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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 RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

The Group's revenue amounted to approximately RMB514.7 million for 2016, representing a decrease of 22.3% as compared to that of approximately RMB662.8 million for 2015.

The gross profit margin decreased to 82.7% for 2016 from that of 89.7% for 2015.

The Group recorded a net loss attributable to the Company's equity shareholders of approximately RMB68.7 million for 2016, representing a decrease in profit by 174.4% as compared to the net profit attributable to the Company's equity shareholders of approximately RMB92.3 million for 2015.

The basic and diluted loss per share was RMB0.05 in 2016, as compared to the basic and diluted profit per share of RMB0.06 in 2015.

FINAL DIVIDEND

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

The board (the “**Board**”) of directors (the “**Directors**”) of Besunyen Holdings Company Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

		As at 31 December 2016	As at 31 December 2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		381,640	389,052
Land use rights		364,358	377,100
Investment properties		55,632	57,694
Intangible assets		8,397	9,608
Non-current deposits		8,402	6,755
Investments accounted for using the equity method	10	66,933	—
Deferred income tax assets		34,237	38,723
		<u>919,599</u>	<u>878,932</u>
Current assets			
Inventories		22,720	6,188
Trade and bills receivables	6	31,504	17,404
Deposits, prepayments and other receivables		13,175	32,905
Restricted bank deposits		3,911	—
Term deposits with initial term of over three months		—	50,000
Cash and cash equivalents		153,884	425,858
		<u>225,194</u>	<u>532,355</u>
Total assets		<u><u>1,144,793</u></u>	<u><u>1,411,287</u></u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	8	86	89
Share premium		1,055,961	1,229,764
Other reserves		319,050	326,773
Accumulated losses		(385,565)	(316,851)
		<u>989,532</u>	<u>1,239,775</u>
Non-controlling interests		—	5,960
Total equity		<u><u>989,532</u></u>	<u><u>1,245,735</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Besunyen Holdings Company Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The principle activities of the Company and its subsidiaries (collectively referred to as the “**Group**”) are the manufacturing and sales of therapeutic tea products and slimming medicines.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The figures in respect of the Group’s consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2016 in this preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

2. BASIS OF PREPARATION

The consolidated financial statements of Besunyen Holdings Company Limited have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRS**”). The consolidated financial statements have been prepared under the historical cost convention.

2.1 *Changes in accounting policy and disclosures*

Amended standards and annual improvements adopted by the Group

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

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

The adoption of these amendments and annual improvements did not have any significant impact on the consolidation financial statements.

3. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker (“**CODM**”) has been identified as the Executive Directors of the Company who review the Group’s internal reporting in order to assess performance and allocate resources.

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

The CODM evaluates the performance of the reportable segments based on their revenue, gross profit and operating results which derived from gross profit to include selling and marketing expenses and research and development costs. The CODM does not assess the assets and liabilities of the operating segments.

Revenue

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

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

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

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

The segment results for the year ended 31 December 2015 are as follows:

	Tea products segment <i>RMB'000</i>	Slimming medicine segment <i>RMB'000</i>	Total <i>RMB'000</i>
Total revenue	599,417	63,388	662,805
Inter-segment revenue	—	—	—
Revenue from external customers	599,417	63,388	662,805
Cost of sales*	(56,454)	(12,114)	(68,568)
Gross profit	542,963	51,274	594,237
Selling and marketing expenses	(365,439)	(66,500)	(431,939)
Research and development costs	(19,179)	—	(19,179)
Segment results	158,345	(15,226)	143,119
Other income			40,205
Other losses, net			(2,717)
Administrative expenses			(104,793)
Other expenses			(11,375)
Profit before income tax			64,439
Income tax credit			23,775
Profit for the year			<u>88,214</u>
Other segment information:			
Depreciation	(31,157)	(65)	(31,222)
Amortisation	(9,260)	(535)	(9,795)
Reversal of impairment of property, plant and equipment*	28,507	—	28,507

* The reversal of impairment of property, plant and equipment as recognised has been offset against the 'cost of sales' of the tea products segment for the year ended 31 December 2015.

