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 2017

**FINANCIAL HIGHLIGHTS**

The Group's revenue amounted to approximately RMB542.9 million for 2017, representing an increase of approximately 5.5% as compared to that of approximately RMB514.7 million for 2016.

The gross profit margin decreased to 79.2% for 2017 from that of 82.7% for 2016.

The Group recorded a total comprehensive income of approximately RMB5.3 million for 2017, compared to the total comprehensive loss of approximately RMB74.6 million for 2016.

The basic and diluted earnings per share was approximately RMB0.27 cents in 2017, as compared to the basic and diluted losses per share of approximately RMB4.56 cents in 2016.

**FINAL DIVIDEND**

The Board has resolved not to recommend for the declaration and payment of a final dividend for the year ended 31 December 2017.

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 2017, together with the comparative figures for the year ended 31 December 2016 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Revenue | 3 | **542,870** | 514,749 |
| Cost of sales | | **(112,677)** | (89,229) |
| **Gross profit** | | **430,193** | 425,520 |
| Other income | | **28,645** | 40,736 |
| Selling and marketing expenses | | **(339,684)** | (428,415) |
| Administrative expenses | | **(106,921)** | (76,964) |
| Research and development costs | | **(15,866)** | (12,570) |
| Other expenses | | **(9,665)** | (10,912) |
| Other losses, net | | **(3,305)** | (5,069) |
| Finance costs | | **(180)** | — |
| Share of profits/(losses) of investments accounted for using the equity method | 10 | **9,599** | (2,997) |
| **Loss before income tax** | | **(7,184)** | (70,671) |
| Income tax credit/(expense) | 4 | **12,465** | (3,895) |
| **Profit/(loss) for the year** | | **5,281** | (74,566) |
| **Profit/(loss) attributable to:** | | | |
| — Owners of the Company | | **4,086** | (68,714) |
| — Non-controlling interests | | **1,195** | (5,852) |
| | | **5,281** | (74,566) |
| **Other comprehensive income** | | **—** | — |
| **Total comprehensive income/(loss) for the year** | | **5,281** | (74,566) |
| **Total comprehensive income/(loss) attributable to:** | | | |
| — Owners of the Company | | **4,086** | (68,714) |
| — Non-controlling interests | | **1,195** | (5,852) |
| | | **5,281** | (74,566) |
| **Earnings/(losses) per share attributable to owners of the Company for the year (RMB cents)** | | | |
| — Basic earnings/(losses) per share | 5 | **0.27** | (4.56) |
| — Diluted earnings/(losses) per share | 5 | **0.27** | (4.56) |

## CONSOLIDATED BALANCE SHEET

| | Note | **As at 31 December 2017** *RMB'000* | As at 31 December 2016 *RMB'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **364,996** | 381,640 |
| Land use rights | | **345,624** | 364,358 |
| Investment properties | | **48,881** | 55,632 |
| Intangible assets | | **200,158** | 8,397 |
| Non-current deposits | | **8,726** | 8,402 |
| Investments accounted for using the equity method | 10 | **96,112** | 66,933 |
| Deferred income tax assets | | **49,645** | 34,237 |
| **Total non-current assets** | | **1,114,142** | 919,599 |
| **Current assets** | | | |
| Inventories | | **17,686** | 22,720 |
| Trade and bills receivables | 6 | **52,976** | 31,504 |
| Deposits, prepayments and other receivables | | **26,994** | 13,175 |
| Restricted bank deposits | | **299** | 3,911 |
| Term deposits with initial term of over three months | | **4,185** | — |
| Cash and cash equivalents | | **78,790** | 153,884 |
| | | **180,930** | 225,194 |
| Assets classified as held for sale | 12 | **94,325** | — |
| Total current assets | | **275,255** | 225,194 |
| **Total assets** | | **1,389,397** | 1,144,793 |

| | Note | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 8 | **94** | 86 |
| Share premium | | **1,120,685** | 1,055,961 |
| Other reserves | | **322,414** | 319,050 |
| Accumulated losses | | **(383,956)** | (385,565) |
| | | **1,059,237** | 989,532 |
| Non-controlling interests | | **83,046** | — |
| **Total equity** | | **1,142,283** | 989,532 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred government grants | | **20,953** | 8,639 |
| Deferred income tax liabilities | | **39,570** | 7,066 |
| Other non-current liabilities | | **1,296** | 1,396 |
| **Total non-current liabilities** | | **61,819** | 17,101 |
| **Current liabilities** | | | |
| Trade and bills payables | 7 | **13,336** | 14,780 |
| Other payables and accrued expenses | | **143,920** | 121,175 |
| Borrowing | | **20,000** | — |
| Current income tax liabilities | | **673** | 2,205 |
| | | **177,929** | 138,160 |
| Liabilities directly associated with assets classified as held for sale | 12 | **7,366** | — |
| Total current liabilities | | **185,295** | 138,160 |
| **Total liabilities** | | **247,114** | 155,261 |
| **Total equity and liabilities** | | **1,389,397** | 1,144,793 |

# NOTES TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

## 1. GENERAL INFORMATION

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

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

The Group has completed the acquisitions of equity interests in several entities during the year ended 31 December 2017 and details of which have been set out in Note 11 to this annual results announcement.

