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 2020

Corporate Profile

Besunyen Holdings Company Limited (the "**Company**", together with its subsidiaries, 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, and quality functional tea", the Group started to produce Besunyen Detox Tea and Besunyen Slimming Tea (碧生源牌常菁茶) (previously known as "碧生源牌減肥茶") (collectively, the "**Two Teas**") in 2000. The Company has dedicated itself to further developing the Two Teas for 20 years and successively launching its product series of functional teas such as Besunyen Fit Tea (together with the Two Teas, the "**Three Teas**"). As of 31 December 2020, the Three Teas recorded an accumulated sales volume of over 5.35 billion bags, with an accumulated sales amount of over RMB7.15 billion. Since April 2015, the Group has commenced sale of LARLLY Orlistat weight-loss medicine. After 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**") in October 2017, the Group started to develop, produce and sell over-the-counter ("**OTC**") medicines such as Besunyen Orlistat weight-loss capsule. As such, the Group has expanded from slimming therapeutic tea market to weight-loss drug OTC market and has comprehensively covered the slimming market segment. Since its launch, Besunyen Orlistat weight-loss capsule has been highly praised among consumers.

According to the latest report issued by National Medical Products Administration Southern Medicine Economic Research Institute ("**SMERI**"), the market share of the Group's core products, the Two Teas, remained high for several consecutive years. In 2020, based on the retail prices of products with laxative function and function in retail pharmacies across the country, the market share of the Group's Besunyen Slimming Tea was 22.38%; the market share of Besunyen Detox Tea was 13.89%, ranking first in the market. In 2020, according to the statistics of Alibaba "Business Consultant", the market shares of the Besunyen Orlistat and LARLLY Orlistat totalled 37%, ranking top one in the market segment of Orlistat on Alibaba's e-commerce platforms.

The production base of the Group's Three Teas is located in Fangshan District, Beijing. Its production plant and production process are in compliance with the national GMP standards, and the Three Teas have passed the certifications of ISO9001, ISO22000 and HACCP. Introduced from IMA, an Italian company, its packing equipment is C24 tea bag high-speed machine with a special design of "tea bag with its tag linked with cotton thread nautical knot", allowing inner and outer part of a bag shaped up at the same time and completing the bag production process automatically. Its production facilities undergo closed-ended management, and its pelleting facilities and inter packing facilities are class 100,000 clean areas furnished with temperature and humidity monitoring. The overall layout of the plant is a garden-like design surrounding a beautiful environment, with its hygiene, process, technology, procedure and management reaching the world's advanced standards. The Group uses natural Chinese herbs and tea leaves as raw materials to research, develop, formulate and produce the Three Teas, providing safe, effective, convenient-to-use and affordable therapeutic products for those who have needs in aspects such as laxative and weight management or who are mildly affected by such problems.

The production, research and development base of the Group's Besunyen Orlistat weight-loss capsule is located in Zhongshan City, Guangdong Province. Its production plant and production process are in compliance with the national GMP standards. It has a sound quality management system as well as software and hardware facilities that meet the demands of drug research, development and production. Zhongshan Wanhan and Wanyuan also are equipped with various production lines for drugs in dosage form, including hard capsule and film agent, and capable of producing raw material drugs. They have passed the certification of intellectual property management system, and are intellectual property demonstration enterprises in Guangdong Province, national intellectual property advantage enterprises and high-tech enterprises.

As of 31 December 2020, the Group's offline businesses of the Three Teas and Orlistat covered about 400,000 OTC pharmacies and the retail terminals in shopping malls and supermarkets, spanning across 31 provinces, autonomous regions and municipalities across the country, through 69 distributors and 204 sub-distributors, and its offline sales team has been able to serve about 100,000 OTC pharmacies as well as shopping malls and supermarkets directly. The Group's online sales team has established 54 shops on 11 e-commerce platforms to conduct the sales of the Three Teas, Orlistat and other products of the Group. The above matured channels enabled the Group to launch its new products to the market more quickly, thereby maintaining the industrial leading position of the Group in terms of sales of products.


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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

STRATEGIC INVESTMENT COMMITTEE

Mr. Zhuo Fumin *(Chairman)*
Mr. Zhao Yihong
Mr. He Yuanping

COMPANY SECRETARY

Mr. Au Lap Ming, CPA, ACG, ACS

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Chairman and CEO's Report

"Since its establishment 20 years ago, the Group has been committed to the research and development, production and sales of functional products for weight management and gastrointestinal health. It continues to operate its products through offline OTC pharmacies, shopping malls and supermarkets and online channels, and benefits from the marketing efforts of the Besunyen brand, enabling the sales of the Group's products to maintain a leading position in China's big health sector. Since the acquisition of Zhongshan Wanhan in 2017, the Group has expanded its business from the slimming therapeutic tea market to the weight-loss drug market. With nearly 4 years' efforts of the research, development and production team and the sales team, Besunyen Orlistat has won a place in the e-commerce weight-loss drug 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; and '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, and continued to explore new channels, new products and new business models so as to grasp the development opportunities arising from the big health industry, enhance its 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

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 2020.

In 2020, in the face of global pandemic of novel coronavirus disease (the "**COVID-19 Pandemic**") and profound changes in the international political landscape, the Chinese government continued to coordinate the work on prevention and control of the COVID-19 Pandemic as well as economic and social development, making China's economy the first to achieve recovery growth in the world's major economies. In respect of industry development, according to the "Analysis of the Present Development and Future Trends of China's Health Care Products Industry 2020" issued by the China Business Industry Research Institute, population growth, ageing trends and people's increasing awareness of health would promote sustained and steady growth in the pharmaceutical and health care products industry. In addition, in the fast-paced and highly intensive modern society, health food has gradually penetrated into the younger community as the sub-healthy population expands, thus strengthening the inelastic demand for health food and releasing the consumption potential of the health food market. Meanwhile, in order to promote the orderly development of the market, national regulatory authorities continued to step up supervision. In April 2020, seven ministries and commissions including the State Administration for Market Regulation jointly issued the "Special Action Plan for Clean-up and Rectification of the Health Food Industry (2020–2021)" to rectify illegal production, unlawful promotion and marketing, and fraudulent and misleading behaviour in the health food market and strive to effectively purify the health food market by the end of 2021. The improvement of laws and regulations and the increasingly standardised industry supervision have effectively suppressed vicious competition in the industry, providing better and more development opportunities for conforming enterprises.

Since its establishment 20 years ago, the Group has focused on consumers and strived to ensure the health of consumers by controlling the quality of each product in accordance with industry requirements. Meanwhile, in the past year, with the changes in policies, the market and communication environment and the upgrade of sales models and people's concept of health consumptions, competitions in the industry became progressively fierce. In 2020, the Group continued to enhance its marketing strategy from a product-oriented one to a model based on brand value, develop a multi-channel sales model based on e-commerce platforms, refine its research and development system and product strategies, and enrich product offerings. Moreover, taking advantage of the research and development capabilities of Zhongshan Wanhan and Zhongshan Wanyuan in the pharmaceutical field, the Group continued to develop and reserve new products in the pharmaceutical industry to gradually achieve a comprehensive layout in the pharmaceutical product chain. Based on the product strategy of "One Focus and Two Dimensions", the Group actively adjusted its business operation model and marketing strategy and pinpointed precise functional and marketing positions for its products so as to lay a solid foundation for the Group's future development.

The revenue of the Group in 2020 was RMB1,292.7 million, representing an increase of 59.2% from RMB812.2 million in 2019. The gross profit increased by 56.3% to RMB913.3 million in 2020 from RMB584.5 million in 2019. The gross profit margin dropped from 72.0% in 2019 to 70.7% in 2020. On the other hand, the total operating expenses of the Group (including selling and marketing expenses, administrative expenses and research and development costs) in 2020 was RMB889.7 million, representing an increase of 47.0% from RMB605.1 million in 2019. The Group recorded a total comprehensive income of RMB130.9 million in 2020, compared to that of RMB188.2 million in 2019.

INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute competitive advantages when compared with similar products in the market. According to a survey report on national retail pharmacies issued by National Medical Products Administration Southern Medicine Economic Research Institute in March 2021, based on the retail pharmacy sales of health products, medicines or other types of products, Besunyen Slimming Tea ranked top in the market segment of slimming products for 11 consecutive years, accounting for a market share of 22.38% in 2020, representing a year-on-year decrease of 3.84 percentage points. Besunyen Detox Tea ranked top in the market segment of laxative products for 13 consecutive years, accounting for a market share of 13.89% in 2020, representing a year-on-year decrease of 0.96 percentage point, being the first in the market. With respect to the weight-loss medicines segment, in 2020, according to the statistics of Alibaba's "Business Consultant", the market share of Besunyen Orlistat and LARLLY Orlistat totalled 37%, representing an increase of 2.66 percentage points compared to that of the same period and ranking first in the market segment of Orlistat on Alibaba e-commerce platforms for 2 consecutive years.

BUSINESS REVIEW

The year 2020 marks the 20th anniversary of the establishment of the Group and the 11th year of the Company's listing. In 2020, the Group initiated a comprehensive branding upgrade campaign. While enhancing brand exposure, it actively promoted brand socialisation and rejuvenation, expanded product offerings, strengthened research and development and new product introduction, and launched products including drugs, health food, medical devices and ordinary food under Besunyen brand. Furthermore, the Group continued to optimise its business operating model and sales strategy, continuously focused on the construction of the customer service system, expanded the scale of the customer relationship management ("**CRM**") operation team, improved the membership management model and realised the precise promotion of products. In 2020, the Group launched an innovative marketing model, executed an all-staff marketing and community fission project, which broadened our sales channels from "traditional channels" to "traditional channels + Internet marketing", expanded our product offerings from "health food" to "health food + drugs + ordinary food + medical devices", and realised a successful transformation from manufacturer and service provider to creator of brand value.

Grasping Consumer Demand, Constantly Enriching Product Offerings and Enhancing Market Competitiveness

The healthy life that people are yearning for is what we are striving to achieve. In 2020, the Group continued to focus on the product series of weight loss and weight management as well as laxative and gastrointestinal health to ensure rapid sales growth and a steady increase in their market shares. In addition, the Group actively explored consumer demands, further enriched its product line, and successively launched new products such as Besunyen enzyme jelly, Besunyen dietary fibre powder and Besunyen white kidney bean pressed candy on e-commerce platforms to fully meet the diverse demands of consumers. Moreover, through user data analysis, the Group launched a series of health and beauty products based on consumer demands for "becoming beautiful". At this point, the Group has developed a parallel development model based primarily on functional products of weight loss and weight management as well as laxative and gastrointestinal health along with multiple categories of "drugs + health food + ordinary food + medical devices". While grasping consumer demand, the Group strived for innovation and change to equip itself with the ability to continuously create popular products.

Taking Advantage of Diversified Development of Drug E-commerce, Enriching Product Categories and Facilitating Growth in Performance of E-commerce

Expanding Reserves of Drug Categories and Increasing Share of Drug Sales

The Group's e-commerce team has gradually established an operation organisation matrix centring around the front line of business which is equipped with the support of integrated marketing, sales management, product supply chain and customer service, thus forming an operation conglomerate which combines business and service. In 2020, based on the experience and resources in e-commerce operations, the Group strengthened and deepened its cooperation with major e-commerce platforms such as Tmall, JD.com, Pinduoduo and Vipshop. According to the distinct features of each e-commerce platform and through subdividing consumer needs, the Group enriched its product categories and specifications and implemented different marketing strategies accordingly to conduct differentiated operations. While maintaining its advantage of the share of Orlistat products on major e-commerce platforms, the Group continued to expand its drug categories by leveraging its advanced capabilities in drug operations and successively launched new products such as metronidazole gel, laxative capsules and folic acid tablets on e-commerce platforms, which boosted its share of drug sales, increased the stores' traffic on e-commerce platforms and expanded brand influence of the Group.

Working with Industry Partners to Actively Engage in New Retail and Pharmacy Business

In 2020, the Group's e-commerce operation centre established a new retail station together with industry partners and conducted in-depth cooperation with O2O platforms such as Yaoshibang to continue its exploration in the new retail mode of drugs. In addition, various e-commerce sites set up online pharmacies on platforms such as Tmall, JD.com and Pinduoduo to jointly promote the development of pharmacy business on the e-commerce platforms, and maintain the sustained growth of the Group's pharmaceutical e-commerce performance while obtaining more customer traffic and improving product exposure.

Tracking Hot Topics among Users Closely and Launching Short Video and Live Broadcast Marketing

In 2020, the Group further strengthened the layout of e-commerce, followed the hot topics of users' attention, and increased the investment in short videos and live broadcast marketing. On the basis of the original drug station, Hangzhou station, Beijing station and Guangzhou station, secondary support teams such as promotion team, design team, after-sales team, live broadcast team, TikTok and Kwai team and content team have been successively established to conduct systematic management and mutual assistance of resources for live broadcast in each platform station, forming an efficient business cooperative operation model.

Expanding the Scale of CRM Operation Team and Focusing on Personalised Services to Achieve Consumption Upgrade

In 2020, the Group continued to expand the scale of its CRM operation team and set up customer service teams in Beijing, Guangzhou, Xi'an, Hangzhou and Danyang respectively, gradually improving the extension from products to services and acquiring new growth engines for the Group's performance. The CRM operation centre actively explored the "personalised sales model", understood the individual needs of each consumer through the service of professional sales teams and consumer data analysis to promote similar and related products, laying a foundation for further retention, conversion, repurchase, loyalty and fission of customers. Meanwhile, the CRM operation centre continuously upgraded and enriched the personalised marketing and product line and developed a series of product set under Burning Queen brand, which accumulated the traffic in the private domain through refined operation and realised service-based product repurchase and consumption upgrade.

Exploring New Models for Offline Channels to Create New Momentum for Marketing

Optimising Offline Sales Structure and Continuing to Explore New Marketing Models

In 2020, the Group adjusted the division of regions and the layout of business models based on the existing sales structure. The sales team was adjusted from three regions to six regions, with the addition of national key account ("**NKA**") division, community marketing division, control and sales business division and new products division. The NKA division was responsible for the refined management of national key accounts of chain stores. It formulated different sales policies according to the characteristics of different chains and created chain customer models, which greatly improved the operation quality of retail terminals. The new products division was responsible for the coordination and marketing planning of new products. It collaborated with emerging O2O and B2B platform partners to further integrate the resources of the B-end channel and offline terminal stores. At the same time, it gave joint performance incentives to the sales of the Two Teas and new products, which stimulated the morale of the sales team.

The Group successively launched Jianfei Orlistat, laxative capsules, Jinshutong, folic acid tablets, metronidazole gel and other new products in major pharmacy chains and terminal stores across the country, reshaping the product landscape of offline channels. In 2020, the Group established the control and sales business division and created a partnership mechanism, which founded a new nationwide controlled sales model and created a product series under controlled sales focusing on weight loss, chronic disease management and health and beauty. While continuing to explore new models for offline channels and creating new momentum for marketing, the Group also constantly improved its overall layout in the pharmaceutical industry.

Strengthening Supervision of Product Prices and Logistics Data and Ensuring the Healthy and Stable Market Development

In 2020, the Group completed the unified adjustment of online and offline product prices in coordination with distributors/sub-distributors of all levels and its partners, and strengthened supervision of product prices in sales channels. Through a series of measures such as monitoring online and offline product prices and dealing with bargain prices promptly by designated personnel, product prices were stabilised, which boosted the confidence of distributors/sub-distributors and safeguarded the healthy and stable development of the market. Meanwhile, the Group has strengthened the direct data connection management to distributors/sub-distributors, monitored the goods that have entered the warehouses of distributors/sub-distributors using the Group's logistic code system. By obtaining real-time data such as stock-out, stock-in and product serial number of distributors/sub-distributors, the Group effectively avoided overstocking, improved the management system of unregulated transregional sale, significantly reduced the phenomenon of unregulated transregional sale, and created a good market environment.

Launching a New Community Marketing Model and Creating a Closed Loop for Personalised and Offline Transactions

In 2020, during the work-from-home period due to the COVID-19 Pandemic, the Group swiftly adjusted its sales strategy and established a community marketing project team to promote all-staff marketing by using WeMall, communities and live broadcasts to build connections with customers. The sales conversion rate and repurchase rate were increased through community activities, product promotions, content forwardings. In addition, mechanisms such as distribution rebates and team incentives were used to enlarge the scale of the distribution team and expand the business of offline sales team by shifting from the "channel distribution" model to the "channel distribution + personal terminal distribution" model, which enriched the marketing ideas of the sales team, and closed up the loop for personalised and offline transactions, thereby laying a foundation for the integration of online and offline business. Since the launch of the community marketing project, more than 600,000 followers have been obtained, and the product repurchase rate has increased significantly. Furthermore, the one-to-one interaction with consumers has also provided the Group with more suggestions on product improvement and iteration.

Ensuring the Quality of New Products on the Market and Regulating Product Supply Chain Management

With the continuous enrichment of the Group's product lines through online and offline channels and in order to reduce the risks in the development and operation of new products, in 2020, the product operation centre strengthened the management of the supply chain of online and offline products and regulated the systems and processes of product approval, product supply and product operation. It also collaborated with the product research and development centre, the public relations centre, the integrated marketing centre, the production management centre and other departments, strictly enforced national and local laws and regulations, and jointly launched new products with good quality to the market timely, thus providing fundamental support and safety guard for the diversified development of the sales business.

Using Variety Shows and TV Dramas to Execute Scene Placement Marketing and Rejuvenate the Brand

Specifically Sponsoring Variety Shows and Continuously Promoting Brand Rejuvenation

To further enhance the brand reputation of Besunyen in the market and increase consumer recognition and awareness of the brand, in 2020, the Group specifically sponsored the first domestic campus music variety show "New Voices, Please Advise" (《新聲請指教》) to promote the rejuvenation of the brand and the display of the characteristics of Besunyen products from different perspectives with the help of the campus concept and popular music program. In 2020, the Group won the "Top Ten Cases of Brand Rejuvenation" (品牌年輕化十大案例) award and was on the "Big Health New Retail Brand Chart" (大健康新零售品牌榜) in the "Youth Chart — Favourite Brands among College Students in China 2020" (《青年榜–2020中國大學生愛用的品牌》). In addition, the Group specifically sponsored the first healing music and travel programme "Wonderful Time" (《美好的時光》) in China. The multi-dimensional product placement in various scenes in the programme created a real-life marketing channel for the brand.

Capitalising on Placement in TV Dramas to Promote the Brand with Content and Scene-based Marketing

In 2020, the Group continued to make efforts in content marketing and communicate with consumers through the scene-based communication of brand functions by the placement of TV dramas. There were four TV dramas with our product placement in 2020, including "The Best Partner" (《精英律師》), "Still Not Enough" (《還沒愛夠》) and "If Time Flows Back" (《如果歲月可回頭》) which were broadcasted during the prime time of high-rating platforms such as Beijing Television, Dragon Television, Jiangsu Television and Zhejiang Television and four major Internet platforms (IQiyi, Tencent Video, Youku and Mango TV) simultaneously, and "Miss Gu Who is Silent" (《沉默不語的顧小姐》), a web drama which was streamed on Tencent Video. Through the placement in TV dramas, the Group increased the exposure of Besunyen brand and empowered the brand with content marketing and scene-based marketing, continuously promoting brand rejuvenation.

Optimising Media Strategy, Embarking on a New Outdoor Marketing Model and Advertising More on High-speed Railway Media

In 2020, the Group joined hands with outdoor media across the country to embark on a new outdoor marketing model by taking advantages of the high arrival rate and the strong visual impact of outdoor media. In honour of the 20th anniversary of Besunyen's establishment, over 1,000 outdoor screens in 200 cities across the country including Beijing and Shanghai were illuminated, and different advertisements were designed for different cities, forming an online and offline interrelated marketing model. At the same time, the Group has increased its efforts in the advertising on high-speed railway media. With the advantages of high coverage rate, strong regional penetration and accurate access to high-consumption groups of high-speed railway media, the Group has continued to impact the eyes of consumers during the journey and achieved the effect of deep brand communication.

Upgrading Marketing Strategies, Promoting Socialised Dissemination of the Brand and Empowering a New Ecology of Health for the Public

Using Lift Advertising to Accurately Target Household Consumer Groups

In 2020, with the help of the big data and the resources of lift advertising of Xinchao Media, the Group placed the Besunyen advertisements into the communities, increasing the exposure of Besunyen brand in the daily living area of consumers. At the same time, the offline sales team carried out in-depth cooperation with the pharmacies closed to communities. Through the pattern of attracting the traffic by lift advertising and providing offline service, the offline sales team successfully activated the existing customers, acquired new consumers and realised the integrated service closed-loop.

Innovating Marketing Contents and Approaches and Highlighting the Wisdom of Brand Marketing

The Group always paid attention to the innovation of marketing contents and methods, and constantly expanded the brand marketing ideas and deepened the emotional resonance of consumers to the brand through the creative brand publicity. With a precise insight into the public health demands under the influence of the COVID-19 Pandemic, the Group created an interesting brand marketing activity centring on its four ace products named "Besunyen's Stratagems at Work" (《深宮職場「碧」有一計》), including the "Lipid Absorbing Stratagem" (Orlistat Capsules — lipid discharge and fat reduction), the "Waist Catching Stratagem" (Besunyen Slimming Tea — weight loss), the "Beauty Stratagem" (Day and Night White Recombinant Collagen Dressing — skin recovery) and the "Conscience Stratagem" (Herbal Tea — multiple benefits), which won the "Integrated Marketing Case Gold Award" at the 9th Socialised Marketing Forum and drew high attention from the working and young consumer groups.

Participating in Marathon Events and Enhancing the Brand's Health Image

In 2020, the Group specifically sponsored the "Chongqing Half Marathon" and the "Xiamen Huandong Half Marathon" to convey the idea of "healthy living and green exercise" to the public and communicate precisely with runners who set high standards for their figures, thereby continuously increasing the influence of and drawing attention to the brand. In the future, the Group will continue to deepen its efforts in the big health sector, spread the healthy concept of Besunyen brand in multiple dimensions, and empower a new ecology of health for the public.