Non-current assets are all located in the PRC.

4. INCOME TAX (EXPENSE)/CREDIT

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

The Company was incorporated in Cayman Islands and Besunyen Investment (BVI) Co. Ltd. was incorporated in the British Virgin Islands (“BVI”) that are tax exempted under the tax laws of the Cayman Islands and the BVI.

The tax rate applicable to the Group’s subsidiary incorporated and operated in Hong Kong is 16.5% (2015: 16.5%). No provision for Hong Kong profit tax has been made as the Group has no estimated assessable profit derived from or generated in Hong Kong for the years ended 31 December 2016 and 2015.

In February 2015, Beijing Outsell Health Product Development Co., Ltd. (“Beijing Outsell”), a subsidiary of the Group, has obtained the High and New Technology Enterprise (“HNTE”) qualification for three years from 2014 to 2016, in which the applicable income tax rate during the approved period is 15%.

In November 2015, Beijing Besunyen Food and Beverage Co., Ltd. (“Besunyen Food and Beverage”), a subsidiary of the Group, has obtained the HNTE qualification for three years from 2015 to 2017, in which the applicable income tax rate during the approved period is 15%.

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2015: 25%).

5. (LOSSES)/EARNINGS PER SHARE

(a) Basic

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

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

(b) **Diluted**

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the (losses)/earnings per share. Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted EPS). The share options had anti-diluted effect to the Group for the years ended 31 December 2016 and 2015. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2016 and 2015. No adjustment is made to (losses)/earnings (numerator). Accordingly, the diluted (losses)/earnings per share is the same as the basic (losses)/earnings per share for the years ended 31 December 2016 and 2015.

6. TRADE AND BILLS RECEIVABLES

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

(a) Bills receivable are all bank acceptance notes with maturity dates within six months.

(b) The Group allows a credit period of 20–180 days to its customers. The following is an ageing analysis of trade and bills receivables (net of allowance for doubtful debts) based on the dates of deliveries of the related goods to the customers, which are approximate to their invoice date:

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

7. TRADE AND BILLS PAYABLES

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

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

8. 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
<i>Authorised:</i>			
Ordinary shares of US\$0.00000833333 each			
At 1 January 2015, 31 December 2015 and 31 December 2016	<u>6,000,000</u>	<u>50,000</u>	<u>341</u>
<i>Issued and fully paid:</i>			
At 1 January 2015	1,569,422	13,079	89
Repurchase and cancellation of shares	<u>(2,451)</u>	<u>(21)</u>	<u>—</u>
At 31 December 2015	<u>1,566,971</u>	<u>13,058</u>	<u>89</u>
At 1 January 2016	1,566,971	13,058	89
Repurchase and cancellation of shares	<u>(85,496)</u>	<u>(712)</u>	<u>(3)</u>
At 31 December 2016	<u>1,481,475</u>	<u>12,346</u>	<u>86</u>

During the year ended 31 December 2016, the Company has acquired 85,496,000 (2015: 2,451,000) of its own shares through purchases on the Hong Kong Stock Exchange. Such shares were cancelled upon the repurchase. The total amount paid to acquire the shares was HK\$52,591,000 (equivalent to approximately RMB45,837,000) (2015: HK\$2,320,000 (equivalent to approximately RMB1,932,000)) and has been deducted from share capital and share premium within shareholder's equity.

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

9. DIVIDENDS

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

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

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

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

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

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

(a) Investment in an associate

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

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

(b) Investments in joint ventures

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

Notes:

- (i) Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. (the “**Fund Management Company**”) is established on 8 March 2016 and is jointly owned by Beijing Besunyen Pharmaceutical Co., Ltd. (“**Besunyen Pharmaceutical**”) (a wholly owned subsidiary of the Group) and Mr. Bai Jiguang (the “**Co-Partner**”). On 29 March 2016, Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company have entered into a limited partnership agreement, pursuant to which the involved parties

agreed to establish Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the “Fund”) in the PRC. The Fund has a total capital commitment of RMB100,000,000 and owned by Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company as to 89%, 10% and 1%, respectively. As of 31 December 2016, the Group has already contributed capital of RMB500,000 and RMB59,630,000 to the Fund Management Company and the Fund respectively.