## 2. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRS**") and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis.

### 2.1 Changes in accounting policy and disclosures

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

The following amendments to standards and annual improvements have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses — Amendments to IAS 12; and
- Disclosure Initiative — Amendments to IAS 7

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure changes in liabilities arising from financing activities.

*(b)* ***New standards, amendments and interpretations issued but not yet adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018 which may be applicable to the Group and have not been early applied by the Group in preparing its consolidated financial statements are as follows:

| | | Effective for accounting period beginning on or after |
|---|---|---|
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |

The Group has assessed the related impact of the abovementioned new standards. Except for the treatment for certain promotion expenses paid or payable to the ultimate customers of the distributors of the Group's products which may be affected upon the adoption of IFRS 15, the adoption of the abovementioned new standards will not have any significant impact on the Group's significant accounting policies.

## 3. REVENUE AND SEGMENT INFORMATION

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

The CODM had identified the manufacturing and sales of tea products and 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 2017 and 2016 is as follows:

| | **2017**<br>***RMB'000*** | 2016<br>*RMB'000* |
|---|---|---|
| Tea products segment | | |
| — Detox tea | **225,764** | 189,129 |
| — Slimming tea | **215,975** | 209,292 |
| — Others | **32,262** | 22,862 |
| | **474,001** | 421,283 |
| Sliming and other medicine segment | | |
| — Slimming medicine | **62,694** | 93,466 |
| — Other medicine | **6,175** | — |
| | **68,869** | 93,466 |
| | **542,870** | 514,749 |

The segment results for the year ended 31 December 2017 are as follows:

| | Tea products segment *RMB'000* | Slimming and other medicine segment *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| Total revenue | **474,001** | **68,869** | **542,870** |
| Inter-segment revenue | **—** | **—** | **—** |
| **Revenue from external customers** | **474,001** | **68,869** | **542,870** |
| Cost of sales | **(88,340)** | **(24,337)** | **(112,677)** |
| Gross profit | **385,661** | **44,532** | **430,193** |
| Selling and marketing expenses | **(288,603)** | **(51,081)** | **(339,684)** |
| Research and development costs | **(10,297)** | **(5,569)** | **(15,886)** |
| **Segment results** | **86,761** | **(12,118)** | **74,643** |
| Other income | | | **28,645** |
| Other losses, net | | | **(3,305)** |
| Administrative expenses | | | **(106,921)** |
| Other expenses | | | **(9,665)** |
| Finance costs | | | **(180)** |
| Share of profits of investments accounted for using the equity method | | | **9,599** |
| Loss before income tax | | | **(7,184)** |
| Income tax credit | | | **12,465** |
| Profit for the year | | | **5,281** |
| Other segment information: | | | |
| Depreciation | **(31,911)** | **(1,256)** | **(33,167)** |
| Amortisation | **(10,772)** | **(2,789)** | **(13,561)** |

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

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

Non-current assets are all located in the PRC.

## 4. INCOME TAX (CREDIT)/EXPENSE

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current income tax:** | | |
| Current income tax on profit for the year | **593** | 1,932 |
| Adjustments in respect of the prior year | **—** | (1,160) |
| | **593** | 772 |
| **Deferred income tax:** | | |
| Origination and reversal of temporary differences | **(13,058)** | 3,123 |
| **Income tax (credit)/expense** | **(12,465)** | 3,895 |

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 tax rate applicable to the Group's subsidiary incorporated and operated in Hong Kong is 16.5% (2016: 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 2017 and 2016.

In August 2017, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**"), a subsidiary of the Group, has obtained the High and New Technology Enterprise ("**HNTE**") qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

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

Zhongshan Wanhan Pharmacy Co., Ltd. ("**Zhongshan Wanhan**"), a subsidiary newly acquired by the Group in October 2017 (Note 11(c)), has obtained the HNTE qualification for three years from 2016 to 2018, in which the applicable income tax during the approval period is 15%.

In November 2017, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("**Zhongshan Wanyuan**"), a subsidiary newly acquired by the Group in October 2017 (Note 11(d)), has obtained the HNTE qualification for three years from 2017 to 2019, in which the applicable income tax rate during the approved period is 15%.

Khorgos Besunyen Venture Investment Co., Ltd. ("**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% (2016: 25%).

## 5. EARNINGS/(LOSSES) PER SHARE

### (a) Basic

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

| | **2017** | 2016 |
|---|---|---|
| Profit/(loss) attributable to owners of the Company *(RMB'000)* | **4,086** | (68,714) |
| Weighted average number of ordinary shares in issue *(thousand)* | **1,510,216** | 1,506,515 |
| Basic earnings/(losses) per share *(RMB cents per share)* | **0.27** | (4.56) |

### (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 earnings/(losses) per share). The share options had anti-diluted effect to the Group for the years ended 31 December 2017 and 2016. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2017 and 2016. Accordingly, the diluted earnings/(losses) per share is same as the basic earnings/(losses) per share for the years ended 31 December 2017 and 2016.