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

In 2020, the Group was the title sponsor of the spring competition and autumn competition of the Academy Award of the 18th Advertisement and Art Festival for Chinese College Students and held the "Besunyen Cup" Public Welfare Advertising Contest. The contest spanned more than 30 provinces and cities and involved more than 60 online + offline lectures. The official proposition poster and strategy sheet covered 2,500 colleges and universities across the country. Collaborating with the Academy Award, the Group gained insights into the consumption psychology of young people and created a new campus marketing ecology by allowing college students to study the brand proactively and to interact with the Group profoundly, injecting unlimited youthful vitality into Besunyen brand.

Since the cooperation between Besunyen and the Academy Award, the number and performance of works have increased and improved every year. This year's "Besunyen Cup" public welfare advertisement invitation centred on Besunyen Fit Tea on the themes of the "National Beauty and Slimming Trend" and "SHOW TIME". The contest called for creative ideas in eight categories, including print advertisement, television advertisement, short video, advertising copywriting, marketing planning, etc., and collected a total of 22,874 outstanding works in 18,424 groups from college students nationwide.

Adhering to the Liberal and Innovative R&D Concept, Enhancing R&D Capabilities and Strengthening R&D Cooperation

Strengthening Its Own R&D Capabilities and Developing Products in Multiple Categories

In 2020, the Group continued to focus on the product strategy of "One Focus and Two Dimensions" in respect of research and development and unswervingly took "herbs and health regimen" as the cornerstone of the Group's diversified industrial layout. Through internal research and development, introduction from external parties as well as cooperation in research and development, the Group's research and development system and product strategy were adjusted to promote the development of the two major health care segments, namely weight loss and weight management as well as laxative and gastrointestinal health, while expanding into new product categories and markets.

To further promote the collaborative innovation and continuously improve the capability of product research and development, the Group participated in the "Modernisation of Chinese Medicine", a key research and development plan of the Ministry of Science and Technology, and established a cooperative research and development platform with various renowned research institutes such as Beijing University of Chinese Medicine. In 2020, the Group actively involved in the acquisition of intellectual property rights and obtained a number of national invention patents. Meanwhile, based on the various needs of business departments for the development of new products, the research and development focused on the development of products in multiple aspects and all categories to form a multi-category product structure and layout that was based on health food and expanded to drugs and ordinary food.

Taking Advantage of the R&D Capabilities of Zhongshan Wanhan and Wanyuan and Improving Offerings in the Pharmaceutical Product Chain

Both Zhongshan Wanhan and Zhongshan Wanyuan have the qualifications of high-tech enterprise. Zhongshan Wanhan is among the first batch of innovative benchmark enterprises in Zhongshan and is recognised as an engineering and technology centre in Guangdong Province and Zhongshan, whereas Zhongshan Wanyuan is recognised as an innovative research institution in Guangdong Province. In 2020, Zhongshan Wanhan and Zhongshan Wanyuan focused on the research and development of endocrine metabolites, ophthalmic drugs and antiviral drugs. Zhongshan Wanhan's levofloxacin eye drops and sodium vitreous acid eye drops obtained production approvals in April and June 2020, respectively. Furthermore, Zhongshan Wanhan's pharmacological studies of oseltamivir phosphate capsules and dry suspension were completed. Orlistat passed the registered production site inspection of the National Food and Drug Inspection Centre and the compliance site inspection organised by the Guangdong Drug Administration. In addition, Zhongshan Wanhan and Zhongshan Wanyuan attached great importance to intellectual property rights and both passed the intellectual property management system certification. The patents for drugs such as Orlistat, vortioxetine and eye drops are relatively complete.

Promoting Digital Transformation of Sales and Operation Platform and Enhancing Capability of Digital Operation

In 2020, the Group fully upgraded its sales and operation platform. In respect of drug management, the Hydee supply chain system was launched to ensure fast logistics distribution channels and good customer experience. The construction of supporting facilities for the WMS warehousing system was also commenced to further optimise the intelligent warehousing logistics distribution system and improve the standard of the supply chain management in e-commerce. Meanwhile, the Group established a fully digitalised warehouse for online and offline businesses to lay a foundation for the Group's digital transformation. In addition, the successful implementation of the e-commerce CRM middle platform provided a unified management platform for e-commerce operations and services, realised the digital reconstruction of supply, sales, inventory, logistics, finance and other business segments, drove the visualised operation of the whole business and channels, and improved the Group's capabilities of digital operation and management.

SOCIAL WELFARE

The Group has always been grateful in terms of giving back to society and actively fulfilled its social responsibilities. The Group partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund" for charity and public welfare undertakings including carrying out social assistance activities and providing services to the underprivileged, which has optimised the path for the 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 2020, in order to make contributions to the public welfare undertaking of ecological construction, the Group entered into cooperation agreements with Beijing Green Sunshine Environmental Protection Public Welfare Foundation and China Green Carbon Foundation, and donated RMB450,000 for the social welfare programmes such as "Tibet Ecological Construction and Protection Capability Building Programme" and "Special Fund for Combating Illegal Trade of Endangered Wildlife". Meanwhile, the Group cooperated with Beijing Overseas Community Affairs Development Foundation to make donation for poverty alleviation projects in Buda Xiahe Leke Village and Kule Airike Village, Moyu County, Xinjiang, and participated in the construction of school buildings and drinking facilities in the targeted poverty alleviation project in Putaokou Village. During the COVID-19 Pandemic, the Group launched the "Luminosity Plan Public Welfare Undertaking" (「光明計劃公益行動」) and donated over 600,000 pieces of goods and materials to part of designated hospitals in Hubei and Hunan Provinces jointly with charitable enterprises and individuals. The Group participated in nine public welfare donation projects and made donations of nearly RMB1 million in total for public social welfare undertakings.

AWARDS AND HONOURS

Winning the Social Responsibility Outstanding Enterprise Award

In January 2020, at the 2020 China Corporate Social Responsibilities Cloud Summit, the Group won the "2020 China Social Responsibility Outstanding Enterprise Award". Since its establishment, the Group has actively fulfilled its social responsibilities, adhered to the pursuit of product quality and corporate integrity in the industry, promoted the concept of health and constantly sought innovation and breakthroughs. These efforts have demonstrated the Group's practice of upholding integrity and social contribution as the core business philosophy. The Group always adheres to the principle of "small actions, wide dissemination". Through charitable activities such as promoting poverty alleviation and providing children's public welfare, the Group spreads the public welfare and calls for greater public participation.

OUTLOOK

Macro Economy

According to the economic data released by the National Bureau of Statistics, under the dual pressure of the COVID-19 Pandemic and the complex and severe situations in China and abroad in 2020, the national economy continued to recover steadily, and China became the only major economy that achieved positive growth worldwide in 2020. According to documents such as the Opinions on Implementing Healthy China Initiative (《關於實施健康中國行動的意見》), Healthy China Initiative (2019–2030) (《健康中國行動(2019–2030年)》) and "Healthy China 2030" Planning Outline (《「健康中國2030」規劃綱要》) issued by the State, the big health industry will serve as the focal point and new economic growth point for promoting the transformation and upgrading of economic structure and promoting the supply-side structural reform. With the continuous improvement of residents' income level, the accelerating upgrades of consumption structure, the aggravation of the ageing population and people's increasing requirements for the quality of life, the rigid nature of health food is gradually strengthened, and the big health industry has ushered in unprecedented opportunities and broad prospects for development. Compared with developed markets overseas, the overall health food market size in China is still small. Meanwhile, the expansion of consumer groups and the improvement in consumption power will gradually release the consumption potential of the health food market, bringing in a blue ocean for the industry.

Strengthening Capability in E-commerce, Actively Deploying Resources in New Business Formats and Increasing the Flow of Personalised Business

The Group will continue to take e-commerce platforms as the pivot of sales, closely follow development trends in the industry, strengthen cooperation with major e-commerce platforms and industry partners, and explore new retail business and pharmacy business to promote the upgrade of the business of e-commerce platforms. In the future, the Group will continue to increase the traffic operation in private domain, extend its business from products to services, promote the construction of a refined and customised member service system, and create a commercial closed loop for traffic attraction marketing and service.

Strengthening R&D Capability, Optimising Product Structure and Enhancing Brand Competitiveness

The Group will continue to focus on the product strategy of “One Focus and Two Dimensions”. While cultivating the two major areas of weight loss and weight management as well as laxative and gastrointestinal health, the Group will continue to roll out new products to meet the actual requirements and consumption habits of users, develop herbal health care functional food and actively engage in the new area of health and beauty to enrich our product offerings. Moreover, taking advantage of the research and development capability and product reserves in Beijing and Zhongshan, the Group will continue to expand the drug categories, developing the entire industry chain of drugs, health food, medical devices and ordinary food.

Focusing on Innovative Marketing Strategies and Continuously Promoting Brand Socialisation and Rejuvenation

The Group will continue to make efforts in brand marketing. By upgrading marketing strategies and optimising media communication programs, the Group will output a younger brand tonality and create an unique way for the brand rejuvenation. In addition, the Group will actively explore a marketing model suitable for itself. By means of the efficient communication manner of social marketing, the Group will accurately match the product and psychological needs of the target consumer group, deepen consumer emotional connection with the brand through visual experience and content understanding, and continue to promote brand socialisation.

Paying Attention to Pharmaceutical Consumption and Innovative Medical Products and Actively Exploring Investment Opportunities

In terms of investment, the Group will focus on exploring two fields in pharmaceutical consumptions and innovative medical products, pay attention to consumables of new pharmaceutical products and invest in pharmaceutical projects involving new technologies of dosage forms. In view of the above, the Group will strengthen participations in the physical operation of pharmaceutical and consumer investment funds to achieve strategic investments in pharmaceutical consumptions. In terms of innovative medical products, the Group, with its extensive industrial investment experience and resources, intends to invest in new medical product projects with innovative potential by investing in or establishing project funds. By leveraging its investment in funds, the Group will improve the efficiency of capital utilisation and reduce investment management risks, while grasping project investment opportunities acutely by exerting industry experts with their perspectives, experience and resources.

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 2020!

Chairman and Chief Executive Officer
Zhao Yihong

Hong Kong, 12 March 2021

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	
	2020	2019
	RMB'000	RMB'000
Revenue	**1,292,711**	812,160
Cost of sales	**(379,385)**	(227,708)
Gross profit	**913,326**	584,452
Other income	**26,718**	12,642
Selling and marketing expenses	**(661,514)**	(449,987)
Administrative expenses	**(134,420)**	(107,770)
Research and development costs	**(93,802)**	(47,363)
Other expenses	**(3,682)**	(4,454)
Other losses, net	**(12,864)**	(1,443)
Gain on disposal of subsidiaries	**80,108**	222,276
Operating profit	**113,870**	208,353
Finance income	**2,758**	3,309
Finance costs	**(6,306)**	(5,593)
Finance costs, net	**(3,548)**	(2,284)
Share of profits/(losses) of investments accounted for using the equity method	**4,736**	(12,862)
Profit before income tax	**115,058**	193,207
Income tax credit/(expense)	**15,801**	(4,961)
Profit for the year	**130,859**	188,246
Profit attributable to:		
— Owners of the Company	**45,479**	162,348
— Non-controlling interests	**85,380**	25,898
Total comprehensive income	**130,859**	188,246
Total comprehensive income attributable to:		
— Owners of the Company	**45,479**	162,348
— Non-controlling interests	**85,380**	25,898
	130,859	188,246

REVENUE

	For the year ended 31 December			
	2020		2019	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Revenue:				
Besunyen Detox Tea	**191,889**	**14.8%**	176,541	21.7%
Besunyen Slimming Tea	**198,946**	**15.4%**	185,764	22.9%
Besunyen Fit Tea	**94,425**	**7.3%**	62,828	7.7%
Weight-loss medicines	**607,313**	**47.0%**	324,508	40.0%
Other products and medicines	**200,138**	**15.5%**	62,519	7.7%
Total	**1,292,711**	**100.0%**	812,160	100.0%

The revenue of the Group was RMB1,292.7 million in 2020, representing an increase of 59.2% from that of RMB812.2 million in 2019, mainly due to the product diversification and increased sales of products resulting from further development on e-commerce platforms and the expansion of other sales channels.

In particular, growth is especially obvious in the two segments of weight-loss medicines and other products and medicines. The revenue of weight-loss medicines was RMB607.3 million in 2020, representing an increase of 87.1% as compared with that of RMB324.5 million in 2019. The revenue of other products and medicines was RMB200.1 million in 2020, representing an increase of 220.2% as compared with that of RMB62.5 million in 2019.

The percentages of sales revenue of weight-loss medicines and other products and medicines increased from 40.0% and 7.7% in 2019 to 47.0% and 15.5% in 2020, respectively. The percentages of sales revenue of Besunyen Detox Tea and Besunyen Slimming Tea decreased to 14.8% and 15.4% in 2020 from 21.7% and 22.9% in 2019, respectively.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of sales	**379,385**	227,708
Gross profit	**913,326**	584,452
Gross profit margin	**70.7%**	72.0%

The Group's cost of sales increased by 66.6% from RMB227.7 million in 2019 to RMB379.4 million in 2020, mainly due to the increase in cost resulting from increased revenue.

The gross profit margin of the Group decreased to 70.7% in 2020 from that of 72.0% in 2019, mainly due to the decreases in the percentages of sales revenue of high gross profit margin products, Besunyen Detox Tea and Besunyen Slimming Tea, resulting from the product diversification.

OTHER INCOME

In 2020, the Group's other income was RMB26.7 million, which mainly comprised government grants of RMB18.2 million (2019: RMB6.5 million) provided by the PRC government to support the Group's operation of business and interest income of RMB3.6 million (2019: RMB2.0 million).

SELLING AND MARKETING EXPENSES

	For the year ended 31 December			
	2020		2019	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising costs	**115,473**	**8.9%**	116,372	14.3%
Marketing and promotional expenses	**352,010**	**27.2%**	169,853	20.9%
Employee benefit expenses	**142,968**	**11.1%**	114,059	14.1%
Others	**51,063**	**4.0%**	49,703	6.1%
Total	**661,514**	**51.2%**	449,987	55.4%

The selling and marketing expenses of the Group increased from RMB450.0 million in 2019 to RMB661.5 million in 2020.

The advertising costs decreased by RMB0.9 million in 2020 as compared to the same period of 2019, basically aligned with that of the previous year.

The marketing and promotional expenses increased by RMB182.2 million in 2020 as compared to the same period of 2019, mainly due to the increase in the expenditure of marketing and promotion via e-commerce platforms.

The employee benefit expenses increased by RMB28.9 million in 2020 as compared to the same period of 2019, mainly due to the increase in the number of and the performance-based salary of sales personnel, as a result of the increase in revenue in 2020.

ADMINISTRATIVE EXPENSES

	For the year ended 31 December			
	2020		2019	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Employee benefit expenses	**43,921**	**3.4%**	42,679	5.3%
Office expenses	**8,038**	**0.6%**	7,157	0.9%
Professional service fees	**49,041**	**3.8%**	25,642	3.1%
Entertainment and travelling expenses	**5,996**	**0.5%**	7,816	1.0%
Others	**27,424**	**2.1%**	24,476	3.0%
Total	**134,420**	**10.4%**	107,770	13.3%

The Group's administrative expenses increased by 24.7% from RMB107.8 million in 2019 to RMB134.4 million in 2020, mainly due to the increase in professional service fees of the Group.

RESEARCH AND DEVELOPMENT COSTS

	For the year ended 31 December			
	2020		2019	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**93,802**	**7.3%**	47,363	5.8%

The Group's research and development costs increased by 97.9% from RMB47.4 million in 2019 to RMB93.8 million in 2020, mainly due to the increased internal research and development in the medicine segment as well as outsourced research and development.

OTHER LOSSES, NET

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Other losses, net	**12,864**	1,443

The Group's other net loss increased from RMB1.4 million in 2019 to RMB12.9 million in 2020, mainly due to the impairments of the right-of-use asset and certain idle intangible assets.

GAIN ON DISPOSAL OF A SUBSIDIARY

Gain on disposal of a subsidiary was RMB80.1 million in 2020 as a result of the disposal of Beijing Shenhuibiyuan Cloud Computing Technology Co., Ltd. (北京申惠碧源雲計算科技有限公司) ("**Beijing Shenhuibiyuan**"), details of which are set out in the section "Material Acquisitions or Disposals" below (2019: gain on disposal of subsidiaries of RMB222.3 million, in which RMB225.6 million was attributed to the disposal of 100% equity interests in Beijing Chang Sheng Business Consulting Co., Ltd. (北京暢升商務諮詢有限公司) ("**Beijing Chang Sheng**") and its wholly-owned subsidiary, namely Beijing Besunyen Property Management Co., Ltd. (北京碧生源物業管理有限公司), 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**"); and investment loss on the disposal of 100% equity interest in Beijing Besunyen Food and Beverage Co., Ltd. (北京碧生源食品飲料有限公司) was RMB3.3 million).

TAXATION

As compared to the income tax expense in 2019 of RMB5.0 million, the income tax credit of the Group in 2020 was RMB15.8 million, which were mainly attributable to the recognition of previously unrecognised deductible tax losses and temporary differences of the Group, as well as the application of the preferential tax rate by certain subsidiaries of the Group.

THE GROUP'S TOTAL COMPREHENSIVE INCOME FOR THE YEAR

Due to the aforementioned factors, the total comprehensive income in 2020 was RMB130.9 million (2019: the total comprehensive income of RMB188.2 million).

LIQUIDITY AND CAPITAL RESOURCES

In 2020, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities and proceeds from the disposal of a subsidiary 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	
	2020	2019
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	**75,147**	(42,921)
Net cash inflow from investing activities	**170,851**	481,399
Net cash inflow/(outflow) from financing activities	**43,138**	(228,946)
	289,136	209,532
Effects of changes in exchange rate on cash and cash equivalents	**(16,117)**	(488)
Net increase in cash and cash equivalents	**273,019**	209,044

In 2020, the net cash inflow from operating activities of the Group was RMB75.1 million (2019: the net cash outflow of RMB42.9 million), which was mainly due to the cash generated from operating profit during the year. In 2020, the net cash inflow from investing activities of the Group was RMB170.9 million, which was mainly attributable to the net cash received from the disposal of 100% equity interest in Beijing Shenhuibiyuan (2019: the net cash inflow of RMB481.4 million, which was mainly attributable to the cash received from the disposal of 100% equity interests in Beijing Chang Sheng and its wholly-owned subsidiary, namely Besunyen Property). In 2020, the net cash inflow from financing activities of the Group was RMB43.1 million, which was mainly due to the cash received from borrowings (2019: the net cash outflow from financing activities of RMB228.9 million, which was mainly due to the distribution of dividends and the repayment 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 133.5% from RMB308.8 million as at 31 December 2019 to RMB720.9 million as at 31 December 2020. Meanwhile, the Group had bank borrowings of RMB159.8 million as at 31 December 2020, of which the fixed-rate bank borrowings amounted to RMB88.3 million (as at 31 December 2019: RMB94.8 million, of which the fixed-rate bank borrowings amounted to RMB61.0 million).

CAPITAL EXPENDITURE

In 2020, the cash payments for capital expenditure of the Group amounted to RMB173.7 million (2019: RMB118.3 million). The following table sets forth the capital expenditure paid by the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Property, plant and equipment	**123,443**	45,880
Investment properties	**1,376**	57,870
Assets classified as held for sale	**47,541**	14,204
Intangible assets	**1,359**	338
Total	**173,719**	118,292

INVESTMENT PROPERTIES

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Investment properties	**9,500**	9,424

The Group owns certain properties in Changcheng Building located at No.3000, Zhongshan Road North, Putuo District, Shanghai 200061. The above properties of the Group are held for leasing and therefore classified as investment properties. As at 31 December 2020, the carrying amount of investment properties was RMB9.5 million (2019: RMB9.4 million).

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Investments accounted for using the equity method	**55,890**	79,276

As at 31 December 2020, the investments accounted for using the equity method were mainly Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. and Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership).

INVENTORIES

The Group's inventories included raw materials and packaging materials, work in progress (semi-manufactured goods) and finished goods. The following table sets forth the inventory analysis of the Group as at the dates indicated:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials and packaging materials	**48,351**	15,550
Work in progress	**5,052**	2,443
Finished goods	**85,991**	42,191
Total inventories	**139,394**	60,184

The turnover of the Group's inventories in 2020 (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 96 days (2019: 73 days).

RISK OF FOREIGN EXCHANGE RATE

Almost all 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, risk of foreign exchange rate mainly comes from the assets denominated in Hong Kong dollar and US dollar.

For the year ended 31 December 2020, the Group's net profit from foreign exchange forward contracts was RMB11.5 million (2019: Nil).

MATERIAL ACQUISITIONS OR DISPOSALS

On 14 August 2020, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**"), Basic Venture Limited ("**Basic Venture**") and the Company and Besunyen (Hong Kong) Co., Ltd. (as the Guarantors) entered into an equity transfer agreement, pursuant to which Beijing Outsell has conditionally agreed to sell and Basic Venture has conditionally agreed to purchase 100% equity interest in Beijing Shenhuibiyuan. The final consideration of the disposal is RMB478.3 million, payable by Basic Venture entirely in cash. Upon the completion, Beijing Shenhuibiyuan ceased to be a subsidiary of the Company. The equity transfer agreement and the transaction contemplated thereunder have been approved by the shareholders of the Company on the extraordinary general meeting convened on 15 September 2020, and the closing of such transaction took place on 21 September 2020. For details, please refer to the announcements of the Company dated 14 August 2020 and 15 September 2020 as well as the circular of the Company dated 28 August 2020.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures in 2020.

PLEDGE OF ASSETS

As at 31 December 2020, the Group received certain bank borrowings of RMB140.5 million through pledging properties with total book value of RMB104.9 million and land use rights with total book value of RMB42.5 million to banks and guarantee companies (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).

GEARING RATIO

As at 31 December 2020, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 34.7% (2019: 35.3%).

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2020, the Group had no material contingent liabilities or guarantees (2019: Nil).

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had capital commitments of RMB52.4 million (2019: RMB117.0 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 comprehensive and impose effective control over design and execution. The Group has passed the certifications of quality management systems such as ISO9001, ISO22000 and HACCP, ensuring its 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 ensured its 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 endeavoured 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 understood 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 2020, the Group provided generous social insurance benefits to its employees to motivate their proactivity at work and heighten their sense of belonging. The Group also understood the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group placed emphasis on supplier selection and encouraged 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 abided by the principles of honesty and trustworthiness and committed itself to consistently providing quality products to establish a reliable service environment for its customers. For the year ended 31 December 2020, there was no significant or material dispute between the Group and its suppliers and/or customers.