- (ii) The principal business of the Fund is the investments in portfolio companies specialising in the healthcare industry, TMT (technology, media and telecommunications) industry and consumer industry, etc., as well as the investment in certain early stage partnership companies. The term of the Fund is 5 years, and may be extended to no more than 7 years as unanimously agreed by all parties.
- (iii) Although the Group owns more than half of equity interests in the Fund Management Company, the Group only has joint control over the Fund Management Company and the Fund with the Co-partner pursuant to the investment agreements. Consequently, the Group has accounted for the Fund Management Company and the Fund by using equity method.

11. IMPAIRMENT TESTING

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

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

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

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

12. EVENT AFTER THE BALANCE SHEET DATE

- On 10 March 2017, the Company entered into a share subscription agreement with certain individuals and a company (collectively, the “Subscribers”), pursuant to which the Subscribers conditionally agree to subscribe for, and the Company conditionally agreed to issue and allot 165,000,000 shares (the “Subscription Shares”) at HK\$0.5 per share subject to a lock-up period of 1 year.
- On 10 March 2017, Beijing Outsell entered into an equity transfer agreement with Zhonghang Tuohong (Xi’an) Property Co., Ltd. (the “Zhonghang Tuohong”) and Besunyen Food and Beverage, pursuant to which (i) Beijing Outsell agreed to dispose of its entire 100% equity interest in Besunyen Food and Beverage to Zhonghang Tuohong at an aggregate consideration of RMB75,000,000 (the “Disposal”); and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell. Upon completion of the equity transfer, Besunyen Food and Beverage will cease to be a subsidiary of the Company and management estimated that the Disposal will not result in any loss to the Group.
- On 10 March 2017, Beijing Outsell, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (the “Zhongshan Wanyuan”), Zhongshan Wanhan Pharmacy Co., Ltd (the “Zhongshan Wanhan”), and the respective shareholders of Zhongshan Wanyuan and Zhongshan Wanhan (collectively the “Sellers”) entered into an investment agreement (the “Investment Agreement”), pursuant to which: (1) Beijing Outsell conditionally agreed to purchase 39.66% equity interest in Zhongshan Wanhan from the Sellers at a total consideration of RMB77,100,000 (the “Equity Transfer”); and (2) Beijing Outsell conditionally agreed to make capital contribution in cash to each of Zhongshan Wanyuan and Zhongshan Wanhan in the total sum of RMB60,600,000. Upon completion the Investment Agreement, Beijing Outsell will own 51% equity interest in each of Zhongshan Wanyuan and Zhongshan Wanhan.

BUSINESS REVIEW AND PROSPECTS

Overview

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

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

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

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

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

Industry, market and competition

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute leading brand competitive advantages over similar products. According to an investigation report on retail pharmacies in the PRC issued by China South Medicine Economy Research Institute (“SMERI”) in March 2017, in terms of retail sales amount of healthcare products, medicines or other types of products sold through retail pharmacies, Besunyen Detox Tea continued to rank top in the market segment of laxative products for nine consecutive years, although its market share of 17.42% in 2016 represents a year-on-year decrease of 4.39 percentage points; Besunyen Slimming Tea continued to rank top in the market segment of slimming products for seven consecutive years, enjoying a market share of 32.33% in 2016, representing a year-on-year decrease of 9.93 percentage points.

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

Business Review

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

- “碧生源牌減肥茶” successfully renamed to “碧生源牌常菁茶”

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

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

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

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

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

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

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

Joint Product Branding by Traditional Media and New Media

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

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

cooperation to establish the professional image of Besunyen Slimming Tea. In addition, we conducted wide area coverage through both “outdoor media and digital TV media”, focusing on key markets to complement each other and realize dimensionalized communication, which has effectively covered consumers and improved its brand awareness and upgraded its brand loyalty.