## 6. TRADE AND BILLS RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **22,767** | 5,756 |
| Bills receivables (a) | **31,546** | 26,150 |
| | **54,313** | 31,906 |
| Less: allowance for doubtful debts | **(1,337)** | (402) |
| | **52,976** | 31,504 |

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

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0–90 days | **39,285** | 24,417 |
| 91–180 days | **13,495** | 6,914 |
| 181–365 days | **83** | 158 |
| Over 365 days | **113** | 15 |
| | **52,976** | 31,504 |

## 7. TRADE AND BILLS PAYABLES

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0–90 days | **13,188** | 10,772 |
| 91–180 days | **148** | 4,008 |
| | **13,336** | 14,780 |

## 8. SHARE CAPITAL

**Ordinary shares, issued and fully paid:**

| | Number of ordinary shares *(thousands)* | Nominal value of ordinary shares *US$* | Equivalent nominal value of ordinary share *RMB'000* |
|---|---|---|---|
| *Authorised:* | | | |
| Ordinary shares of US$0.00000833333 each | | | |
| **At 1 January 2016, 31 December 2016 and 31 December 2017** | 6,000,000 | 50,000 | 341 |
| *Issued and fully paid:* | | | |
| **At 1 January 2016** | 1,566,971 | 13,058 | 89 |
| Repurchase and cancellation of shares *(note a)* | (85,496) | (712) | (3) |
| At 31 December 2016 | 1,481,475 | 12,346 | 86 |
| **At 1 January 2017** | 1,481,475 | 12,346 | 86 |
| Repurchase and cancellation of shares *(note a)* | (16,267) | (136) | (1) |
| Issue of shares *(note b)* | 165,000 | 1,375 | 9 |
| **At 31 December 2017** | 1,630,208 | 13,585 | 94 |

(a) During the year ended 31 December 2017, the Company has acquired 16,267,000 (2016: 85,496,000) of its own shares through purchases on the Hong Kong Stock Exchange. Such shares were cancelled after the repurchase. The total amount paid to acquire the shares was HK$7,884,000 (equivalent to approximately RMB7,027,000) (2016: HK$52,591,000,equivalent to approximately RMB45,837,000) and has been deducted from share capital and share premium within shareholder's equity.

(b) On 10 March 2017, the Company has entered into a share subscription agreement with certain individuals and a company (collectively the "**Subscribers**"), pursuant to which the Subscribers conditionally agree to subscribe for, and the Company conditionally agreed to issue and allot 165,000,000 shares at HK$0.5 per share subject to a lock-up period of one year.

On 22 June 2017, the Company has issued 90,000,000 ordinary shares to the Subscribers at HK$0.5 per share totaling HK$45,000,000 (equivalent to approximately RMB39,343,000). On 25 July 2017, the Company has further issued remaining 75,000,000 ordinary shares to the Subscribers at HK$0.5 per share totaling HK$37,500,000 (equivalent to approximately RMB32,416,000).

As at 31 December 2017, 35,401,567 shares (2016: 36,601,567 shares) were held by the Company's Restricted Share Award Scheme.

## 9. DIVIDENDS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Ordinary final dividend in respect of the previous financial year, approved and paid during the current period, of nil (2016: HK$0.05 (equivalent to approximately RMB0.04)) per share | **—** | 64,378 |
| Special dividend in respect of the previous financial year, approved and paid during the current period, of nil (2016: HK$0.05 (equivalent to approximately RMB0.04)) per share | **—** | 63,591 |
| | **—** | 127,969 |

The Board has resolved not to declare any dividend for the year ended 31 December 2017.

## 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

| | **As at 31 December 2017** | As at 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Associate (a) | **3,861** | 8,256 |
| Joint ventures (b) | **92,251** | 58,677 |
| | **96,112** | 66,933 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Associate (a) | **(4,395)** | (1,544) |
| Joint ventures (b) | **13,994** | (1,453) |
| | **9,599** | (2,997) |

*Notes:*

(a) The Group's investment in the associate represents its 49% equity interest in Yunzhi Besunyen Pharmaceutical Sales Co., Ltd. ("**Yunzhi Besunyen**"), a company principally engaged in the sales of pharmaceutical products, especially plant medicines.

(b) The Group's investments in joint ventures represent its 50% equity interest and 89% equity interest in Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. (the "**Fund Management Company**") and Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the "**Fund**") respectively. The principal business of the Fund is the investments in portfolio companies specialising in the health care industry, TMT (technology, media and telecommunications) industry and consumer industry, etc., as well as the investment in certain early stage partnership companies. The term of the Fund is 5 years, and may be extended to no more than 7 years as unanimously agreed by all the joint venturers. Although the Group owns more than half of the equity interests in the Fund, the Group only has joint control over the Fund Management Company and the Fund with the joint venturers. Consequently, the Group has accounted for the Fund Management Company and the Fund by using the equity method of accounting.