HUMAN RESOURCES MANAGEMENT

The Group regarded high-quality employees as its most important resource. As at 31 December 2020, the Group had 1,437 employees in mainland China and Hong Kong (2019: 1,187 employees). The staff costs of the Group (including remunerations of the Directors) were RMB226.9 million for the year ended 31 December 2020 (2019: RMB191.7 million). Employee remuneration was 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 included discretionary bonus and share options.

The Group placed emphasis on the recruitment, motivation and retention of suitable talents. During the year, the Directors and certain senior and middle-level management executives were entitled to 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. The Company has also adopted a restricted share award scheme to grant restricted shares to its eligible employees. The Company adopted the aforementioned methods, among others, to incentivise and encourage them to work hard to enhance the value and foster better long-term development of the Group.

The Group put emphasis on and invested considerable efforts in the continuous education and training of its staff so as to keep enhancing their knowledge, skill and teamwork spirit. The Group often provided internal and external training courses to relevant staff as required.

FINAL DIVIDEND

Taking into account the Group's annual performance, including the gain on the disposal of a subsidiary, the Board has resolved to recommend for declaration and payment of a final dividend of HK3.75 cents per share (approximately HK$61,133,000 in aggregate) for the year ended 31 December 2020, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (the "**AGM**") to be held on 25 May 2021. The final dividend will be paid on or about 16 June 2021 to the shareholders whose names appear on the register of members of the Company on 1 June 2021.

DIRECTORS

Executive Directors

Mr. ZHAO Yihong, aged 54, 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, the nomination committee and the strategic investment committee of our Company and a director of several 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 31 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 52, is our co-founder, Vice Chairman and Vice President and was appointed as an executive Director of our Company in October 2009. Ms. Gao is also a director of several 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 69, was appointed as a non-executive Director of our Company in October 2009. Mr. Zhuo is also the chairman of the strategic investment committee of our Company and a director of several subsidiaries of our Group. Mr. Zhuo has more than 46 years of experience in the field of enterprise management and capital markets. Mr. Zhuo is the chairman and a managing partner of Vstar 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 56, 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 32 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. He has served as an independent director of NavInfo Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002405) and Ronglian Group 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 54, 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, the nomination committee and the strategic investment 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). Mr. He has served as a non-executive director of Yunnan Water Investment Co., Limited (a company listed on the Stock Exchange, stock code: 6839). Mr. He assumes several social positions, including a member of the Sixth Session of Issuance Examination Committee (GEM) of China Securities Regulatory Commission, a member of the Ninth Beijing Haidian District Committee of the Chinese People's Political Consultative Conference, a vice chairman of the Board Secretary Committee of China Association for Public Companies, a deputy secretary-general of The Listed Companies Association of Beijing, a vice president of Western Returned Scholars Association ANZ branch, a guest teacher of the School of Accountancy of Central University of Finance and Economics and a guest teacher of University of Science and Technology Beijing. He has won several prizes and social recognitions, including China CFO of the Year 2015 by New Fortune Magazine, The Most Popular CFO among Investors of the Year 2012 by the Chartered Institute of Management Accountants and Golden Shield Award for Excellent Board Secretary of China's Listed Companies of the Year 2014. Mr. He received a bachelor's degree in engineering from Nanjing University of Science and Technology in July 1987, a master's degree in engineering from University of Science and Technology Beijing in March 1992 and a master's degree in financial mathematics from Victoria University of Wellington in New Zealand in June 2000.

Mr. Fu Shula, aged 65, was appointed as an independent non-executive Director of our Group in April 2019. He is the chairman of the remuneration committee and a member of the audit committee and the nomination committee of our Company. From 1984 to 2015, he 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. PENG Wei, aged 58, 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 several subsidiaries of our Group. Ms. Peng joined our Group in October 2017 and has more than 32 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.

Ms. WANG Juan, aged 45, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 24 years of experience in accounting, finance and tax. Between 1997 and 2000, Ms. Wang worked for PricewaterhouseCoopers and lastly as a senior tax consultant. Between 2008 and September 2013, Ms. Wang served as deputy chief financial officer of Beijing Media Corporation Limited (a company listed on the Stock Exchange, stock code: 1000). Ms. Wang graduated from the Department of Accounting of Capital University of Economics and Business with a bachelor's degree in economics in 1997. Ms. Wang obtained confirmation from the Stock Exchange for her meeting qualification as a company secretary under the Listing Rules and is a member of the Institute of Certified Management Accountants in the United States and a fellow of the Institute of Public Accountants in Australia and the Institute of Financial Accountants in the United Kingdom.

Mr. YU Hongjiang, aged 56, is our Vice President principally in charge of our internal audit. Mr. Yu is also a director and the legal representative of several subsidiaries of the Group. Mr. Yu joined our Group in July 2000 and has more than 30 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 52, is our Vice President principally in charge of our public relationships. Mr. Lin joined our Group in September 2012 and has over 31 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 37, 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 13 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.

Mr. QIN Pu, aged 40, is our Chief Strategy Officer and Chief Investment Officer. Mr. Qin joined our Group in December 2019 and has more than 18 years of experience in the healthcare industry in China and overseas, including both sides for government authorities and corporate, investment and financing, demand side and supply side, etc. Between July 2016 and December 2019, Mr. Qin served as a senior vice president of 深圳碳雲智能科技有限公司 (Shenzhen iCarbonX Limited*). Between November 2009 and June 2016, Mr. Qin served as the industry principal for healthcare and life sciences of SAP Greater China and the industry partner of the SAP private equity team in Asia Pacific. Before that, Mr. Qin has worked in turn for National Institute of Hospital Administration of Ministry of Health in China, Healthe Group in Australia, etc. Mr. Qin graduated from the School of Mathematical Sciences of Peking University with a bachelor's degree in information and computational sciences in 2003.

* *For identification purpose only*

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

The Group has always attached great importance to and actively participated in ESG activities. The Group participated in the "Evaluation on Technology System Research based on Compound Chinese Medicine Healthcare Products with Authentication and Establishment of Demonstrative Research and Development Platform", which is a key special topic under the "Research on Modernisation of Traditional Chinese Medicine" organised by the Ministry of Science and Technology of the PRC and a major research and development plan of the State. Through its participation in the topic, the Group intended to leverage a national platform to make contributions to the development and application of traditional Chinese medicine and continuously launch a series of products for weight control and intestinal health in order to promote and improve people's well-being.

Environmental protection has become one of the important standards for measuring the operation and management level of the Group. The Group continued to push forward its reform plans such as "lean production", "clean production" and "green office" and implement its business philosophy of "Healthy China with Green Products". Through optimising its production process, upgrading its machinery and equipment, and eliminating its obsolete production capacity, the Group continued to improve its efficiency of energy use so as to facilitate energy conservation and emission reduction.

Human resources are the most important resources for sustainable corporate development. The Group attached great importance to and cared about talent introduction practice of "selection, cultivation, utilisation and retention", adhered to its human resources management principle of "striver-oriented" and implemented its talent appointment mechanism of "promoting those with better performance" and its performance appraisal mechanism of "no pains, no gains" to effectively unleash the potential and creativity of its employees. Taking into account the actual conditions of the Group and benchmarking enterprises in the industry, the Group has enriched and improved its employee welfare protection system to promote the sense of belonging and happiness of its employees.

The Group always adhered to the concept of achieving synchronised growth of business with the development of the motherland by cultivating the three-love principle of country, position and family with its employees through the labour union and grassroots of the Party, vigorously advocating the spirit of dedication to society and actively participating in social welfare activities. The Group participated in numerous welfare activities, including the targeted poverty alleviation project of the "10,000 enterprises assisting 10,000 villages", the "Wild Fauna and Flora Guardian Action", the "Battle for Children's Homeland in Animal Husbandry Area", the "Tibet Ecological Construction and Management and Protection Building Project" and the "Battle of the Pandemic", for consecutive years.

COMMUNICATION WITH STAKEHOLDERS OF THE GROUP

The Group's stakeholders include its investors, employees, suppliers and customers, consumers, the government and media. The Group recognised that the health development of an enterprise was inseparable from the close participation and active interaction with its stakeholders, and was committed to maintaining its communication and connection with its stakeholders by means of general meetings, board meetings, roadshows, result announcements, periodic publication of newsletter to protect the legitimate rights and interests of its stakeholders.

In 2020, the Group maintained communication with its major stakeholders on the following issues:

Investors

For the Group's operation condition and investors' interests: the Group established a communication mechanism for major events for its investors and effectively communicated with its investors by ways of, among other means, general meetings, board meetings, result announcement conferences and issuing public relation materials and annual reports to timely disclose the Group's operation and material changes, protecting the rights and interests of its investors.

Employees

For their rights and interests as well as our business operation: the Group effectively protected the legitimate rights and interests of its employees from infringement by improving its employee representative meeting system and establishing its grassroot party organization. During the year, the Group organised various production safety education activities, convened meetings, built a learning platform and carried out a number of training and learning activities for its employees, such that they were closely involved in the business operation of the Group and proactively made their suggestions for the sustainable development of the Group.

Customers and Suppliers

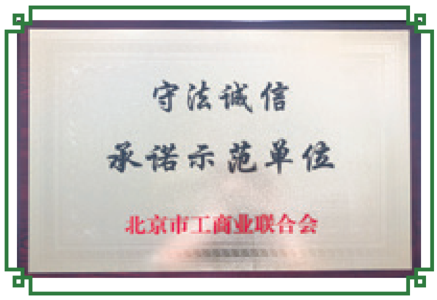
For our product quality and contract compliance: the Group regarded product quality and safety as the first priority for its survival and development, thus upholding its policy that production and operation must be strictly implemented in accordance with quality management systems such as ISO9001 and ISO22000. In addition, the Group, during the year, invited its customers and suppliers to visit and communicate with the Company to deepen their understandings of our supply chain, thereby strengthening our cooperation with them. At the same time, the Group strengthened its standards for review on the performance of its suppliers and channel customers and unannounced inspection with a view to prohibiting unqualified products from entering the market.

Consumers

For our product quality and services: the Group established a professional customer service centre with 400 hotlines for consumer enquiries and complaints equipped with professional pharmacists and nutritionists to provide its consumers with comprehensive health advisory services and recommended high-quality products.

Meanwhile, the Group established and gradually improved its consumer complaint management system to collect and answer questions arising from its consumers and satisfy their reasonable requirements. In 2020, the Group was awarded "the Best Public Praise Award for New Consumption" (新消費最佳口碑獎) by China Business Journal.

Government



For our corporate compliance with the laws, compliant operation and performance on our social responsibilities: integrity and compliant operation are the basic principle of the Group's operation and management. Internally, the Group advocated its employees to work with integrity, incorruptibility and discipline. Externally, it strived to participate in various social welfare activities to actively perform its corporate social responsibilities in aspects such as poverty alleviation, education and public welfare, assistance for those who need helps, disaster relief, environmental protection and wildlife protection.

Media

The Group has been taking initiatives to maintain an effective communication with media. Currently, the Group established a "24/7" communication mechanism with a number of mainstream medias, including Xinhuanet.com and People.cn, to announce various information through media meetings, forums, salon and other forms for supervision and inspection by the media.

In 2020, the Group participated in the "2020 West Lake Forum of Health Industry" and was awarded the "West Lake Award" by China Medical Pharmaceutical Material Association.

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 2020 to 31 December 2020.

The Group has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide in 2020.

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 Environment, 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. Guangdong 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.

I. ENVIRONMENTAL PROTECTION

Environmental protection is the responsibility and obligation that every enterprise and individual must fulfill. The Group strictly complied with the relevant laws and regulations, including the Environmental Protection Law of the People's Republic of China and the Cleaner Production Promotion Law of the People's Republic of China. The Group advocated green production and office to continuously fulfill its responsibility of environmental protection. By optimising its production process, upgrading its production equipment, coordinating its production and sales, monitoring the emissions of exhaust gas and wastewater and other means, the Group further promoted clean and safe production, continued to improve the efficiency of energy use, reduced energy consumption, and reduced the emissions of exhaust gas and wastewater.

(I) Emissions

1. Exhaust Gas and Greenhouse Gas Emission Management

The Group strictly complied with the relevant laws and regulations, including the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and the Integrated Emission Standard of Air Pollutants, for the emissions of exhaust gas and greenhouse gas. The production department of the Group further promoted the "lean production" and "clean production" plans by organising and implementing equipment upgrades and staggered productions. Combined with the continuous optimization of technology and management measures, it reduced energy consumption and implemented the main responsibility of energy conservation and emission reduction to control the emission of pollutants, thereby developing a green and low-carbon economy.

The Group has adopted various measures to reduce exhaust gas emission, including but not limited to:

1) adoption of a centralised production model to shorten its production cycle and achieve energy conservation during the COVID-19 Pandemic;

2) promotion of the coordination mechanism of production, supply and sales for staggered production and control over energy consumption;

3) elimination of obsolete, outdated and high-energy-consuming machinery and equipment and implementation of equipment upgrades;

4) operation of boilers and water pumps in stages according to weather and temperature and low temperature operation of boilers during their rest periods; and

5) monitoring and ensuring safe operation of canteen oil-smoke purification equipment and labouratory exhaust gas purification equipment.

In 2019 and 2020, the Group's emissions of exhaust gas and greenhouse gas were as follows:

Item	Year	Unit	Emissions
Industrial exhaust gas	2020	m^3	1,999,877
	2019	m^3	1,108,827
Sulphur dioxide	2020	kg	3
	2019	kg	4
Nitrogen oxides	2020	kg	186
	2019	kg	152
Greenhouse Gas	2020	T	2,442
	2019	T	3,212

In 2020, the Group's industrial exhaust gas emission was 1,999,877 standard m^3, representing 573 standard m^3 of exhaust gas generated per ton of finished products. Compared with 2019, industrial exhaust gas emission increased by 891,050 standard m^3, representing a decrease of 83 standard m^3 of exhaust gas generated per ton of finished products. The increase in the total amount of industrial exhaust gas emission was due to the expansion of pharmaceutical production of Zhongshan Wanhan. Notwithstanding, exhaust gas emission per unit of finished products has been reduced, and the initial success in energy conservation and emission reduction measures has achieved.

In 2020, the Group's greenhouse gas emission was 2,442 tons, representing 0.7 ton of greenhouse gas generated per ton of finished products. Compared with 2019, greenhouse gas emission decreased by 770 tons, which is an impressive result showing the effectiveness of energy-saving and emission reduction measures, including the "lean production" and "clean production".

2. *Sewage Treatment*

The Group strictly complied with the relevant laws and regulations, including the Law of the People's Republic of China on the Prevention and Control of Water Pollution, the Technical Policy on Urban Sewage Treatment and Pollution Prevention and the Discharge Standard of Pollutants for Municipal Sewage Treatment Plant, and continuously strengthened its management of sewage discharge.

The Group's sewage mainly generated from product production and daily office operation. The sewage was discharged to special sewage treatment companies through municipal pipeline network for centralised sewage treatment, ensuring the compliant treatment of sewage.

The Group adopted various measures to reduce sewage discharge, including but not limited to:

1) organising environmental protection and energy conservation production trainings regularly to improve its employees' operational skills and environmental awareness;

2) promoting the "multi-use of water" plan by improving the recycling and reuse of water resources and reducing the generation of sewage; and

3) conducting regular inspections on the sewage discharge equipment to avoid environmental pollution due to leakage of sewage.

In 2020, the Group discharged 4,589 tons of industrial sewage, representing 1.31 tons of sewage discharged per ton of finished products. Compared with 2019, the discharge volume of industrial sewage increased by 306 tons, representing a decrease of 1.2 tons of sewage discharged per ton of finished products, which means a further improvement of the utilisation efficiency of water resources.

3. Waste Disposal

The Group strictly complied with laws and regulations including the Cleaner Production Promotion Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, the Measures of the People's Republic of China for the Prevention and Control of Environmental Pollution by Waste Chemicals, the Measures for the Administration of Recycling of Renewable Resources and the Measures for the Administration of Municipal Domestic Waste, and scientifically and reasonably disposed of various wastes generated during its production and office operation.

The Group's wastes were generated from its production workshops, offices, canteens and labouratories, which were mainly non-hazardous wastes such as damaged packaging materials, office wastes and after-meal wastes, as well as a small amount of hazardous wastes such as labouratory testing reagents and those substances generated during the pharmaceutical production.

The Group adopted the following measures to reduce the emission of wastes and hazardous substance:

1) promoting waste classification by setting up various recycling bins with different waste classification labels in its offices and production areas;

2) implementing the "lean production" plan to advocate resource conservation and strengthening the reuse of packaging materials such as cartons;

3) reasonable scheduling for centralised laboratory testing to reduce the use of testing chemical reagents; and

4) strengthening its management of hazardous wastes and engaging professional companies for centralised disposal.

In 2019 and 2020, the Group's waste discharges were shown as belows:

Item	Year	Unit	Emissions
Hazardous Wastes	2020	T	11.5
	2019	T	9
Non-hazardous Wastes	2020	T	180
	2019	T	22.5

In 2020, the Group generated a total of 191.5 tons of wastes, including 180 tons of non-hazardous wastes and 11.5 tons of hazardous wastes, representing 0.05 ton of non-hazardous wastes and 0.003 ton of hazardous wastes generated per ton of finished products. Compared with 2019, the discharge of wastes increased by 160 tons, mainly due to a significant increase in the pharmaceutical production of Zhongshan Wanhan and an increase in the headcounts for production and office operation.

(II) Use of Resources

1. Energy Conservation

The main energy consumption of the Group were electricity, natural gas and fuel. The Group improved its energy management system, vigorously promoted new energy-saving technologies and standardised its production processes to improve the efficiency of energy consumption.

In 2019 and 2020, the Group's energy consumptions were as follows:

Item	Year	Unit	Usage
Electricity	2020	kWh	5,933,720
	2019	kWh	4,622,671
Natural Gas	2020	m^3	117,121
	2019	m^3	60,578
Fuel	2020	L	324,388
	2019	L	431,912

In 2020, the Group consumed 5,933,720 kWh of electricity, representing 1,700 kWh of electricity consumed per ton of finished products. Compared with 2019, the electricity consumption increased by 1,311,049 kWh.

In 2020, the Group consumed a total of 117,121 m^3 of natural gas, representing 34 m^3 of the natural gas consumption per ton of finished products. Compared with 2019, the usage of natural gas increased by 56,543 m^3. The main reason was that the pharmaceutical production of Zhongshan Wanhan increased significantly, resulting in an increase in consumption of electricity and natural gas.

In 2020, the Group consumed a total of 324,388 litres of fuel, which was mainly used for office vehicles, representing a decrease of 107,524 litres as compared with 2019. The Group has achieved remarkable results in its measures to encourage its employees to travel by public transportation.

2. *Water Conservation*

The Group mainly drew water from municipal water sources to meet its production needs in terms of securing water sources. All employees of the Group fulfilled their commitments to water conservation and environmental protection. Each department has formulated water-saving measures based on its actual operation circumstance, including but not limited to upgrading and transforming water facilities, attaching great importance to the daily inspection and maintenance of water equipment and continuously strengthening water management, so as to improve the utilisation efficiency of water resources.

In 2020, the Group consumed a total of 411,273 tons of water, representing 118 tons of water consumption per ton of finished products. Compared with 2019, water consumption increased by 366,925 tons, mainly due to the significant water consumption for infrastructure projects such as new plants and the expansion of production capacity of pharmaceutical factories of Zhongshan Wanhan and Zhongshan Wanyuan.

3. *Packaging Materials*

The Group further improved the "List of Qualified Suppliers", "Packaging Material Procurement System", "Production Material Procurement System", "Packaging Material Recycling Management Regulations" and other systems to regulate the management of packaging material procurement, warehousing after inspection and acceptance as well as production material procurement and recycling so as to reduce packaging material wastes. The Group has been committed to procuring packaging materials which meet the national safety standards and prohibiting unqualified packaging materials from entering its production process.

The packaging materials consumed by the Group during its production were mainly carton, packaging box, iron box, filter paper and PE film. Through measures such as upgrading and transforming production line equipment, promoting machine automation and recycling of outer packaging box, the Group has achieved its dual management goals of improving production efficiency and reducing the damage rate of packaging materials.

In 2019 and 2020, the Group's consumption of packaging materials was as followed:

Item	Year	Unit	Consumption
Packaging materials	2020	T	3,277
	2019	T	1,515

In 2020, the Group consumed a total of 3,277 tons of packaging materials, representing 0.9 ton of packaging materials consumed per ton of finished products. Compared with 2019, the consumption of packaging materials increased by 1,762 tons, mainly due to a significant increase in the use of packaging materials as a result of an increase in pharmaceutical production of Zhongshan Wanhan.

(III) Green Office

"Green office and low-carbon lifestyle" is an operation and management concept that the Group has always been advocating. Through vigorously promotion of smart office by adopting various systems, including OA system, cloud home system, mobile phone 365 system and video conference system, improvements in operation efficiency and reduction in energy consumption were both achieved.

During the year, the Group initiated the campaign of "Office Consumption Reduction with Everyone's Involvement" which promoted the practices of reusing document envelopes, printing documents on both sides and consciously turning off electronic devices, with a view to continually increase the awareness of environmental protection among its employees.

II. WORK ENVIRONMENT FACTOR

Human resources is one of the important assets for the healthy and sustainable development of an enterprise. By strictly complying with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Employment Promotion Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and other applicable laws and regulations on labour employment, the Group has been reforming and improving its human resources mechanism to provide platforms and opportunities to stimulate the potential and creativity of its employees and develop a harmonious and healthy work environment.

The Group reviewed the implementation of its "Staff Manual" with a view to making further improvements in terms of recruitment, remuneration, labour contracts, attendance management, holidays, benefits, training, development, performance, employee's health and safety management, information security and use of network.

The Group's recruitment has placed great emphasis on the ethics and integrity of job applicants. Appointments would be made on merit basis. It promoted diversity and anti-discrimination, and provided equal employment opportunities, regardless of any individual differences such as nationality, race, age, gender, marital status and religion. The Group recruited a variety of talents through professional headhunting companies, recruitment websites, job fairs, etc. All positions were matched according to the candidates' ability and experience to make the best use of their talents.

