility as 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. From the procurement of raw and auxiliary materials to the storage of finished products, each link is inspected by QC and QA to check the product quality and ensure products meet quality requirements.

In 2019, the Group, as one of the key special participation and demonstration R&D teams for "Research on the Modernization of Traditional Chinese Medicine", passed the inspection of Beijing Municipal Market Supervision and Administration Bureau, and became a food safety demonstration area. It won "the Best Public Praise Award for New Consumption" (新消費最佳口碑獎) and other honorary titles.

Every products produced by the Group will not be sold until being tested to be in line with the national food and drugs inspection standards. The outer package is accompanied by a unique serial number, which can trace the production batch number of the product. The instructions identify the product's ingredients, effects, unsuitable groups and consumption methods so that consumers can choose to buy and drink according to their own conditions.

The Group is in strict compliance with the Advertisement Law of the People's Republic of China and its relevant policies and regulations. No exaggerating and fraudulent promotion information is allowed and promotion language of the effectiveness of the products is normalised to ensure no consumer is deceived and misled.

1. Intellectual Property Right Maintenance and Protection

Intellectual property right is one of the core competitiveness of the Group. The Group has hired experienced talents and external experts to develop and manage intellectual property right such as patents and trademarks. The Group has strictly complied with requirements of relevant national laws and regulations including the Trademark Law of the People's Republic of China, Copyright law of the People's Republic of China, the Patent Law of the People's Republic of China, and the Anti-Unfair Competition Law of the People's Republic of China, so as to effectively guarantee the exclusive rights to intellectual property, give full play to the role of independent intellectual property rights and strengthen the Group's position in the market.

2. Quality Testing and Product Recycling

The Group regards product quality as the core of production and operation, and formulates a complete product quality responsibility management system. In accordance with the relevant requirements of the Pharmacopoeia of the People's Republic of China, the Drug Administration Law of the People's Republic of China, and the Food Safety Law of the People's Republic of China, the Group has formulated quality standards for raw materials, packaging materials, semi-finished products, and finished products, and a series of systems and management and control procedure related to testing. The Group's production management centre has set up laboratory and quality assurance department to carry out strict quality testing from material procurement and warehousing, materials request and usage in production to product storage to eliminate sub-standard conditions in each link. Sub-standard products are not allowed to flow in the warehouse and sell 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.

The Group will uniformly recycle and dispose sub-standard products, unqualifiedly packaged products, near-expiration (including expired) and unsaleable products. According to the Product Quality Control and Product Return Management Policy formulated by the Group, the quality assurance department will centrally destroy the recycled damaged products for the purpose of eliminating the circulation and sale of such products in the market and ensuring consumer safety.

3. Product and Service Complaint

The Group attaches great importance to product quality and product complaint handling, and establishes and strictly enforces consumer complaint management system. Such system clarifies the handling procedures and measures for consumer complaints, reports, and product quality problems, and timely accepts, transmits, processes, tracks, responds to, analyzes and classifies complaints and suggestions. It will, based on the nature of the problem, trace the root cause to prevent recurrence of the problem, and improve service quality and customer satisfaction rate.

In 2019, there were no significant complaints or lawsuits arising from the quality of the products and service of the Group. The Group received 413 consumer complaints in total, mainly for logistics and express delivery and package.

4. *Customer Privacy*

In order to regulate the collection, transmission and use of customer information, ensure the security of customer information, and prevent information leakage, in accordance with the relevant requirements of laws and regulations including the Network Security Law of the People's Republic of China and the Provisions on Protection of Personal Information of Telecommunications and Internet Users, the Group has formulated the Administrative Measures for Protection of User Information Security. Employees are required to strictly follow the principles of lawfulness, justification, necessity, and confidentiality to prevent the stakeholders' private data from being stolen or leaked.

The Group manages authority on the collection and use of customer information. Account login passwords are renewed every month to prevent unauthorized employees from logging into the system or hacking the system to steal user information. The IT department evaluates the security of system information related to user information every month, focusing on checking operator permissions, operation logs, system logs and data backup. The IT department is responsible for backing up the database of the Company's information system, ensuring the safety of storage equipment or media, and responsible for the Company's network security precautions. It regularly checks computer equipment for viruses to ensure network security.

The IT department and internal audit departments set up an information security supervision team to check the Company's information system security every six months. It will timely report issues with major security risks and in rectification.

In 2019, 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 harm of commercial bribery and corruption is profound and will impact the fairness of market competition. In strict compliance with relevant laws and regulations including the Anti-Unfair Competition Law, the Group has formulated internal control system and policies such as the Sales Management Policy and the Staff Manual to strictly prohibit corruption such as bribery and fraud, so as to establish a clean and self-disciplined enterprise culture.

The Group strictly implements the accountability mechanism, and investigates employees who have misappropriated the Company's property and harmed the Company's interests. Anti-commercial bribery clauses are formulated in the contract to prohibit extortion or collection of commissions by virtue of authority, safeguard the common interests of both parties, eliminate commercial bribery and other unfair competition, and ensure channel compliance and the authenticity of product information.

The Group strictly supervised, warned the risk, established the awareness of fair competition and incorruptness self-discipline for employees, and prevented corruption, extortion and fraud among management and staff through the Black and White List System, so as to establish and foster a clean and self-disciplined enterprise culture. With the establishment of complaint channels such as reporting to the chairman, internal audit reporting mailbox and telephone, the Company will keep in close contact with employees, implement a two-way supervision mechanism between management cadres and employees, and encourage employees to report any illegal or irregular behaviors.

IV. PARTICIPATION IN COMMUNITY

Since its establishment, the Group has always given back to society with gratitude. The Group fulfills corporate scoial responsibilities in the areas of public education, public welfare, poverty alleviation and disadvantaged assistance, disaster relief, environment and wildlife protection. The Group takes the "Besunyen Charity Fund" as a platform to actively participate in various social public welfare undertakings, assume corporate social responsibilities, and convey the positive energy of the humanitarian spirit through actions without forgetting its original intention.

The Group actively participates in the public welfare undertakings in respect of ecological enhancement, and donates charitable funds to support the development of public welfare organizations in a scientific way to promote sustainable natural conservation practices, thereby achieving the protection goal of maintaining regional ecological balance and ecological security.

The Group helped the target places win the fight against poverty by making donations to schools and aiding needy students to help the development of rural education and provide necessary assistance for the study and life of needy students in the stage of compulsory education. The Group actively implemented the targeted poverty alleviation action of "10,000 enterprises assisting 10,000 villages" initiated by the government, and built a long-term mechanism for poverty alleviation in connection with industry, employment, education, health and public welfare.

In 2019, the Group won the "2019 China Social Responsibility Outstanding Enterprise Award" again, representing being honoured to receive the social welfare awards in "China Social Responsibility Public Welfare Festival" for six consecutive years.

(I) Public Welfare

The Group, by virtue of its achievements and social development, takes the initiative to assume the responsibility of corporate citizens, by donating to help others, continuously carrying out public welfare undertakings, and giving back to the community.

In 2019, in order to further the targeted poverty alleviation action of "10,000 enterprises assisting 10,000 villages", and implement the work requirements of the whole party and society to participate in poverty alleviation, the Group purchased agricultural and sideline products of poverty-stricken households in the form of economic support and industrial assistance, and expanded sales channels of agricultural products. Targeted assistance and support money was provided to the families with school-age children who have difficulties in attending school. Multi-pronged activities were conducted to fulfill the social responsibility of Besunyen with its strength, and warm the society with charity and public welfare.

The Group has participated in a Century-Long Welfare event to provide rehabilitation education for 150 special children, and solve their life problems. It works with all sectors of the society and more than one thousand employees of the Company to help autistic children gain social warmth and care. The Group also participated in the public welfare of Sun Village to provide life, education, and medical supplies for children whose parents were serving prison sentences with no one to support them.

The Group donated money to help the Beijing Green Sunshine Environmental Protection Public Welfare Foundation, and supported the foundation to promote sustainable nature conservation in a scientific way, maintain ecological balance, and ensure ecological security.

The Group has launched an appeal for "doing a good deed a day", calling on more Besunyen staff to offer their love. The 5th and 15th of each month are set as the Company's Besunyen Public Welfare Day, calling on employees to actively participate in so as to foster a cultural atmosphere where everyone loves public welfare and everyone participates in public welfare undertakings. So far, this public welfare program has raised nearly RMB200,000. By virtue of the Besunyen's program of "doing a good deed a day", we donated money to 17 children with disabilities to provide practical assistance and support for them.

The Group actively participated in the social contribution themed with "spring breeze brings warmth". The donated funds were used to provide emergency assistance to families experiencing natural disasters and emergencies, to promote the traditional virtues of emergency relief and poverty alleviation, and to express the capital enterprises' care to people in disaster and poverty-stricken areas.

The Group has taken Tongzhou Care Center as the designated supporting unit. Ms. Gao Yan, Vice Chairman of the Group, has been insisting on visiting the Tongzhou Care Center in Beijing for many years, so that the children can enjoy the warmth of the social family and feel happiness and joy. It is hoped that such visiting activities may call on more social forces to join in the activities of caring for the disadvantaged, to further strengthen the whole society's awareness of helping the disabled, and to disseminate the love seeds.

(II) Care for Employees

Corporate culture is the soul of an enterprise and an inexhaustible driving force for its development. The Group organizes corporate culture events of different scales on a regular basis to establish a common language and form cohesion. In order to increase employees' recognition and sense of belonging to the Company, the Group holds a birthday party every month to allow employees and the Company to grow and develop together.

Each festival, the Group enriches the sparetime life of employees by organizing various activities, thereby enhancing the cohesion of employees and creating a corporate culture with Besunyen's 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 2019, 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 2019.

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 2019, 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. Ren Guangming, Mr. He Yuanping and Mr. Fu Shula. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 29 to 32.

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 30 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 permanent institution of the Company, which is the highest operation management institution established by the Company to implement the directives and decisions determined by the Board consistently. It is responsible for the planning and implementation of the Company's development strategies and directions 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. Ren Guangming, Mr. He Yuanping and Mr. Fu Shula 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 2019.

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 2019, 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. Ren Guangming and Mr. Fu Shula. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019, 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 2019, 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 2018 and 2019;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2018 auditors' report issued by PricewaterhouseCoopers;

(iv) reviewed and approved the 2018 annual report and audited financial statements, the 2018 annual results announcement, the 2019 interim report and the 2019 interim results announcement;

(v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2018;

(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 2019, the fees payment by the Group to PricewaterhouseCoopers and its member firm for audit services amounted to RMB2.8 million, while RMB1.3 million of which is payable for non-audit services (issuing the circular in relation to the proposed disposal of equity interest in Beijing Changsheng by the Group).

Remuneration Committee

In 2019, the remuneration committee of the Company (the "**Remuneration Committee**") comprises three independent non-executive Directors, namely Mr. Fu Shula, 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 2019, the following works, inter alia, were performed by the Remuneration Committee:

(i) reviewed share-based remuneration arrangements;

(ii) reviewed the performance of the executive Directors; and

(iii) reviewed and determined the remuneration package of the Directors and senior management.

Nomination Committee

In 2019, 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. He Yuanping and Mr. Fu Shula 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 procedures on nomination of Directors are: 1.the Board shall, in accordance with the actual situation of the Company and the Board, decide whether it is necessary to appoint Directors and submit the requirements of the appointment to the Nomination Committee; 2. the Nomination Committee shall, in accordance with the requirements of the Board, seek qualified candidates for Directors through various channels, including recommendations from Directors, shareholders, management, consultants of the Company and external hunting firms; 3. upon preparing a list of prospective candidates and conducting communication or interviews, the Nomination Committee shall, in accordance with the selection criteria, the board diversity policy and other factors considered important, select the appropriate candidates from the shortlisted candidates, convene a Nomination Committee meeting for approval and making recommendations to the Board; 4. the Board considers the motion concerning the appointment of Directors and makes formal appointment.

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 2019, the following works, inter alia, were performed by the Nomination Committee:

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

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

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

Details of the attendance of the Directors at the meetings of the Board, its respective committees and the general 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 Meetings**
Executive Directors					
Mr. Zhao Yihong	12/12	—	2/2	4/4	2/2
Ms. Gao Yan	10/12	—	—	—	1/2
Non-executive Director					
Mr. Zhuo Fumin	11/12	—	—	—	1/2
Independent Non-executive Directors					
Mr. Huang Jingsheng (resigned on 1 June 2019)	5/5	2/2	1/1	2/2	1/2
Mr. Ren Guangming	11/12	4/4	2/2	4/4	1/2
Mr. He Yuanping	10/12	4/4	2/2	4/4	1/2
Mr. Fu Shula (appointed on 1 April 2019)	8/9	3/3	1/1	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 2019, 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 90 and 91 of this annual report.