Movement in the Group's investments in joint ventures are as below:

| | **The Fund Management Company** *RMB'000* | **The Fund** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| Carrying amounts at 1 January 2016 | — | — | — |
| Capital contributed by the Group during the year | 500 | 59,630 | 60,130 |
| Share of losses | (15) | (1,438) | (1,453) |
| Carrying amounts at 31 December 2016 | 485 | 58,192 | 58,677 |
| Carrying amounts at 1 January 2017 | 485 | 58,192 | 58,677 |
| Capital contributed by the Group during the year | — | 19,580 | 19,580 |
| Share of profit/(loss) | (99) | 14,093 | 13,994 |
| Carrying amounts at 31 December 2017 | 386 | 91,865 | 92,251 |

## 11. BUSINESS COMBINATION

During the year ended 31 December 2017, the Group has acquired equity interests in the following entities which are all engaged in pharmaceutical businesses:

### (a) 100% equity interest in Zhuhai Kangbaina Pharmaceutical Co., Ltd. ("Kangbaina")

On 24 August 2017, the Group acquired 100% equity interest in Kangbaina, a company which is principally engaged in sales of medicine, at a cash consideration of RMB6,000,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The acquired business contributed revenues of approximately RMB5,440,000 and net loss of approximately RMB1,980,000 to the Group for the period from 25 August 2017 to 31 December 2017.

### (b) 100% equity interest in Zhuhai Aolixin Pharmaceutical Co., Ltd. ("Aolixin")

On 25 August 2017, the Group acquired 100% equity interest in Aolixin, a company which is principally engaged in sales of medicine, at a cash consideration of RMB1,500,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The acquired business contributed revenues of approximately RMB219,000 and net loss of approximately RMB438,000 to the Group for the period from 26 August 2017 to 31 December 2017.

### (c) 51% equity interest in Zhongshan Wanhan

On 31 October 2017, the Group acquired 51% equity interest in Zhongshan Wanhan, together with its non-wholly owned subsidiary Guangzhou Wanhan Qianshun Medical Technology Co., Ltd. ("**Zhongshan Wanhan Group**"), a company which is principally engaged in research, manufacturing and sales of medicine, at a cash consideration of RMB122,090,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The acquired business contributed revenues of approximately RMB14,178,000 and net income of approximately RMB5,602,000 to the Group for the period from 1 November 2017 to 31 December 2017.

### (d) 100% equity interest in Zhongshan Wanyuan

On 31 October 2017, the Group acquired 51% equity interest in Zhongshan Wanyuan, a company which is principally engaged in research and development of medicine, at a cash consideration of RMB15,610,000. The acquisition is strategically to expand the Group's business in the healthcare industry.

The acquired business did not contribute any revenue but contributed a net loss of approximately RMB812,000 to the Group for the period from 1 November 2017 to 31 December 2017.

The goodwill arising from the aforesaid acquisitions amount to approximately RMB56,453,000 and other intangible assets of RMB129,250,000 have been initially identified and recognised upon completion of the aforesaid acquisitions.

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

On 10 March 2017 and 25 July 2017, Beijing Outsell has entered into an equity transfer agreement and its supplementary agreement with Zhonghang Tuohong (Xi'an) Property Co., Ltd. ("**Zhonghang Tuohong**") and Beijing Outsell's wholly-owned subsidiary, Besunyen Food and Beverage, pursuant to which (i) Beijing Outsell agreed to dispose of its entire 100% equity interest in Besunyen Food and Beverage to Zhonghang Tuohong at an aggregate consideration of RMB75,000,000 (the "**Consideration**") (the "**Disposal**"); and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell within 45 days upon the completion of the registration of the related equity transfer. On 27 December 2017, the Group received a deposit at RMB5,000,000 from Zhonghang Tuohong in respect of the Disposal.

The assets and liabilities attributable to Besunyen Food and Beverage, which were expected to be sold within twelve months from 31 December 2017, were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 31 December 2017.

## 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 2017 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

## OVERVIEW

In 2017, China's overall economy showed favourable signs amid the steady growth trend. The healthcare product industry was affected by the constant rising production and environmental protection costs and was under multi-layered pressure from, among others, the Two-Invoice System. With intensifying industrial competition in the market, continuing reform of sales channels and consumers' ever increasing requirements for products, the difficulty of enterprises' overall business operation has been increased. On 13 July 2017, nine authorities including the Food Safety Office of the State Council jointly issued the Notice on Proposal to Rectify Fraudulent and False Advertising of Food and Health Food (《關於印發食品、保健食品欺詐和虛假宣傳整治方案的通知》), which clearly defined production operators' first-party liability in the publication of advertisements, increased the regulatory force on the health food industry, and raised higher requirements on the quality, safety and other requirements on health food.