- *Sponsoring the “Besunyen Cup” Charity Advertising Contest*

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

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

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

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

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

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

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

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

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

- *Intestine management: Launch of probiotic products*

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

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

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

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

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

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

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

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

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

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

Rebuilding Channels to Build a Chain Cooperation Platform

- *Rebuilding channels to promote platform interaction*

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

- *Strategic cooperation to enhance brand effect*

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

Yunzhi's Cooperation and Development

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

Awards and Honours

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

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

Social Welfare

- At the “2016 China Social Responsibility Public Welfare Ceremony & the Ninth Corporate Social Responsibility Summit” (2016中國社會責任公益盛典暨第九屆企業社會責任峰會) held in December 2016 and sponsored by Xinhua.net and the Research Centre for Corporate Social Responsibility of Chinese Academy of Social Sciences, the Group received the “2016 China Social Responsibility Public Welfare Charity Award” (2016中國社會責任公益慈善獎).
- The Group partnered with Beijing Charity Foundation to establish a special fund for conducting charity and public welfare activities including carrying out social assistance activities, providing services to the underprivileged and playing the complimentary role of social security, which has optimized the path for enterprises to participate in public welfare and charity, and created a practicable and efficient platform for the public welfare and charity to which the Group is committed.
- The Group and China Green Carbon Foundation established a “Special Fund for Combating Illegal Trade in Endangered Wildlife” (打擊瀕危野生動植物非法貿易專項基金), which aims to support the combat of illegal trade in wildlife, protect the diversity of global animals and plants, conduct investigations into and monitoring of domestic and overseas trade in wildlife and other wildlife resources and conduct habitat protection for endangered species through various forms of public welfare programs.

PROSPECTS

- **Macro-Economy**

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

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

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

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

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

Financial Review

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

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

Revenue

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

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

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

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

Cost of Sales and Gross Profit

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

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

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

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

Other Income

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

Selling and Marketing Expenses

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

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

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

The employee benefit expenses in 2016 recorded an increase of 26.7% as compared with 2015, mainly because the Group increased staffs' compensation in 2016. In addition, the Group completed the acquisition of 80% equity interest in Guangzhou Runliang Pharmaceutical Co., Ltd. ("Guangzhou

Runliang”) in April 2015, therefore, the employee benefit expenses of Guangzhou Runliang for the whole year of 2016 have been consolidated which also leads to the increase in employee benefit expenses.

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

Administrative Expenses

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

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

Research and Development Costs

	For the year ended 31 December			
	2016		2015	
	<i>RMB’000</i>	<i>Percentage of revenue</i>	<i>RMB’000</i>	<i>Percentage of revenue</i>
Research and development costs	<u>12,570</u>	<u>2.4%</u>	<u>19,179</u>	<u>2.9%</u>

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

Taxation

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

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

Due to the aforementioned factors, the total comprehensive loss attributable to the shareholders of the Company of the year was RMB68.7 million (total comprehensive income attributable to the shareholders of the Company was RMB92.3 million in 2015).

Use of the Net Proceeds from the Initial Public Offering (“IPO”)

The net proceeds from the IPO amounted to approximately RMB1,033.2 million. The net proceeds have been applied by the Company according to the manner disclosed in the use of proceeds in the prospectus and the announcement dated 16 June 2015 by the Company. The respective uses of the net proceeds up to 31 December 2016 are as follows:

	Net Proceeds from IPO		
	Available RMB'000	Used RMB'000	Unused RMB'000
Acquisition of new production equipment and building new production facilities	275,094	275,094	—
Establishment of the East China Regional Headquarters	77,518	77,518	—
Beijing new office building	123,664	123,664	—
Design, research and development of new products	62,981	62,981	—
Upgrading ERP and overall IT system	8,834	8,834	—
Loan repayment	73,000	73,000	—
Expansion of traditional and on-line sales and distribution network, channels and brand building	153,092	153,092	—
Working capital	109,000	109,000	—
Investment in traditional and on-line medical and pharmaceutical industries	150,000	74,980	75,020
Total	<u>1,033,183</u>	<u>958,163</u>	<u>75,020</u>

Liquidity and Capital Resources

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

Cash Flows

The following table summarises the net cash flows of the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	(44,623)	63,446
Net cash (used in)/from investing activities	(54,427)	26,160
Net cash used in financing activities	(173,806)	(41,825)
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(272,856)	47,781
Exchange gains on cash and cash equivalents	882	324
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(271,974)	48,105