Risk Management and Internal Control

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

To this end, the management continues to optimize, implement and monitor the risk management and internal control systems, reports to the Board and confirms the effectiveness of such systems. 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 operational environment 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 Group has adopted the following risk management procedures to prudently manage 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 2019

For the year ended 31 December 2019, 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 2019, 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 2019 are as follows:

Major Risks	Risk Description	Change in 2019	Risk Counter-measures and Plans
Risk relating to competition	In the course of market expansion, the Group does not only need to guard against competitors from traditional channels, but also stays alert of risks of e-commerce channels and cross-sector competition. Currently, the influence of the Internet business model on the traditional business model is increasingly prominent. We need to pay close attention to the competitors on e-commerce platform and take active countermeasures.	↑	The Group keeps an eye on changes in the market environment and business model. Apart from continuous enhancement of the management, the Group also kept abreast of the status of our competitors. The Group has reformed and optimized its sales organization structure. On the premise of the profit sharing mechanism in the regions, the Group has focused on chain operations and set up national NKA and regional LKA chain departments and opened up consumer market. The Group added Guangzhou station on the basis of Beijing station, Hangzhou station, Beijing station and drugs station, and vigorously recruited excellent e-commerce operation and management talents, built an internal talent echelon, and deployed national e-commerce. During the year, the Group actively formed and expanded its customer service team, fully exploited and utilized the accumulated customer data of the Company over the years, and provided one-to-one service, thus strengthening the relationship between manufacturers and consumers and continuously improving the customer repurchase rate.

Major Risks	Risk Description	Change in 2019	Risk Counter-measures and Plans
Risk relating to external policy	The State Administration for Market Regulation has enhanced the supervision of food and drug safety, carried out severe on-site inspection and imposed severe punishments on any violation since its establishment. With influence from Quanjian incident(權健事件), stringent inspection and punishment would be imposed nationwide for health food, especially for those health food on suspected false, exaggerating or absolute names as well as advertisement with expressed or implied prevention or treatment effects. With the improvement of people's living standard and increasingly urgent demand for big health products, the PRC will continue to strengthen the respective supervision of food and drugs. Business GSP and GMP certification will be more stringent, while the frequency of relevant unannounced inspection, random inspection and various specific inspection will also increase.	↑	In strict compliance with the Advertisement Law, the Group places particular emphasis on the publication and approval of advertisements. Promotion is made in compliance with laws and regulations. The Group is familiar with the product advertisement approval mechanism, strictly combats false advertisement and promotion, and maintains corporate's brand image. The Group regularly organized the study of Advertisement Law, food and drug-related laws and regulations, engaged external experts to provide professional guidance, and continuously improved the compliance management level of all employees. The Group has established the public relations centre, with sole responsibilities 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, internet, self-owned media, terminal pharmacies and various e-commerce platforms, to ensure that the Group's published advertisements and promotion comply with laws and regulations.

Major Risks	Risk Description	Change in 2019	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 further enhanced the research and development team and constantly increased the investment in research and development resources. Through in-house and externally engaged research and development, the Group further enriched product line, such as Qingyuan Tea(清源茶), Xian Xian Tea, Runyuan Tea, Changwuyin Granules, meal replacement milkshake, L-carnitine coffee. Besunyen Orlistat Capsules produced by Zhongshan Wanhan recorded significant sales growth for the year. Apart from health products, drugs have become one of the driving forces of the Company's results growth in the future. At the same time, new products such as Xian Xian Tea and Qingyuan Tea(清源茶) were also show good results in sales.

Major Risks	Risk Description	Change in 2019	Risk Counter-measures and Plans
Risk related to price and channel management	Sales price of products is a key factor affecting sales results of the Group. The Group has 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. Customers found to have low pricing and channel conflict, might be undertake measures such as warning and deduction of rebates. For serious violations, the qualification of sales agency would be revoked. The Group constantly enhanced the supervisions on sales orders, refund, delivery and selling price. At the same time, it has strengthened the management on sales and delivery amount. The Group also sets up safe inventory for channel customers, so as to reduce the risks of stockpiles and return of goods, which in turn guaranteed a positive sales development. The Group has set up a market supervision department to effectively investigate and deal with such acts as channel price disorder and goods fleeing, which plays a very good market warning role.

Corporate Governance Report

Major Risks	Risk Description	Change in 2019	Risk Counter-measures and Plans
Risk related to product quality and safety	Product quality and safety are the lifeline for the Company to survive and develop, but also the 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.	⬇	Since its establishment, the Group has always adhered to the operation in accordance with laws and regulations, regarded product quality as the first lifeline for the survival and development of the enterprise, and adhered to the quality management principle that non-conforming products do not leave the factory. The Group has continuously improved and optimized its product quality management system, extended the whole process management of product quality to OEM products, and ensured product quality and safety by strengthening supplier audit, third-party inspection, production process monitoring, finished product acceptance, calling for feedback, etc. The Group has been in close communication with food and drug administration government departments in Beijing, Zhongshan and other places, actively learning policies and regulations, and inviting relevant departments to guide the work to further reduce product quality and safety risks.

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 to a 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. The Group is 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 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 2019.

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 13 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 2019 are set out in the Consolidated Statement of Comprehensive Income on page 92 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 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2020 to 26 May 2020, 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 26 May 2020 will be 26 May 2020. 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 20 May 2020.

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 192 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 17 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 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2019 amounted to RMB985 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 95 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019:

(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 44%;

(b) the revenue attributable to the largest customer of the Group as a percentage of the goods sold or services rendered by the Group was 25%;

(c) the purchases attributable to the five largest suppliers of the Group accounted for 54% of the purchases of the Group;

(d) the purchases attributable to the largest supplier of the Group accounted for 23% of the purchases of the Group; and

(e) 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 customers or 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 Director

Mr. Zhuo Fumin

Independent Non-executive Directors

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

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhao Yihong and Ms. Gao Yan will retire by rotation at the forthcoming annual general meeting and, being eligible, 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 45 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 2019**	Number of individuals in 2018
Under HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**3**	2
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 11 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 2019, 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	873,255,216[(2)(L)]	36,000,000[(2)(L)]	5,000,000[(2)(L)]	53.57% [(2)(3)]
Mr. Zhuo Fumin	Beneficial owner and interest of his spouse	1,136,000[(4)(L)]	400,000[(4)(L)]	600,000[(4)(L)]	0.07%
Mr. Huang Jingsheng (resigned on 1 June 2019)	—	—	—	—	—
Mr. Ren Guangming	Beneficial owner	970,000[(5)(L)]	—	600,000[(5)(L)]	0.06%
Mr. He Yuanping	—	—	—	—	—
Mr. Fu Shula (appinted on 1 April 2019)	—	200,000[(6)(L)]	—	—	0.01%

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

(6) Mr. Fu Shula, independent non-executive Director, beneficially owns 200,000 Shares.

(7) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 31 December 2019. 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 72,290,000, representing approximately 4.43% 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 2019:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2019	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2019
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 (resigned on 1 June 2019)	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	32,780,000	—	—	—	32,780,000
	6.5.2010	2nd	4 Years	3,190,000	—	(380,000)	—	2,810,000
	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
				36,270,000	—	(380,000)	—	35,890,000
	Total			73,170,000	—	(880,000)	—	72,290,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the year								72,290,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the year ended 31 December 2019.

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 2019 (2018: 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 2019:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2019	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2019
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 (resigned on 1 June 2019)	27.10.2014	1st	4 Years	600,000	—	—	(600,000)	—	—
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
Fu Shula (appointed on 1 April 2019)	—	—	—	—	—	—	—	—	—
				1,200,000	—	—	(600,000)	—	600,000
Employees and consultants in aggregate	27.10.2014	1st	4 Years	6,800,000	—	—	—	—	6,800,000
	27.10.2014	2nd	4 Years	7,120,000	—	—	(800,000)	—	6,320,000
	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	—	—	—	—	—	—
				14,820,000	—	—	(1,200,000)	—	13,620,000
	Total			21,620,000	—	—	(1,800,000)	—	19,820,000
Weighted average exercise price (HK$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the year									19,726,250

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 2019. 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 RMB203,000 for the year ended 31 December 2019 (2018: RMB94,000) 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.

On 17 December 2019, 200,000 Shares were granted by the Company to a Selected participant at nil consideration, and vested on 17 January 2020.

As at 31 December 2019, 35,201,567 Shares (31 December 2018: 35,401,567 Shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized a total expense of RMB59,000 for the year ended 31 December 2019 (2018: RMB88,000) 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 2019 and outstanding as at 31 December 2019:

Employees	**Number of awarded shares**
Outstanding as at 1 January 2019	200,000
Granted during the year	200,000
Vested during the year	(200,000)
Outstanding as at 31 December 2019	200,000

The closing price of the Company's shares immediately before 17 December 2019, the date of grant of the restricted shares, was HK$0.360.

Save as disclosed above, during the year ended 31 December 2019, 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 2019, so far as known to the Directors, persons (other than the Directors or chief executive of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Substantial Shareholders	**Number of Shares**	**Approximate percentage of total issued Shares (%)[(3)]**
Foreshore Holding Group Limited[(1)]	816,259,176[(L)]	50.07%
Sea Network Holdings Limited[(1)]	816,259,176[(L)]	50.07%
TMF Trust (HK) Limited[(1)]	816,259,176[(L)]	50.07%
Ms. PENG Wei[(2)]	128,115,000[(L)]	7.86%
Everyoung Investment Holdings Limited[(2)]	123,750,000[(L)]	7.59%

(1) The entire issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by TMF Trust (HK) Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

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

(3) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 31 December 2019.

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

Save as disclosed above, as at 31 December 2019, 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 2019.

Save as disclosed above, for the year ended 31 December 2019, there is no related party transaction or continuing related party transaction as set out in note 44 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 2019.

DONATION

The Company made charitable donations of RMB1.9 million in aggregate during the year ended 31 December 2019.

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 low-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.

SUBSEQUENT EVENTS

For details of subsequent events, please refer to note 47 to the consolidated financial statements.

AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2019. 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, 24 March 2020

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 92 to 191, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is impairment assessment of goodwill.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill	
Refer to Note 4.1(b) "Critical accounting estimates and assumptions" and Note 20 "Intangible assets" to the consolidated financial statements. As at 31 December 2019, 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 2019.	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; • 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;

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill (Continued)	
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.	• 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 related 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 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 scepticism 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 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 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, 24 March 2020

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	5	**812,160**	378,378
Cost of sales	7	**(227,708)**	(123,061)
Gross profit		**584,452**	255,317
Other income	8	**12,642**	22,675
Selling and marketing expenses	7	**(449,987)**	(246,849)
Administrative expenses	7	**(107,770)**	(112,417)
Impairment loss of intangible assets		**—**	(4,802)
Research and development costs	7	**(47,363)**	(23,548)
Other expenses	7	**(4,454)**	(9,829)
Other (losses)/gains, net	9	**(1,443)**	1,144
Gain on disposal of subsidiaries	10	**222,276**	4,910
Operating profit/(loss)		**208,353**	(113,399)
Finance income	12	**3,309**	—
Finance costs	12	**(5,593)**	(6,665)
Finance costs, net		**(2,284)**	(6,665)
Share of losses of investments accounted for using the equity method	14	**(12,862)**	(1,295)
Profit/(loss) before income tax		**193,207**	(121,359)
Income tax (expense)/credit	15	**(4,961)**	27,887
Profit/(loss)for the year		**188,246**	(93,472)
Profit/(loss) attributable to:			
— Owners of the Company		**162,348**	(95,299)
— Non-controlling interests		**25,898**	1,827
		188,246	(93,472)
Other comprehensive income		**—**	–
Total comprehensive income/(loss) for the year		**188,246**	(93,472)
Total comprehensive income/(loss) attributable to:			
— Owners of the Company		**162,348**	(95,299)
— Non-controlling interests		**25,898**	1,827
		188,246	(93,472)
Earnings/(losses) per share attributable to owners of the Company for the year (RMB cents)			
— Basic earnings/(losses) per share	16	**10.18**	(5.98)
— Diluted earnings/(losses) per share	16	**10.18**	(5.98)

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

Consolidated Balance Sheet

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**219,823**	210,266
Land use rights	18	**—**	117,176
Investment properties	19	**9,424**	144,996
Intangible assets	20	**170,086**	182,029
Right-of-use assets	18	**114,810**	—
Other non-current assets	21	**14,175**	12,573
Investments accounted for using the equity method	14	**79,276**	94,019
Deferred income tax assets	36	**65,242**	64,353
Total non-current assets		**672,836**	825,412
Current assets			
Inventories	22	**60,184**	30,472
Trade receivables	23	**139,673**	37,054
Bills receivable	24	**5,187**	13,747
Deposits, prepayments and other receivables	25	**111,409**	40,522
Restricted bank deposits	26	**27,968**	—
Short-term investments	27	**83,000**	38,300
Term deposits with initial term of over three months	28	**10,000**	—
Cash and cash equivalents	29	**270,803**	56,575
		708,224	216,670
Assets classified as held for sale	30	**286,500**	394,686
Total current assets		**994,724**	611,356
Total assets		**1,667,560**	1,436,768