The increased regulatory force on the health food industry presented both challenges and opportunities to the Group. The stringent regulatory system further regulates health food industry. For the past 17 years, the Group has been accountable to consumers and ensured the quality of each tea bag according to industrial requirements to bring about healthy value for consumers. Due to the effects of changing the Chinese name of Besunyen Slimming Tea (from "碧生源牌減肥茶" to "碧生源牌常菁茶") in 2016, the Group nevertheless faced huge challenges last year. To remodeling the brand image, it needs to go through a lengthy period of market cultivation and consumer awareness process. In 2017, the Group continued to increase its operating efficiency by increasing its investment in brand building, research and development and food safety, and actively adjusting its business operation mode and marketing strategy. In the past year, the Group strengthened the research and development team and devoted more resources in the development and introduction of new products. In 2017, a complete big health industry chain was gradually consummated by the continuous launch of new products, which provided a solid foundation for the future development of the Group.

Revenue of the Group in 2017 was RMB542.9 million, representing an increase of 5.5% from RMB514.7 million in 2016. Gross profit increased by 1.1% to RMB430.2 million in 2017 from RMB425.5 million in 2016. Meanwhile, gross profit margin dropped from 82.7% in 2016 to 79.2% in 2017. On the other hand, total operating expenses of the Group (including selling and marketing expenses, administrative expenses and research and development costs) in 2017 were RMB462.5 million, representing a decrease of 10.7% from RMB517.9 million in 2016. The Group recorded a total comprehensive income of RMB5.3 million for 2017, compared to the total comprehensive loss of RMB74.6 million for 2016.

## INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute leading brand advantages when competing with similar products in the market. According to a survey report on national retail pharmacies issued by China South Medicine Economy Research Institute in March 2018, based on the retail sales of healthcare products, medicines or other types of products sold through retail pharmacies, Besunyen Slimming Tea continued to rank top in the market segment of slimming products for eight consecutive years, enjoying a market share of 31.86% in 2017, representing a year-on-year decrease of 0.47 percentage points. The 2017 market share of Besunyen Detox Tea in the market segment of laxative products was 14.55%, though representing a year-on-year decrease of 2.87 percentage points, it still ranked top for the tenth consecutive year. LARLLY Orlistat topped the list for the market segment of slimming medicines, with its market share of 53.82% out of the top five slimming medicine brands in 2017, representing a year-on-year decrease of 5.65 percentage points.

## BUSINESS REVIEW

2017 was the 17th anniversary of the Group since its establishment, and the 8th year of the listing of the shares of the Company. In 2017, the Group continued to focus on the exploration of new products, new customer base and new areas, and continued its devotion to OTC chains and terminals. While maintaining the stable development of the Two Teas, the Group upheld the strategic guideline of "One Focus and Two Dimensions" and released new products such as Besunyen Orlistat Capsules and Mei Yang Yang Glycerol Enema to help the Group develop new growth drivers to boost the sales growth of the Group's products. Meanwhile, the Group expanded its product portfolio. Given the research capabilities and product reserve brought in by the acquisitions of Zhongshan Wanhan Pharmacy Co., Ltd. ("**Zhongshan Wanhan**") and Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("**Zhongshan Wanyuan**", together "**Zhongshan Wanhan and Wanyuan**"), it continued to provide more products for sale, and to help the Group to achieve higher growth in all fields in future. As a modern company that engages in the production, research and development and sale of drugs, Zhongshan Wanhan and Wanyuan has been cooperating with a number of local and overseas research facilities and higher education institutions for years, and their products have obtained approval for drug production and the new GMP certification. The Group takes advantage of the research and development capabilities of Zhongshan Wanhan and Wanyuan to gain strategic leverage after integrating complementary resources in an effort to set a new benchmark in the industry.

**Concentrating on “One Focus and Two Dimensions” Strategy to Enhance Product Competitiveness**

***Expanding product line and optimising product structure***

In 2017, the Group added L-carnitine coffee powder drink, three flavours of nutritious meal replacement milkshake powder drink (strawberry and cranberry flavour, walnut and almond flavour, pumpkin and taro flavour) and Besunyen Orlistat Capsules to its weight management product line. Besunyen Orlistat Capsules are produced by Zhongshan Wanhan, and officially went on sale in October 2017. Orlistat is the only OCT drug for obesity treatment in the PRC, and the OTC drug available to treat obesity with the approval of FDA in the U.S., EMA in EU and CFDA in the PRC. Besunyen Orlistat Capsules employ all-natural microbial fermentation technology, takes effect quickly, and comes in a splendid tin box. Capitalising on the extensive sales channels of the Group and the research and development capabilities of Zhongshan Wanhan and Wanyuan, Besunyen Orlistat Capsules have been well received by consumers since their launch. This represented a major step of the Group to expand its business to the pharmaceutical industry.

For the intestine management product line, the Group launched fruit and vegetable composite enzyme powder drink and Mei Yang Yang Glycerol Enema in 2017. At present, the Group carries an array of weight management product offerings comprising “OTC drug LARLLY Orlistat and Besunyen Orlistat” + “Health food Besunyen Slimming Tea and Besunyen Xian Xian Tea” + “Common food nutritious meal replacement milkshake and L-carnitine coffee”; an array of intestine healthcare product offerings comprising “OTC drug Mei Yang Yang Glycerol Enema” + “Health food Besunyen Detox Tea” + “Common food probiotic powder and fruit and vegetable composite enzyme powder”.

