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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 2019

FINANCIAL HIGHLIGHTS

The Group's revenue amounted to approximately RMB812.2 million for 2019, representing an increase of approximately 114.6% as compared to that of approximately RMB378.4 million for 2018.

The gross profit margin increased to 72.0% for 2019 from that of 67.5% for 2018.

The Group recorded a total comprehensive income of approximately RMB188.2 million for 2019, compared to the total comprehensive loss of approximately RMB93.5 million for 2018.

The basic and diluted earnings per share was approximately RMB10.18 cents in 2019, as compared to the basic and diluted losses per share of approximately RMB5.98 cents in 2018.

FINAL DIVIDEND

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

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 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

| | | As at 31 December 2019 <i>RMB'000</i> | As at 31 December 2018 <i>RMB'000</i> |
|--|-------------|--|--|
| | <i>Note</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 219,823 | 210,266 |
| Land use rights | | – | 117,176 |
| Investment properties | | 9,424 | 144,996 |
| Intangible assets | | 170,086 | 182,029 |
| Right-of-use assets | | 114,810 | – |
| Other non-current assets | | 14,175 | 12,573 |
| Investments accounted for using the equity method | | 79,276 | 94,019 |
| Deferred income tax assets | | <u>65,242</u> | <u>64,353</u> |
| Total non-current assets | | <u>672,836</u> | <u>825,412</u> |
| Current assets | | | |
| Inventories | | 60,184 | 30,472 |
| Trade receivables | 7 | 139,673 | 37,054 |
| Bills receivable | 8 | 5,187 | 13,747 |
| Deposits, prepayments and other receivables | | 111,409 | 40,522 |
| Restricted bank deposits | | 27,968 | – |
| Short-term investments | | 83,000 | 38,300 |
| Term deposits with initial term of over three months | | 10,000 | – |
| Cash and cash equivalents | | <u>270,803</u> | <u>56,575</u> |
| Assets classified as held for sale | 12 | <u>708,224</u> <u>286,500</u> | 216,670 <u>394,686</u> |
| Total current assets | | <u>994,724</u> | <u>611,356</u> |
| Total assets | | <u><u>1,667,560</u></u> | <u><u>1,436,768</u></u> |

| | | As at 31 December 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--|----|---|---|
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 10 | 94 | 94 |
| Share premium | | 962,777 | 1,120,685 |
| Other reserves | | 327,065 | 321,384 |
| Accumulated losses | | <u>(321,261)</u> | <u>(478,131)</u> |
| | | 968,675 | 964,032 |
| Non-controlling interests | | <u>110,771</u> | <u>84,873</u> |
| Total equity | | <u>1,079,446</u> | <u>1,048,905</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred government grants | | 34,381 | 35,167 |
| Lease liabilities | | 8,327 | – |
| Deferred income tax liabilities | | 32,117 | 36,867 |
| Long-term borrowings | | 28,000 | – |
| Other non-current liabilities | | <u>–</u> | <u>14,647</u> |
| Total non-current liabilities | | <u>102,825</u> | <u>86,681</u> |
| Current liabilities | | | |
| Trade and bills payables | 9 | 49,105 | 8,752 |
| Other payables and accrued expenses | | 328,813 | 92,057 |
| Contract liabilities | | 27,209 | 34,896 |
| Borrowings | | 66,800 | 150,000 |
| Lease liabilities | | 9,241 | – |
| Current income tax liabilities | | <u>4,121</u> | <u>547</u> |
| | | 485,289 | 286,252 |
| Liabilities directly associated with assets classified as held for sale | 12 | <u>–</u> | <u>14,930</u> |
| Total current liabilities | | <u>485,289</u> | <u>301,182</u> |
| Total liabilities | | <u>588,114</u> | <u>387,863</u> |
| Total equity and liabilities | | <u>1,667,560</u> | <u>1,436,768</u> |

NOTES TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”) and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets which were measured at fair value either through other comprehensive income (“**FVOCI**”) or through profit or loss (“**FVPL**”).