Based on the nature of its employees' duties, the Group has formulated standardised working hour system (7.5 working hours per day and no more than 1,999 working hours per year) and flexible working system for its employees in different positions so as to ensure that its employees have adequate entitlements to annual leave, compensatory leave, personal leave, sick leave, marriage leave, maternity leave and various national statutory holidays. Also, the Group, in addition to its contribution to social insurance for its all employees, provided them with housing provident fund, meal subsidy, travel subsidy, high temperature subsidy, festival welfare fund, team building, employee birthday party and other benefits to enhance the cohesion of employees. Moreover, when encountering issues such as remuneration, compensation and social insurance of its departing employees, the Group as always solved them after reasonable negotiations in strict accordance with the laws and regulations.

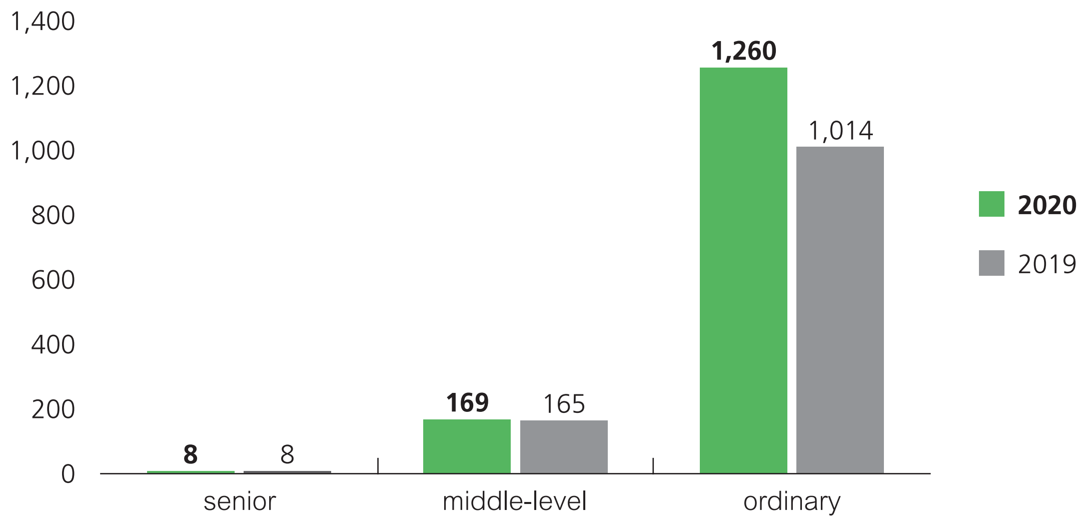
Upholding its remuneration management principle of "efficient and fair allocation according to workload", the Group provided its employees with competitive remuneration package based on actual conditions and with reference to industry standards, including but not limited to basic salary, performance-based bonus, piece-rated salary, incentive package and profit sharing with business partners, to attract, motivate and retain talents. The Group has revised and refined the "Employee Performance Appraisal System" to embody its striver-oriented human resources management principle and encourage its employees to take initiatives to work harder and be better rewarded, thus sparing no effort to create values. In addition, the remuneration of its employees will be timely adjusted according to factors such as their performance in technical skills and operation, and any change in their job responsibilities.

The Group provided its employees with fair and equal opportunities for promotion only based on their performance and capability. The Group has never discriminated on the basis of gender, disability or other factors. All employees were entitled to the equal career development opportunities in terms of promotion and training, ensuring their employment opportunity.

(I) Operation Condition

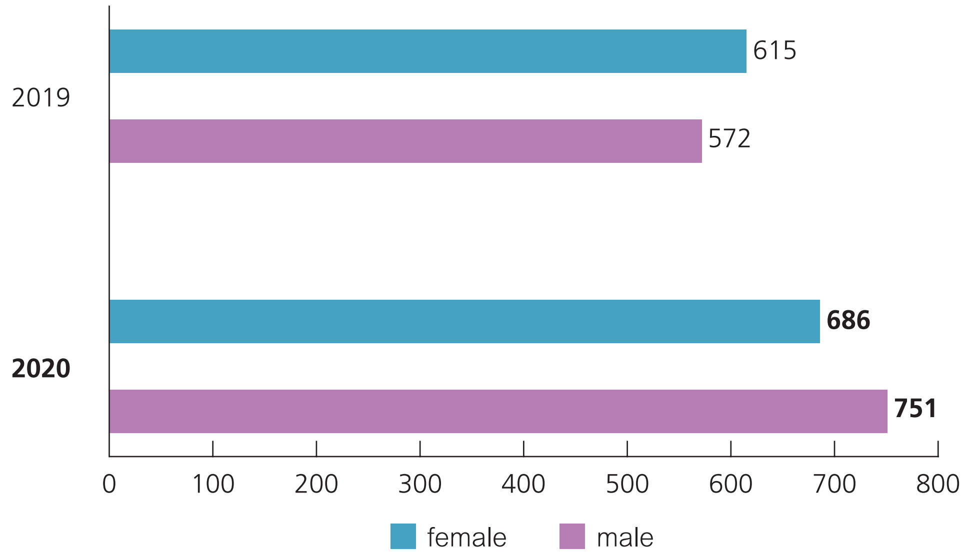
As at 31 December 2020, the Group had a total of 1,437 employees, among which, 8 were senior employees, representing approximately 1% of the total number of its employees; 169 were middle-level employees, representing approximately 12% of the total number of its employees; and 1,260 were ordinary employees, representing approximately 87% of the total number of its employees.

In 2020, the number of employees of the Group increased by 250, representing a turnover of approximately 21%. The number of employees as at 31 December 2020 as compared with the data for the same period as at 31 December 2019 by employment category is shown in the following chart:



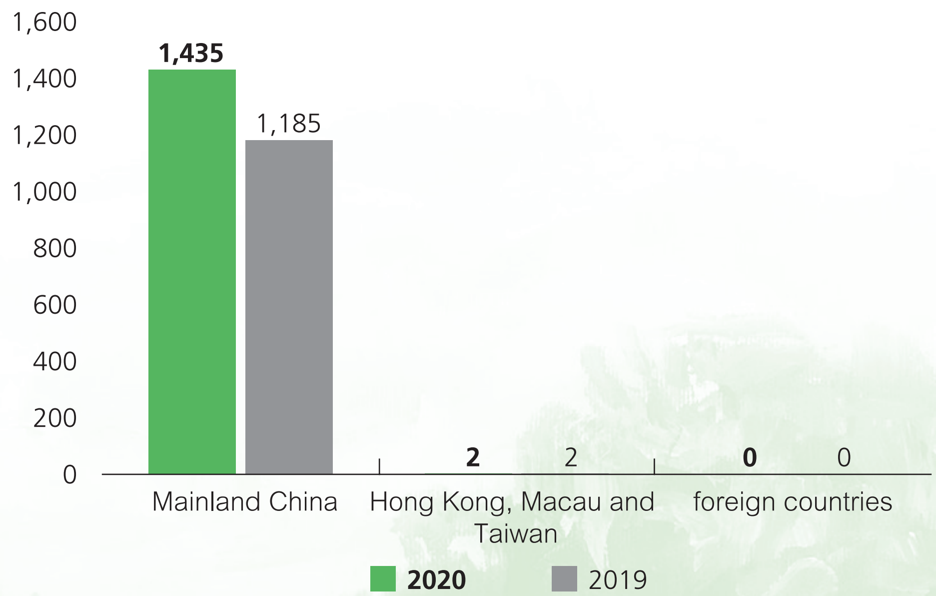
As at 31 December 2020, the Group had 686 female employees, representing approximately 48% of the total number of employees of the Group; and 751 male employees, representing approximately 52% of the total number of employees of the Group.

The number of employees of the Group as at 31 December 2020 as compared to the data for the same period in 2019 by gender is shown in the following chart:



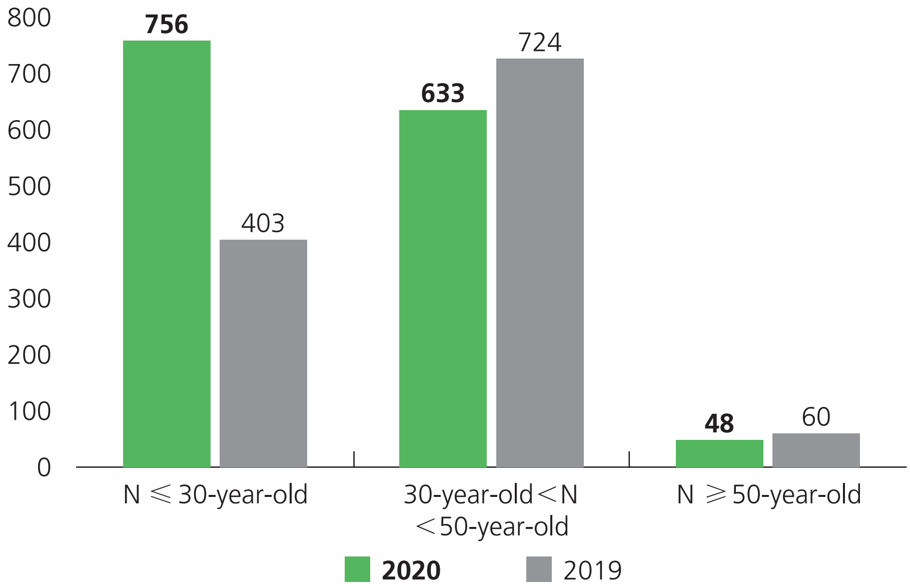
As at 31 December 2020, the Group had 1,435 employees in Mainland China, representing approximately 99.9% of the total number of employees of the Group; and 2 employees in Hong Kong, Macau and Taiwan, representing approximately 0.1% of the total number of employees of the Group.

The number of employees of the Group as at 31 December 2020 as compared to the data for the same period as at 31 December 2019 by region is shown in the following chart:



As at 31 December 2020, the Group had 756 employees aged 30 and below, representing approximately 53% of the total number of employees of the Group; 633 employees between 30-year-old and 50-year-old, representing approximately 44% of the total number of employees of the Group; and 48 employees aged 50 and above, representing approximately 3% of the total number of employees of the Group.

The number of employees of the Group as at 31 December 2020 as compared to the data for the same period as at 31 December 2019 by age group is shown in the following chart:



(II) Health and Safety

The Group strictly complied with the requirements 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 the Prevention and Control of Occupational Diseases. Through earnest implementation of its internal management systems such as the Management Measures for Production Safety and the Accountability System for Production Safety, with its principle of "safety first, prevention first and comprehensive management", the Group has carried out regular safety inspections, implemented the responsibility for production safety at all levels, as well as identified and eliminated potential safety hazards in aspects such as equipment, working environment and manual operation on a timely basis. Also, with its constant efforts in strengthening the occupation health and education training, the awareness of its employees of production safety and responsibility was improved. The Group has arranged health and safety checks for its employees in order to develop a safe, healthy and comfortable working environment for them, thereby effectively preventing occupational diseases and reducing the probability of safety accidents.

(III) Development and Training

The Group attached great importance to the growth of its employees and talent cultivation. Guided by the philosophy of "people-oriented", the Group built a learning platform for its employees and actively conducted skill trainings so as to improve their personal technical ability and operation ability as well as enable them to meet evolving corporate requirements.

During the year, the trainings organised by the Group focused on improving the operation and management level of its middle-level and senior employees as well as the operation efficiency of its ordinary employees. Through such trainings, the technical ability and comprehensive management ability of its employees were further improved, thus bringing greater values in their respective positions, which had resulted in a balance between their achievement in personal value and the corporate growth of the Group.

(IV) Labour Standards

The Group strictly complied with laws and regulations including the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and its implementation regulations, the Employment Promotion Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and the Provisions on the Prohibition of Using Child Labour. The Group regulated its employment practice with a serious attitude and actively made contribution to social insurance for its employees, with a view to protecting the legitimate rights and interests of its employees. All employees were required to provide photocopies of identification cards at the time of induction to ensure their ages complying with the Group' requirement. Both parties signed an employment contract on a voluntary basis to safeguard a reasonable working hours and entitlements to holidays and benefits for its employees as well as prohibit any child labour and forced labour, providing a safe and healthy working environment. During the year, no minors were employed in any department or position of the Group and there was no forced labour.

III. OPERATION MANAGEMENT

(I) Supply Chain Management

The Group has formulated and refined its management guidance including the Supplier Management Procedures, the Procurement Management Measures, the List of Qualified Suppliers and the Supplier File Management Procedures to continuously optimise its evaluation mechanism in terms of supplier production conditions and product quality in order to strengthen the foundation of its supply chain. The Group's raw material suppliers strictly complied with the requirements of laws and regulations such as the Food Safety Law of the People's Republic of China, ensuring that raw and other materials meet quality standards for product safety.

The Group has been paying great attention to the management and maintenance of its supply chain and committed to establishing healthy and mutually beneficial partnerships with its suppliers for a long term. It has specified a "anti-commercial bribery clause" in its supply chain template contract and continued to build up an integrity and self-disciplined supply chain. There was zero tolerance to any fraud of the supply chain as usual.

(II) Product Responsibility

The Group strictly complied with the Food Safety Law of the People's Republic of China, and formulated various standards and operating procedures for its products according to the Pharmacopoeia of the People's Republic of China, so as to ensure the quality throughout the product life cycles and meet quality standards. All employees of the Group have regarded product quality as the lifeline of corproate development to produce high-quality products for consumers. It strictly fulfilled the product responsibility of the manufacturer, and truly be responsible for society and consumers. In July 2020, Beijing Outsell Health Product Development Co., Ltd. has successfully passed the review of Beijing High and New Technology Enterprises and obtained the High and New Technology Enterprise qualification once again for a term of three years.

The Group strictly complied with the relevant policies and regulations, including the Advertising Law of the People's Republic of China, and has set up a special department comprised of assigned personnel responsible for reviewing advertisements and dissemination, eliminating any exaggerated or false publicity and information as well as regulating the slogans for promotion of product effectiveness so as to strictly prohibit deceiving and misleading consumers.

1. *Intellectual Property Right Maintenance and Protection*

Intellectual property is one of the core competitivenesses of the Group. The Group strictly complied with the relevant laws and regulations, including the Trademark Law of the People's Republic of China, the 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 to effectively protect its intellectual property rights and give full pay to the role of its own intellectual property rights.

Adhering to its intellectual property management approach of "motivating creation, effective utilisation, legal protection and scientific management", the Group has successfully achieved the transformation of scientific and technological achievements and sales of its own intellectual property products such as Detox Tea, Slimming Tea, Fit Tea, Qingyuan Tea, Orlistat and eye drops. Beijing Outsell Health Product Development Co., Ltd., Zhongshan Wanhan Pharmacy Co., Ltd. and Zhongshan Wanyuan New Medicine Research and Development Co., Ltd., all being subsidiaries of the Group, have been recognised as "High and New Technology Enterprises" for consecutive years.

In September 2020, Beijing Outsell Health Product Development Co., Ltd. was recognised as a "Beijing Intellectual Property Pilot" company. The honorary title has been a recognition and affirmation of the Beijing Municipal Government in the quantity and quality of intellectual property and management standard of the Group, symbolising a further improvement of the Group in terms of its knowledge management.

2. *Quality Inspection and Product Recycling*

The Group strictly complied with the relevant laws and regulations including the Drug Administration Law of the People's Republic of China, the Food Safety Law of the People's Republic of China and the Pharmacopoeia of the People's Republic of China, and has established a comprehensive responsibility management system for product quality and successfully passed the ISO9001 and ISO22000 certifications. The Group has formulated quality standards for raw and subsidiary materials, packaging materials, work in process and finished products as well as a series of systems and management and control procedures for inspection to strictly implement its quality inspection procedures, with a view to reducing non-compliance risks and eliminating the storage and sales of unqualified products.

The Group has established and implemented its "Return and Replacement Management System", which uniformly recycled sub-standard products, unqualifiedly packaged products, near-expiration (including expired) and unsaleable products for centralised disposal to prevent the circulation and sales of defective products in the market and ensure the safety of consumers.

3. Product and Service Complaint

Through the establishment of a dedicated customer service centre with customer complaint hotline, the Group has set up and rigidly implemented its consumer complaint management system. Such systems clarified the handling procedures and measures for consumer complaints, reports, and product quality problems to timely accept, transmit, process, track, respond to, analyze and classify complaints and suggestions. It will, based on the nature of the problem, trace the root cause to prevent recurrence of the problem, thereby improving service quality and customer satisfaction rate.

During the year, there was no material complaint or legal proceeding arising from product qualities and services. The 400 hotlines received a total of 56 consumer complaints, representing a decrease of 357 complaints as compared with that of 2019. The complaints were mainly due to logistics express delivery time and packaging damage.

4. Customer Privacy

The Group strictly complied with the relevant laws and regulations including the Cybersecurity Law of the People's Republic of China and the Provisions on the Protection of Personal Information of Telecommunication and Internet Users, and has formulated its Administrative Measures for Protection of User Information Security to regulate the collection, transmission and use of customer information, ensuring customer information security and preventing information leakage.

The Group ensured information security through various means such as user authorisation management, password management as well as equipment and storage security management. The information department was responsible for information security backup of the Company's information system database, ensuring the security of storage equipment or media, network security throughout the Company and regular virus inspections on computers and other devices to ensure network security.

In 2020, there was no incident of infringement of customer privacy such as leakage, misappropriation or loss of customer information.

(III) Anti-corruption

The Group always adhered to its corporate culture of incorruptibility and integrity. It strictly complied with laws and regulations including the Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China and the Interim Provisions on Banning Commercial Bribery. It has formulated internal systems such as the Sales Management Policy, the Price Management Regulations, the Procurement Management System, the Expenditure Management System and the Black and White List System, building up a legal and compliant operation concept to strictly prohibit any acts of bribery, fraud and corruption.

With stringent implementation of its inspection and accountability mechanism, any action or employee that causes any loss to or damages any interest of the Company would be pursued according to law. The Group's contracts with its suppliers established anti-commercial bribery provisions, which prohibit any acts of extortion and rebate through use of superior power, in order to protect the common interests of both parties and prevent any unfair competitions such as commercial bribery.

Through the "Black and White List System" management, promotion and education, strict supervision and risk alerts, the Group has established employees' awareness of fair competition, integrity and self-disciplined to prevent its management and employees from any illegal acts such as corruption, bribery, extortion and fraud, establishing and creating a corporate culture of integrity and self-disciplined. With the establishment of complaint channels such as the chairman and internal audit reporting mailboxes and hotlines, the Group has kept in close contact with employees, implemented a two-way supervision mechanism between management cadres and employees, and encouraged employees to report any illegal or irregular behaviours.

IV. PARTICIPATION IN COMMUNITY

The Group has spared no efforts to fulfill its corporate social responsibilities and has been devoting itself to social welfare activities. Along with its undertakings in social welfare activities with continuous commitments to charitable activities, the Group has dedicated to areas such as battle of the pandemic, disaster relief, poverty alleviation, contributions and supports to education, public welfare and environmental protection.

The Group has always maintained friendly and close communication with charitable organisations in the society and enthusiastically participated in social welfare and charitable activities in order to make contributions and give back to the society.

(I) Social Welfare

At the beginning of 2020, the sudden outbreak of the COVID-19 Pandemic affected many people in our country. Upon which, the Group has been closely watching the regional development of the pandemic and participated in 9 public welfare projects for battle of the pandemic, with a total of donation to the public amounting to RMB1 million. Its main measures for battle of the pandemic included donations of materials to a certain hospital of Xinhua County, Hunan Province and the People's Hospital of Ezhou City, Hubei Province.

In 2020, the Group carried on its donations to public welfare organisations, including Beijing Green Sunshine Environmental Protection Public Welfare Foundation and China Green Carbon Foundation, for social welfare projects such as the "Wild Fauna and Flora Guardian Action", the "Battle for Children's Homeland in Animal Husbandry Area", the "Tibet Ecological Construction and Management and Protection Building Project & Besunyen Special Project (Phase II)".

2020 is the final year of "poverty eradication" in China. In order to fully implement the requirements of participation throughout the Party and all communities in poverty eradication, the Group deeply carried out the targeted poverty alleviation project of the "10,000 enterprises assisting 10,000 villages". During which, it adopted various poverty alleviation measures, including but not limited to purchasing agricultural and sideline products from poor households, targeted donation to families with students suffering from serious illness or in difficulties, organising employees of the Group to donate learning materials and daily necessities to students and families in difficulties, and subsidising village infrastructures such as primary school campus and highways.

Meanwhile, the Group, in cooperation with Overseas Chinese Business Development Foundation of Beijing (北京市發展僑務事業基金會), donated RMB100,000 to poverty alleviation projects for Budaxiaheleke Village (布達夏合勒克村) and Kule'airike Village (庫勒艾日克村) in Karakax County, Xinjiang to support the development and construction of the western region.

The Group cooperated with Shandong Technology and Business University for a 100-year education plan to cultivate outstanding talents, promote the development of school education, scientific research and innovation and entrepreneurship activities, facilitate the development of disciplines and the cultivation of professional and technological talents. The Group also established special funds to reward and subsidise outstanding students and poor students at school.

In 2020, the Group won the "China Social Responsibility Outstanding Enterprise Award" again, representing an honour to receive the social welfare award in "China Social Responsibility Public Welfare Festival" for seven consecutive years.

(II) Care for Employees

Corporate culture embodies the intrinsic values of an enterprise, serves as a driving force for its development, and establishes a code of conduct and guidance of work for the employees of an enterprise. A favorable cultural environment not only enhances employees' sense of belonging and team cohesion, but also boosts the enterprise's development. Under the guidance of "family culture", the Group regularly organised corporate cultural activities in different scales to build up a positive working atmosphere.

In order for the Group to realise humanistic management and care for its employees and enhance their recognition and sense of belonging to the Group, it sent exclusive birthday blessings to its employees on their birthdays to facilitate them to truly integrate into the Group as a big family and maintain a better work attitude.

During the COVID-19 Pandemic, there were numerous of outstanding employees who earnestly perform their duties and prevent the pandemic as well as touching stories within and beyond the Group. The Group established a "Good People and Good Affairs Evaluation Committee" and set up 21 awards, including those for technological breakthroughs, outstanding contributions and the warmest services. Over 100 employees were recognised and rewarded.

(III) Training and Growth

An enterprise is a school where leaders are coaches, and the process of its own development at a large scale is also the process of personal development of employees. An enterprise should provide its employees with new knowledge and training opportunities continuously so as to allow them to meet the needs of corporate development, building a beneficial relationship of mutual growth between the enterprise and its employees. Therefore, the Group conducted targeted training programs for its employees at different levels and positions.