Consolidated Balance Sheet

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	31	**94**	94
Share premium		**962,777**	1,120,685
Other reserves	32	**327,065**	321,384
Accumulated losses		**(321,261)**	(478,131)
		968,675	964,032
Non-controlling interests	13	**110,771**	84,873
Total equity		**1,079,446**	1,048,905
LIABILITIES			
Non-current liabilities			
Deferred government grants	34	**34,381**	35,167
Lease liabilities	40	**8,327**	—
Deferred income tax liabilities	36	**32,117**	36,867
Long-term borrowings	39	**28,000**	—
Other non-current liabilities	35	**—**	14,647
Total non-current liabilities		**102,825**	86,681
Current liabilities			
Trade and bills payables	37	**49,105**	8,752
Other payables and accrued expenses	38	**328,813**	92,057
Contract liabilities	6	**27,209**	34,896
Borrowings	39	**66,800**	150,000
Lease liabilities	40	**9,241**	—
Current income tax liabilities		**4,121**	547
		485,289	286,252
Liabilities directly associated with assets classified as held for sale	30	**—**	14,930
Total current liabilities		**485,289**	301,182
Total liabilities		**588,114**	387,863
Total equity and liabilities		**1,667,560**	1,436,768

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

The financial statements on pages 92 to 191 were approved by the Board of Directors on 24 March 2020 and were signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 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	11	—	—	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
Balance at 1 January 2019		**94**	**1,120,685**	**321,384**	**(478,131)**	**964,032**	**84,873**	**1,048,905**
Total comprehensive income for the year		**—**	**—**	**—**	**162,348**	**162,348**	**25,898**	**188,246**
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	**11**	**—**	**—**	**203**	**—**	**203**	**—**	**203**
Appropriation to statutory surplus reserve		**—**	**—**	**5,478**	**(5,478)**	**—**	**—**	**—**
Dividends	**42**	**—**	**(157,908)**	**—**	**—**	**(157,908)**	**—**	**(157,908)**
Balance at 31 December 2019		**94**	**962,777**	**327,065**	**(321,261)**	**968,675**	**110,771**	**1,079,446**

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 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash used in operations	41(a)	**(39,192)**	(82,096)
Income taxes paid		**(7,026)**	(410)
Interest received		**3,297**	368
Net cash used in operating activities		**(42,921)**	(82,138)
Cash flows from investing activities			
Purchases of short-term investments		**(317,000)**	(150,850)
Proceeds from maturity of short-term investments		**274,404**	113,097
Placement of term deposits with initial term of over three months		**(170,000)**	—
Withdrawal of term deposits with initial term of over three months		**160,910**	4,511
Purchases of financial assets measured at amortised cost		**(90,000)**	—
Proceeds from disposal of financial assets at amortised cost		**90,794**	—
(Increase)/decrease in restricted bank deposits		**(27,924)**	299
Purchases of property, plant and equipment		**(45,880)**	(38,360)
Addition to investment properties		**(57,870)**	(9,968)
Purchases of intangible assets		**(338)**	(656)
Investments in associate and joint ventures	14(b)	**(500)**	(1,254)
Payments for liquidation of an associate	14(a)	**(1,560)**	—
Distribution from a joint venture	14(b)	**3,941**	2,052
Proceeds from disposal of subsidiaries, net	10(c)	**599,146**	4,775
Proceeds from disposals of land use rights, property, plant and equipment	41(b)	**2,012**	212
Receipt of asset-related government grants		**—**	15,000
Addition to assets classified as held for sale		**(14,204)**	—
Deposits received in connection with a subsidiary to be disposed	30	**92,868**	—
Payments of transaction cost in connection with a subsidiary to be disposed		**(11,400)**	—
(Repayment of advance)/advance payment received in connection with a subsidiary to be disposed		**(6,000)**	1000
Net cash generated from/(used in) investing activities		**481,399**	(60,142)
Cash flows from financing activities			
Repayment of borrowings		**(165,000)**	(20,000)
Proceeds from borrowings		**109,800**	150,000
Principal elements of lease payments		**(10,965)**	—
Bank loan interest and other finance costs paid		**(4,873)**	(7,832)
Dividends paid to owners of the Company	42	**(157,908)**	—
Net cash (used in)/generated from financing activities		**(228,946)**	122,168
Net increase/(decrease) in cash and cash equivalents		**209,532**	(20,112)
Cash and cash equivalents at the beginning of year		**61,759**	79,233
Exchange (loss)/gain on cash and cash equivalents		**(488)**	2,638
Cash and cash equivalents at end of year		**270,803**	61,759
Representing:			
— Cash at bank and financial institute and on hand		**270,803**	56,575
— Bank balances and cash classified as held for sale		**—**	5,184
		270,803	61,759

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 principal 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 its annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- IFRIC 23 Uncertainty over Income Tax Treatments
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

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 16 as described below, the adoption of the aforesaid new or amended standards, interpretation and annual improvements does not have any material impact on the Group's consolidated financial statements.

IFRS 16 "Leases"

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.31.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.59%.

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	**2,640**
Discounted using the Group's incremental borrowing rate as at the date of initial application	**2,552**
Less: Short-term leases recognised on a straight-line basis as expense	**(979)**
Low-value leases recognised on a straight-line basis as expense	**(12)**
Lease liability recognised as at 1 January 2019	**1,561**
Of which are:	
— Current lease liabilities	**793**
— Non-current lease liabilities	**768**
	1,561

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 16 "Leases" (Continued)

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous losses lease contracts that would have required an adjustment to the right-of-use assets as at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increased by RMB118,737,000
- Land use rights – decreased by RMB117,176,000
- Lease liabilities – increased by RMB1,561,000

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standards:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

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

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.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

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

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

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

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

(b) Associate

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

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

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

(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. For the years ended 31 December 2018 and 2019, the Group only had 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.

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

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

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

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

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

(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 IFRSs.

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 0ver 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.

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 board of the Group has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker("**CODM**"), consists of the chief executive officer, the chief financial officer and the manager for corporate planning.

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 (losses)/gains, 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 (losses)/gains, net'.

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

2.8 Investment properties

Investment properties, principally freehold office 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.

The Group transfers a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

2.9 Land use rights

Prior to the adoption of IFRS 16 at 1 January 2019, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Intangible assets *(Continued)*

(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).

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

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investments and other financial assets

2.13.1 Classification

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 2019, 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.

2.13.3 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.

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

2.13 Investment and other financial assets *(Continued)*

2.13.3 Measurement *(Continued)*

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 (losses)/gains 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 (losses)/gains. 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 (losses)/gains 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 other (losses)/gains in the period in which it arises.

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

2.13 Investment 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.

2.14 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. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

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.

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

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.

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

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(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.

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

2.22 Current and deferred income tax *(Continued)*

(b) Deferred income tax (Continued)

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.

2.23 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 33.

(a) Employee options

The fair value of options granted under the Group's Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, 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).

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

2.24 Share-based payments *(Continued)*

(a) *Employee options (Continued)*

The total expense 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 period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Employee Option Plan is administered by the Group's Employee Share Trust, which is consolidated in accordance with the principles in Note 2.3. When the options are exercised, the trust transfers the appropriate number of shares to employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

(b) *Employee share scheme*

Under the employee share scheme, shares issued by the Group's Employee Share Trust to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

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 2019 and 2018, 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.

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 been 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 2019 and 2018, 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 from financial assets at FVPL is included in the change in fair value of financial assets at fair value through profit or loss on these assets, see Note 9.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in consolidated comprehensive income as part of other income.

Interest income is presented as other income where it is earned from financial assets that are held for cash management purposes, see Note 8 below.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(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

As explained in Note 2.1.1(a) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.1.1(a).

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 43(b)). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

2.31 Lease *(Continued)*

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, currency and security.

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

2.31 Lease *(Continued)*

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

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 19). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

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:

	2019 **RMB'000**	2018 RMB'000
US$		
Assets	**130,911**	44
Liabilities	**(92,397)**	—
Net	**38,514**	44
HK$		
Assets	**44,013**	6,486
Liabilities	**—**	—
Net	**44,013**	6,486

As at 31 December 2019, if RMB strengthened/weakened by 5% against US$ and HK$ with all other variables held constant, the post-tax profit for the year would have been approximately RMB4,105,000 higher/lower (2018: post-tax loss RMB316,000 higher/lower), mainly as a result of foreign exchange loss on translation of US$ and HK$ denominated cash and cash equivalents and other receivables.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk (Continued)

(b) Interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk.

If interest rates on the borrowings at variable rates had risen/fallen 100 basis points while all other variables had been held constant, the Group's profit for the year ended 31 December 2019 would have been approximately RMB56,000 (2018: Nil) lower/higher.

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 receivable, 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. Ageing analysis of the Group's trade receivables is disclosed in Note 23. 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 as at 31 December 2019 mainly consisted of consideration receivable for disposal of a subsidiary, deposits for 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 receivable 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 receivable 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 2019 or 1 January 2019 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.

The Group was exposed to concentration of credit risk on its trade receivables. As at 31 December 2019, the top trade receivables balance due from a single external customers amounting to approximately RMB101,282,000 and accounted for 72.5% of total trade receivables respectively. The single external customer is an e-commerce platform ("Customer A"). Management considers that the credit risk is limited in this regard.

(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 2019, the maximum exposure at the end of the reporting period is the carrying amount of these investments of RMB83,000,000 (2018: RMB38,300,000).

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 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019					
Borrowings	**7,694**	**64,389**	**33,431**	**105,514**	**105,514**
Trade and bills payables	**49,105**	**–**	**–**	**49,105**	**49,105**
Other payables and accrued expenses (excluding non-financial liabilities)	**49,287**	**211,051**	**–**	**260,338**	**260,338**
Lease liabilities	**2,433**	**6,888**	**9,608**	**18,929**	**17,568**
	108,519	**282,328**	**43,039**	**433,886**	**432,525**
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

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 2019, the Group's liability-to-asset ratio was approximately 35.27% (2018: 27.00%).

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The Group had two types of financial assets that are measured at fair value as at 31 December 2019 (2018: Two), bills receivable and short-term investments, and had no financial liabilities measured at fair value.

The bills receivable 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 short-term investments represent the Group's investments in wealth management products 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 values at 31 December 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2019				
Assets				
Financial assets at fair value through profit or loss	—	—	**83,000**	**83,000**
Financial assets at fair value through other comprehensive income	—	—	**5,187**	**5,187**

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 2019.

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000
Opening balance	38,300	13,747
Additions	317,000	118,011
Disposals	(272,300)	(126,571)
Closing balance	83,000	5,187
Total gains during the year recognised in profit or loss under "other gains/(losses)"	2,531	—

The disclosure in respect of the fair value of the Group's investment properties has been set out in Note 19 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) 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 20.

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, Xian Xian and other tea products) and also the manufacturing and 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 2019 and 2018 is as follows:

	2019 **RMB'000**	2018 RMB'000
Tea products segment		
— Detox tea	**176,541**	114,000
— Slimming tea	**185,764**	149,589
— Xian Xian tea	**62,828**	16,106
— Others	**50,429**	18,728
	475,562	298,423
Slimming and other medicines segment		
— Slimming medicines	**324,508**	66,985
— Other medicines	**12,090**	12,970
	336,598	79,955
	812,160	378,378

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 31 December 2019 are as follows:

	Tea products segment RMB'000	Slimming and other medicine segment RMB'000	Total RMB'000
Total revenue	475,562	336,598	812,160
Inter-segment revenue	—	—	—
Revenue from external customers	475,562	336,598	812,160
Timing of revenue recognition			
At a point in time	475,562	336,598	812,160
Cost of sales	(110,556)	(117,152)	(227,708)
Gross profit	365,006	219,446	584,452
Selling and marketing expenses	(308,324)	(141,663)	(449,987)
Research and development costs	(6,337)	(41,026)	(47,363)
Segment results	50,345	36,757	87,102
Other income			12,642
Administrative expenses			(107,770)
Other expenses			(4,454)
Other losses, net			(1,443)
Gain on disposal of subsidiaries			222,276
Operating profit			208,353
Finance income			3,309
Finance costs			(5,593)
Finance costs, net			(2,284)
Share of losses of investments accounted for using the equity method			(12,862)
Profit before income tax			193,207
Income tax expense			(4,961)
Profit for the year			188,246
Other segment information:			
Impairment loss of other non-current assets	(2,830)	–	(2,830)
Depreciation	(32,472)	(10,286)	(42,758)
Amortisation	(2,712)	(9,449)	(12,161)

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			1,144
Gain on disposal of subsidiaries			4,910
Operating profit			(113,399)
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)

Non-current assets are all located in the PRC.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2019, revenue of approximately RMB206,222,000 was derived from Customer A, which was taking 25.4% of the Group's total revenue and was primarily attributable to the slimming and other medicines segment. Other than Customer A, the revenues derived from any of the remaining external customers were less than 10% of the Group's total revenue.