2.1 Changes in accounting policy and disclosures

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

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2019:

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

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

IFRS 16 "Leases"

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

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

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

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

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

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

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

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

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

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

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

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

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;

- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

(c) New standards and interpretations not yet adopted

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

3. REVENUE AND SEGMENT INFORMATION

The CODM has been identified as the Executive Directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources.

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

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

Revenue

The revenue segment information reported to CODM for the years ended 31 December 2019 and 2018 is as follows:

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

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

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

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

| | Tea products segment <i>RMB'000</i> | Slimming and other medicine segment <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|---|--|-------------------------|
| Total revenue | 298,423 | 79,955 | 378,378 |
| Inter-segment revenue | <u>—</u> | <u>—</u> | <u>—</u> |
| Revenue from external customers | <u>298,423</u> | <u>79,955</u> | <u>378,378</u> |
| Timing of revenue recognition | | | |
| At a point in time | <u>298,423</u> | <u>79,955</u> | <u>378,378</u> |
| Cost of sales | <u>(75,308)</u> | <u>(47,753)</u> | <u>(123,061)</u> |
| Gross profit | 223,115 | 32,202 | 255,317 |
| Selling and marketing expenses | (197,975) | (48,874) | (246,849) |
| Research and development costs | <u>(9,630)</u> | <u>(13,918)</u> | <u>(23,548)</u> |
| Segment results | <u>15,510</u> | <u>(30,590)</u> | <u>(15,080)</u> |
| Other income | | | 22,675 |
| Administrative expenses | | | (112,417) |
| Impairment loss of intangible assets | | | (4,802) |
| Other expenses | | | (9,829) |
| Other gains, net | | | 1,144 |
| Gain on disposal of subsidiaries | | | <u>4,910</u> |
| Operating profit | | | (113,399) |
| Finance costs | | | (6,665) |
| Share of losses of investments accounted for using the equity method | | | <u>(1,295)</u> |
| Loss before income tax | | | (121,359) |
| Income tax credit | | | <u>27,887</u> |
| Loss for the year | | | <u><u>(93,472)</u></u> |
| Other segment information: | | | |
| Impairment loss of intangible assets | — | (4,802) | (4,802) |
| Depreciation | (30,771) | (6,249) | (37,020) |
| Amortisation | <u>(11,735)</u> | <u>(10,915)</u> | <u>(22,650)</u> |

Non-current assets are all located in the PRC.

For the year ended 31 December 2019, revenue of approximately RMB206,222,000 was derived from a single customer (“**Customer A**”), an e-commerce platform, which was taking 25.4% of the Group’s total revenue and was primarily attributable to the slimming and other medicines segment. Other than Customer A, the revenues derived from any of the remaining external customers were less than 10% of the Group’s total revenue.

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

4. GAIN ON DISPOSAL OF SUBSIDIARIES, NET

| | 2019 <i>RMB’000</i> | 2018 <i>RMB’000</i> |
|--|------------------------|------------------------|
| Gain on disposal of Beijing Chang Sheng Business Consulting Co., Ltd. (“ Beijing Chang Sheng ”) and Besunyen Property Management Co., Ltd. (“ Besunyen Property ”) (<i>Note a</i>) | 225,571 | – |
| Loss on disposal of Beijing Besunyen Food and Beverage Co., Ltd (“ Besunyen Food and Beverage ”) (<i>Note b</i>) | (3,295) | – |
| Gain on disposal of Beijing Besunyen Pharmaceutical Co., Ltd. (“ Besunyen Pharmaceutical ”) (<i>Note c</i>) | – | 4,910 |
| | <u>222,276</u> | <u>4,910</u> |

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

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

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

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

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

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

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

5. INCOME TAX EXPENSE/(CREDIT)

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Current income tax: | | |
| PRC enterprise income tax | <u>5,100</u> | <u>284</u> |
| Deferred income tax: | | |
| Origination and reversal of temporary differences | <u>(139)</u> | <u>(28,171)</u> |
| Income tax expense/(credit) | <u>4,961</u> | <u>(27,887)</u> |

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

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

Hong Kong profits tax is 16.5% up to 1 April 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK\$2 million and 16.5% for any assessable profits in excess at a rate of 16.5%. No provision for Hong Kong profit tax has been made as the Group has no estimated assessable profit derived from or generated in Hong Kong for the years ended 31 December 2019 and 2018.