1. Senior Management Project — Business Leader Chapter of Geonol Graduate School of Business

In the face of ever-changing social and economic conditions and fierce market competitions, the only choice for enterprises is to carry out an in-depth management reform that transforms their management model from "green train-like" to "multiple unit train-like" to motivate each and every business unit through the establishment of management system and leadership building. In order to cultivate business talents with profound practical knowledge about the industry, during the period from May to September 2020, 50 middle-level and senior management members completed their study on the Business Leader Chapter of Geonol Graduate School of Business with 19 courses per capita amounting to 60 hours of online training and 12 online and offline seminars.

2. Junior and Middle-level Management Project — Ability Training for New Management at Besunyen

Promotion to management is a major milestone in a working professional's career. In September 2020, the Group organised an ability training for its new management, focusing on the key problems faced by the key executives at Besunyen in their operation procedures, summarising typical events that they faced during their positional transition to management and guiding the trainees to rethink and express their own confusion and obstacles during their promotion under specific scenarios, while helping them to adapt to their new management positions more rapidly.

3. *Junior Employee Project — Online Learning of General Skills*

According to the requirements of the Relevant Policy on Improvement of Occupational Skills in Beijing — Document No. 47 (北京市關於職業技能提升相關政策的第47號文件), the Human Resources and Corporate Culture Centre jointly launched the learning project of General Skills. 350 employees of the Group participated in the online learning, amounting to a total of 14,000 learning hours. The training involved 20 courses covering business etiquette, communication skills and employee incentives.

4. *New Employee Training Program — Talent Pooling Program*

New employee training is a starting point for new employees in the Group. The Group conducted regular online and offline trainings for its new employees. The contents of which included corporate development history, corporate culture, company personnel rules and welfare description, financial policy system, expense reimbursement process, application of OA system and cloud home system, information security, Fangshan plant area and assembly lines, tea connoisseur lesson, etc.

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 2020, except for code provision A.2.1 of the CG Code.

The Directors are committed to uphold 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 2020.

As designated staff, including the senior management, may be aware of inside 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 2020, 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 31 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 are responsible for 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. It also reports the corporate 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 effectively.

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 of independence from each of the independent non-executive Directors. 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 under 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 updated materials. Each of the above-mentioned Directors received more than 15 hours of training in 2020.

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 communication policy and regularly reviewing the policy to ensure its effectiveness.

Regarding the performance of the aforementioned functions, during the year, the following works, inter alia, were performed by the Board:

(i) reviewed the Corporate Governance Report of the Company for 2019;

(ii) reviewed the trainings and continuous professional development undertaken by the Directors and senior management; and

(iii) set up the strategic investment committee of the Company and approved to adopt its rules of procedure.

COMMITTEES UNDER THE BOARD

Audit Committee

In 2020, 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 2020, 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 2020, 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 2019 and 2020;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2019 auditors' report issued by PricewaterhouseCoopers;

(iv) reviewed and approved the 2019 annual report and audited financial statements, the 2019 annual results announcement, the 2020 interim report and the 2020 interim results announcement; and

(v) reviewed various aspects of risk management including the effectiveness of the internal control system of the Group.

For the year ended 31 December 2020, the fees payment by the Group to PricewaterhouseCoopers and its member firm for audit services amounted to RMB2.8 million, and RMB1.4 million was for non-audit services (providing service regarding the circular for the Group's disposal of equity interest of Beijing Shenhuibiyuan).

Remuneration Committee

In 2020, 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
- reviewing, approving and advising the Directors and senior management on the compensation arrangement.

In the Remuneration Committee meetings held in 2020, 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 2020, 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 can bring to the Board.

In the Nomination Committee meetings held in 2020, 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.

Strategic Investment Committee

On 1 September 2020, the strategic investment committee of the Company (the "**Strategic Investment Committee**") was established and comprises Mr. Zhuo Fumin, non-executive Director, who serves as the chairman of the Strategic Investment Committee, Mr. Zhao Yihong, executive Director, and Mr. He Yuanping, independent non-executive Director.

The primary responsibilities of the Strategic Investment Committee include:

- researching and reviewing for the long-term strategic development plans and major investment decisions of the Group; and
- managing and supervising the legal and compliance aspects of the Group's investment activities.

In the Strategic Investment Committee meetings held in 2020, the following works, inter alia, were performed by the Strategic Investment Committee:

(i) reviewed the long-term strategic development plans of the Group; and

(ii) reviewed and approved the investment projects of the Group.

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	Strategic Investment Committee Meetings	General Meetings
Executive Directors						
Mr. Zhao Yihong	9/9	—	2/2	4/4	2/3	2/2
Ms. Gao Yan	8/9	—	—	—	—	1/2
Non-executive Director						
Mr. Zhuo Fumin	8/9	—	—	—	3/3	2/2
Independent Non-executive Directors						
Mr. Ren Guangming	8/9	4/4	2/2	4/4	—	2/2
Mr. He Yuanping	8/9	4/4	2/2	4/4	3/3	2/2
Mr. Fu Shula	8/9	4/4	2/2	4/4	—	2/2

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 2020, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates which are reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy 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.

Therefore, the management continues to optimise, 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 eliminating 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

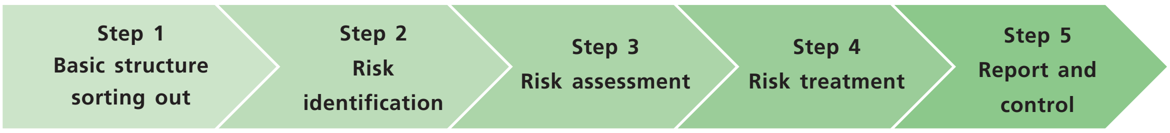
(iii) communicating with the external auditor on control issues identified during its works on a regular basis, and discussing the review scope and results of various issues with the Audit Committee.

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 listens to a work report from the internal control department and internal audit department every half year, and regularly reviews the effectiveness of risk management and internal control. 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 of the Group, 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 communicating with management at appropriate level.

Reviewing the effectiveness of risk management and internal control systems in 2020

For the year ended 31 December 2020, the Board performed annual review on 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 2020, 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 2020 are as follows:

Risk	Risk Description	Change in 2020	Risk Counter-measures and Plans
Risk relating to external disasters	In the beginning of 2020, the outbreak of the COVID-19 Pandemic in Wuhan, Hubei has rapidly spread nationwide. The COVID-19 Pandemic does not only harm the life and health of people, but also seriously affect the society and economy. All industries face severe challenges. Enterprises are forced to suspend operation, production and sales, and thus cash flow has become tightened and, to a serious extent, bankruptcy occurs.	↑	During the COVID-19 Pandemic, the Group responded to and cooperated with the government to jointly implement measures on pandemic prevention and control. Orderly operation of supply chain is secured with prevention and control of the COVID-19 Pandemic as well as production and sales measures. The Group reforms its offline sales and operation models and commences CRM fission project. By utilizing all employees as well as upstream and downstream customer resources, the Group makes use of WeChat platform to realise consumer attraction and sales. The Group implements flexible working policy and organises its staff to work from home. Video conferences, phone calls and other communication means are adopted for work arrangement and follow-up actions so as to secure the normal operation of various businesses. Therefore, the impact of the COVID-19 Pandemic on the Group's operation could be lowered.

Risk	Risk Description	Change in 2020	Risk Counter-measures and Plans
Risk relating to external policies	With the increasing focus on food and drugs among consumers, the PRC will continue to strengthen the respective supervision on food and drugs. Business GMP and GSP certifications will be more stringent, while the frequency of relevant unannounced inspection, random inspection and various specific inspections will also increase. In the recent two years, the regulation on health food promotion has been increasingly stringent, especially for those involving suspected false, exaggerating or absolute names as well as advertisements with expressed or implied prevention or treatment effects.		The Group has always abided by the laws and operated in a compliant manner, placing great focus on product quality and safety while regarding it as the primary mission for corporate survival and development. Departments of the Group, such as quality assurance, research and development as well as procurement, have formed a quality control team. Through optimizing the quality management structure and relevant systems, the Group strictly implements measures such as supplier access and product review mechanism to prevent product quality risk. The Group has established a public relations centre, which is responsible for the approval and publication in online and offline channels as well as product advertisement contents. By establishing its product advertisement publication and approval mechanism, the Group makes promotion in accordance with laws and regulations, implements accountability system for advertisement publication personnel and strictly combats false advertisement and promotion.

Risk	Risk Description	Change in 2020	Risk Counter-measures and Plans
Risks relating to external competition	In the prevailing market environment, the influence of the Internet business model on the traditional business model is increasingly prominent. The Group needs to pay close attention to the competitors on e-commerce platform as well as their improper competitive strategies such as low pricing, while takes 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 keeps abreast of the status of its competitors in different channels and sectors. The Group has established workstations in Guangzhou, Hangzhou and Beijing aiming at different categories of e-commerce platform. In close connection with platforms such as Pinduoduo, Tmall and JD.com, the Group is allowed to capture market changes in those platforms timely and to adopt effective measures. The Group has established CRM centre and organized a nutrition and health consultation team. Consumers introduced from e-commerce and offline channels could be provided with better personalized services via CRM dedicated customer service officers, which in turn enhances the loyalty of consumers to the enterprise.

Risk	Risk Description	Change in 2020	Risk Counter-measures and Plans
Risk relating to user information security	In the era of big data, data have become a key element for social, economic, political and cultural activities, and also become a new type of production information for driving social development. Those who possess the data obtain the critical condition for development. Personal information is a very important data resource, yet it is exposed to numerous security risks due to the underdevelopment of technology and law. If necessary precautionary measures concerning potential information security risk are not adopted, it will bring along unnecessary economic losses.	↔	Placing great emphasis on the information security management of its users and consumers, the Group has formulated the Management Methods on User Information Security and relevant procedures, which determines the rights and obligations of the information department and the data collection and usage department, while reaffirming the responsibility for management. The Group's information department has dedicated information security management personnel to ensure data storage and usage security for its information system via measures such as system key log-in management, operation authority management, system journal review, database backup management and network security and environment management.

Risk	Risk Description	Change in 2020	Risk Counter-measures and Plans
Risk relating to product structure	Product structure is one of the key risks affecting the survival and development of the Company. In case that a new product is not marketable because its design is old-fashioned or overly-advanced and does not cater for the needs of the market and customers, it will significantly hamper the Company's performance results and operations.	↓	The Group continues to invest in research and development. Newly developed products, such as White Kidney Beans Pressed Candy, Qingyuan Tea, Runyuan Tea, Changwuyin Granules and Yanyuan Granules are launched to the market. Besunyen Orlistat Capsules produced by Zhongshan Wanhan under the Group recorded a significant sales growth. The successive launch of new products such as eye drops and Oseltamivir further enriches the product matrix of the pharmaceuticals series. Apart from health food, pharmaceuticals have become one of the important driving forces of the Group's performance results growth in the future. At the same time, the Group introduces new products, including cosmeceutical, food and medical devices, via OEM method to further enrich and optimise its product structure.

Risk	Risk Description	Change in 2020	Risk Counter-measures and Plans
Risk relating to price and channel management	Product price is a key factor affecting sales results of the Group. In case of insufficient supervision on online and offline selling price and product flow, it may cause market price difference and affect sales. Positive inventory at channels and terminals is also a key factor affecting the sales results. In case any channel intentionally overstocking, 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 formulates and reviews the implementation of requirements on selling price and unregulated transregional sale management. For customers with malicious low pricing and unregulated transregional sale, the operation centre may undertake measures such as warning and deduction of rebates. For serious violations, the qualification of sales agency would be revoked. The Group has set up an effective pricing and product flow supervision mechanism to constantly enhance the supervision on aspects such as selling price and channel inventory. Meanwhile, the Group strengthens its management on sales orders and delivery management. Through setting safe inventory level and safe turnover days (e.g. 60 days) for its channel customers, the Group prevents the risks of overstocking and product return by channels to ensure positive growth of sales.

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 reports 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 an important 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

A special resolution was passed at the AGM held on 26 May 2020 by the shareholders to approve the amendments to the articles of association of the Company. The amendments are to permit the Company to hold hybrid general meetings and general meetings by electronic means. Details of the amendments to the articles of association of the Company are set out on pages 12 to 43 of the circular of the Company dated 21 April 2020.

The amended and restated memorandum and articles of association of the Company are available on the website of the Company.

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2020.

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 2020 are set out in the Consolidated Statement of Comprehensive Income on page 92 of this annual report.

Taking into account the annual performance of the Group, including the proceeds from disposal of subsidiaries, the Board has resolved to recommend for declaration and payment of a final dividend of HK3.75 cents per share (approximately HK$61,133,000 in aggregate) out of the share premium account for the year ended 31 December 2020, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting (the "**AGM**") to be held on 25 May 2021. The final dividend will be paid on or about 16 June 2021 to the shareholders whose names appear on the register of members of the Company on 1 June 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May 2021 to 25 May 2021, both days inclusive. During such period, no transfer of shares of the Company (the "**Shares**") will be registered. The record date for determining the eligibility to attend the AGM to be held on 25 May 2021 will be 25 May 2021. 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 18 May 2021.

The register of members of the Company will be closed on 1 June 2021. On such day, no transfer of Shares will be registered. The record date for determining the eligibility to receive the final dividend will be on 1 June 2021. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 31 May 2021.

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 188 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 2020 amounted to RMB953 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 2020:

(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 59% of the purchases of the Group;

(d) the purchases attributable to the largest supplier of the Group accounted for 33% 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. Ren Guangming
Mr. He Yuanping
Mr. Fu Shula

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhuo Fumin and Mr. Ren Guangming 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 44 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 2020**	Number of individuals in 2019
Under HK$1,000,000	**—**	1
HK$1,000,001 — HK$1,500,000	**2**	3
HK$1,500,001 — HK$2,000,000	**—**	1
HK$2,000,001 — HK$2,500,000	**3**	—
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 Mainland China, 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 2020, 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 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]	837,255,216[1][L]	5,000,000[1][L]	51.36%
Ms. Gao Yan	Beneficial owner and interest of her spouse	837,255,216[2][L]	5,000,000[2][L]	51.36%
Mr. Zhuo Fumin	Beneficial owner and interest of his spouse	736,000[4][L]	600,000[4][L]	0.05%
Mr. Ren Guangming	Beneficial owner	970,000[5][L]	600,000[5][L]	0.06%
Mr. He Yuanping	—	—	—	—
Mr. Fu Shula	—	200,000[6][L]	—	0.01%

(1) Mr. Zhao Yihong, executive Director, beneficially owns 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) 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 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) 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 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 2020. 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 nil because the scheme ended upon all options lapsed during the year ended 31 December 2020.

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 2020:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2020	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2020
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	—	—	—	—	—	—	—	—
				—	—	—	—	—
Employees and consultants in aggregate	6.5.2010	1st	3.5 Years	32,780,000	—	(32,780,000)	—	—
	6.5.2010	2nd	4 Years	2,810,000	—	(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)	—	—
				35,890,000	—	(35,890,000)	—	—
	Total			72,290,000	—	(72,290,000)	—	—
Weighted average exercise price (RMB)				1.23	—	1.23	—	—
Exercisable at the end of the year								—

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the year ended 31 December 2020.

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 2020 in relation to share options granted under the Pre-IPO Share Option Scheme by the Company (2019: Nil).

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 shall not 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. The maximum number of shares which can be granted under the Share Option Scheme to each eligible person in any 12-month period up to the offer date of share options shall not exceed 1% of the issued shares of the Company on the offer date. The scheme period of the Share Option Scheme ended at the end of 29 September 2020, after which no further share options shall be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any outstanding share options.

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 2020:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2020	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2020
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									
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
Fu Shula	—	—	—	—	—	—	—	—	—
				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	6,320,000	—	—	(700,000)	—	5,620,000
	27.10.2014	3rd	4 Years	—	—	—	—	—	—
	10.8.2015	4th	4 Years	—	—	—	—	—	—
	10.8.2015	5th	4 Years	—	—	—	—	—	—
	15.3.2016	6th	4 Years	500,000	—	—	(500,000)	—	—
	20.12.2016	7th	4 Years	—	—	—	—	—	—
				13,620,000	—	—	(1,200,000)	—	12,420,000
	Total			19,820,000	—	—	(1,200,000)	—	18,620,000
Weighted average exercise price (HK$)				1.00	—	—	1.00	—	—
Exercisable at the end of the year									18,620,000

Pursuant to the Share Option Scheme, the options granted on 27 October 2014, 10 August 2015, 15 March 2016 and 20 December 2016 shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option was exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period;

(ii) up to 50% of the option was exercisable during the period from the second anniversary of the commencement date and ending on the expiry of the option period;

(iii) up to 75% of the option was exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the fourth anniversary of the commencement date and ending on the expiry of the option period.

The binomial option pricing model has been used to determine the fair value of share options granted during the year ended 31 December 2020. 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 recognised a total expense of RMB77,000 for the year ended 31 December 2020 in relation to share options granted under the Share Option Scheme by the Company (2019: RMB203,000).

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.

On 30 November 2020, 200,000 Shares were granted by the Company to a Selected participant at nil consideration, and vested on 31 December 2020.

As at 31 December 2020, 34,801,567 Shares (31 December 2019: 35,201,567 Shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognised a total expense of RMB119,000 for the year ended 31 December 2020 (2019: RMB59,000) 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 2020 and outstanding as at 31 December 2020:

Employees	**Number of awarded shares**
Outstanding as at 1 January 2020	200,000
Granted during the year	200,000
Vested during the year	(400,000)
Outstanding as at 31 December 2020	—

The closing price of the Company's shares immediately before 30 November 2020, the date of grant of the restricted shares, was HK$0.305.

Save as disclosed above, during the year ended 31 December 2020, 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 year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2020, 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 2020.

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

Save as disclosed above, as at 31 December 2020, 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 2020.

For the year ended 31 December 2020, there is no related party transaction or continuing related party transaction as set out in note 43 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 2020.

DONATION

The Group made charitable donations of RMB1.6 million in aggregate during the year ended 31 December 2020.

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 46 to the consolidated financial statements.

AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2020. 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, 12 March 2021

pwc 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 187, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- 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 2020, 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 IESBA Code.

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 2020, 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 2020. We focused on this matter due to the significance of the goodwill and given that significant judgement and estimates were involved in determining the key assumptions (in particular the revenue growth rates, sales margins, terminal growth rates and discount rates applicable to the respective CGUs) for the impairment assessment.	In response to this key audit matter, we have performed the following procedures: • We obtained an understanding of management's assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We evaluated management's identification of CGUs and allocation of goodwill based on the Group's accounting policy and our understanding of the Group's business; • We 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; • We assessed the competence, capabilities and objectivity of the independent valuer; • We assessed the appropriateness of the valuation model with the assistance of our internal valuation expert. • We assessed the reasonableness of the key assumptions and estimates 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 and margin information and the cost of equity of comparable companies in the industry;

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill (Continued)	• We tested the mathematical accuracy of the calculations of the discounted cash flow model and the recoverable amounts of the respective CGUs; • We evaluated the sensitivity analysis prepared by management around the key assumptions and estimates applicable to respective CGUs to assess the potential impact of a range of possible outcomes; and • We assessed 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, actions taken to eliminate threats or safeguards applied.