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

Bank Balances, Cash and Bank Borrowings

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

Capital Expenditure

In 2016, cash payments for capital expenditure of the Group amounted to RMB34.2 million (2015: RMB39.5 million). The following table sets forth the capital expenditure as paid by the Group for the indicated years ended 31 December:

	For the year ended	
	31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	32,294	28,162
Intangible assets	1,912	2,120
Land use rights	—	9,175
	<hr/>	<hr/>
Total	34,206	39,457

Investment Properties

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

	At 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Investment properties	55,632	57,694

The Group owns Besunyen Building, Linglong Tiandi which is located in No. 160 West 4th Ring Road North, Haidian District, Beijing 100036, and certain office properties in Changcheng Building located in No. 3000, Zhongshan Road North, Putuo District, Shanghai. As at 31 December 2016, the Group was in the process of obtaining property certificates of the building located in the PRC with a total carrying value of approximately RMB44.8 million. The Group will not put all units of these properties into full use and has leased the unused units to independent third parties until the Group needs to recover such units for business expansion in the future. The properties held for lease are classified as investment properties.

As at 31 December 2016, carrying value of the investment properties amounted to RMB55.6 million (2015: RMB57.7 million). Such investment properties are measured on the basis of cost method and depreciated on a straight-line basis over the estimated useful life of 30 years. As at 31 December 2016, the Group assessed the fair values of the investment properties based on a valuation carried out by an independent valuer and determined that the related fair values exceed the carrying value of such investment properties.

Investments Accounted for Using the Equity Method

	At 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Investments accounted for using the equity method	<u>66,933</u>	<u>—</u>

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

Inventories

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

	At 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and packaging materials	3,816	2,183
Work in progress	1,028	774
Finished goods	<u>17,876</u>	<u>3,231</u>
Total inventories	<u>22,720</u>	<u>6,188</u>

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

Risks in Foreign Exchange Rate

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

For the year ended 31 December 2016, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2015: Nil).

Material Acquisition or Disposal

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

Material Investment

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

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

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

Pledge of Assets

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

Gearing Ratio

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

Contingent Liabilities

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

Capital Commitments

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

Environment Protection and Compliance with Laws and Regulations

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

Relationships with Employees, Suppliers and Customers

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2016, the Group provided generous social security benefits to its employees to motivate them while heightening their sense of belonging. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2016, there was no significant and material dispute between the Group and its suppliers and/or customers.

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 31 December 2016, the Group had 1,156 employees in the PRC mainland and Hong Kong (2015: 1,231 employees), which included 79 promotional staff employed by employment agents (2015: 113 employees). The staff costs of the Group (including remunerations of the Directors) were RMB162.3 million for the year ended 31 December 2016 (2015: RMB148.9 million). Employee remuneration is determined with reference to individual performance, work experience, qualification and current industry practice. Apart from basic remuneration and statutory pension benefit scheme, employee benefits also include discretionary bonus and share options.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options under the pre-IPO share option scheme and the share option scheme adopted by the Company on 30 April 2010 and 8 September 2010, respectively, which are to motivate staff, to encourage them to work hard to enhance the value and foster better long-term development of the Group. The Company has also adopted a restricted share award scheme to grant restricted shares to eligible employees.

The Group invests considerable efforts in the continuous education and training for our staff, so as to keep enhancing the knowledge, skill and team spirit of our staff. The Group often provides internal and external training courses to relevant staff as required.

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 May 2017 to 12 May 2017, both days inclusive. During such period, no transfer of shares of the Company (the “**Shares**”) will be registered. The record date for determining the eligibility to attend the forthcoming annual general meeting (“**AGM**”) to be held on 12 May 2017 will be on 12 May 2017. In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 8 May 2017.

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 2016, except for code provision A.2.1 of the CG Code.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders.

CODE PROVISION A.2.1 UNDER THE CG CODE

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. ZHAO Yihong. Mr. ZHAO is a co-founder of the Group and has 27 years of experience in food and beverage industry in the PRC. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group’s business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code during the year ended 31 December 2016.