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

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

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

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

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

6. EARNINGS/(LOSSES) PER SHARE

(a) Basic

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

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

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the earnings/(losses) per share. Diluted earnings/(losses) per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted losses per share). The share options had anti-diluted effect to the Group for the years ended 31 December 2019 and 2018. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2019 and 2018. Accordingly, the diluted earnings/(losses) per share is same as the basic earnings/(losses)per share for the years ended 31 December 2019 and 2018.

7. TRADE RECEIVABLES

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|------------------------------------|-------------------------------|------------------------|
| Trade receivables | 140,182 | 37,844 |
| Less: allowance for doubtful debts | <u>(509)</u> | <u>(790)</u> |
| | <u>139,673</u> | <u>37,054</u> |

- (a) The Group allows a credit period of 20-90 days to its customers. The following is an ageing analysis of trade and bills receivable (net of allowance for doubtful debts) based on the dates of deliveries of the related goods to the customers, which are approximate to their invoice date:

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|----------------|-------------------------------|------------------------|
| 0 – 90 days | 137,321 | 35,321 |
| 91 – 180 days | 795 | 994 |
| 181 – 365 days | 1,075 | 637 |
| Over 365 days | <u>482</u> | <u>102</u> |
| | <u>139,673</u> | <u>37,054</u> |

8. **BILLS RECEIVABLE**

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

9. **TRADE AND BILLS PAYABLES**

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

| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
|---------------|-------------------------------|------------------------|
| 0 – 90 days | 46,978 | 7,256 |
| 91 – 180 days | 2 | 1,036 |
| Over 180 days | 2,125 | 460 |
| | 49,105 | 8,752 |

10. 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 2018, 31 December 2018 and 31 December 2019 | <u>6,000,000</u> | <u>50,000</u> | <u>341</u> |
| <i>Issued and fully paid:</i> At 1 January 2018, 31 December 2018 and 31 December 2019 | <u><u>1,630,208</u></u> | <u><u>13,585</u></u> | <u><u>94</u></u> |

11. DIVIDENDS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------------|-----------------|
| Interim dividend paid for the current year, of HK\$11 cents (2018: Nil) per ordinary share | <u><u>157,908</u></u> | <u><u>—</u></u> |

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

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

12. 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:

| | <i>RMB'000</i> |
|--|-----------------------|
| At 1 January 2018 | 86,959 |
| Addition | 1,688 |
| Transfer from other assets and liabilities | 291,109 |
| Disposal | <u>—</u> |
| At 31 December 2018 | <u>379,756</u> |
| At 1 January 2019 | 379,756 |
| Transfer from other assets (note) | 281,962 |
| Addition | 42,793 |
| Disposal | <u>(418,011)</u> |
| At 31 December 2019 | <u><u>286,500</u></u> |

Note: On 8 December 2019, Beijing Outsell entered in to a framework agreement with a third party company (“**Buyer**”) which shall become effective on the date of execution by each party. Pursuant to the framework agreement, Beijing Outsell agreed to dispose of, and the Buyer agreed to purchase, all equity interest of the Target Company, which will own a state-owned industrial land located in Fangshan District, Beijing. All parties of the Framework Agreement agreed to proceed with the transaction on the basis of a consideration of RMB463,000,000, which is subject to the audit, valuation, internal approval procedure and regulatory approval procedure that must be performed, as required by the laws and regulations and the Listing Rules. Pursuant to the agreement, as at 31 December 2019, the Group has received deposits in connection with the disposal of approximately US\$13,245,000 (equivalent to approximately RMB92,868,000).

The aforesaid assets, which were expected to be sold in 2020, were classified as an asset held for sale and were presented separately in the consolidated balance sheet as at 31 December 2019.

| | 2019 <i>RMB'000</i> |
|--------------------------|-------------------------------|
| Right-of-use assets | 8,012 |
| Investment properties | <u>278,488</u> |
| Total assets | <u><u>286,500</u></u> |
| Total liabilities | <u><u>—</u></u> |

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

13. EVENT OCCURRING AFTER THE BALANCE SHEET DATE

Other than the event at disclosed in Note 12, the Group has following events subsequent to the balance sheet date.