For the year ended 31 December 2018, the revenues derived from any single external customer were less than 10% of the Group's total revenue.

6. CONTRACT LIABILITIES

Contract liability is recognised when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, preceding the Group's performance. The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligations as at 31 December 2019 and 2018 and are expected to be recognised within one year.

	31 December 2019 RMB'000	31 December 2018 RMB'000
Tea products	**21,938**	29,801
Slimming and other medicine	**5,271**	5,095
	27,209	34,896

The Group's contract liabilities balance at the beginning of the year were all recognised as revenue in one year.

(a) Unsatisfied performance obligation

	31 December 2019 RMB'000	31 December 2018 RMB'000
Expected to be recognised within one year		
Tea products	**21,938**	29,801
Slimming and other medicine	**5,271**	5,095
	27,209	34,896

7. EXPENSES BY NATURE

	2019 RMB'000	2018 RMB'000
Changes in inventories of finished goods and work in progress	**(25,363)**	(9,554)
Raw materials and consumables used	**208,457**	76,405
Scrap of inventories	**1,601**	4,003
Reversal of impairment of trade receivables	**(281)**	(547)
Advertising costs	**116,372**	50,575
Employee benefit expenses (Note 11)	**191,718**	156,232
Marketing and promotional expenses	**169,853**	74,276
Depreciation and amortisation	**54,919**	59,670
Entertainment and travelling expenses	**18,937**	16,322
Professional and consulting service fees	**21,542**	24,577
Stamp duties, property and other taxes	**5,676**	8,094
Rental expense (Note)	**5,676**	6,908
Logistics expenses	**17,796**	7,751
Office expenses	**7,157**	5,358
Maintenance and testing costs	**13,742**	8,230
Researching and development outsource expenses	**3,812**	3,349
Auditors' remunerations		
— audit	**2,800**	2,800
— non-audit	**1,300**	—
Others	**21,568**	21,255
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**837,282**	515,704

Note:

Rental expenses for the year ended 31 December 2019 derived from short-term leases and leases of low-value assets which were recognised on a straight-line basis as an expense in profit or loss.

8. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Rental income from investment properties	**3,095**	17,986
Government grants	**6,526**	3,334
Interest income	**1,949**	343
Investment income from short-term investments	**—**	633
Others	**1,072**	379
	12,642	22,675

9. OTHER (LOSSES)/GAINS, NET

	2019 RMB'000	2018 RMB'000
Impairment loss on other non-current assets	**(2,830)**	—
Change in fair value of financial assets at fair value through profit or loss	**2,531**	—
Donation	**(1,892)**	(937)
Net gains/(losses) on disposals of land use rights and property, plant and equipment	**520**	(1,385)
Net foreign exchange (losses)/gains	**(13)**	2,668
Others	**241**	798
	(1,443)	1,144

10. GAIN ON DISPOSAL OF SUBSIDIARIES

	2019 RMB'000	2018 RMB'000
Gain on disposal of Beijing Chang Sheng Business Consulting Co., Ltd. ("**Beijing Chang Sheng**") and Besunyen Property Management Co., Ltd. ("**Besunyen Property**") (Note a)	**225,571**	—
Loss on disposal of Beijing Besunyen Food and Beverage Co., Ltd ("**Besunyen Food and Beverage**") (Note b)	**(3,295)**	—
Gain on disposal of Beijing Besunyen Pharmaceutical Co., Ltd. ("**Besunyen Pharmaceutical**") (Note d)	**—**	4,910
	222,276	4,910

(a) Pursuant to an equity transfer agreement entered into by A Li Yun Shan (Beijing) Business Consulting Co., Ltd. ("**A Li Yun Shan"**), an indirect wholly-owned subsidiary of the Company, and a third party (the "**Purchaser**") dated on 31 December 2018, A Li Yun Shan has agreed to dispose 100% equity interests in Beijing Chang Sheng, which is an wholly-owned subsidiary of A Li Yun Shan to the Purchaser, at a cash consideration of approximately RMB555.0 million. The disposal was completed on 8 March 2019, and the after-tax gain on such disposal was approximately RMB191.7 million

Details of the disposal of Beijing Chang Sheng as described above:

	2019 RMB'000
Consideration received or receivable:	
Cash received	**499,500**
Consideration receivable	**55,500**
Total disposal consideration	**555,000**
Carrying amount of net assets of the subsidiaries at the date of disposal	**(295,162)**
Transaction costs	**(19,809)**
Deferral of net gain resulted from sales and lease-back (Note 18(b))	**(14,458)**
Net gain before income tax	**225,571**

10. GAIN ON DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

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

	8 March 2019 (the date of disposal) RMB'000
Cash and cash equivalents	8,664
Deposits, prepayments and other receivables	3
Investment properties	36,252
Property, plant and equipment	26,856
Right-of-use assets	219,781
Deferred income tax assets	10,760
Total assets	**302,316**
Other payables and accrued expenses	(4,401)
Other non-current liabilities	(2,753)
Total liabilities	**(7,154)**
Carrying amount of net assets of the subsidiaries at the date of disposal	**295,162**

(b) Pursuant to a series equity transfer agreements entered into by Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell"), an indirect wholly-owned subsidiary of the Company and other third parties, dated on 10 July, 31 July and 11 November 2019, respectively, Beijing Outsell has agreed to dispose 100% equity interest in Beijing Besunyen Food and Beverage, an wholly-owned subsidiary of Beijing Outsell to a third party, at a total consideration of RMB75.0 million and the third party agreed to repay the debt of RMB50.0 million to Beijing Outsell on behalf of Besunyen Food and Beverage. The disposal was completed on 15 November 2019 and the the after tax loss on such disposal was approximately RMB2.8 million.

10. GAIN ON DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

Details of the disposal of Besunyen Food and Beverage as described above:

	2019 RMB'000
Total consideration received – cash	125,000
Carrying amount of net assets of the subsidiaries at the date of disposal	(122,849)
Transaction costs	(5,446)
Net loss before income tax	**(3,295)**

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

	15 November 2019 (the date of disposal) RMB'000
Cash and cash equivalents	11
Deposits, prepayment and other receivables	4,021
Property, plant and equipment	64,481
Right-of-use assets	61,623
Total assets	**130,136**
Deferred government grants	(7,287)
Total liabilities	**(7,287)**
Carrying amount of net assets of the subsidiaries at the date of disposal	**122,849**

10. GAIN ON DISPOSAL OF SUBSIDIARIES *(Continued)*

(c) The cash flows from the disposal of subsidiaries are as below:

	Disposal of Beijing Chang Sheng RMB'000 (note a)	Disposal of Besunyen Food and Beverage RMB'000 (note b)	Total RMB'000
Cash received, net of cash disposed	490,836	124,989	615,825
Transaction costs paid	(16,679)	–	(16,679)
Proceeds from disposals of subsidiaries, net	474,157	124,989	599,146

(d) The gain on disposal of Besunyen Pharmaceutical amounted to approximately RMB4,910,000 in 2018 has been reclassified to conform to the current year presentation from "other (losses)/gains, net" to "gain on disposal of subsidiaries".

11. EMPLOYEE BENEFIT EXPENSES

	2019 RMB'000	2018 RMB'000
Salaries, bonus and other allowances	**178,081**	144,344
Share-based compensation	**203**	94
Pension cost — defined contribution plan	**13,434**	11,794
	191,718	156,232

11. EMPLOYEE BENEFIT EXPENSES *(Continued)*

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: two) directors whose emoluments are reflected in the analysis shown in Note 45. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, bonus and other allowances	**3,610**	4,692
Share-based compensation	**—**	57
Pension cost — defined contribution plan	**135**	142
	3,745	4,891

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands (in HK$)		
HK$1,000,001 — HK$1,500,000	**2**	1
HK$1,500,001 — HK$2,000,000	**1**	1
HK$2,000,001 — HK$2,500,000	**—**	1

12. FINANCE INCOME AND COSTS

	2019 RMB'000	2018 RMB'000
Interest income from financial assets held for cash management purpose	**3,309**	—
Finance income	**3,309**	—
Interest expenses	**(5,448)**	(6,618)
— borrowings	**(4,643)**	(6,618)
— lease liabilities	**(805)**	—
Guarantee fee for bank borrowings	**(981)**	(1,427)
	(6,429)	(8,045)
Less: Amount capitalised (Note 17(b) and Note 19(e))	**836**	1,380
Finance costs	**(5,593)**	(6,665)
Net finance costs	**(2,284)**	(6,665)

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 2019 which was 5.31%.

13. SUBSIDIARIES

(a) Subsidiaries

The Group's principal subsidiaries at 31 December 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2019	2018	**2019**	2018
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 北京澳特舒爾保健品開發有限公司 (note ii)	The PRC, limited liability company	Manufacture and sales of therapeutic tea products in PRC	RMB829,413,849	**100%**	100%	**–**	–
Besunyen Food and Beverage (Note 10(b) and note iii) 北京碧生源食品飲料有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB100,000,000	**–**	100%	**–**	–
Beijing Pincha Online E-Commerce Co., Ltd. (note iii) 北京品茶在線電子商務有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB6,000,000	**100%**	100%	**–**	–
Heilongjiang Besunyen Trading Co., Ltd. (note iii) 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%	**–**	–
Guangzhou Runliang Pharmaceutical Co., Ltd. (note iii) 廣州潤良藥業有限公司	The PRC, limited liability company	Sales of slimming medicine in PRC	RMB115,000,000	**100%**	100%	**–**	–
Khorgos Besunyen Venture Investment Co., Ltd. (note ii) 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%	**–**	–
Besunyen Property (Note 10(a)) 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%	**–**	–

13. 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	
				2019	2018	**2019**	2018
Zhuhai Kangbaina Pharmaceutical Co., Ltd. (note iii) 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. (note iii) 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") (note iii) 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") (note iii) 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%	**–**	64.3%
Tibet Besunyen Trading Co., Ltd. (note iii) 西藏碧生源商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB50,000	**100%**	100%	**–**	–
Tibet Qianruiwanfu Venture Investment Co., Ltd. (note iii) 西藏千瑞萬福創業投資有限公司	The PRC, limited liability company	Investment holdings in PRC	RMB10,100,000	**100%**	100%	**–**	–

13. 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	
				2019	2018	**2019**	2018
Beijing Ali Yunshan Business Consulting Co., Ltd. (note iii) 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%**	100%	**–**	–
Beijing Bihai Yuanyuan Enterprise Management Co., Ltd. (note iii) 北京碧海淵源企業管理有限公司	The PRC, limited liability company	Management for property in PRC	RMB100,100,000	**100%**	100%	**–**	–
Beijing Changsheng (Note 10(a)) 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%	**–**	–
Beijing Ali Yunshan Technology Development Co., Ltd. (note i and note iii) 北京阿利雲山科技開發有限公司	The PRC, limited liability company	Technology Development in PRC	RMB5,000,000	**100%**	–	**–**	–
Beijing Shenhui Biyuan Cloud Computing Technology Co., Ltd. (note i and note iii) 北京申惠碧源雲計算科技有限公司	The PRC, limited liability company	Technology Development in PRC	RMB1,000,000	**100%**	–	**–**	–
Ningjing Qianruiwanfu Trading Co., Ltd. (note i and note iii) 寧津縣千瑞萬福商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB1,000,000	**100%**	–	**–**	–

Notes:

(i) These subsidiaries were newly established by the Group in 2019.

(ii) These subsidiaries are registered as wholly foreign owned enterprises under PRC law.

(iii) These subsidiaries are registered as wholly owned enterprises under RPC law.

13. SUBSIDIARIES *(Continued)*

(b) Significant restrictions

Cash and cash equivalents and term deposits of approximately RMB152,705,000 (2018: RMB49,753,000) were 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 33(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 2019, the Share Scheme Trust held 35,001,567 (2018: 35,201,567) shares which have not yet been granted to employees.