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

The Shares repurchased by the Company on the Stock Exchange during the year ended 31 December 2016 are as follows:

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

The above repurchase was made to increase the net assets and earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2016.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Huang Jingsheng and Mr. Ren Guangming. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

SUBSEQUENT EVENTS

- On 10 March 2017, the Company entered into a share subscription agreement (the “**Share Subscription Agreement**”) with Ms. LI Jiaozhi, Mr. WANG Jining, Mr. LUO Xuezhi and Everyoung Investment Holdings Limited (collectively, the “**Subscribers**”), pursuant to which the Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue and allot 165,000,000 Shares (the “**Subscription Shares**”) at HK\$0.5 per share subject to a lock-up period of 1 year. The issue of the Subscription Shares is subject to, among others, the granting and not having withdrawn or revoked the approval for the listing of, and permission to deal in the Subscription Shares by the Listing Committee of the Stock Exchange. The net proceeds of approximately HKD82.4 million from the subscription will be used for, including but not limited to, replenishing the working capital of the Group and appropriate acquisitions and potential investment opportunities of the Group. For details, please refer to the announcement of the Company dated 10 March 2017.
- On 10 March 2017, Beijing Outsell entered into an equity transfer agreement (the “**Equity Transfer Agreement**”) with Zhonghang Tuohong (Xi’an) Property Co., Ltd. (an independent third party) (the “**Zhonghang Tuohong**”) and Besunyen Food and Beverage, pursuant to which (i) Beijing Outsell agreed to dispose of and Zhonghang Tuohong agreed to acquire 100% equity interest in Besunyen Food and Beverage for an aggregate consideration of RMB75,000,000; and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell. Upon completion of the equity transfer, Besunyen Food and Beverage will cease to be a subsidiary of the Company. Proceeds from the equity transfer and the debt repaid by Besunyen Food and Beverage will be used by Beijing Outsell for its operation of business and strategic investments. For details, please refer to the announcement of the Company dated 10 March 2017.
- On 10 March 2017, Beijing Outsell, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (the “**Zhongshan Wanyuan**”), Zhongshan Wanhan Pharmacy Co., Ltd. (the “**Zhongshan Wanhan**”), Zhuhai Yinchen Investment Consulting Co., Ltd., Zhuhai Jiatai Chengzhang Investment Co., Ltd., Ms. LUO Dongfang, Mr. ZHAO Rui, Mr. ZOU Yong, and Ms. PENG Wei (collectively, the “**Sellers**”) entered into an investment agreement (the “**Investment Agreement**”) pursuant to which: (1) Beijing Outsell conditionally agreed to purchase and the Sellers of Zhongshan Wanhan conditionally agreed to sell 39.66% equity interest in Zhongshan Wanhan for a total consideration of RMB77,100,000 (the “**Equity Transfer**”); and (2) Beijing Outsell conditionally agreed to make capital contribution in cash to each of Zhongshan Wanhan and Zhongshan Wanyuan in the total sum of RMB60,600,000 (the “**Capital Contribution**”). Upon completion of the Investment Agreement, Beijing Outsell will own 51% equity interest in each of Zhongshan Wanhan and Zhongshan Wanyuan. This transaction will facilitate the Group to obtain more comprehensive qualifications in pharmaceutical research and development, manufacture and medical e-commerce, and also lay a good foundation for the Group’s comprehensive layout and development in pharmaceutical industry. For details, please refer to the announcement of the Company dated 10 March 2017.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (<http://ir.besunyen.com>) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2016 will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board
Besunyen Holdings Company Limited
Zhao Yihong
Chairman and Chief Executive Officer

Hong Kong, 10 March 2017

As at the date of this announcement, the executive Directors are Mr. Zhao Yihong (Chairman and Chief Executive Officer) and Ms. Gao Yan (Vice Chairman); the non-executive Directors are Mr. Zhuo Fumin and Ms. Zhang Guimei; and the independent non-executive Directors are Mr. Huang Jingsheng, Mr. Ren Guangming and Mr. He Yuanping.