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

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

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

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

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

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

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

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 2019 in this preliminary announcement as set out above 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.

BUSINESS REVIEW AND PROSPECTS

SUMMARY

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

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

INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute leading brand advantages when competing with the same types of products in the market. According to a survey report on national retail pharmacies issued by SMERI in March 2020, based on the retail sales of health products, medicines or other types of products sold by retail pharmacies, Besunyen Slimming Tea ranked top in the market segment of slimming products for ten consecutive years, accounting for a market share of 26.22% in 2019, representing a year-on-year decrease of 6.97 percentage points. Besunyen Detox Tea ranked top in the market segment of laxative products for twelve consecutive years, accounting for a market share of 14.85% in 2019, representing a year-on-year increase of 1.03 percentage points. With respect to slimming medicine segment, in 2019, according to the statistics of Alibaba “Business Consultant”, the market share of the Besunyen Orlistat and Larly Orlistat totalled 34.34%, ranking top one in the market segment of Orlistat on Alibaba platforms.

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2019, the Group provided the title sponsorship for the spring competition and the autumn competition of the Academy Award of the 17th Advertisement and Art Festival for Chinese College Students, and held “Besunyen Cup” Public Welfare Advertising Contest. The contest spanned 30 provinces and cities and involved 60 colleges and universities, with 35 creative lectures and 35 off-site product interactive experience sessions. The official proposition poster and strategy sheet covered more than 1,500 schools across the country.

In the spring competition of the Academy Award, the Group was the only enterprise which used public welfare as its main proposition. 2019 was the year that the Group launched brand new “classic packages”, and the theme of “Classic Beauty and Slimming Tea” was well received by the students. The contest was completed successfully, receiving 17,781 groups including 22,325 pieces of qualified works in total, representing a record high in terms of the number of public welfare themed works.

In the autumn competition of the Academy Award, Besunyen presented its new products- Besunyen’s Orlistat capsule with two themes, namely “Me with My Little Blue Friend” (《我和我的小藍朋友》) and “SHOW TRUE YOUNG – Starts with Lose Weight” (《SHOW TRUE YOUNG – 進取從減肥開始》), which refreshed the consumers’ perception of Besunyen and gained enormous followers among student groups. Through the zero-distance contact with university students, the contest created a sound and profound brand reputation for Besunyen among the youth.

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

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

Orlistat as a Unicorn in Medicine E-commerce

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

The Customer Service Center Ready to Upgrade

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

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

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

Sales on each Platform Growing Strongly

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

Service Department Better Equipped

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SOCIAL WELFARE

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

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

AWARDS AND HONOURS

Winning Social Responsibility Outstanding Enterprise Award

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

OUTLOOK

Macro Economy

According to the publication of National Bureau of Statistics, in 2019, China’s economy recorded overall stable performance, with its development level reaching a new level and its development quality improving steadily. The 19th Central Committee of the Communist Party of China put forward the “Implementation of Healthy China Strategy” which suggested new objectives for improving health protection and enhancing structural reform of supply side. A series of policies encouraging and supporting big health industry have been introduced successively. As a result, the big health industry has ushered in an unprecedented development opportunity and will become one of the key industries leading China’s industrial transformation.