13. 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 2019 RMB'000	At 31 December 2018 RMB'000	**At 31 December 2019 RMB'000**	At 31 December 2018 RMB'000
Current assets	**148,750**	67,205	**36,891**	2,756
Current liabilities	**(74,737)**	(35,204)	**(37,722)**	(15,346)
Net current assets/ (liabilities)	**74,013**	32,001	**(831)**	(12,590)
Non-current assets	**187,721**	171,643	**55,597**	44,502
Non-current liabilities	**(68,494)**	(59,847)	**(21,943)**	(1,997)
Net non-current assets	**119,227**	111,796	**33,654**	42,505
Net assets	**193,240**	143,797	**32,823**	29,915
NCI	**94,688**	70,215	**16,083**	14,658

Summarised statement of comprehensive income

	Zhongshan Wanhan		**Zhongshan Wanyuan**	
	2019 RMB'000	2018 RMB'000	2019 **RMB'000**	2018 RMB'000
Revenue	**230,437**	61,387	**–**	–
Profit for the year	**49,443**	2,726	**2,908**	1,299
Other comprehensive income	**–**	–	**–**	–
Total comprehensive income	**49,443**	2,726	**2,908**	1,299
Profit allocated to NCI	**24,473**	1,191	**1,425**	636
Dividends paid to NCI	**–**	–	**–**	–

13. SUBSIDIARIES *(Continued)*

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

Summarised cash flows

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2019	2018	2019	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows generated from/ (used in) operating activities	**82,935**	(1,038)	**(8,862)**	(3,710)
Cash flows (used in)/generated from investing activities	**(59,267)**	(29,224)	**(12,255)**	1,640
Cash flows (used in)/generated from financing activities	**(2,582)**	(817)	**22,385**	–
Net increase/(decrease) in cash and cash equivalents	**21,086**	(31,079)	**1,268**	(2,070)

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Associate (a)	**–**	–
Joint ventures (b)	**79,276**	94,019
	79,276	94,019

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

	2019 RMB'000	2018 RMB'000
Associate (a)	**(1,560)**	(5,115)
Joint ventures (b)	**(11,302)**	3,820
	(12,862)	(1,295)

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

(a) Investment in an associate

Yunzhi Besunyen Pharmaceutical Sales Co., Ltd. ("**Yunzhi Besunyen**") was established on 30 March 2016 by the Group and a third party, the Group held 49% equity interests in Yunzhi Besunyen. On 18 July 2018, the board of directors of "Yunzhi Besunyen" resolved to liquidate Yunzhi Besunyen voluntarily and the Group had written down the Group's interest in the associate to zero at 31 December 2018. Yunzhi Besunyen was liquidated on 23 July 2019. During the period ended 23 July 2019, the Group has paid RMB1,560,000 (2018: RMB1,254,000) for expenditure incurred during the liquidation based on the shareholding percentage to Yunzhi Besunyen.

14. 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	Weihai Huisheng Bioscience Technology Co., Ltd. RMB'000	Total RMB'000
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
Carrying amounts at 1 January 2019	**770**	**93,249**	**–**	**94,019**
Capital distributed to the Group during the year	**–**	**(3,941)**	**–**	**(3,941)**
Capital contributed by the Group during the year	**–**	**–**	**500**	**500**
Share of profit/(loss)	**721**	**(12,021)**	**(2)**	**(11,302)**
Carrying amounts at 31 December 2019	**1,491**	**77,287**	**498**	**79,276**

Details of investments in joint ventures as at 31 December 2019 and 2018 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
Weihai Huisheng Bioscience Technology Co., Ltd. (the "**Weihai Huisheng**") (note iii)	The PRC	10%	Joint venture	Equity method

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

(b) Investment 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 Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (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 2019, the Group has already contributed capital of RMB500,000 and RMB79,210,000 (2018: 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 C0-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.

(iii) Weihai Huisheng was established on 21 October 2019 and is jointly owned by Beijing Outsell and a third party company. The principal business of Weihai Huisheng is development and manufacture of therapeutic health food. Although the Group owns only 10% of the equity interests in Weihai Huisheng, the Group has joint control over Weihai Huisheng pursuant to the investment agreements. Consequently, the Group has accounted for Weihai Huisheng by using the equity method. As of 31 December 2019, Weihai Huisheng was in process of set up and had no substantial business.

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

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

Commitments and contingent liabilities in respect of joint ventures

	2019 RMB'000	2018 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.

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		Weihai Huisheng	
	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Current						
Cash and cash equivalents	**8**	90	**1,185**	188	**5**	NA
Inventories	**–**	–	**–**	–	**25**	NA
Deposits, prepayments and other receivables	**3,560**	1,780	**21,000**	2,000	**952**	NA
Total current assets	**3,568**	1,870	**22,185**	2,188	**982**	NA
Trade and other payables	**(1,195)**	(1,195)	**–**	–	**(24)**	NA
Other current liability	**(210)**	–	**–**	–	**(260)**	NA
Total current liabilities	**(1,405)**	(1,195)	**–**	–	**(284)**	NA
Non-current						
Financial assets at fair value through profit or loss	**–**	–	**64,842**	102,698	**–**	NA
Other non-current assets	**819**	865	**–**	–	**–**	NA
Total non-current assets	**819**	865	**64,842**	102,698	**–**	NA
Net assets	**2,982**	1,540	**87,027**	104,886	**698**	NA

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

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

Summarised statement of comprehensive income

	The Fund Management Company		The Fund		Weihai Huisheng	
	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000	**Year ended 31 December 2019 RMB'000**	Year ended 31 December 2018 RMB'000	**Period from 21 October 2019 to 31 December 2019 RMB'000**	Year ended 31 December 2018 RMB'000
Revenue	**1,780**	1,780	**–**	–	**–**	NA
Cost of sales	**–**	–	**–**	–	**–**	NA
Other income	**–**	–	**1**	1	**236**	NA
Selling and marketing expenses	**–**	–	**–**	–	**(86)**	NA
Administrative expenses	**(336)**	(1,004)	**(4)**	(11)	**(48)**	NA
Other expense	**(2)**	(8)	**–**	–	**(124)**	NA
Fair value changes on financial assets at fair value through profit or loss	**–**	–	**(13,428)**	3,849	**–**	NA
Profit/(loss) before income tax	**1,442**	768	**(13,431)**	3,839	**(22)**	NA
Income tax expense	**–**	–	**–**	–	**–**	NA
Profit/(loss) for the year	**1,442**	768	**(13,431)**	3,839	**(22)**	NA
Other comprehensive income	**–**	–	**–**	–	**–**	NA
Total comprehensive income/ (loss)	**1,442**	768	**(13,431)**	3,839	**(22)**	NA

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

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

(b) Investment 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	Weihai Huisheng RMB'000	Total RMB'000
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
Percentage of share of interests	50%	89.5%	–	–
Interest in joint ventures	770	93,873	–	94,643
Others	–	(624)	–	(624)
Carrying amounts at 31 December 2018	770	93,249	–	94,019
Opening net assets at 1 January 2019	**1,540**	**104,886**	**–**	**106,426**
Capital distributed to the shareholders of the joint ventures	**–**	**(4,428)**	**720**	**(3,708)**
Profit/(loss) for the year	**1,442**	**(13,431)**	**(22)**	**(12,011)**
Closing net assets at 31 December 2019	**2,982**	**87,027**	**698**	**90,707**
Percentage of share of interests	**50%**	**89.5%**	**10%**	
Interest in joint ventures	**1,491**	**77,889**	**70**	**79,450**
Others	**–**	**(602)**	**428**	**(174)**
Carrying amounts at 31 December 2019	**1,491**	**77,287**	**498**	**79,276**

15. INCOME TAX EXPENSE/(CREDIT)

	2019 RMB'000	2018 RMB'000
Current income tax:		
PRC enterprise income tax	**5,100**	284
Deferred income tax (Note 36):		
Origination and reversal of temporary differences	**(139)**	(28,171)
Income tax expense/(credit)	**4,961**	(27,887)

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

The Company is a Hong Kong tax resident and subject to Hong Kong profit tax.

Hong Kong profits tax is 16.5% up to 1 April 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess at a rate of 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 2019 and 2018.

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

In November 2017, Zhongshan Wanyuan obtained the HNTE qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

In December 2019, Zhongshan Wanhan obtained the HNTE qualification for three years from 2019 to 2021, in which the applicable income tax rate during the approved period is 15%.

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

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2018: 25%).

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

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

	2019 RMB'000	2018 RMB'000
Profit/(loss) before income tax	**193,027**	(121,359)
Tax at PRC statutory enterprise income tax rate of 25% (2018: 25%)	**48,302**	(30,340)
Effect of preferential tax rate granted	**(21,412)**	2,820
Re-measurement of deferred tax due to change of tax rate	**(9,448)**	(5,722)
Tax losses or temporary differences for which no deferred income tax asset was recognised	**14,258**	9,339
Utilisation or recognition of previously unrecognised tax losses/ deductible temporary differences	**(30,088)**	(12,270)
Reversal of deferred tax assets	**–**	5,825
Tax super deduction for research and development expenses	**(5,372)**	(2,368)
Dividend tax for distributable profits of PRC subsidiaries	**3,674**	–
Tax effect of expenses not deductible for tax purposes and others	**5,047**	4,829
Income tax expense/(credit)	**4,961**	(27,887)

16. EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the profit/(losses) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares under the Company's Restricted Share Award Scheme (Note 33(b)).

	2019	2018
Profit/(loss) attributable to owners of the Company (RMB'000)	**162,348**	(95,299)
Weighted average number of ordinary shares in issue (thousand)	**1,595,005**	1,594,799
Basic earnings/(losses) per share (RMB cents per share)	**10.18**	(5.98)

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

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the earnings/(losses) per share. Diluted earnings/(losses) per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted losses per share).

The share options had anti-diluted effect to the Group for the years ended 31 December 2019 and 2018. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2019 and 2018. Accordingly, the diluted earnings/(losses)per share is same as the basic earnings/(losses)per share for the years ended 31 December 2019 and 2018.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Plant and machinery RMB'00	Furniture and others 0RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
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 19(b))	(45,020)	(2,758)	–	(81,145)	(128,923)
Asset classified as held for sale (Note 30)	(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
At 1 January 2019	**167,627**	**215,411**	**41,004**	**26,576**	**450,618**
Additions	**64**	**2,497**	**6,624**	**34,272**	**43,457**
Transfer	**33,609**	**7,430**	**–**	**(41,039)**	**–**
Disposals/write-off	**(661)**	**(656)**	**(2,854)**	**–**	**(4,171)**
At 31 December 2019	**200,639**	**224,682**	**44,774**	**19,809**	**489,904**

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

	Buildings and facilities RMB'000	Plant and machinery RMB'00	Furniture and others 0RMB'000	Construction in progress RMB'000	Total RMB'000
ACCUMULATED DEPRECIATION					
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 19(b))	(4,631)	(359)	–	–	(4,990)
Asset classified as held for sale (Note 30)	(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
At 1 January 2019	**50,063**	**144,818**	**32,234**	**–**	**227,115**
Charge for the year	**8,434**	**19,532**	**5,303**	**–**	**33,269**
Disposals/write-off	**(185)**	**(615)**	**(2,740)**	**–**	**(3,540)**
At 31 December 2019	**58,312**	**163,735**	**34,797**	**–**	**256,844**
ACCUMULATED IMPAIRMENT					
At 1 January 2018, 31 December 2018 and 31 December 2019	1,630	11,607	–	–	13,237
NET BOOK VALUE					
At 31 December 2019	**140,697**	**49,340**	**9,977**	**19,809**	**219,823**
At 31 December 2018	115,934	58,986	8,770	26,576	210,266

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

	2019 RMB'000	2018 RMB'000
Cost of sales	**21,691**	23,252
Administrative expenses	**4,984**	6,020
Research and development costs	**6,028**	4,385
Selling and marketing expenses	**566**	706
	33,269	34,363

(b) The addition in construction in progress in 2019 included the finance costs capitalised amounted to approximately RMB469,000 (2018: RMB1,333,000).

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

(c) As at 31 December 2019, buildings of Beijing Outsell with the carrying amounts of approximately RMB84,444,000 (2018: RMB88,273,000) were pledged to a third party guarantee company as the security for the guarantee of the Group's bank borrowings of RMB50,000,000 (2018: RMB100,000,000) (Note 39(a)).

As at 31 December 2019, buildings of Zhongshan Wanyuan with the carrying amounts of approximately RMB25,107,000 (2018: Nil) were pledged to Agricultural Bank of China as the security for the guarantee of the Group's bank borrowings of RMB20,000,000 (2018: Nil) (Note 39(a)).