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, 12 March 2021

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	5	**1,292,711**	812,160
Cost of sales	7	**(379,385)**	(227,708)
Gross profit		**913,326**	584,452
Other income	8	**26,718**	12,642
Selling and marketing expenses	7	**(661,514)**	(449,987)
Administrative expenses	7	**(134,420)**	(107,770)
Research and development costs	7	**(93,802)**	(47,363)
Other expenses	7	**(3,682)**	(4,454)
Other losses, net	9	**(12,864)**	(1,443)
Gain on disposal of subsidiaries	10	**80,108**	222,276
Operating profit		**113,870**	208,353
Finance income	12	**2,758**	3,309
Finance costs	12	**(6,306)**	(5,593)
Finance costs, net		**(3,548)**	(2,284)
Share of profits/(losses) of investments accounted for using the equity method	14	**4,736**	(12,862)
Profit before income tax		**115,058**	193,207
Income tax credit/(expense)	15	**15,801**	(4,961)
Profit for the year		**130,859**	188,246
Profit attributable to:			
— Owners of the Company		**45,479**	162,348
— Non-controlling interests		**85,380**	25,898
		130,859	188,246
Other comprehensive income		**—**	—
Total comprehensive income for the year		**130,859**	188,246
Total comprehensive income attributable to:			
— Owners of the Company		**45,479**	162,348
— Non-controlling interests		**85,380**	25,898
		130,859	188,246
Earnings per share attributable to owners of the Company for the year (RMB cents)			
— Basic earnings per share	16	**2.85**	10.18
— Diluted earnings per share	16	**2.85**	10.18

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

Consolidated Balance Sheet

	Note	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**322,278**	219,823
Investment properties	19	**9,500**	9,424
Intangible assets	20	**161,668**	170,086
Right-of-use assets	18	**118,367**	114,810
Other non-current assets	21	**19,204**	14,175
Investments accounted for using the equity method	14	**55,890**	79,276
Deferred income tax assets	35	**106,567**	65,242
Total non-current assets		**793,474**	672,836
Current assets			
Inventories	22	**139,394**	60,184
Trade receivables	23	**65,643**	139,673
Bills receivable	24	**9,119**	5,187
Deposits, prepayments and other receivables	25	**124,686**	111,409
Restricted bank deposits	26	**56,786**	27,968
Financial assets measured at fair value through profit or loss	27	**—**	83,000
Term deposits with initial term of over three months	28	**120,300**	10,000
Cash and cash equivalents	29	**543,822**	270,803
		1,059,750	708,224
Assets classified as held for sale	30	**—**	286,500
Total current assets		**1,059,750**	994,724
Total assets		**1,853,224**	1,667,560

	Note	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	31	**94**	94
Share premium		**962,777**	962,777
Other reserves	32	**331,762**	327,065
Accumulated losses		**(280,402)**	(321,261)
		1,014,231	968,675
Non-controlling interests	13	**196,151**	110,771
Total equity		**1,210,382**	1,079,446
LIABILITIES			
Non-current liabilities			
Deferred government grants	34	**33,795**	34,381
Lease liabilities	39	**10,044**	8,327
Deferred income tax liabilities	35	**37,380**	32,117
Long-term borrowings	38	**64,730**	28,000
Other non-current liabilities		**497**	—
Total non-current liabilities		**146,446**	102,825
Current liabilities			
Trade and bills payables	36	**107,148**	49,105
Other payables and accrued expenses	37	**235,627**	328,813
Contract liabilities	6	**34,180**	27,209
Borrowings	38	**95,050**	66,800
Lease liabilities	39	**12,563**	9,241
Current income tax liabilities		**11,828**	4,121
Total current liabilities		**496,396**	485,289
Total liabilities		**642,842**	588,114
Total equity and liabilities		**1,853,224**	1,667,560

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

The financial statements on pages 92 to 187 were approved by the Board of Directors on 12 March 2021 and were signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company						
		Share capital	Share premium	Other reserves	Accumulated losses	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	41	—	(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
Balance at 1 January 2020		**94**	**962,777**	**327,065**	**(321,261)**	**968,675**	**110,771**	**1,079,446**
Total comprehensive income for the year		**—**	**—**	**—**	**45,479**	**45,479**	**85,380**	**130,859**
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	**11**	**—**	**—**	**77**	**—**	**77**	**—**	**77**
Appropriation to statutory surplus reserve		**—**	**—**	**4,620**	**(4,620)**	**—**	**—**	**—**
Balance at 31 December 2020		**94**	**962,777**	**331,762**	**(280,402)**	**1,014,231**	**196,151**	**1,210,382**

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 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	40(a)	**84,931**	(39,192)
Income taxes paid		**(12,554)**	(7,026)
Interest received		**2,770**	3,297
Net cash generated from/(used in) operating activities		**75,147**	(42,921)
Cash flows from investing activities			
Purchases of financial assets measured at fair value through profit or loss		**(810,151)**	(317,000)
Proceeds from financial assets measured at fair value through profit or loss		**906,425**	274,404
Placement of term deposits with initial term of over three months		**(230,300)**	(170,000)
Withdrawal of term deposits with initial term of over three months		**123,485**	160,910
Purchases of financial assets measured at amortised cost		**(15,000)**	(90,000)
Proceeds from disposal of financial assets measured at amortised cost		**15,038**	90,794
Increase in restricted bank deposits		**(28,546)**	(27,924)
Purchases of property, plant and equipment		**(123,443)**	(45,880)
Addition to investment properties		**(1,376)**	(57,870)
Purchases of intangible assets		**(1,359)**	(338)
Investments in associate and joint ventures	14(b)	**—**	(500)
Payments for liquidation of an associate	14(a)	**—**	(1,560)
Distribution from a joint venture	14(b)	**28,122**	3,941
Proceeds from disposal of subsidiaries, net	10	**466,747**	599,146
Proceeds from disposals of land use rights, property, plant and equipment	40(b)	**722**	2,012
Addition to assets classified as held for sale		**(47,541)**	(14,204)
Payment of deposits for investment in a third party		**(19,575)**	—
Deposits (repaid)/received in connection with a subsidiary to be disposed	30	**(92,397)**	92,868
Payment of transaction cost in connection with a subsidiary to be disposed		**—**	(11,400)
Repayment of advance in connection with a subsidiary to be disposed		**—**	(6,000)
Net cash generated from investing activities		**170,851**	481,399
Cash flows from financing activities			
Repayment of borrowings		**(120,450)**	(165,000)
Proceeds from borrowings		**185,430**	109,800
Principal elements of lease payments		**(16,761)**	(10,965)
Bank loan interest and other finance costs paid		**(5,081)**	(4,873)
Dividends paid to owners of the Company		**—**	(157,908)
Net cash generated from/(used in) financing activities		**43,138**	(228,946)
Net increase in cash and cash equivalents		**289,136**	209,532
Cash and cash equivalents at the beginning of year		**270,803**	61,759
Exchange loss on cash and cash equivalents		**(16,117)**	(488)
Cash and cash equivalents at end of year		**543,822**	270,803

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

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, Fit Tea and other tea products) and weight-loss 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.

2.1 Basis of preparation

The consolidated financial statements of the Group 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 2020:

- Definition of Material — amendments to IAS 1 and IAS 8
- Definition of a Business — amendments to IFRS 3
- Interest Rate Benchmark Reform — amendments to IFRS 7, IFRS 9, and IAS 39
- COVID-19-related Rent Concessions — amendments to IFRS 16
- Revised Conceptual Framework for Financial Reporting

The adoption of these amended standards and revised conceptual framework did not have any material impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

(b) New standards and interpretations not yet adopted

		Effective for annual periods beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements 2018–2020 cycle		1 January 2022
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023

The new and amended standards have not been early adopted by the Group, and are not expected to have a material impact on the Group 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(b) Associates

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

(c) Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. For the year ended 31 December 2019 and 2020, 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 2.10.

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.

2.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Business combinations *(Continued)*

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

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

2.4 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("**CODM**").

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 executive directors of the Company have been identified as the chief operating decision makers who review the Group's internal reporting in order to assess performance and allocate resources.

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, 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 2.10).

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, 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Intangible assets *(Continued)*

(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. Research expenditures are charged to the profit or loss as an expense in the period the expenditure is incurred. Development costs are recognised as assets if they can be directly attributable to development project and all the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the development project and use or sell it;
- its ability to use or sell the intangible asset;
- the manner in which the development project will generate probable future economic benefits for the Group;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Development expenditures not satisfying the above criteria are recognised in the profit or loss as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 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

2.10 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)*

2.11 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.

2.12 Investments and other financial assets

2.12.1 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets *(Continued)*

2.12.2 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.

2.12.3 Measurement

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

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

Debt instruments

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'other losses, net' 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, net'. 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, net' 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, net' in the period in which it arises.

  The Group has purchased structured bank deposits from banks with fixed rate of return which are recognised as financial assets measured at amortised cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets *(Continued)*

2.12.4 Impairment

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

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

2.13 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.

2.14 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Derivatives and hedging activities *(Continued)*

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in 'other losses, net'.

The Group has entered into foreign currency forward contracts with banks. The forward contracts are accounted for financial assets measured at fair value through profit or loss, which do not qualify for hedge accounting. The changes in fair value are recognised as 'other losses, net'.

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 and other receivables are amounts due from customers for goods sold in the ordinary course of business. Trade and other 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 2.12 for further information about the Group's accounting for trade and other receivables and a description of the Group's impairment policies.

2.17 Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Borrowings *(Continued)*

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

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

2.21 Borrowing costs

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

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

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

2.22 Current and deferred income tax

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

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries, associate and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(b) Deferred income tax

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

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits

(a) Short-term obligations

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

(b) Termination benefits

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

2.24 Share-based payments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Share-based payments *(Continued)*

(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, weight-loss 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 years ended 31 December 2020 and 2019, 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 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 2020 and 2019, 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 measured at FVPL is included in the change in fair value of financial assets measured at fair value through profit or loss on these assets, see Note 9.

Interest income on financial assets measured at amortised cost and financial assets measured at FVOCI calculated using the effective interest method is recognised in consolidated statement of 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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Lease

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.

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.

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 borrowing purposes.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Lease *(Continued)*

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, e.g. term, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

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.

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 without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Lease *(Continued)*

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk (Continued)

(a) Foreign exchange risk (Continued)

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

	2020 RMB'000	2019 RMB'000
US$		
Assets	**63,272**	130,911
Liabilities	**—**	(92,397)
Net	**63,272**	38,514
HK$		
Assets	**10,095**	44,013
Liabilities	**—**	—
Net	**10,095**	44,013

As at 31 December 2020, if RMB strengthened/weakened by 5% against US$ and HK$ with all other variables held constant, the pre-tax profit for the year would have been approximately RMB3,668,000 higher/lower (2019: RMB4,126,000 higher/lower), mainly as a result of foreign exchange loss on translation of US$ and HK$ denominated cash and cash equivalents and other receivables.

(b) Interest rate risk

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 200 basis points while all other variables had been held constant, the Group's pre-tax profit for the year ended 31 December 2020 would have been approximately RMB1,430,000 (2019: RMB560,000 lower/higher) lower/higher.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk

For cash and cash equivalents, term deposits with initial term of over three months, restricted bank deposits and financial assets measured at fair value through profit or loss, 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 2020 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.

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)

Impairment of financial assets (Continued)

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2020 or 1 January 2020 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 business climate index in China, including GDP, PPI and CPI etc., and collection schedule of the trade receivable to be the most relevant factors of the forward-looking information and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for trade receivables:

	Current	0–1 years past due	1–2 years past due	More than 2 years past due	Total
As at 31 December 2020					
Expected loss rate	**0.37%**	**1.32%**	**62.29%**	**100.00%**	
Gross carrying amount — trade receivables	**46,170**	**19,901**	**12**	**16**	**66,099**
Loss allowance	**171**	**262**	**7**	**16**	**456**
As at 31 December 2019					
Expected loss rate	0.05%	0.49%	27.82%	49.13%	
Gross carrying amount — trade receivables	123,412	15,807	506	457	140,182
Loss allowance	65	78	141	225	509

The Group was exposed to concentration of credit risk on its trade receivables. As at 31 December 2020, the top trade receivables balance due from a single external customer amounted to approximately RMB16,292,000 and accounted for 24.82% of total trade receivables. The single external customer is a reputable organisation. Management considers that the credit risk is limited in this regard.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Bills receivable and other receivables

Bills receivable are issued by the four major banks and other listed commercial banks whose risks of non-acceptance are quite low, while most of the other receivables are security deposits. The directors of the Company have assessed that other receivables have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The directors of the Company do not expect any losses from non-performance by the counterparties of bills receivable and other receivables. Thus no loss allowance provision for bills receivable and other receivables was recognised.

3.1.3 Liquidity risk

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

	On demand or less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2020						
Borrowings	**6,546**	**94,241**	**42,575**	**42,790**	**186,152**	**159,780**
Trade and bills payables	**67,574**	**39,574**	**—**	**—**	**107,148**	**107,148**
Other payables and accrued expenses (excluding non-financial liabilities)	**58,331**	**65,468**	**—**	**—**	**123,799**	**123,799**
Lease liabilities	**3,981**	**8,307**	**11,878**	**—**	**24,166**	**22,607**
	136,432	**207,590**	**54,453**	**42,790**	**441,265**	**413,334**
As at 31 December 2019						
Borrowings	7,694	64,389	33,431	—	105,514	94,800
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	421,811

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

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

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

The Group monitors capital on the basis of the liability-to-asset ratio. As at 31 December 2020, the Group's liability-to-asset ratio was approximately 34.69% (2019: 35.27%).

3.3 Fair value estimation

The Group had one type of financial assets measured at fair value which is bills receivables as at 31 December 2020, whereas the Group had both bill receivables and investments in wealth management products as at 31 December 2019, and had no financial liabilities measured at fair value.

The bills receivable are all bank acceptance notes with maturity dates within 6 months, whose fair value approximates to their carrying amount, where the contractual cash flows are solely principal and interest. The Group's business model is achieved both by collecting contractual cash flows and selling of these assets.

The financial assets measured at fair value through profit or loss represented the Group's wealth management products purchased from bank, structured bank deposits and foreign currency forward contracts entered with banks.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's financial assets that are measured at fair values at 31 December 2020 and 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2020				
Assets				
Financial assets measured at fair value through other comprehensive income	**—**	**—**	**9,119**	**9,119**
At 31 December 2019				
Assets				
Financial assets measured at fair value through profit or loss	—	—	83,000	83,000
Financial assets measured at fair value through other comprehensive income	—	—	5,187	5,187
	—	—	88,187	88,187

The following table presents the changes in level 3 instruments for the year ended 31 December 2020.

	Financial assets measured at fair value through profit or loss RMB'000	Financial assets measured at fair value through other comprehensive income RMB'000
Opening balance	**83,000**	**5,187**
Additions	**810,151**	**119,346**
Disposals	**(907,203)**	**(117,945)**
Gains recognised in 'other losses, net'	**14,052**	**2,531**
Closing balance	**—**	**9,119**
Includes unrealised gains during the year recognised in profit or loss under 'other losses, net'	**—**	**—**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(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 had identified the manufacturing and sales of tea products (including Detox Tea, Slimming Tea, Fit tea and other tea products) and also the manufacturing and sales of weight-loss and other medicines as separate reportable segments, namely the tea products segment and the weight-loss and other medicines segment.

The CODM evaluates the performance of the reportable segments based on their revenue, gross profit and operating results which derived from gross profit deducting 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 2020 and 2019 is as follows:

	2020 **RMB'000**	2019 RMB'000
Tea products segment		
— Detox tea	**191,889**	176,541
— Slimming tea	**198,946**	185,764
— Fit tea	**94,425**	62,828
— Others	**145,076**	50,429
	630,336	475,562
Weight-loss and other medicines segment		
— Weight-loss medicines	**607,313**	324,508
— Other medicines	**55,062**	12,090
	662,375	336,598
	1,292,711	812,160

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue *(Continued)*

The segment results for the year ended 31 December 2020 are as follows:

	Tea products segment RMB'000	Weight-loss and other medicines segment RMB'000	Total RMB'000
Total revenue	630,336	662,375	1,292,711
Inter-segment revenue	—	—	—
Revenue from external customers	630,336	662,375	1,292,711
Timing of revenue recognition			
At a point in time	630,336	662,375	1,292,711
Cost of sales	(116,445)	(262,940)	(379,385)
Gross profit	513,891	399,435	913,326
Selling and marketing expenses	(403,777)	(257,737)	(661,514)
Research and development costs	(16,098)	(77,704)	(93,802)
Segment results	94,016	63,994	158,010
Other income			26,718
Administrative expenses			(134,420)
Other expenses			(3,682)
Other losses, net			(12,864)
Gain on disposal of subsidiaries			80,108
Operating profit			113,870
Finance income			2,758
Finance costs			(6,306)
Finance costs, net			(3,548)
Share of profits of investments accounted for using the equity method			4,736
Profit before income tax			115,058
Income tax credit			15,801
Profit for the year			130,859
Other segment information:			
Impairment loss of non-current assets	(8,595)	—	(8,595)
Depreciation	(29,494)	(16,587)	(46,081)
Amortisation	(750)	(9,399)	(10,149)

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue *(Continued)*

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

	Tea products segment RMB'000	Weight-loss 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 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)*

Revenue *(Continued)*

Non-current assets of the Group are all located in the PRC.

For the year ended 31 December 2020, revenue of approximately RMB325,680,000 (2019: RMB206,222,000) was derived from a single external customer, which accounted for 25.2% (2019: 25.4%) of the Group's total revenue and was primarily attributable to the weight-loss and other medicines segment. Other than the aforementioned customer, the revenues derived from any of the remaining external customers 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 2020 and 2019 and are expected to be recognised within one year.

	31 December 2020 RMB'000	31 December 2019 RMB'000
Tea products	**10,412**	21,938
Weight-loss and other medicine	**23,768**	5,271
	34,180	27,209

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

(a) Unfulfilled performance obligation

	31 December 2020 RMB'000	31 December 2019 RMB'000
Expected to be recognised within one year		
Tea products	**10,412**	21,938
Weight-loss and other medicine	**23,768**	5,271
	34,180	27,209

7 EXPENSES BY NATURE

	2020 RMB'000	2019 RMB'000
Changes in inventories of finished goods and work in progress	**(46,409)**	(25,363)
Raw materials and consumables used	**385,215**	208,457
Write-off of inventories	**1,188**	1,601
Reversal of impairment of trade receivables	**(53)**	(281)
Advertising costs	**115,473**	116,372
Employee benefit expenses (Note 11)	**226,936**	191,718
Marketing and promotional expenses	**352,010**	169,853
Depreciation and amortisation	**56,230**	54,919
Entertainment and travelling expenses	**14,752**	18,937
Professional and consulting service fees	**44,841**	21,542
Stamp duties, property and other taxes	**4,489**	5,676
Rental expenses (Note)	**5,713**	5,676
Logistics expenses	**19,873**	17,796
Office expenses	**8,038**	7,157
Maintenance and testing costs	**18,625**	13,742
Outsourced researching and development expenses	**28,900**	3,812
Auditors' remunerations		
— audit	**2,800**	2,800
— non-audit	**1,400**	1,300
Others	**32,782**	21,568
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**1,272,803**	837,282

Note:

Rental expenses for the years ended 31 December 2020 and 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

	2020 RMB'000	2019 RMB'000
Government grants	**18,177**	6,526
Interest income	**3,592**	1,949
Rental income from investment properties	**—**	3,095
Others	**4,949**	1,072
	26,718	12,642

9 OTHER LOSSES, NET

	2020 RMB'000	2019 RMB'000
Impairment loss on non-current assets	**(8,595)**	(2,830)
Change in fair value of financial assets measured at fair value through profit or loss	**14,052**	2,531
Donation	**(1,552)**	(1,892)
Net (losses)/gains on disposals of property, plant and equipment	**(658)**	520
Net foreign exchange losses	**(16,086)**	(13)
Others	**(25)**	241
	(12,864)	(1,443)

10 GAIN ON DISPOSAL OF SUBSIDIARIES

	2020 **RMB'000**	2019 RMB'000
Gain on disposal of Beijing Shenhuibiyuan Cloud Computing Technology Co., Ltd. ("**Beijing Shenhuibiyuan**") (Note (a))	**80,108**	—
Gain on disposal of Beijing Chang Sheng Business Consulting Co., Ltd. ("**Beijing Chang Sheng**") and Besunyen Property Management Co., Ltd. ("**Besunyen Property**") (Note (b))	—	225,571
Loss on disposal of Beijing Besunyen Food and Beverage Co., Ltd. ("**Besunyen Food and Beverage**") (Note (c))	—	(3,295)
	80,108	222,276

(a) Pursuant to an equity transfer agreement entered into by Beijing Outsell Product Development Co., Ltd. ("**Beijing Outsell**"), a wholly-owned subsidiary of the Group, and a third party (the "**Purchaser**") dated on 14 August 2020, Beijing Outsell has agreed to dispose 100% equity interests in Beijing Shenhuibiyuan, which is an wholly-owned subsidiary of Beijing Outsell to the Purchaser. The total consideration was approximately RMB478.3 million.

The disposal was completed on 21 September 2020 and the gain on such disposal was approximately RMB80.1 million.

Details of the disposal of Beijing Shenhuibiyuan as described below:

	2020 **RMB'000**
Consideration received or receivable:	
Cash received	**456,062**
Consideration receivable	**22,280**
Total disposal consideration	**478,342**
Carrying amount of net assets of the subsidiaries at the date of disposal	**(371,197)**
Transaction costs	**(27,037)**
Net gain before income tax	**80,108**

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:

	21 September 2020 (the date of disposal) RMB'000
Cash	19,838
Deposits, prepayments and other receivables	22,475
Property, plant and equipment	257,858
Land use rights	71,037
Total assets	**371,208**
Other payables and accrued expenses	(11)
Total liabilities	**(11)**
Carrying amount of net assets of the subsidiaries at the date of disposal	**371,197**

The cash flows from the disposal of Beijing Shenhuibiyuan is as below:

	Disposal of Beijing Shenhuibiyuan RMB'000
Cash received, net of cash disposed	436,224
Transaction costs paid	(24,977)
Proceeds from disposals of subsidiaries, net	**411,247**

10 GAIN ON DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) A Li Yun Shan (Beijing) Business Consulting Co., Ltd. ("**A Li Yun Shan**"), an indirect wholly-owned subsidiary of the Company has disposed of 100% equity interests in Beijing Chang Sheng and Besunyen Property to a third party at a cash consideration of approximately RMB555.0 million. The disposal was completed on 8 March 2019 and the gain on such disposal was approximately RMB225.6 million.

Details of the disposal of Beijing Chang Sheng and Besunyen Property 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 leaseback	(14,458)
Net gain before income tax	225,571

The cash flows from the disposal of Beijing Chang Sheng and Besunyen Property is as below:

	Disposal of Beijing Chang Sheng and Besunyen Property RMB'000
Cash received in 2019, net of cash disposed	490,836
Transaction costs paid in 2019	(16,679)
Proceeds from disposals of subsidiaries in 2019, net	474,157
Remaining cash received in 2020	55,500
Total proceeds from disposals of subsidiaries	529,657

10 GAIN ON DISPOSAL OF SUBSIDIARIES *(Continued)*

(c) Beijing Outsell has agreed to dispose 100% equity interest in 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 has repaid 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 loss on such disposal was approximately RMB3.3 million.

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

	2019 RMB'000
Total consideration received — cash	125,000
Carrging 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 cash flows from the disposal of Besunyen Food and Beverage is as below:

	Disposal of Besunyen Food and Beverage RMB'000
Proceeds from disposals of subsidiaries in 2019, net	124,989

11 EMPLOYEE BENEFIT EXPENSES

	2020 RMB'000	2019 RMB'000
Salaries, bonus and other allowances	**225,110**	178,081
Share-based compensation	**77**	203
Pension cost — defined contribution plan	**1,749**	13,434
	226,936	191,718

The Group did not have any forfeited contribution for the years ended 31 December 2020 and 2019 in connection with the defined contribution plan operated by local governments. The Group did not have defined benefit plan for the year ended 31 December 2020 and 2019.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2019: two) directors whose emoluments are reflected in the analysis shown in Note 44. The emoluments payable to the remaining three (2019: three) individuals during the year are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, bonus and other allowances	**5,794**	3,610
Pension cost — defined contribution plan	**6**	135
	5,800	3,745

11 EMPLOYEE BENEFIT EXPENSES *(Continued)*

Five highest paid individuals *(Continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands (in HK$)		
HK$1,000,001 — HK$1,500,000	**—**	2
HK$1,500,001 — HK$2,000,000	**2**	—
HK$2,000,001 — HK$2,500,000	**1**	1

12 FINANCE INCOME AND COSTS

	2020	2019
	RMB'000	RMB'000
Interest income from financial assets held for cash management purpose	**2,758**	3,309
Finance income	**2,758**	3,309
Interest expenses	**(9,478)**	(5,448)
— borrowings	**(8,411)**	(4,643)
— lease liabilities	**(1,067)**	(805)
Guarantee fee for bank borrowings	**(1,250)**	(981)
	(10,728)	(6,429)
Less: Amount capitalised (Note 17(b))	**4,422**	836
Finance costs	**(6,306)**	(5,593)
Net finance costs	**(3,548)**	(2,284)

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 2020 which was 5.68% (2019: 5.31%) per annum.