***Enhancing R&D capabilities of medicines and consummating big health product chain***

Leveraging the R&D capabilities of Zhongshan Wanhan and Wanyuan in the pharmaceutical area, the Group continues to reserve new products and consummates the medicine product chain in the pharmaceutical industry. Based on the in-depth analysis of product types, precise function and market positioning of products, series of product positioning solutions have been established. In the slimming drug sector, Besunyen Orlistat Capsules produced by Zhongshan Wanhan were successfully released and well received by consumers. Meanwhile, the Group continues to add slimming products according to market needs. Orlistat chewable tablets under development are hoped to become a new domestic form of Orlistat featuring easier intake, lower dose and fewer side effects; the second generation of Orlistat — new Orlistat tablets is also at the research and development stage, with similar weight losing results as Orlistat Capsules but milder adverse gastrointestinal reactions. Following the further expansion of Orlistat product series, the Group will gradually realise overall growth in the slimming drug sector.

Zhongshan Wanhan and Wanyuan integrates the market positioning and clinical conditions of drugs, pays attention to the front line of international pharmaceutical research, studies new formulations and new indications in depth, discovers the clinical value of drugs with modern techniques, and realises the potential of drugs based on precise clinical positioning. In February 2017, Zhongshan Wanhan obtained production approval for its domestically exclusive formulation of povidone iodine membrane, and has now completed the GMP certification for such type of product and launched the product. The therapeutic effect of povidone iodine membrane on vulvovaginal candidiasis is equivalent to traditional suppositories, but the dose is only half of a suppository and the membrane is soluble in water, so its safety and convenience features are better than suppositories. Furthermore, according to related news report, the antidepressant medication market in the PRC expands at a faster pace and the clinical demand for antidepressants grows year by year. With the clinical approval of vortioxetine hydrobromide tablet developed by Zhongshan Wanhan and Wanyuan, Zhongshan Wanhan and Wanyuan has achieved considerable results in the antidepressant area. Vortioxetine hydrobromide tablet is used to treat severe depression and its effect is equivalent to mainstream medications, but as it is safer than its predecessors and does not lead to treatment-related weight loss, it offers a safer alternative to depression patients. Meanwhile, Zhongshan Wanhan and Wanyuan has carried out in-depth pharmacodynamic and clinical studies on trelagliptin succinate, sodium hyaluronate and polyvinyl alcohol eye drops, providing a sound scientific research foundation for future product cultivation and promotion.

**Innovating Branding and Marketing Strategies to Fuel Brand Vitality**

***Integrating quality media resources to build a closed media marketing loop***

In 2017, the Group integrated media resources with the Two Teas as the core. Our brand was endorsed by working with CCTV's Mid-Autumn Festival Evening (《中秋晚會》) and Gourmet Turntable (《食尚大轉盤》) to enhance brand recognition. The Group's products were also incorporated in Yunnan TV's Chinese Love Songs (《中國情歌匯》) and Zhejiang TV's Go Up, Poetry! (《向上吧詩詞》) to activate young consumers through soft placement in a variety of programmes with high exposure. Moreover, the Group placed advertisements in High-speed Rail and OTT to build a closed media marketing loop in order to penetrate specific regions and focus on key markets to gain effective consumer coverage through mutual complementation and stereo dissemination.

***Forging a national brand and passing on craftsmanship***

Besunyen's trailer, Besunyen Detox Tea's defaecation TV commercial and Besunyen's 20-minute feature video were aired in Innovative China: Craftsmanship — Wealth and Inheritance (大國創新—《工匠精神—財富與傳承》), a special programme of CCTV2 Finance Channel and CCTV Securities Channel, which showcased the Group's innovation and development footprint in the context of national policies and the times.

Besunyen's "craftsmanship" instilled in each product was embodied in the history of the brand; its appreciation of social responsibility and desire for national rejuvenation were felt in the fine details of its products.

***Expanding Promotion Channels through New Media Marketing***

In 2017, the Group provided a title sponsorship for We Are 17 (《我們十七歲》), a variety show of Tencent. With a viewership in excess of 100 million for Besunyen commercials, the Group has successfully communicated with the consumers that the official change of Chinese product name of Besunyen Slimming Tea to "碧生源牌常菁茶" is for the purpose of brand rejuvenation. This was also in line with the communications theory that calls for identification with consumer groups and their preferences. Through high-density and multi-form of placement of terminal materials with the aid of systematic education to shop assistants, the message behind the change of name was disseminated to consumers, so that the brand was revamped while consumers were being educated.