18. RIGHT-OF-USE ASSETS

		Leased properties			
	Land use rights RMB'000 (note a)	**Office premises and staff quarters** RMB'000	**Leased Vehicles** RMB'000	**Sales and leaseback property** RMB'000 (note b)	**Total** RMB'000
At 1 January 2018	345,624	–	–	–	345,624
Amortisation	(8,667)	–	–	–	(8,667)
Transfer to assets classified as held for sale (Note 30)	(219,781)	–	–	–	(219,781)
At 31 December 2018	117,176	–	–	–	117,176
Recognised on adoption of IFRS 16 (Note 2.1.1(a))	–	1,561	–	–	1,561
At 1 January 2019	117,176	1,561	–	–	118,737
At 1 January 2019	**117,176**	**1,561**	**–**	**–**	**118,737**
Additions	**–**	**9,442**	**257**	**2,009**	**11,708**
Depreciation	**(2,878)**	**(3,289)**	**(4)**	**(591)**	**(6,762)**
Transfer to assets classified as held for sale (Note 30)	**(8,012)**	**–**	**–**	**–**	**(8,012)**
Disposals	**(861)**	**–**	**–**	**–**	**(861)**
At 31 December 2019	**105,425**	**7,714**	**253**	**1,418**	**114,810**

18. RIGHT-OF-USE ASSETS *(Continued)*

Depreciation/amortisation charges have been expensed in the profit or loss as follows:

	2019 **RMB'000**	2018 RMB'000
Cost of sales	**720**	351
Other expenses	**1,707**	5,585
Research and development costs	**342**	–
Selling and marketing expenses	**2,387**	–
Administrative expenses	**1,606**	2,731
	6,762	8,667

(a) As at 31 December 2019, land use rights of Beijing Outsell with the carrying amounts of approximately RMB6,224,000 (2018: RMB6,392,000) have been pledged to a third party guarantee company as the security for the guarantee of the Group's bank borrowings of RMB50,000,000 (2018: RMB100,000,000) (Note 39(a)).

As at 31 December 2019, land use rights of Zhongshan Wanhan with the carrying amounts of approximately RMB19,169,000 (2018: Nil) have been pledged to Agriculture Bank of China as the security for the guarantee of the Group's bank borrowings of RMB13,800,000 (2018: Nil) (Note 39(a)).

As at 31 December 2019, land use rights of Zhongshan Wanhan with the carrying amounts of approximately RMB18,101,000 (2018: RMB18,468,000) have been pledged to Agriculture Bank of China (2018: Zhongshan Rural Commercial Bank) as the security for the borrowing of RMB20,000,000 (2018: RMB20,000,000) (Note 39(a)).

(b) Sales and leaseback property

As disclosed in Note 10(a) above, the Group has disposed certain properties to a third party on 8 March 2019, meanwhile, the Group has entered into a property lease contract with the Purchaser (the "**Property Lease Contract**") on 31 December 2018, pursuant to which the Group has disposed the assets leased back a part of Besunyen Building for a 34 months period in March 2019.

On adoption of IFRS 16, the Group has recognised a right-of-use assets of approximately RMB2,009,000 and a lease liability of approximately RMB16,467,000 as at 8 March 2019, as well as a deferral of net gain resulted from the sales and leaseback of approximately RMB14,458,000 (Note 10(a)).

As at 31 December 2019, the right-of-use asset and lease liability associated with the property under the sales and leaseback arrangement amounted to RMB1,418,000 and RMB10,374,000 respectively.

19. INVESTMENT PROPERTIES

	Buildings and facilities RMB'000	Plant RMB'000	Investment property in constructions RMB'000	Total RMB'000
COST				
At 1 January 2018	60,579	–	–	60,579
Transfer from property, plant and equipment (note (b))	45,020	2,758	81,145	128,923
Addition	–	–	11,091	11,091
Transfer to assets classified as held for sale (Note 30)	(45,285)	–	–	(45,285)
At 31 December 2018	60,314	2,758	92,236	155,308
At 1 January 2019	**60,314**	**2,758**	**92,236**	**155,308**
Addition	**–**	**–**	**141,105**	**141,105**
Transfer to assets classified as held for sale (note (b))	**(45,020)**	**(2,758)**	**(233,341)**	**(281,119)**
At 31 December 2019	**15,294**	**–**	**–**	**15,294**
ACCUMULATED DEPRECIATION				
At 1 January 2018	11,698	–	–	11,698
Charge for the year	2,614	43	–	2,657
Transfer from property, plant and equipment (note (b))	4,990	–	–	4,990
Transfer to assets classified as held for sale (Note 30)	(9,033)	–	–	(9,033)
At 31 December 2018	10,269	43	–	10,312
At 1 January 2019	**10,269**	**43**	**–**	**10,312**
Charge for the year	**2,641**	**86**	**–**	**2,727**
Transfer to assets classified as held for sale (note (b))	**(7,040)**	**(129)**	**–**	**(7,169)**
At 31 December 2019	**5,870**	**–**	**–**	**5,870**
NET BOOK VALUE				
At 31 December 2019	**9,424**	**–**	**–**	**9,424**
At 31 December 2018	50,045	2,715	92,236	144,996

19. INVESTMENT PROPERTIES *(Continued)*

(a) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2019 and 2018 are as follows:

	As at 31 December 2019		As at 31 December 2018	
	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	**9,424**	**10,800**	10,073	14,000
Industrial property units located in Fangshan, Beijing	–	–	134,923	138,765

The Group's investment properties were valued at 31 December 2019 and 2018 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The commercial property has been vacant and intended to be sold since July 2018. The valuation for commercial property units 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 2019 and 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) 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 Lessee 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.

19. INVESTMENT PROPERTIES *(Continued)*

(b) *(Continued)*

On 8 December 2019, Beijing Outsell entered into a framework agreement with a third party company ("**Buyer**"), which shall become effective on the date of execution by each party. Pursuant to the framework agreement, Beijing Outsell agreed to dispose of, and the Buyer agreed to purchase, all equity interest of the Target Company which will own a state-owned industrial land located in Fangshan District, Beijing. All parties of the Framework agreement agreed to proceed with the transaction on the basis of a consideration of RMB463,000,000, which is subject to the audit, validation, internal approval procedure and regulatory approval procedure that must be performed, as required by the laws and regulations and the Listing Rules. The management of the Company are of the view that such disposal would be completed in first half of 2020, therefore, the land use right of approximately RMB8,012,000 and investment properties of approximately RMB278,488,000 to be disposed have been transferred to assets classified as held for sale (Note 30).

(c) Property rental income earned during the year ended 31 December 2019 was approximately RMB3,095,000 (2018: RMB17,986,000). The commercial property located in Shanghai has been vacant since July 2018 and does not have any committed tenant as of 31 December 2019. The industrial property located in Fangshan has engaged into a framework disposal agreement as mentioned above in 11 December 2019. As at 31 December 2019, the Group had no future minimum lease receipts under non-cancellable operating leases.

	2019 **RMB'000**	2018 RMB'000
No later than 1 year	–	2,213
Later than 1 year and no later than 20 years	–	318,974
	–	321,187

(d) Depreciation charges of approximately RMB2,727,000 for the year ended 31 December 2019 (2018: RMB2,657,000) have been charged in 'other expenses' in profit or loss.

(e) The addition to investment properties in 2019 included the finance cost capitalised amounted to approximately RMB367,000 (2018: RMB47,000).

20. 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 2018	56,453	13,398	8,349	7,740	126,000	9,591	221,531
Additions	–	–	656	–	–	–	656
Disposal of a subsidiary (Note 10)	–	–	–	–	–	(4,620)	(4,620)
At 31 December 2018	56,453	13,398	9,005	7,740	126,000	4,971	217,567
At 1 January 2019	**56,453**	**13,398**	**9,005**	**7,740**	**126,000**	**4,971**	**217,567**
Additions	**–**	**–**	**218**	**–**	**–**	**–**	**218**
At 31 December 2019	**56,453**	**13,398**	**9,223**	**7,740**	**126,000**	**4,971**	**217,785**
ACCUMULATED AMORTISATION							
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 10)	–	–	–	–	–	(1,297)	(1,297)
At 31 December 2018	–	11,004	5,799	2,938	9,719	1,276	30,736
At 1 January 2019	**–**	**11,004**	**5,799**	**2,938**	**9,719**	**1,276**	**30,736**
Charge for the year	**–**	**397**	**2,697**	**–**	**7,912**	**1,155**	**12,161**
At 31 December 2019	**–**	**11,401**	**8,496**	**2,938**	**17,631**	**2,431**	**42,897**
ACCUMULATED IMPAIRMENT							
At 31 December 2018 and 31 December 2019	–	–	–	4,802	–	–	4,802
NET BOOK VALUE							
At 31 December 2019	**56,453**	**1,997**	**727**	**–**	**108,369**	**2,540**	**170,086**
At 31 December 2018	56,453	2,394	3,206	–	116,281	3,695	182,029

20. INTANGIBLE ASSETS *(Continued)*

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

	2019 **RMB'000**	2018 RMB'000
Cost of sales	**8,148**	11,231
Administrative expenses	**2,829**	2,098
Research and development costs	**867**	333
Selling and marketing expenses	**317**	321
	12,161	13,983

(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 2019 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**
2019		
Revenue growth rate for next 5 years	**5%-29%**	**3%-25%**
Sales margin for next 5 years	**47%-51%**	**36%**
Terminal growth rate for next 5 years	**3%**	**3%**
Pre-tax discount rate	**18%**	**21%**
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%

20. 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 2019, the recoverable amount of the Zhongshan Wanhan and Zhongshan Wanyuan CGU is estimated to exceed the carrying amount of the CGU at 31 December 2019 by approximately RMB518,473,000.

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

	2019	
	From	To
Revenue growth rate	**5%-29%**	**-2%**
Sales margin	**47%-51%**	**30%**
Terminal growth rate	**3%**	**-142%**
Pre-tax discount rate	**18%**	**48%**

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.

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 2019 by RMB6,386,000.

20. INTANGIBLE ASSETS *(Continued)*

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

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

	2019	
	From	**To**
Revenue growth rate	**3%-25%**	**3%-14%**
Sales margin	**36%**	**35%**
Terminal growth rate	**3%**	**-2%**
Pre-tax discount rate	**21%**	**25%**

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 2019.

21. OTHER NON-CURRENT ASSETS

	2019	2018
	RMB'000	RMB'000
Prepayment for purchases of intangible assets	**6,826**	6,705
Prepayment for construction of property, plant and equipment	**10,179**	5,868
	17,005	12,573
Impairment on prepayment for purchases of intangible assets	**(2,830)**	–
Total other non-current assets	**14,175**	12,573

22. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Raw materials and packaging materials	**15,550**	11,201
Work in progress	**2,443**	1,249
Finished goods	**42,191**	18,022
	60,184	30,472
Less: Provision for impairment	**–**	–
	60,184	30,472

The cost of inventories recognised as expense and included in 'cost of sales' and 'research and development costs' amounted to approximately RMB172,970,000 and RMB10,124,000 (2018: RMB61,914,000 and RMB4,937,000), respectively.

23. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**140,182**	37,844
Less: allowance for doubtful debts	**(509)**	(790)
	139,673	37,054

(a) The Group allows a credit period of 20-90 days to its customers. The following is an ageing analysis of trade and bills receivable (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:

	2019 RMB'000	2018 RMB'000
0 – 90 days	**137,321**	35,321
91 – 180 days	**795**	994
181 – 365 days	**1,075**	637
Over 365 days	**482**	102
	139,673	37,054

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

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

	2019 RMB'000	2018 RMB'000
Opening loss allowance as at 1 January	**790**	1,337
Increase in loan loss allowance recognised in profit or loss during the year	**16**	286
Unused amount reversed	**(297)**	(833)
At 31 December	**509**	790

(d) As at 31 December 2019 and 2018, the carrying amounts of trade receivables approximate their fair values due to the short maturities of the related assets.

24 BILLS RECEIVABLE

As of 31 December 2019 and 2018, bills receivable amounted to RMB5,187,000 and RMB13,747,000 were all bank acceptance notes with maturity date within 6 months and are classified as financial assets at FVOCI.

Information about the methods and assumptions used in determining fair value of bills receivable is provided in Note 3.3.

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayment for advertisement	**12,347**	17,510
Prepayment to suppliers	**26,384**	7,757
Other receivables (Note)	**68,824**	9,739
Interest receivables	**725**	86
Others	**3,129**	5,430
	111,409	40,522

Note:

As of 31 December 2019, other receivables include consideration receivables in connection with the disposal of subsidiaries of approximately RMB55,500,000 (Note 10(a)), and was fully received in 18 March 2020 subsequently.

Deposits, prepayment and other receivables are all denominated in RMB, except that an other receivable of approximately RMB233,000 (2018: RMB228,000) 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.