13 SUBSIDIARIES

(a) Subsidiaries

The Group's principal subsidiaries at 31 December 2020 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	
				2020	2019	**2020**	2019
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%	**–**	–
Beijing Pincha Online ECommerce Co., Ltd. ("Beijing Pincha") (note iii) 北京品茶線上電子商務有限公司	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%	**–**	–
Guangdong Runliang Pharmaceutical Co., Ltd. (note iii) 廣東潤良藥業有限公司	The PRC, limited liability company	Sales of slimming medicine in PRC	RMB115,000,000	**100%**	100%	**–**	–
Zhuhai Kangbaina Pharmaceutical Co., Ltd. ("Kangbaina") (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. ("Aolixin") (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") 中山萬漢製藥有限公司	The PRC, limited liability company	Research, manufacturing and sales of medicines in PRC	RMB18,471,429	**51%**	51%	**49%**	49%
Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("Zhongshan Wanyuan") 中山萬遠新藥研發有限公司	The PRC, limited liability company	Research and development of medicine in PRC	RMB10,204,082	**51%**	51%	**49%**	49%

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	
				2020	2019	**2020**	2019
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%	**–**	–
Beijing Ali Yunshan Business Consulting Co., Ltd. (note iii) 阿利雲山(北京)商務咨詢有限公司	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 Ali Yunshan Technology Development Co., Ltd. (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%**	100%	**–**	–
Ningjin Qianruiwanfu Trading Co., Ltd. (note iii) 甯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%**	100%	**–**	–
Khorgos Besunyen Venture Investment Co., Ltd (note iii and note iv) 霍爾果斯碧生源創業投資有限公司	The PRC, limited liability company	Investment holdings in PRC	RMB55,700,000	**–**	100%	**–**	–
Beijing Shenhuibiyuan (note iii and note v) 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%	**–**	–

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	
				2020	2019	**2020**	2019
Bihai Xinyuan (Shenzhen) Digital Technology Co., Ltd (note i and note iii) 碧海芯源(深圳)數字科技有限公司	The PRC, limited liability company	Technology development in PRC	RMB350,000	**100%**	–	**–**	–
Beijing Bisheng Linxi Energy Biotechnology Co., Ltd (note i) 北京碧生林溪能量生物科技有限公司	The PRC, limited liability company	Technology development in PRC	RMB2,550,000	**51%**	–	**49%**	–
Beijing Xinhai Shaohua Trading Co., Ltd (note i and note iii) 北京新海韶華商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB50,000	**100%**	–	**–**	–

Notes:

(i) These subsidiaries were newly established by the Group in 2020.

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

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

(iv) The subsidiary was liquidated by the Group in 2020.

(v) The subsidiary was disposed by the Group in 2020 (Note 10(a)).

13 SUBSIDIARIES *(Continued)*

(b) Significant restrictions

Cash and cash equivalents and term deposits of approximately RMB533,175,000 (2019: RMB152,705,000) 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 2020, the Share Scheme Trust held 34,801,567 shares (2019: 35,001,567 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 2020 RMB'000	At 31 December 2019 RMB'000	**At 31 December 2020 RMB'000**	At 31 December 2019 RMB'000
Current assets	**318,051**	148,750	**4,596**	36,891
Current liabilities	**(126,340)**	(74,737)	**(10,773)**	(37,722)
Net current assets/(liabilities)	**191,711**	74,013	**(6,177)**	(831)
Non-current assets	**271,469**	187,721	**62,991**	55,597
Non-current liabilities	**(97,940)**	(68,494)	**(21,746)**	(21,943)
Net non-current assets	**173,529**	119,227	**41,245**	33,654
Net assets	**365,240**	193,240	**35,068**	32,823
NCI	**178,968**	94,688	**17,183**	16,083

Summarised statement of comprehensive income

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Revenue	**1,076,728**	230,437	**—**	—
Other income	**—**	—	**8,827**	9,676
Profit for the year	**172,000**	49,443	**2,245**	2,908
Other comprehensive income	**—**	—	**—**	—
Total comprehensive income	**172,000**	49,443	**2,245**	2,908
Profit allocated to NCI	**84,280**	24,473	**1,100**	1,425
Dividends paid to NCI	**—**	—	**—**	—

13 SUBSIDIARIES *(Continued)*

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

Summarised statement of cash flows

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows generated from/(used in) operating activities	**199,773**	82,935	**7,692**	(8,862)
Cash flows used in investing activities	**(165,848)**	(59,267)	**(7,368)**	(12,255)
Cash flows generated from/(used in) financing activities	**37,565**	(2,582)	**363**	22,385
Net increase in cash and cash equivalents	**71,490**	21,086	**687**	1,268

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Associates (a)	**—**	—
Joint ventures (b)	**55,890**	79,276
	55,890	79,276

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

	2020 RMB'000	2019 RMB'000
Associates (a)	**—**	(1,560)
Joint ventures (b)	**4,736**	(11,302)
	4,736	(12,862)

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 31 December 2019. and the Group has paid RMB1,560,000 for expenditure incurred during the liquidation based on the shareholding percentage to Yunzhi Besunyen.

(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 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
Carrying amounts at 1 January 2020	**1,491**	**77,287**	**498**	**79,276**
Capital distributed to the Group during the year	**—**	**(28,122)**	**—**	**(28,122)**
Share of profit/(loss)	**994**	**3,792**	**(50)**	**4,736**
Carrying amounts at 31 December 2020	**2,485**	**52,957**	**448**	**55,890**

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

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

Details of investments in joint ventures as at 31 December 2020 and 2019 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**")	The PRC	10%	Joint venture	Equity method

Notes:

(i) Fund Management Company was established on 8 March 2016 and is jointly owned by Beijing Besunyen Pharmaceutical Co., Ltd. ("**Besunyen Pharmaceutical**") (a wholly owned subsidiary of the Group) and Mr. Bai Jiguang (the "**Co-Partner**"). On 29 March 2016, Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company entered into a limited partnership agreement, pursuant to which the involved parties agreed to establish the Fund in the PRC. The Fund has a total capital commitment of RMB100,000,000 and is owned by Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company as to 89%, 10% and 1%, respectively. As of 31 December 2020, the Group has already contributed capital of RMB500,000 and RMB79,210,000 (2019: 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.

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

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

Notes: (Continued)

(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 was originally 5 years, and has been extended to 7 years as unanimously agreed by all parties in 2020. The Fund finance its operation from the capital injection from the Group and Co-Partner.

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

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

Commitments and contingent liabilities in respect of joint ventures

	2020 **RMB'000**	2019 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 joint ventures which are accounting for using the equity method.

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

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

Summarised balance sheet

	The Fund Management Company		The Fund		Weihai Huisheng	
	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000	**As at 31 December 2020 RMB'000**	As at 31 December 2019 RMB'000	**As at 31 December 2020 RMB'000**	As at 31 December 2019 RMB'000
Current						
Cash and cash equivalents	**6**	8	**4,359**	1,185	**1**	5
Inventories	**—**	—	**—**	—	**27**	25
Deposits, prepayments and other receivables	**5,341**	3,560	**2,000**	21,000	**500**	952
Total current assets	**5,347**	3,568	**6,359**	22,185	**528**	982
Trade and other payables	**(1,196)**	(1,195)	**—**	—	**(336)**	(24)
Other current liability	**—**	(210)	**—**	—	**—**	(260)
Total current liabilities	**(1,196)**	(1,405)	**—**	—	**(336)**	(284)
Non-current						
Financial assets measured at fair value through profit or loss	**—**	—	**53,307**	64,842	**—**	—
Other non-current assets	**819**	819	**—**	—	**8**	—
Total non-current assets	**819**	819	**53,307**	64,842	**8**	—
Net assets	**4,970**	2,982	**59,666**	87,027	**200**	698

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

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

Summarised statement of comprehensive income

	The Fund Management Company		The Fund		Weihai Huisheng	
	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000	**Year ended 31 December 2020 RMB'000**	Year ended 31 December 2019 RMB'000	**As at 31 December 2020 RMB'000**	Period from 21 October 2019 to 31 December 2019 RMB'000
Revenue	**1,780**	1,780	**—**	—	**—**	—
Cost of sales of goods	**—**	—	**—**	—	**—**	—
Other income	**—**	—	**8**	1	**315**	236
Selling and marketing expenses	**—**	—	**—**	—	**(114)**	(86)
Administrative expenses	**210**	(336)	**(1,140)**	(4)	**(433)**	(48)
Other expense	**(2)**	(2)	**—**	—	**(266)**	(124)
Fair value changes on financial assets measured at fair value through profit or loss	**—**	—	**5,369**	(13,428)	**—**	—
Profit/(loss) before income tax	**1,988**	1,442	**4,237**	(13,431)	**(498)**	(22)
Income tax expense	**—**	—	**—**	—	**—**	—
Profit/(loss) for the year	**1,988**	1,442	**4,237**	(13,431)	**(498)**	(22)
Other comprehensive income	**—**	—	**—**	—	**—**	—
Total comprehensive income/(loss)	**1,988**	1,442	**4,237**	(13,431)	**(498)**	(22)

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) Investments in joint ventures *(Continued)*

Reconciliation of summarised financial information

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

Summarised financial information	The Fund Management Company RMB'000	The Fund RMB'000	Weihai Huisheng RMB'000	Total RMB'000
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
Opening net assets at 1 January 2020	**2,982**	**87,027**	**698**	**90,707**
Capital distributed to the shareholders of the joint ventures	**—**	**(31,598)**	**—**	**(31,598)**
Profit/(loss) for the year	**1,988**	**4,237**	**(498)**	**5,727**
Closing net assets at 31 December 2020	**4,970**	**59,666**	**200**	**64,836**
Percentage of share of interests	**50%**	**89.5%**	**10%**	
Interest in joint ventures	**2,485**	**53,401**	**20**	**55,906**
Others	**—**	**(444)**	**428**	**(16)**
Carrying amounts at 31 December 2020	**2,485**	**52,957**	**448**	**55,890**

15 INCOME TAX (CREDIT)/EXPENSE

	2020 RMB'000	2019 RMB'000
Current income tax:		
PRC enterprise income tax	**20,261**	5,100
Deferred income tax (Note 35):		
Origination and reversal of temporary differences	**(36,062)**	(139)
Income tax (credit)/expense	**(15,801)**	4,961

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 subject to the two-tiered profits tax regime, 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. 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 2020 and 2019.

In August 2020, Beijing Outsell obtained the High and New Technology Enterprise ("**HNTE**") qualification for three years from 2020 to 2022, in which the applicable income tax rate during the approved period is 15% (2019: 15%).

In November 2020, Zhongshan Wanyuan obtained the HNTE qualification for three years from 2020 to 2022, in which the applicable income tax rate during the approved period is 15% (2019: 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%.

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2019: 25%).

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

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

	2020 RMB'000	2019 RMB'000
Profit before income tax	**115,058**	193,027
Tax at PRC statutory enterprise income tax rate of 25% (2019: 25%)	**28,765**	48,302
Effect of preferential tax rate granted	**(34,115)**	(21,412)
Re-measurement of deferred tax due to change of tax rate	**13,723**	(9,448)
Tax losses or temporary differences for which no deferred income tax asset was recognised	**6,311**	14,258
Utilisation or recognition of unrecognised tax losses/deductible temporary differences	**(35,212)**	(30,088)
Tax super deduction for research and development expenses	**(8,400)**	(5,372)
Dividend tax for distributable profits of PRC subsidiaries	**7,391**	3,674
Tax effect of expenses not deductible for tax purposes and others	**5,736**	5,047
Income tax (credit)/expense	**(15,801)**	4,961

16 EARNINGS PER SHARE

(a) Basic

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

	2020	2019
Profit attributable to owners of the Company (RMB'000)	**45,479**	162,348
Weighted average number of ordinary shares in issue (thousand)	**1,595,199**	1,595,005
Basic earnings per share (RMB cents per share)	**2.85**	10.18

(b) Diluted

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

The share options had anti-diluted effect to the Group for the years ended 31 December 2020 and 2019. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2020 and 2019. Accordingly, the diluted earnings per share is same as the basic earnings per share for the years ended 31 December 2020 and 2019.

17 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Plant and machinery RMB'000	Furniture and others RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
At 1 January 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
At 1 January 2020	**200,639**	**224,682**	**44,774**	**19,809**	**489,904**
Additions	**356**	**17,452**	**15,144**	**103,638**	**136,590**
Transfer	**6,349**	**25,588**	**11,054**	**(42,991)**	**—**
Disposals/write-off	**(470)**	**(1,276)**	**(2,808)**	**—**	**(4,554)**
At 31 December 2020	**206,874**	**266,446**	**68,164**	**80,456**	**621,940**
ACCUMULATED DEPRECIATION					
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
At 1 January 2020	**58,312**	**163,735**	**34,797**	**—**	**256,844**
Charge for the year	**9,768**	**15,721**	**7,266**	**—**	**32,755**
Disposals/write-off	**(49)**	**(621)**	**(2,504)**	**—**	**(3,174)**
At 31 December 2020	**68,031**	**178,835**	**39,559**	**—**	**286,425**
ACCUMULATED IMPAIRMENT					
At 1 January 2019, 31 December 2019 and 31 December 2020	1,630	11,607	—	—	13,237
NET BOOK VALUE					
At 31 December 2020	**137,213**	**76,004**	**28,605**	**80,456**	**322,278**
At 31 December 2019	140,697	49,340	9,977	19,809	219,823

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2020 **RMB'000**	2019 RMB'000
Cost of sales	**21,495**	21,691
Administrative expenses	**4,526**	4,984
Research and development costs	**5,967**	6,028
Selling and marketing expenses	**767**	566
	32,755	33,269

(b) The addition in construction in progress in 2020 included the finance costs capitalised amounting to approximately RMB4,422,000 (2019: RMB469,000).

(c) As at 31 December 2020, buildings with the carrying amounts of approximately RMB80,615,000 (31 December 2019: RMB84,444,000) and RMB24,247,000 (31 December 2019: RMB25,107,000) were pledged as the securities for the guarantee of the Group's bank borrowing of RMB70,000,000 (31 December 2019: RMB50,000,000) and RMB27,500,000 (31 December 2019: RMB20,000,000) (Note 38(a)) respectively.

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	**Total** RMB'000
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
At 1 January 2020	**105,425**	**7,714**	**253**	**1,418**	**114,810**
Additions	**—**	**20,734**	**—**	**—**	**20,734**
Depreciation	**(2,539)**	**(9,562)**	**(39)**	**(709)**	**(12,849)**
Impairment	**(4,328)**	**—**	**—**	**—**	**(4,328)**
At 31 December 2020	**98,558**	**18,886**	**214**	**709**	**118,367**

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

Depreciation/amortisation charges have been expensed in the consolidated statement of comprehensive income as follows:

	2020 **RMB'000**	2019 RMB'000
Cost of sales	**1,091**	720
Other expenses	**1,615**	1,707
Research and development costs	**281**	342
Selling and marketing expenses	**7,911**	2,387
Administrative expenses	**1,951**	1,606
	12,849	6,762

(a) As at 31 December 2020, land use rights with the carrying amounts of approximately RMB6,056,000 (2019: RMB6,224,000), RMB18,722,000 (2019: RMB19,169,000) and RMB17,683,000 (2019: RMB18,101,000) were pledged as the securities for the guarantee of the Group's bank borrowing of RMB70,000,000 (2019: RMB50,000,000) and RMB51,500,000 (2019: RMB13,800,000)and RMB19,000,000 (2019: RMB20,000,000) (Note 38(a)) 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 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
At 1 January 2020	**15,294**	**—**	**—**	**15,294**
Addition	**1,376**	**—**	**—**	**1,376**
At 31 December 2020	**16,670**	**—**	**—**	**16,670**
ACCUMULATED DEPRECIATION				
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
At 1 January 2020	**5,870**	**—**	**—**	**5,870**
Charge for the year	**477**	**—**	**—**	**477**
At 31 December 2020	**6,347**	**—**	**—**	**6,347**
ACCUMULATED IMPAIRMENT				
At 31 December 2020	**(823)**	**—**	**—**	**(823)**
NET BOOK VALUE				
At 31 December 2020	**9,500**	**—**	**—**	**9,500**
At 31 December 2019	9,424	—	—	9,424

19 INVESTMENT PROPERTIES *(Continued)*

(a) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2020 and 2019 are as follows:

	As at 31 December 2020		As at 31 December 2019	
	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	**9,500**	**9,500**	9,424	10,800

The Group's investment properties were valued at 31 December 2020 and 2019 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 valuer has valued the commercial property in 2019 by comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by reference to comparable sales transactions as available in the market. The valuation technique for commercial property units in 2020 has been changed as the commercial property has been no longer vacant since November 2020. The valuer has valued the commercial property in 2020 by the income approach which is by taking into account the net rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases.

(b) On 8 December 2019, Beijing Outsell entered into a framework agreement in connection with the disposal of Beijing Shehuibiyuan as mentioned in Note 10(a). Therefore, the land use right of approximately RMB8,012,000 and investment properties of approximately RMB278,488,000 to be disposed has been transferred to assets classified as held for sale (Note 30).

(c) No property rental income was earned during the year ended 31 December 2020 (2019: RMB3,095,000). As at 2 November 2020, Beijing Outsell entered into a lease agreement with a third party company with lease period starting 1 January 2021. The Group had future minimum lease receipts under non-cancellable operating leases as follows:

	2020 RMB'000	2019 RMB'000
No later than 1 year	**1,488**	—
Later than 1 year and no later than 7 years	**15,659**	—
	17,147	—

(d) Depreciation charges of approximately RMB477,000 for the year ended 31 December 2020 (2019: RMB2,727,000) have been charged in 'other expenses' in consolidated statement of comprehensive income.

(e) The addition to investment properties in 2020 included the finance cost capitalised amounted to approximately Nil (2019: RMB367,000).

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 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
At 1 January 2020	**56,453**	**13,398**	**9,223**	**7,740**	**126,000**	**4,971**	**217,785**
Additions	**—**	**—**	**1,731**	**—**	**—**	**—**	**1,731**
At 31 December 2020	**56,453**	**13,398**	**10,954**	**7,740**	**126,000**	**4,971**	**219,516**
ACCUMULATED AMORTISATION							
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
At 1 January 2020	**—**	**11,401**	**8,496**	**2,938**	**17,631**	**2,431**	**42,897**
Charge for the year	**—**	**470**	**770**	**—**	**7,912**	**997**	**10,149**
At 31 December 2020	**—**	**11,871**	**9,266**	**2,938**	**25,543**	**3,428**	**53,046**
ACCUMULATED IMPAIRMENT							
At 31 December 2019 and 31 December 2020	—	—	—	4,802	—	—	4,802
NET BOOK VALUE							
At 31 December 2020	**56,453**	**1,527**	**1,688**	**—**	**100,457**	**1,543**	**161,668**
At 31 December 2019	56,453	1,997	727	—	108,369	2,540	170,086

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

	2020 RMB'000	2019 RMB'000
Cost of sales	**7,252**	8,148
Administrative expenses	**1,952**	2,829
Research and development costs	**875**	867
Selling and marketing expenses	**70**	317
	10,149	12,161

20 INTANGIBLE ASSETS *(Continued)*

(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 2020 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
2020		
Revenue growth rate for next 5 years	**2.5%–22%**	**2.5%–24%**
Sales margin for next 5 years	**49%–50%**	**38%–41%**
Terminal growth rate for next 5 years	**2.5%**	**2.5%**
Pre-tax discount rate	**18%**	**21%**
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%

20 INTANGIBLE ASSETS *(Continued)*

(a) Impairment assessment 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

As at 31 December 2020, the recoverable amount of the Zhongshan Wanhan and Zhongshan Wanyuan CGU is approximately RMB1,892,381,000, which is estimated to exceed the carrying amount of the CGU at 31 December 2020 by approximately RMB1,475,672,000.

The recoverable amount of the Kangbaina and Aolixin CGU is approximately RMB48,970,000, which is estimated to exceed the carrying amount of the CGU at 31 December 2020 by RMB24,840,000.

The directors and management believe that any reasonable possible change in any of these assumptions would not cause the carrying amounts of the Zhongshan Wanhan and Zhongshan Wanyuan CGU and the Kangbaina and Aolixin CGU to exceed their recoverable amounts.

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 2020.

21 OTHER NON-CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
Prepayment for intangible assets	**6,454**	6,826
Prepayment for construction of property, plant and equipment	**19,024**	10,179
	25,478	17,005
Impairment on prepayment for intangible assets	**(6,274)**	(2,830)
Total other non-current assets	**19,204**	14,175

22 INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials and packaging materials	**48,351**	15,550
Work in progress	**5,052**	2,443
Finished goods	**85,991**	42,191
	139,394	60,184
Less: Provision for impairment	**—**	—
	139,394	60,184

The cost of inventories recognised as expense and included in 'cost of sales' and 'research and development costs' amounted to approximately RMB307,408,000 and RMB31,398,000 (2019: RMB172,970,000 and RMB10,124,000), respectively.

23 TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**66,099**	140,182
Less: allowance for doubtful debts	**(456)**	(509)
	65,643	139,673

(a) The Group allows a credit period of 30–90 days to its customers. The following is an ageing analysis of trade 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:

	2020 RMB'000	2019 RMB'000
0–90 days	**62,760**	137,321
91–180 days	**2,773**	795
181–365 days	**92**	1,075
Over 365 days	**18**	482
	65,643	139,673

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

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

	2020 RMB'000	2019 RMB'000
Opening loss allowance as at 1 January	**509**	790
Increase in loan loss allowance recognised in profit or loss during the year	**546**	16
Unused amount reversed	**(599)**	(297)
At 31 December	**456**	509

(d) As at 31 December 2020 and 2019, 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 2020 and 2019, bills receivable amounted to RMB9,119,000 and RMB5,187,000 were all bank acceptance notes with maturity date within 6 months and are classified as financial assets measured 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

	2020 RMB'000	2019 RMB'000
Prepayment for advertisement	**7,547**	12,347
Prepayment to suppliers	**37,601**	26,384
Other receivables (Note)	**70,554**	68,824
Interest receivables	**1,290**	725
Others	**7,694**	3,129
	124,686	111,409

Note:

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

As at 31 December 2020, other receivables include consideration receivables in connection with the disposal of subsidiaries of approximately RMB22,280,000 (Note 10(a)), and deposits for investment in a third party of approximately RMB19,575,000.