Continuously Developing Personalized and Younger E-commerce Platforms

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

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

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

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

Optimizing Product Structure and Enhancing Brand Competitiveness

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

Putting Forward Diversified Promotion Paths to Revitalise the Brand

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

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

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

FINANCIAL REVIEW

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

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

REVENUE

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

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

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

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

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

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

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

COST OF SALES AND GROSS PROFIT

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

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

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

OTHER INCOME

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

SELLING AND MARKETING EXPENSES

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

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

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

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

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

ADMINISTRATIVE EXPENSES

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

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

RESEARCH AND DEVELOPMENT COSTS

| | For the year ended 31 December | | | |
|--------------------------------|--------------------------------|------------------------------|----------------|------------------------------|
| | 2019 | | 2018 | |
| | <i>RMB'000</i> | <i>Percentage of revenue</i> | <i>RMB'000</i> | <i>Percentage of revenue</i> |
| Research and development costs | <u>47,363</u> | <u>5.8%</u> | <u>23,548</u> | <u>6.2%</u> |

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

GAIN ON DISPOSAL OF SUBSIDIARIES

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

TAXATION

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

In 2019, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities, proceeds from the disposal of subsidiaries and bank borrowings.

CASH FLOWS

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

| | For the year ended | |
|--|-----------------------|------------------------|
| | 31 December | |
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Net cash outflow from operating activities | (42,921) | (82,138) |
| Net cash inflow/(outflow) from investing activities | 481,399 | (60,142) |
| Net cash (outflow)/inflow from financing activities | <u>(228,946)</u> | <u>122,168</u> |
| | 209,532 | (20,112) |
| Effects of changes in exchange rate on cash and cash equivalents | <u>(488)</u> | <u>2,638</u> |
| Net increase/(decrease) in cash and cash equivalents | <u><u>209,044</u></u> | <u><u>(17,474)</u></u> |

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

BANK BALANCES, CASH AND BANK BORROWINGS

The Group's bank balances and cash, comprising cash and cash equivalents, bank deposits with initial term of over three months and restricted bank deposits, increased by 445.6% from RMB56.6 million as at 31 December 2018 to RMB308.8 million as at 31 December 2019. Meanwhile, the Group has a bank borrowing of RMB94.8 million as at 31 December 2019 (31 December 2018: RMB150.0 million).

CAPITAL EXPENDITURE

In 2019, cash payments for capital expenditure of the Group amounted to RMB118.3 million (2018: RMB49.0 million). The following table sets forth the capital expenditure as paid by the Group for the indicated years ended 31 December:

| | For the year ended 31 | |
|------------------------------------|-----------------------|----------------|
| | December | |
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Property, plant and equipment | 45,880 | 38,360 |
| Investment properties | 57,870 | 9,968 |
| Assets classified as held for sale | 14,204 | – |
| Intangible assets | 338 | 656 |
| | <hr/> | <hr/> |
| Total | 118,292 | 48,984 |
| | <hr/> <hr/> | <hr/> <hr/> |

INVESTMENT PROPERTIES

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

| | As at 31 December | |
|-----------------------|-------------------|----------------|
| | 2019 | 2018 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Investment properties | 9,424 | 144,996 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

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

As at 31 December 2019, the carrying values of the investment properties amounted to RMB9.4 million (2018: RMB145.0 million). Such investment properties are measured on the basis of cost method and depreciated on a straight-line basis over the estimated useful life of 30 years. On 31 December 2019, the Group assessed the fair values of the investment properties based on a valuation carried out by an independent valuation company and determined that the related fair values exceed the carrying values of such investment properties.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | As at 31 December | |
|---|-------------------|---------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Investments accounted for using the equity method | <u>79,276</u> | <u>94,019</u> |

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

On 21 October 2019, Beijing Outsell Health Product Development Co., Ltd. (“**Beijing Outsell**”), an indirect wholly-owned subsidiary of the Group, invested RMB0.5 million to set up Weihai Huisheng Bioscience Technology Co., Ltd. (the “**Weihai Huisheng**”) and holds 10% equity interests. As at 31 December 2019, the carrying amounts of the Group's investments in Weihai Huisheng (a joint venture of the Company) was approximately RMB0.5 million.

On 18 July 2018, the board of directors of the associate, Yunzhi Besunyen Pharmaceutical Co., Ltd. (“**Yunzhi Besunyen**”), has made a resolution to liquidate Yunzhi Besunyen. As at 31 December 2018, the carrying value of the investment in Yunzhi Besunyen has been reduced to zero. On 23 July 2019, the liquidation of Yunzhi Besunyen was completed.