26. RESTRICTED BANK DEPOSITS

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

27. SHORT-TERM INVESTMENTS

	2019 **RMB'000**	2018 RMB'000
Investments in wealth management products	**83,000**	38,300

The wealth management products purchased from banks are denominated in RMB, with expected rates of return ranging from 3.05% to 3.65% per annum for the years ended 31 December 2019 (for the years ended 31 December 2018: 2.90% to 3.90%). The principals and returns on all of these wealth management products are not guaranteed. They are measured at fair value through profit or loss. The fair values are based on cash flow discounted using the expected return which was estimated by management and are within level 3 of the fair value hierarchy.

28. 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 – 6 months) of the related assets.

The term deposits are all denominated in RMB.

29. CASH AND CASH EQUIVALENTS

	2019 **RMB'000**	2018 RMB'000
Cash at bank and financial institute and on hand	**270,803**	56,575

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

	2019 **RMB'000**	2018 RMB'000
United States Dollars ("**US$**")	**130,911**	37
Hong Kong Dollars ("**HK$**")	**43,780**	6,258

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

Movement in the assets classified as held for sale/liabilities directly associated with assets classified as held for sale is as follows:

	RMB'000
At 1 January 2018	86,959
Addition	1,688
Transfer from other assets and liabilities	291,109
Disposal	–
At 31 December 2018	379,756
At 1 January 2019	**379,756**
Transfer from other assets (Note 18 and Note 19(b))	**281,962**
Addition	**42,793**
Disposal (note b)	**(418,011)**
At 31 December 2019	**286,500**

(a) The assets mentioned in Note 19(b), which were expected to be sold in 2020, were classified as an asset held for sale and were presented separately in the consolidated balance sheet as at 31 December 2019.

	2019 RMB'000
Right-of-use assets	**8,012**
Investment properties	**278,488**
Total assets	**286,500**
Total liabilities	**–**

The disposal has not been completed as of 24 March 2020.

(b) As disclosed in Note 10, the held for sale assets and liabilities associated with the assets related to Beijing Chang Sheng, Besunyen Porperty and Besunyen Food and Beverage as at 31 December 2018 had been all disposed during the year ended 31 December 2019.

31. 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 2018, 31 December 2018 and 31 December 2019	6,000,000	50,000	341
Issued and fully paid:			
At 1 January 2018, 31 December 2018 and 31 December 2019	1,630,208	13,585	94

As at 31 December 2019, 35,001,567 shares (2018: 35,201,567 shares) were held by the Company's Restricted Share Award Scheme (Note 33(b)).

32. OTHER RESERVES

	Merger reserve RMB'000	Capital redemption reserve and 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 2018	230,864	(9,886)	(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 a subsidiary	–	–	–	(1,184)	–	(1,184)
At 31 December 2018	230,864	(9,886)	(22,816)	65,586	57,636	321,384
At 1 January 2019	**230,864**	**(9,886)**	**(22,816)**	**65,586**	**57,636**	**321,384**
Share-based payments	**–**	**–**	**–**	**–**	**203**	**203**
Vesting of restricted shares under restricted share award scheme	**–**	**–**	**128**	**–**	**(128)**	**–**
Transfer to statutory surplus reserve	–	–	–	5,478	–	5,478
At 31 December 2019	**230,864**	**(9,886)**	**(22,688)**	**71,064**	**57,711**	**327,065**

33. 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 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
At 1 January 2019	**1.23**	**73,170,000**	**1.01**	**21,620,000**	**94,790,000**
Lapsed	**1.23**	**(880,000)**	**1.00**	**(1,800,000)**	**(2,680,000)**
At 31 December 2019	**1.23**	**72,290,000**	**1.01**	**19,820,000**	**92,110,000**
Exercisable as at 31 December 2019	**1.23**	**72,290,000**	**1.00**	**19,726,250**	**92,016,250**

33. SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(ii) Outstanding share options

Expiry Date	Exercise price	Number of share options 31 December 2019	31 December 2018
10 years commencing from the date of the grant of options Pre-IPO Share Option Scheme	RMB1.23	**72,290,000**	73,170,000
8 years commencing from the date of the commencement of options Share Option Scheme	HK$1-HK$1.16	**19,820,000**	21,620,000

There is no option granted to any eligible employee during the years ended 31 December 2019 and 2018.

(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.

33. 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 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
At 1 January 2019	**35,201,567**	**200,000**	**35,401,567**
Granted	**(200,000)**	**200,000**	**–**
Vested and transferred	**–**	**(200,000)**	**(200,000)**
At 31 December 2019	**35,001,567**	**200,000**	**35,201,567**

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 2019 was HK$0.36 per share (equivalent to approximately RMB0.32 per share) (2018: HK$0.34 per share (equivalent to approximately RMB0.28 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:

	2019 **RMB'000**	2018 RMB'000
Options issued under employee share option plan	**144**	6
Shares issued under restricted share awarded scheme	**59**	88
	203	94

34. 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 of the relevant assets. Movements of these asset-related government grants are as below:

	2019 **RMB'000**	2018 RMB'000
At 1 January	**35,167**	20,953
Amounts received during the year	**–**	15,000
Amortisation for the year	**(786)**	(786)
At 31 December	**34,381**	35,167

35. OTHER NON-CURRENT LIABILITIES

	2019 **RMB'000**	2018 RMB'000
Advance rental payment from a third party	**–**	20,000
	–	20,000
Less: Current portion (Note)	**–**	(5,353)
	–	14,647

Note:

In 2018, the lessee had 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 was estimated to be approximately RMB5,353,000 and that estimated portion of the advance rental payments has therefore been classified as a current liability. In 2019, the aforesaid property has been decided to be disposed based on the disposal transaction mentioned in Note 30(a). The long-term lease was terminated in December 2019 and the advance rental payment was paid back by the Group subsequently on 2 January 2020, therefore, as at 31 December 2019, the advance rental payment was reclassified as other payable (Note 38).

36. DEFERRED INCOME TAX

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

	2019 **RMB'000**	2018 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	**49,418**	18,898
— Deferred income tax assets to be recovered within 12 months	**20,426**	45,455
	69,844	64,353
Deferred income tax liabilities:		
— Deferred income tax liability to be settled after more than 12 months	**(33,510)**	(34,591)
— Deferred income tax liability to be settled within 12 months	**(3,209)**	(2,276)
	(36,719)	(36,867)
Deferred income tax assets (net)	**33,125**	27,486

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

	2019 **RMB'000**	2018 RMB'000
At 1 January	**27,486**	10,075
Credited to profit or loss (Note 15)	**139**	28,171
Transfer to tax paid	**5,500**	–
Transfer to assets classified as held for sale	**–**	(10,760)
At 31 December	**33,125**	27,486

36. 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	Lease liabilities RMB'000	Deferred government grants RMB'000	Tax losses RMB'000	Unrealised profit for intra-group transaction RMB'000 Note	Total RMB'000
At 1 January 2018	11,281	–	2,963	23,673	11,728	49,645
Transfer to held for sale (Note 30(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
Credited/(charged) to profit or loss	8,331	3,916	(2,800)	15,107	(19,063)	5,491
At 31 December 2019	**16,031**	**3,916**	**5,295**	**39,263**	**5,339**	**69,844**

Note:

The unrealised profit for intra-group transaction mainly comprised the gain on the transfer to certain properties within the group subsidiaries before 1 January 2019 and the profit resulted from intra-group sales transaction during the year ended 31 December 2019.

36. DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities	Withholding tax on undistributed earnings RMB'000	Right-of-use assets 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 2018	(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)
(Charged)/credited to profit or loss	(3,674)	(1,839)	(1,990)	2,116	35	(5,352)
Transfer to tax paid	5,500	–	–	–	–	5,500
At 31 December 2019	**(3,638)**	**(1,839)**	**(2,763)**	**(26,899)**	**(1,580)**	**(36,719)**

(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 2019 and 2018, the expiry dates of the unrecognised tax losses that can be carried forward against future taxable income are analysed as below:

Expiring in years	**2019 RMB'000**	2018 RMB'000
2019	**–**	3,420
2020	**–**	12,437
2021	**–**	6,070
2022	**18,189**	18,189
2023	**27,618**	27,618
2024	**7,866**	–
	53,673	67,734

(b) As at 31 December 2019, the Group has unrecognised deductible temporary differences (including the advertising expenses incurred in excess of the maximum deductible caps as accumulated for the tax financial year from 2012 to 2019 and other accrued expenses of approximately RMB152,705,000 (2018: RMB196,079,000), deferred income tax assets have not been recognised on these deductible temporary differences as accumulated.

36. DEFERRED INCOME TAX *(Continued)*

(c) In accordance with the related PRC Corporate Income Tax Law and regulations effective from 1 January 2008, a withholding income tax is levied on dividends declared to foreign investors from the enterprises with foreign investments established in the PRC. The Group is therefore liable to withholding tax at 5% on dividends distributable by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. As of 31 December 2019, considering the dividend policies of the PRC subsidiaries and the Group's business plan, the management are of the view that all of the undistributed earnings of the PRC subsidiaries generated for the year ended 31 December 2019 of approximately RMB73,472,000 may be distributed to their foreign parent company in the foreseeable future and the related deferred income tax liabilities of approximately RMB3,674,000 (2018: RMB5,464,000) have been recognised accordingly.

37. TRADE AND BILLS PAYABLES

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

	2019 **RMB'000**	2018 RMB'000
0 – 90 days	**46,978**	7,256
91 – 180 days	**2**	1,036
Over 180 days	**2,125**	460
	49,105	8,752

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.

38. OTHER PAYABLES AND ACCRUED EXPENSES

	2019 RMB'000	2018 RMB'000
Payroll and welfare payable	**25,533**	17,495
Accrued expenses	**62,914**	12,696
Accrued sales rebates	**34,128**	25,745
Taxes and surcharges payable	**8,814**	3,517
Payable to suppliers for:		
— purchases of property, plant and equipment	**52,701**	1,461
— advertisement	**2,658**	4,704
Deposits received for a subsidiary to be disposed (Note 30)	**92,397**	6,000
Advance rental payment from a third party (Note 35)	**–**	5,353
Advance rental payment to be paid back to a third party (Note 35)	**20,000**	–
Transaction cost payable in connection to disposal of a subsidiary	**13,297**	–
Others	**16,371**	15,086
	328,813	92,057

39. BORROWINGS

	2019 RMB'000	2018 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	**63,800**	120,000
Bank borrowing, unsecured (b)	**3,000**	30,000
	66,800	150,000
Included in non-current liabilities		
Bank borrowing, secured (a)	**28,000**	–
	28,000	–

Bank borrowings mature until 2024 and bear average coupons of 5.37% annually (2018: 5.83% annually).

At 31 December, the Group's borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**66,800**	150,000
Between 1 and 2 years	**8,800**	–
Between 2 and 5 years	**19,200**	–
	94,800	150,000

39. BORROWINGS *(Continued)*

(a) Beijing Outsell has pledged its land use right and buildings with carrying amounts of approximately RMB6,224,000 and RMB84,444,000 respectively to a third party guarantee company as the securities for being the guarantor of the Group's short-term bank borrowings of RMB15,000,000, RMB15,000,000, and RMB20,000,000 respectively. These borrowings bear interests at fixed rate of 4.80% per annum and interest is payable quarterly. The principals are due for repayment on 15 May 2020, 21 May 2020, and 28 May 2020 respectively.

Zhongshan Wanhan and Zhongshan Wanyuan's non-controlling shareholder, Ms. Peng Wei has been the guarantor of the Group's short-term bank borrowings of RMB5,000,000 and RMB3,000,000 respectively. These borrowings both bear interests at fixed rate of 4.80% per annum and interest is payable monthly. The principals are due for repayment on 30 March 2020 and 20 June 2020 respectively.

Zhongshan Wanhan has pledged its land use right of approximately RMB19,169,000 to Agriculture Bank of China as the security for a short-term borrowing of RMB4,800,000 and a long-term borrowing of RMB9,000,000 respectivley. These borrowings both bear interests at fixed rate of 5.40% per annum. Interest is payable monthly. The principal for the short-term borrowing is payable quarterly from 20 March 2020 to 20 December 2020. The principal for the long-term borrowing is payable quarterly from 20 March 2021 to 20 September 2022.

Zhongshan Wanyuan has pledged its land use right and buildings of approximately RMB18,101,000 and RMB25,107,000 respectively to Agriculture Bank of China as the security for a short-term borrowing of RMB1,000,000 and a long-term borrowing of RMB19,000,000. These borrowings both bear interests at fixed rate of 5.40% per annum. Interest is payable monthly. The principal for the short-term borrowing is due for repayment on 21 October 2020. The principal for the long-term borrowing is payable quarterly from 21 January 2021 to 21 October 2024.

(b) The unsecured bank borrowings of RMB3,000,000 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 monthly and the principal is due for repayment on 5 March 2020.

(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).

40. LEASE LIABILITIES

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2019 RMB'000	As at 1 January 2019 RMB'000
Lease liabilities		
Current	**9,241**	793
Non-current	**8,327**	768
	17,568	1,561

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.1.1(a).