In view of the robust development of the mobile internet and the decreasing age of consumer groups, the Group has been actively trying out new promotion channels. From May 2017, three live broadcast shows — "A Visit to the Production Plant of Besunyen" ("走進碧生源工廠"), "Let Go of the Fat" ("放開那個肉肉") and "Mysterious Invitation from Besunyen — Unlocking the Secret Chamber of the Intestine" ("碧生源神秘邀請函之解鎖腸道密室") — have been gradually launched on the internet. The shows have generated an aggregate of approximately 30 million views and the number of new customers has increased substantially as a result. This innovative and exploratory attempt at new media marketing has enriched the Group's brand communication, enabling us to stay in tune with young consumers through more diversified approaches. We started to implement the live broadcast model on m.111.com.cn, our strategic partner, and then moved on in gradual transition to www.yizhibo.com ("一直播"), a popular live broadcast platform, through which we effectively tapped the Weibo population and gained direct access to millions of fans leveraging the "Internet Star" economy to assure basic viewership. The contents were increasingly attuned to younger audience with the imparting of a younger brand tone for Besunyen.

***Video marketing innovated by micro-video clip No Discount on Life***

On the eve of the e-commerce festival "Double 11", the Group joined hands with Jingdong to launch an innovative video clip titled No Discount on Life (《人生不打折》), which put an alternative interpretation on "discount" by extending the original meaning of "discount" on food prices to "discount" on the fine figure resulting from eating too much, and ultimately to the core value of no "discount" on the fine figure and no "discount" on life with the help of Besunyen. The creative video clip boasted a cast from the drama of the year In the Name of the People (《人民的名義》) and was filmed in a humorous and funny style that appealed to youngsters. It also ignited WeChat's Moments with H5, giving rise to a new marketing battleground. The campaign has been exposed to over 400 million persons and was listed on Weibo's hot keywords chart while setting a new record for Baidu Index. The Group also partnered with KOLs to customise the contents according to their understanding of their fans, then found target users from users' feedback and caught up on media channels, achieving an effective transmission to e-commerce.

**Joining Hands with Academy Award and Sponsoring Besunyen Cup Advertising Contest**

In March 2017, the Group obtained title sponsorship of the 15th Chinese University Students Advertisement Art Show Academy Award and held "Besunyen Cup" Advertising Contest. The contest spanned 31 provinces, cities and autonomous regions and involved 40 colleges and universities. 20 creative seminars and 21 off-site display sessions were held. The official proposition poster and strategy sheet covered more than 1,000 schools across the country. The contest was completed successfully with more than 143,300 sets of qualified works and more than 186,402 individual works. Through the zero-distance contact with university students, the contest has created a sound and profound brand reputation for Besunyen among the youth.

**Simplifying and Refining Levels of Management to Further Enhance Management Efficiency**

In 2017, the Group upgraded its business system and simplified its sales structure from a three-level hierarchy of "region-provincial office-area" to a two-layer body of "business unit-area", resulting in a structure with "13 business units + 49 areas". The new sales system expedited information circulation and enhanced management and decision-making efficiency, ensuring that the Group could quickly respond to market changes and thus reducing operational risks.

**Innovating Talent Cultivation to Strengthen Sales Force**

The Group adheres to the people-oriented philosophy and scientific talent view and has always regarded talent cultivation as the top priority for its development. In 2017, the Group focused on building a first-class sales force and selected outstanding employees through "little stars (with the aim of cultivating regional managers), iron triangles (with the aim of cultivating core front-line business employees) and mutual aid groups (with the aim of cultivating new employees)" for intensive training. Under the "iron triangle" operation model which aims to enhance the integrated capabilities of tailored front-line sales personnel, three persons form a team to fight cooperatively with the team members, resulting in greatly enhanced overall capabilities of the sales force. Following the implementation of the talent cultivation programme, a number of outstanding front-line management personnel and core employees have been promoted and rewarded, achieving the Group's talent management goal of "maximising the potential of a talent, making good use of the talent, and striving for success".

**Building a New Marketing Model, Focusing on a Breakthrough in Chains, Recreating Strong Terminals**

***Fully mobilising the enthusiasm of sales force based on actual market conditions***

In 2017, to better adapt to market changes, the Group proposed the strategy of "one tactic for one area, one proposal for one store, one solution for one corner, one battle for one point", which was significant to the smash of established concepts, liberation of the mindset of sales personnel, and encouragement of sales personnel to boldly strive for performance. The "four ones" strategy fully realised the flexibility and mobility of our sales force. Through reasonable delegation, our sales force was revitalised and the sales performance was further enhanced.

***Getting through channels to continue to increase the strength and influence of the brand***

In 2017, the Group innovated its marketing model and got through the channels by focusing on the "four circles" (channels, chains, stores, consumers) with the aim of increasing sales amount and volume, so that the Group's sales policy could reach terminals quickly. The Group adopted the approach of "one tactic for one area, one proposal for one store" for channel customers, chains and terminal stores and focused on the "two types of chains" through three meetings (kick-off meeting, discussion meeting, in-store meeting) to establish "key chains" and "pillbox stores", consolidated and developed the brand image and position of Besunyen's brand and products and LARLLY Orlistat in channels and terminals. This was well received and supported by channel customers, chains and individual terminal stores in various locations, providing a solid foundation for the promotion of the Group's products.