INVENTORIES

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

| | As at 31 December | |
|---------------------------------------|-------------------|---------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Raw materials and packaging materials | 15,550 | 11,201 |
| Work in progress | 2,443 | 1,249 |
| Finished goods | <u>42,191</u> | <u>18,022</u> |
| Total inventories | <u>60,184</u> | <u>30,472</u> |

The turnover days of the Group's inventories in 2019 (calculated by dividing the average inventories balances at the beginning and the end of the period by the cost of sales of the period, then multiplying the number of days during the year) was 73 days (2018: 71 days).

RISKS IN FOREIGN EXCHANGE RATE

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

For the year ended 31 December 2019, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2018: Nil).

MATERIAL ACQUISITIONS OR DISPOSALS

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

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

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

OTHER MATTERS

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

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

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

Yuanyuan Liuchang Fund, a company with a total committed capital contribution of RMB100.0 million, is owned by the Group with 89% of its shares. It mainly focuses on investment projects in the healthcare industry, TMT (technology, media and telecommunications) industry and consumer industry, as well as investment in several early stage partnership enterprises. For the year ended 31 December 2019, Yuanyuan Liuchang Fund did not invest in new projects.

Save as disclosed above, there were no other significant investments held by the Group in 2019. Save as disclosed in this announcement, there was no plan of the Group for other material investments or additions of capital assets as at the date of this announcement.

PLEDGE OF ASSETS

As at 31 December 2019, the Group received certain bank borrowings of RMB86.8 million, through pledging properties with total book value of RMB109.5 million and land use rights with total book value of RMB43.5 million to banks and guarantee companies (2018: the Group received certain bank borrowings of RMB150.0 million, through pledging properties with book value of RMB88.3 million and land use rights with total book value of RMB24.9 million to banks and guarantee companies).

GEARING RATIO

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

CONTINGENT LIABILITIES AND GUARANTEES

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

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments of RMB117.0 million (2018: RMB78.6 million).

COMPLIANCE WITH LAWS AND REGULATIONS

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

During the year, so far as known to the Directors of the Company, there was no non-compliance with any relevant laws and regulations which would have a material impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2019, the Group provided generous social security benefits to its employees to motivate their proactivity at work and heighten their sense of belonging. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2019, there was no significant and material dispute between the Group and its suppliers and/or customers.

HUMAN RESOURCES MANAGEMENT

The Group regards high-quality employees as its most important resource. As at 31 December 2019, the Group had 1,187 employees in the PRC mainland and Hong Kong (2018: 1,121 employees), which included 12 promotional staff employed by employment agents (2018: 13 employees). The staff costs of the Group (including remunerations of the Directors) were RMB156.2 million for the year ended 31 December 2019 (2018: RMB161.7 million). Employee remuneration is determined with reference to individual performance, work experience, qualification and current industry practice. Apart from basic remuneration and statutory pension benefit scheme, employee benefits also include discretionary bonus and share options.

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

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 May 2020 to 26 May 2020, both days inclusive. During such period, no transfer of shares of the Company (the “**Shares**”) will be registered.

The record date for determining the eligibility to attend the forthcoming annual general meeting (the “**AGM**”) to be held on 26 May 2020 will be 26 May 2020. In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 20 May 2020.

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 to The Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the year ended 31 December 2019, except for code provision A.2.1 of the CG Code.

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

CODE PROVISION A.2.1 UNDER THE CG CODE

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 30 years of experience in food and beverage industry in the PRC. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group’s business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code during the year ended 31 December 2019.

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2019.

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. Ren Guangming and Mr. Fu Shula. The Audit Committee has reviewed the consolidated financial statements and this annual results announcement of the Group for the year ended 31 December 2019, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

SUBSEQUENT EVENTS

For details of subsequent events, please refer to note 13 to the annual results announcement headed “event occurring after the balance sheet date” set out on page 20 of this announcement.

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 for the year ended 31 December 2019 will be dispatched to the shareholders of the Company 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, 24 March 2020

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 Director is Mr. Zhuo Fumin; and the independent non-executive Directors are Mr. Ren Guangming, Mr. He Yuanping and Mr. Fu Shula.