Liabilities arising from a lease are initially measured on a present value basis and are discounted at a rate of 5.59%. The finance cost of leases is charged to profit or loss over the lease period.

(b) Amounts recognised in the comprehensive income statement

The comprehensive income statement shows the following amounts relating to leases:

	2019 RMB'000	2018 RMB'000
Interest expense (included in finance costs) (Note 12)	**805**	–
Total cash outflow for leases	**10,160**	–
Expense relating to short-term leases (included in cost of goods sold, selling expenses and administrative expenses) (Note 7)	**4,967**	–
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in selling expenses and administrative expenses) (Note 7)	**709**	–

The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

(c) The Group's leasing activities and how these are accounted for property

The Group leases various offices, warehouses, retail stores and vehicles. Rental contracts are typically made for fixed periods of 6 months to 5 years, but may have extension options as described in note (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowings purposes.

40. LEASE LIABILITIES *(Continued)*

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

41. CASH USED IN OPERATIONS

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

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Profit/(loss) before income tax	**193,207**	(121,359)
Adjustments for:		
Depreciation/amortisation of right-of-use assets	**6,762**	8,667
Amortisation of intangible assets	**12,161**	13,983
Depreciation of property, plant and equipment	**33,269**	34,363
Depreciation of investment properties	**2,727**	2,657
Impairment loss on other non-current assets	**2,830**	–
Impairment loss on intangible assets	**–**	4,802
Interest expense	**5,593**	6,665
Interest income	**(1,949)**	(976)
Finance income	**(3,309)**	–
Change in fair value of financial assets at fair value through profit or loss	**(2,531)**	–
Net (gain)/loss on disposals of land use rights and property, plant and equipment	**(520)**	1,385
Gain on disposal of subsidiaries	**(222,276)**	(4,910)
Amortisation of deferred government grants	**(786)**	(786)
Reversal of for impairment of trade receivables	**(281)**	(547)
Share-based compensation	**203**	94
Foreign exchange loss/(gain), net	**13**	(2,668)
Share of losses of investments accounted for using the equity method	**12,862**	1,295
Operating cash flows before movements in working capital	**37,975**	(57,335)
Increase in inventories	**(29,712)**	(12,898)
(Increase)/decrease in trade and bills receivable	**(132,440)**	2,722
Increase in deposits, prepayments and other receivables	**(5,735)**	(14,454)
Increase/(decrease) in trade and bills payables	**40,353**	(4,558)
Increase/(decrease) in other payables and accrued expenses	**74,768**	(31,674)
(Decrease)/increase in contract liabilities	**(9,754)**	21,454
(Decrease)/increase in other non-current liabilities	**(14,647)**	14,647
Cash used in operations	**(39,192)**	(82,096)

41. CASH USED IN OPERATIONS *(Continued)*

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

	2019 RMB'000	2018 RMB'000
Net book amount (Note 17 and Note 18)	**1,492**	1,597
Net gain/(loss) on disposals of land use right and property, plant and equipment	**520**	(1,385)
Proceeds from disposals of land use right and property, plant and equipment	**2,012**	212

(c) Major non-cash transactions

During the year ended 31 December 2019, bills receivable of RMB21,670,000 (2018: RMB29,935,000) 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	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**270,803**	56,575
Cash and cash equivalents classified as held for sale	**–**	5,184
Term deposits with initial term of over three months	**10,000**	–
Liquid investments (note)	**83,000**	38,300
Borrowing	**(94,800)**	(150,000)
Lease liabilities	**(17,568)**	–
Net debt	**251,435**	(49,941)
Cash and liquid investments	**363,803**	100,059
Gross debt – fixed interest rates	**(84,368)**	(150,000)
Gross debt – variable interest rates	**(28,000)**	–
Net debt	**251,435**	(49,941)

Note:

Liquid investments comprise current investments that are traded in an active market, being the Group's FVTPL.

41. CASH USED IN OPERATIONS *(Continued)*

(d) Net debt reconciliation *(Continued)*

	Cash and cash equivalents RMB'000	Term deposits with initial term of over three months RMB'000	Liquid investments RMB'000	Borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
Net debt as at 31 December 2017	79,233	4,185	–	(20,000)	–	63,418
Cash flows	(20,112)	(4,185)	38,300	(130,000)	–	(115,997)
Exchange gains on cash and cash equivalents	2,638	–	–	–	–	2,638
Net debt as at 31 December 2018	61,759	–	38,300	(150,000)	–	(49,941)
Recognised on adoption of IFRS 16 (Note 2.1.1(a))	–	–	–	–	(1,561)	(1,561)
	61,759	**–**	**38,300**	**(150,000)**	**(1,561)**	**(51,502)**
Cash flows	**209,532**	**10,000**	**44,700**	**55,200**	**10,160**	**329,592**
Addition-leases	**–**	**–**	**–**	**–**	**(26,167)**	**(26,167)**
Exchange losses on cash and cash equivalents	**(488)**	**–**	**–**	**–**	**–**	**(488)**
Net debt as at 31 December 2019	**270,803**	**10,000**	**83,000**	**(94,800)**	**(17,568)**	**251,435**

42. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Interim dividend paid for the current year, of HK$11 cents (2018: Nil) per ordinary share	**157,908**	–

On 23 August 2019, the Board has declared a dividend of HK$0.11 (equivalent to approximately RMB0.10) per share, amounting to a total dividend of HK$179,323,000 (equivalent to approximately RMB161,624,000).

The Board has resolved not to recommend for declaration and payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

43. COMMITMENT

(a) Capital commitments

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

	2019 **RMB'000**	2018 RMB'000
Property, plant and equipment	**117,015**	78,611

(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:

	2019 **RMB'000**	2018 RMB'000
No later than 1 year	**872**	1,819
Later than 1 year and no later than 5 years	**–**	821
	872	2,640

The assets obtained by the Group have been recognised as office premises and staff quarters and vehicles at fair value and are depreciated over the shorter of their useful life and the lease term. Until December 2018, the lease payables was presented as part of the accrued expense (see Note 38) and recognised on a straight line basis over the lease term. See Note 2.1.1(a) for further information about the change in accounting policy.

44. RELATED PARTY TRANSACTIONS

(a) 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:

	2019 RMB'000	2018 RMB'000
Salaries, bonus and other allowances	**9,235**	10,663
Share-based compensation	**59**	102
Pension cost – defined contribution plan	**261**	333
	9,555	11,098

(b) Transactions with related party

During the year ended 31 December 2019, Ms. Peng Wei, the shareholder of the Company and the non-controlling interests of two significant subsidiaries of the Group has been the guarantor of the Group's short-term bank borrowings amounted to RMB8,000,000. (Note 39)

45. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

For the year ended 31 December 2019:

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	**213**	**2,028**	**–**	**51**	**2,292**
Gao Yan	**213**	**1,617**	**–**	**24**	**1,854**
	426	**3,645**	**–**	**75**	**4,146**
Non-executive directors:					
Zhuo Fumin	**213**	**–**	**–**	**–**	**213**
	213	**–**	**–**	**–**	**213**
Independent non–executive directors:					
Huang Jingsheng	**88**	**–**	**–**	**–**	**88**
Ren Guangming	**213**	**–**	**–**	**–**	**213**
He Yuanping	**213**	**–**	**–**	**–**	**213**
Fu Shula	**161**	**–**	**–**	**–**	**161**
	675	**–**	**–**	**–**	**675**
	1,314	**3,645**	**–**	**75**	**5,034**

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

(a) Directors' emoluments *(Continued)*

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

During the year ended 31 December 2019, no directors waived or agree to waive any emoluments (2018: Nil).

46. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**211,965**	211,906
Property, plant and equipment	**6**	–
Loans to subsidiaries	**744,600**	960,000
	956,571	1,171,906
Current assets		
Deposits, prepayments and other receivables	**165,092**	8,500
Cash and cash equivalents	**6,686**	1,357
	171,778	9,857
Total assets	**1,128,349**	1,181,763
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**94**	94
Share premium	**962,777**	1,120,685
Other reserves	**35,029**	34,826
Retained earnings	**37,168**	24,782
Total equity	**1,035,068**	1,180,387
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	**93,281**	1,376
Total liabilities	**93,281**	1,376
Total equity and liabilities	**1,128,349**	1,181,763

The balance sheet of the Company was approved by the Board of Directors on 24 March 2020 and was signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

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

Reserve movement of the Company

		Other reserves					
	Share premium	Share-based payment reserve	Capital redemption reserve	Treasury share reserve under restricted share award scheme	Total other reserves	Retained earnings/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2019	**1,120,685**	**57,636**	**6**	**(22,816)**	**34,826**	**24,782**	**1,180,293**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**12,386**	**12,386**
Share-based payments under share option scheme and restricted share award scheme	**–**	**144**	**–**	**–**	**144**	**–**	**144**
Vesting of restricted share under share option scheme and restricted share award scheme	**–**	**(69)**	**–**	**128**	**59**	**–**	**59**
Dividends	**(157,908)**	**–**	**–**	**–**	**–**	**–**	**(157,908)**
At 31 December 2019	**962,777**	**57,711**	**6**	**(22,688)**	**35,029**	**37,168**	**1,034,974**

47. EVENT OCCURRING AFTER THE BALANCE SHEET DATE

Other than the event as disclosed in Note 30, the Group has following events subsequent to the balance sheet date.

An outbreak of the wide spread of the Novel Coronavirus (the "**Coronavirus Outbreak**") has been emerged since mid of January 2020 and has been subsequently declared as a Public Health Emergency of International Concern by the World Health Organisation on 30 January 2020. The directors of the Company has conducted an assessment of the impact of this post-balance sheet date Coronavirus Outbreak on the Group's financial position and performance.

As of the date of this financial statement, the directors of the Company have identified the following factors which might have possible impact on the Group's financial performance:

For the tea products segment, the Coronavirus Outbreak hitted the Group's office as well as the Group's distributors in Hubei Province bringing the business activities in Hubei Province to a standstill, whether the business activities in Hubei Province can be fully resumed will be subject to the latest development of the Coronavirus Outbreak;

For the slimming and other medicine segment, the online business was slightly affected by the logistics environment. With the recovery of the logistics, the online business is being restored to normal after the official public holiday for the Chinese Lunar New Year in the PRC.

The Group's business activities would normally remained at low level right before and after the official public holiday for the Chinese Lunar New Year in the PRC. If the Group's business activities can be fully resumed in April 2020, the directors of the Company considered that the impact of the Coronavirus Outbreak on the Group's financial performance would not be significant.

If the Coronavirus Outbreak still persists for a longer period subsequent to March 2020, the abovementioned factors should have possible adverse impact on the Group's financial performance for the year ending 31 December 2020 but the financial effect of which cannot be reasonably estimated at this stage. The Group will closely monitor the latest development of the Coronavirus Outbreak so as to adopt positive counter-measures to overcome any challenges arising and to assess the related impact to the Group on a continuous basis.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Turnover	662,80	514,749	542,870	378,378	**812,160**
Gross profit	594,237	425,520	430,193	255,317	**584,452**
(Loss)/profit from operating	64,439	(67,674)	(16,783)	(115,262)	**(16,207)**
Gain on disposal of subsidiaries	—	—	—	—	**222,276**
Impairment loss on intangible assets	—	—	—	(4,802)	**—**
Reversal of impairment of property, plant and equipment	28,507	—	—	—	**—**
Investment (loss)/profit accounted for using the equity method	—	(2,997)	9,599	(1,295)	**(12,862)**
Profit/(loss) before income tax	64,439	(70,671)	(7,184)	(121,359)	**193,207**
Profit/(loss) and total comprehensive income/(loss) for the year	88,214	(74,566)	5,281	(93,472)	**188,246**
Earnings/(loss) per share (RMB cents)					
Basic	6.02	(4.56)	0.27	(5.98)	**10.18**
Diluted	6.02	(4.56)	0.27	(5.98)	**10.18**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Non-current assets	878,932	919,599	1,114,142	825,412	**672,836**
Net current assets	383,255	87,034	89,960	310,174	**509,435**
Total assets less current liabilities	1,262,187	1,006,633	1,204,102	1,135,586	**1,182,271**
Non-current liabilities	16,452	17,101	61,819	86,681	**102,825**
Net assets	1,245,735	989,532	1,142,283	1,048,905	**1,079,446**
Share capital	89	86	94	94	**94**
Reserves	1,239,686	989,446	1,059,143	963,938	**968,581**
	1,239,775	989,532	1,059,237	964,032	**968,675**
Non-controlling interests	5,960	—	83,046	84,873	**110,771**
Total equity	1,245,735	989,532	1,142,283	1,048,905	**1,079,446**

碧生源控股有限公司
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