Deposits, prepayment and other receivables are all denominated in RMB, except for:

	2020 RMB'000	2019 RMB'000
US$	**19,575**	—
HK$	**219**	233
	19,794	233

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 and the bank loan for the purchases of machinery and equipment.

27 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Investments in wealth management products	—	83,000

The wealth management products and structured deposits purchased from banks are denominated in RMB, with expected rates of return ranging from 2.00% to 4.00% per annum for the years ended 31 December 2020 (for the years ended 31 December 2019: 3.05% to 3.65%). 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

	2020 RMB'000	2019 RMB'000
Cash at bank and financial institute and on hand	**543,822**	270,803

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

	2020 RMB'000	2019 RMB'000
US$	**1,286**	130,911
HK$	**9,875**	43,780

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 2019	379,756
Transfer from other assets (Note 18 and Note 19(b))	281,962
Addition	42,793
Disposal (note a)	(418,011)
At 31 December 2019	286,500
At 1 January 2020	**286,500**
Addition	**84,697**
Disposal (note b)	**(371,197)**
At 31 December 2020	**—**

(a) As disclosed in Note 10(b) and Note 10(c), the assets and liabilities classified as held for sale as at 31 December 2018 had been all disposed during the year ended 31 December 2019.

(b) As disclosed in Note 10(a), the assets and liabilities classified as held for sale as at 31 December 2019 had been disposed during the year ended 31 December 2020.

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 2019, 31 December 2019 and 31 December 2020	6,000,000	50,000	341
Issued and fully paid:			
At 1 January 2019, 31 December 2019 and 31 December 2020	1,630,208	13,585	94

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 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
At 1 January 2020	**230,864**	**(9,886)**	**(22,688)**	**71,064**	**57,711**	**327,065**
Share-based payments	**—**	**—**	**—**	**—**	**77**	**77**
Vesting of restricted shares under restricted share award scheme	**—**	**—**	**257**	**—**	**(257)**	**—**
Transfer to statutory surplus reserve	**—**	**—**	**—**	**4,620**	**—**	**4,620**
At 31 December 2020	**230,864**	**(9,886)**	**(22,431)**	**75,684**	**57,531**	**331,762**

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 151,200,000 share options to eligible directors, employees and consultant to subscribe for shares in the Company within 10 years. For the year ended 31 December 2020, all options granted under the Pre-IPO Scheme have been vested and exercised or lapsed.

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 including directors, employees and consultant to subscribe for shares in the Company. Under the Share Option Scheme, 49,660,000 shares had been granted by the Company from 2014 to 2016. The Share Option Scheme has been expired at the end of 29 September 2020, after which no further share options shall be granted. As at 31 December 2020, all share options granted under the Share Option Scheme have been vested, among which 18,620,000 share options have not been exercised.

33 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(i) Movements in share options

	Pre-IPO Share Option Scheme Average exercise price (RMB)	Pre-IPO Share Option Scheme Number of options	Share Option Scheme Average exercise price (HK$)	Share Option Scheme Number of options	Total number of options
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
At 1 January 2020	**1.23**	**72,290,000**	**1.01**	**19,820,000**	**92,110,000**
Lapsed	**1.23**	**(72,290,000)**	**1.00**	**(1,200,000)**	**(73,490,000)**
At 31 December 2020	**—**	**—**	**1.01**	**18,620,000**	**18,620,000**
Exercisable as at 31 December 2020	**—**	**—**	**1.00**	**18,620,000**	**18,620,000**

(ii) Outstanding share options

Expiry Date	Exercise price	Number of share options **31 December 2020**	Number of share options 31 December 2019
10 years commencing from the date of the grant of options Pre-IPO Share Option Scheme	RMB1.23	**—**	72,290,000
8 years commencing from the date of the commencement of options Share Option Scheme	HK$1–HK$1.16	**18,620,000**	19,820,000

There is no option granted to any eligible employee during the years ended 31 December 2020 and 2019.

33 SHARE-BASED PAYMENTS *(Continued)*

(b) Restricted Share Award Scheme

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

The Company has set up a trust (the "**Trust**") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trust purchases the Company's shares being awarded from the open market using cash contributed by the Company.

In January 2012, the Trust purchased 61,000,000 shares of the Company through the Hong Kong Stock Exchange at a total consideration of HK$48,291,000 (equivalent approximately to RMB39,312,000) for the Restricted Share Award Scheme.

Movements in the number of restricted shares are as follows:

	Number of shares held for the Restricted Share Award Scheme	Number of awarded shares	Total
At 1 January 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
At 1 January 2020	**35,001,567**	**200,000**	**35,201,567**
Granted	**(200,000)**	**200,000**	**—**
Vested and transferred	**—**	**(400,000)**	**(400,000)**
At 31 December 2020	**34,801,567**	**—**	**34,801,567**

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

The weighted average fair value of awarded shares granted during the year ended 31 December 2020 was HK$0.32 per share (equivalent to approximately RMB0.27 per share) (2019: HK$0.36 per share (equivalent to approximately RMB0.32 per share)).

33 SHARE-BASED PAYMENTS *(Continued)*

(c) Expenses arising from share-based payment transactions

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

	2020 RMB'000	2019 RMB'000
Options issued under employee share option plan	**(42)**	144
Shares issued under restricted share awarded scheme	**119**	59
	77	203

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:

	2020 RMB'000	2019 RMB'000
At 1 January	**34,381**	35,167
Amortisation during the year	**(586)**	(786)
At 31 December	**33,795**	34,381

35 DEFERRED INCOME TAX

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

	2020 RMB'000	2019 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	**53,230**	49,418
— Deferred income tax assets to be recovered within 12 months	**66,592**	20,426
	119,822	69,844
Offsetting of deferred tax assets	**(13,255)**	(4,602)
Net deferred tax assets	**106,567**	65,242
Deferred income tax liabilities:		
— Deferred income tax liability to be settled after more than 12 months	**(45,388)**	(33,510)
— Deferred income tax liability to be settled within 12 months	**(5,247)**	(3,209)
	(50,635)	(36,719)
Offsetting of deferred tax liabilities	**13,255**	4,602
Net deferred tax liabilities	**(37,380)**	(32,117)

35 DEFERRED INCOME TAX *(Continued)*

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

	2020 RMB'000	2019 RMB'000
At 1 January	**33,125**	27,486
Credited to profit or loss (Note 15)	**36,062**	139
Transfer to tax paid	**—**	5,500
At 31 December	**69,187**	33,125

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 2019	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
Credited/(charged) to profit or loss	35,429	458	(214)	6,106	8,199	49,978
At 31 December 2020	**51,460**	**4,374**	**5,081**	**45,369**	**13,538**	**119,822**

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 2020 and the profit resulted from intra-group sales transaction during the year ended 31 December 2020.

35 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	Right-of-use assets appreciation in a business combination RMB'000	Total RMB'000
At 1 January 2019	(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)
(Charged)/credited to profit or loss	(7,391)	(2,108)	(6,545)	2,093	35	(13,916)
At 31 December 2020	**(11,029)**	**(3,947)**	**(9,308)**	**(24,806)**	**(1,545)**	**(50,635)**

(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 at 31 December 2020, the Group had unused tax losses of approximately RMB4,256,000 (31 December 2019: RMB53,673,000) that can be carried forward against future taxable income. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future taxable income. The unused tax losses of the Group were mainly from the subsidiaries incorporated in Mainland China, where the accumulated tax losses will normally expire within 5 years.

35 DEFERRED INCOME TAX *(Continued)*

(b) As at 31 December 2020, 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 years from 2012 to 2020 and other accrued expenses of approximately RMB77,866,000 (2019: RMB152,705,000), deferred income tax assets have not been recognised on these deductible temporary differences as accumulated.

(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 2020, 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 as at 31 December 2020 of approximately RMB220,581,000 (2019: RMB73,472,000) may be distributed to their foreign parent company in the foreseeable future and the related deferred income tax liabilities of approximately RMB11,029,000 (2019: RMB3,638,000) have been recognised accordingly.

36 TRADE AND BILLS PAYABLES

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

	2020 **RMB'000**	2019 RMB'000
0–90 days	**67,574**	46,978
91–180 days	**10,956**	2
Over 180 days	**28,618**	2,125
	107,148	49,105

Trade payables of approximately RMB32,508,000 are unsecured and are usually paid within 30 days from the date of initial recognition.

Bills payables of approximately RMB74,640,000 are bank acceptance notes within periods from 3 months to 1 year.

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.

37 OTHER PAYABLES AND ACCRUED EXPENSES

	2020 RMB'000	2019 RMB'000
Payroll and welfare payable	**22,203**	25,533
Accrued expenses	**41,362**	62,914
Accrued sales rebates	**71,112**	34,128
Taxes and surcharges payable	**5,216**	8,814
Payable to suppliers for:		
— purchases of property, plant and equipment	**48,948**	52,701
— advertisement	**8,980**	2,658
Deposits received for a subsidiary to be disposed (Note)	**—**	92,397
Advance rental payment to be paid back to a third party	**—**	20,000
Others	**37,806**	29,668
	235,627	328,813

Note:

The deposits amounted to approximately RMB92,397,000 which was received in 2019 for disposal of Beijing shenhuibiyuan has been paid back by the Group in 2020.

38 BORROWINGS

	2020 RMB'000	2019 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	**92,050**	63,800
Bank borrowing, unsecured (b)	**3,000**	3,000
	95,050	66,800
Included in non-current liabilities		
Bank borrowing, secured (a)	**64,730**	28,000
	64,730	28,000

Bank borrowings mature until 2030 and bear average coupons of 4.87% annually (2019: 5.37% annually).

At 31 December 2020, the Group's borrowings were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**95,050**	66,800
Between 1 and 2 years	**17,720**	8,800
Between 2 and 5 years	**13,160**	19,200
Over 5 years	**33,850**	—
	159,780	94,800

38 BORROWINGS *(Continued)*

(a) The Group's bank borrowings of RMB70,000,000 bear fixed interest rates ranges from 4.35% — 4.78% per annum which are due for repayment in May 2021. The bank borrowings were secured by a third-party guarantee company and pledged by land use rights and buildings with carrying amounts of approximately RMB6,056,000 and RMB80,615,000 respectively.

The Group's bank borrowings of RMB43,000,000 bear the floating interest rates of loan prime rate ("LPR") plus 0.15% to 0.25% per annum which are due for repayment in 2029 to 2030. The bank borrowings were secured by Zhongshan Wanhan, Zhongshan Wanyuan and Ms. Peng Wei, who is Zhongshan Wanhan and Zhongshan Wanyuan's non-controlling shareholder and pledged by Zhongshan Wanhan's land use right of approximately RMB18,722,000.

The Group's bank borrowings of RMB8,500,000 bear fixed interest rates of 4.59% per annum which are due for repayment in November 2021. The bank borrowings were secured by Zhongshan Wanhan, Zhongshan Wanyuan and their non-controlly shareholders Ms. Peng Wei and were pledged by Zhongshan Wanhan's land use right of approximately RMB18,722,000 and Zhongshan Wanyuan's buildings of approximately RMB24,247,000.

The Group's bank borrowings of RMB19,000,000 bear floating rate of LPR plus 1.2025% per annum whose remaining principal is payable quarterly from January 2021 to October 2024. The bank borrowings were secured by Zhongshan Wanyuan's land use right and buildings of approximately RMB17,683,000 and RMB24,247,000 respectively.

The Group's bank borrowings of RMB4,500,000 bear floating rate of LPR plus 0.80% and are due for repayment in 2023. The bank borrowings were secured by Zhongshan Wanyuan and Ms. Peng Wei.

The Group's bank borrowings of RMB6,780,000 bear fixed rate of 4.57% per annum and are due for repayment in June 2021. The bank borrowings were secured by Zhongshan Wanyuan and Ms. Peng Wei.

The Group's bank borrowings of RMB5,000,000 bear floating rate of LPR plus 0.90% and are due for repayment in 2023. The bank borrowings were secured by Zhongshan Wanhan and Ms. Peng Wei.

(b) The unsecured bank borrowings of RMB3,000,000 bear interests at fixed rate of 4.50% per annum and the principal is due for repayment in March 2021.

(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) and Note 3.1.3.

39 LEASE LIABILITIES

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Lease liabilities		
Current	**12,563**	9,241
Non-current	**10,044**	8,327
	22,607	17,568

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 consolidated statement of comprehensive income over the lease period.

(b) Amounts recognised in the consolidated statement of comprehensive income

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

	2020 RMB'000	2019 RMB'000
Depreciation of right-of-use assets (Note 18)	**10,310**	3,884
Interest expense (included in finance costs) (Note 12)	**1,067**	805
Total cash outflow for leases	**15,694**	10,160
Expense relating to short-term leases (included in cost of goods sold, selling expenses, administrative expenses and research and development expenses) (Note 7)	**4,901**	4,967
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in selling expenses, administrative expenses and research and development expenses) (Note 7)	**812**	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

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.

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 CASH USED IN OPERATIONS

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

	2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Profit before income tax	**115,058**	193,207
Adjustments for:		
Depreciation of right-of-use assets	**12,849**	6,762
Amortisation of intangible assets	**10,149**	12,161
Depreciation of property, plant and equipment	**32,755**	33,269
Depreciation of investment properties	**477**	2,727
Impairment loss on non-current assets	**8,595**	2,830
Interest expenses	**6,306**	5,593
Interest income	**(3,592)**	(1,949)
Finance income	**(2,758)**	(3,309)
Change in fair value of financial assets measured at fair value through profit or loss	**(14,052)**	(2,531)
Net losses/(gains) on disposals of property, plant and equipment	**658**	(520)
Gain on disposal of subsidiaries	**(80,108)**	(222,276)
Amortisation of deferred government grants	**(586)**	(786)
Reversal of for impairment of trade receivables	**(53)**	(281)
Share-based compensation	**77**	203
Foreign exchange losses, net	**16,086**	13
Share of (profits)/losses of investments accounted for using the equity method	**(4,736)**	12,862
Operating cash flows before movements in working capital	**97,125**	37,975
Increase in inventories	**(79,210)**	(29,712)
Decrease/(increase) in trade and bills receivable	**51,912**	(132,440)
Increase in deposits, prepayments and other receivables	**(48,803)**	(5,735)
Increase in trade and bills payables	**58,043**	40,353
(Decrease)/increase in other payables and accrued expenses	**(1,604)**	74,768
Increase/(decrease) in contract liabilities	**6,971**	(9,754)
Increase/(decrease) in other non-current liabilities	**497**	(14,647)
Cash generated from/(used in) operations	**84,931**	(39,192)

40 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:

	2020 RMB'000	2019 RMB'000
Net book amount (Note 17 and Note 18)	**1,380**	1,492
Net (losses)/gains on disposals of land use right and property, plant and equipment (Note 9)	**(658)**	520
Proceeds from disposals of property, plant and equipment	**722**	2,012

(c) 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	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	**543,822**	270,803
Term deposits with initial term of over three months	**120,300**	10,000
Liquid investments (note)	**—**	83,000
Borrowings	**(159,780)**	(94,800)
Lease liabilities	**(22,607)**	(17,568)
Net debt	**481,735**	251,435
Cash and liquid investments	**664,122**	363,803
Gross debt — fixed interest rates	**(181,001)**	(84,368)
Gross debt — variable interest rates	**(1,386)**	(28,000)
Net debt	**481,735**	251,435

Note:

Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets measured at FVPL.

40 CASH USED IN OPERATIONS *(Continued)*

(c) 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 2018	61,759	—	38,300	(150,000)	—	(49,941)
Recognised on adoption of IFRS 16	—	—	—	—	(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
Cash flows	**289,136**	**110,300**	**(83,000)**	**(64,980)**	**15,694**	**267,150**
Addition-leases	**—**	**—**	**—**	**—**	**(20,733)**	**(20,733)**
Exchange losses on cash and cash equivalents	**(16,117)**	**—**	**—**	**—**	**—**	**(16,117)**
Net debt as at 31 December 2020	**543,822**	**120,300**	**—**	**(159,780)**	**(22,607)**	**481,735**

41 DIVIDENDS

Pursuant to the board resolution on 12 March 2021, the Board has resolved to recommend for declaration and payment of a final dividend of HK3.75 cents per share (approximately HK$61,133,000 in aggregate) for the year ended 31 December 2020, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting to be held on 25 May 2021. The final dividend will be paid on or about 16 June 2021 to the shareholders whose names appear on the register of members of the Company on 1 June 2021.

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 RMB163,408,000).

42 COMMITMENT

(a) Capital commitments

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

	2020 RMB'000	2019 RMB'000
Property, plant and equipment	**52,363**	117,015

(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 short-term leases as follows:

	2020 RMB'000	2019 RMB'000
No later than 1 year	**812**	872
Later than 1 year and no later than 5 years	**15**	—
	827	872

43 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:

	2020 RMB'000	2019 RMB'000
Salaries, bonus and other allowances	**12,128**	9,235
Share-based compensation	**120**	59
Pension cost — defined contribution plan	**18**	261
	12,266	9,555

(b) Transactions with related party

During the year ended 31 December 2020, 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 RMB86,780,000. (2019: RMB8,000,000) (Note 38(a))

44 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

For the year ended 31 December 2020:

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	211	2,373	—	4	2,588
Gao Yan	211	1,831	—	—	2,042
	422	4,204	—	4	4,630
Non-executive directors:					
Zhuo Fumin	211	—	—	—	211
	211	—	—	—	211
Independent non-executive directors:					
Ren Guangming	211	—	—	—	211
He Yuanping	211	—	—	—	211
Fu Shula	211	—	—	—	211
	633	—	—	—	633
	1,266	4,204	—	4	5,474

44 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

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

During the year ended 31 December 2020, no directors waived or agree to waive any emoluments (2019: Nil).

Mr. Huang Jingsheng has resigned as independent non-executive director on 1 June 2019.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

45 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**212,085**	211,965
Property, plant and equipment	**3**	6
Loans to subsidiaries	**749,468**	744,600
	961,556	956,571
Current assets		
Deposits, prepayments and other receivables	**26,221**	165,092
Cash and cash equivalents	**1,525**	6,686
	27,746	171,778
Total assets	**989,302**	1,128,349
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**94**	94
Share premium	**962,777**	962,777
Other reserves	**35,106**	35,029
(Accumulated deficit)/retained earnings	**(9,562)**	37,168
Total equity	**988,415**	1,035,068
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	**887**	93,281
Total liabilities	**887**	93,281
Total equity and liabilities	**989,302**	1,128,349

The balance sheet of the Company was approved by the Board of Directors on 12 March 2021 and was signed on its behalf.

Zhao Yihong	**Gao Yan**
Director	*Director*

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

Reserve movement of the Company

		Other reserves					
	Share premium RMB'000	Share-based payment reserve RMB'000	Capital redemption reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Total other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
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	—	203	—	—	203	—	203
Vesting of restricted share under share option scheme and restricted share award scheme	—	(128)	—	128	—	—	—
Dividends	(157,908)	—	—	—	—	—	(157,908)
At 31 December 2019	962,777	57,711	6	(22,688)	35,029	37,168	1,034,974
At 1 January 2020	**962,777**	**57,711**	**6**	**(22,688)**	**35,029**	**37,168**	**1,034,974**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(46,730)**	**(46,730)**
Share-based payments	**—**	**77**	**—**	**—**	**77**	**—**	**77**
Vesting of restricted share under share option scheme and restricted share award scheme	**—**	**(257)**	**—**	**257**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2020	**962,777**	**57,531**	**6**	**(22,431)**	**35,106**	**(9,562)**	**988,321**

46 EVENT OCCURRING AFTER THE BALANCE SHEET DATE

(a) On 1 February 2021, Tibet Qianruiwanfu Venture Investment Co., Ltd. ("**Qianruiwanfu**"), a wholly-owned subsidiary of the Group, entered into a restructuring investment agreement, pursuant to which Qianruiwanfu agreed to acquire 100% equity interest of Henan Xueyinghua Pharmaceutical Co., Ltd. at a cash consideration of RMB31.99 million. The transaction has not been completed as at the report date.

(b) On 26 February 2021, Hainan Besunyen Healthcare Investment Limited ("**Besunyen Healthcare Investment**"), a wholly-owned subsidiary of the Group entered into a subscription agreement, pursuant to which Besunyen Healthcare Investment has agreed to make a capital commitment of US$2.35 million to Vstar Investment Fund Limited Partnership, which will invest in a Singaporean company which engages in the research and development of infection-related immunotherapy and antiviral and anti-bacterial medications and vaccines.

(c) After the balance sheet date, the Board proposed a declaration and payment of a final dividend for the year ended 31 December 2020. Further details are disclosed in Note 41.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Turnover	514,749	542,870	378,378	812,160	**1,292,711**
Gross profit	425,520	430,193	255,317	584,452	**913,326**
(Loss)/profit from operating	(67,674)	(16,783)	(115,262)	(16,207)	**30,214**
Gain on disposal of subsidiaries	—	—	—	222,276	**80,108**
Impairment loss on intangible assets	—	—	(4,802)	—	
Reversal of impairment of property, plant and equipment	—	—	—	—	
Investment (loss)/profit accounted for using the equity method	(2,997)	9,599	(1,295)	(12,862)	**4,736**
Profit/(loss) before income tax	(70,671)	(7,184)	(121,359)	193,207	**115,058**
Profit/(loss) and total comprehensive income/(loss) for the year	(74,566)	5,281	(93,472)	188,246	**130,859**
Earnings/(loss) per share (RMB cents)					
Basic	(4.56)	0.27	(5.98)	10.18	**2.85**
Diluted	(4.56)	0.27	(5.98)	10.18	**2.85**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Non-current assets	919,599	1,114,142	825,412	672,836	**793,474**
Net current assets	87,034	89,960	310,174	509,435	**563,354**
Total assets less current liabilities	1,006,633	1,204,102	1,135,586	1,182,271	**1,356,828**
Non-current liabilities	17,101	61,819	86,681	102,825	**146,446**
Net assets	989,532	1,142,283	1,048,905	1,079,446	**1,210,382**
Share capital	86	94	94	94	**94**
Reserves	989,446	1,059,143	963,938	968,581	**1,014,137**
	989,532	1,059,237	964,032	968,675	**1,014,231**
Non-controlling interests	—	83,046	84,873	110,771	**196,151**
Total equity	989,532	1,142,283	1,048,905	1,079,446	**1,210,382**

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