***"Key chains" and "pillbox stores" to further increase sales***

The Group customised precise marketing solutions according to the actual situation of local chains and recreated strong terminals by establishing an integrated relation with stores through the "iron triangle", which stimulated the sales of the "two types of chains" and detonated the entire group of chains, boosting overall sales in the market. Pillbox stores were established as model stores to attract consumers, stabilise the customer base and develop new customers, from point to area to increase the sales in the whole area. The "key chains" and "pillbox stores" strategies ushered in a stellar and continual increase in the sales of Besunyen Detox Tea, Besunyen Slimming Tea and LARLLY Orlistat in certain areas.

***"Caravan" Set off Again to Explore Terminals and Revitalise the Market***

In September 2017, the Group kicked off the "Caravan Sets off Again" campaign and the caravan stopped at six stations including Chengdu, Shaoxing, Luoyang Longmen, Jinan, Changsha and Xi'an in over 50 days. With the participation of almost 1,000 employees to help set up more than 4,000 terminal stores, more than RMB3 million of sales were realised. By pairing up two business departments, based on the data, system and talent platforms, and sticking to the sales, marketing, result, system and mutual success-oriented principle, cases, system, mutual assistance and new products were implemented, which opened up the channels and paved the path to the long-term development of the Group. The enthusiasm of all sales personnel was ignited to the maximum and team coordination and personal skills were enhanced.

**Tmall Besunyen Flagship Store to Consummate Sales Channels and Boost Sales Amount**

Tmall Besunyen flagship store was officially set up in November 2017, which had positive effect on the consummation and consolidation of sales of Besunyen products. Going forward, the Group will fully utilise the Besunyen flagship store to sell products of its own and other brands, and explore stable online OTC sales channels in order to further consolidate and boost the Group's overall sales performance.

**Building an Efficient R&D Team at a Faster Pace and Fostering Research Collaboration to Enhance R&D Capabilities**

In 2017, the Group recruited 1 doctor and 2 postgraduates to strengthen its R&D team. At present, teams specialised in pharmacology, analysis, formulation, process and technical regulations have been formed and obtained the certificate of "Beijing Municipal Enterprise Technology Research and Development Institute" in December 2017. The Group strengthened external collaboration by jointly establishing innovative laboratories with research facilities and enterprises and building raw herb materials plantation bases together, and is preparing to set up a technical team consisting of R&D consultants and experts to enhance R&D capabilities.

Apart from that, the Group also acquired Zhongshan Wanhan and Wanyuan in 2017. Leveraging on their advantages in the research and development of pharmaceuticals, the Group continuously built up new product reserve in the pharmaceutical industry and has optimised its pharmaceutical product chain.

**Keeping up with Consumers' Needs and Exploiting E-commerce Channels to Build an E-commerce-oriented Enterprise**

In the area of e-commerce, the Group kept up with consumers' needs and released new products continuously. 6 products were launched online in 2017. In the "2017 E-commerce Quality Fair and Golden Wheat Quality Awards", Besunyen Xian Xian Tea and Besunyen L-carnitine coffee received quality awards in healthcare and tea & beverages categories respectively. The Group cooperated with the fashion industry to customise IP products catering to young female users. In 2017, the Group shifted its e-commerce strategy from B2B to B2C. Riding on the trend of content-based e-commerce platforms such as Ali and Jingdong, the Group made its way towards the content-based e-commerce model that connected to consumers more closely from a pure e-commerce retail merchant. The e-commerce sales amount of Besunyen products as at the end of October 2017 had surpassed the e-commerce sales amount in the entire year of 2016. During the "Double 11" period in 2017, overall B2B and B2C sales amount of the Group reached RMB8.5 million and Tmall Besunyen official flagship store registered sales of RMB4.78 million; 15,000 new B2C customers were obtained and 29,000 orders were placed. Within 30 minutes from 00:00 on the day of "Double 11", the e-commerce platform registered sales of over RMB1 million, setting a new record in the history.

**Social Welfare**

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

In September 2017, the Group co-organised the "Public Lecture on the Wisdom of Avoiding Cancer" and "The 2nd Top Ten Anticancer Heroes of China Selection Roadshow" to help the public eliminate false perceptions of cancer and guide the public to develop a healthy lifestyle, promote early diagnosis of cancer, and improve the living quality of patients.

The Group and China Green Carbon Foundation established a "Special Fund for Combating Illegal Trade in Endangered Wildlife", which aims to promote wildlife protection and law enforcement, and raise public awareness of and participation in wildlife conservation through various charitable programmes. In September 2017, the Group worked with China Green Carbon Foundation to initiate a charitable project named "Be a Snow Leopard Photographer" to support the much-needed study on the survival status of snow leopards in Changtang, Tibet. The Group also raised a donation for this charity project, which supported the implementation and landing of the project.

**Awards and Honours**

***Winning outstanding social responsibility enterprise award***

At the 2017 China Social Responsibility Public Welfare Ceremony held on 6 December 2017, the Group received the "2017 China Social Responsibility Outstanding Enterprise Award". Over the years, the Group has actively taken part in various social undertakings and provided dedicated funds for the establishment of "Besunyen Special Charity Fund". The Group has always placed integrity and social contribution at the heart of its business philosophy, and regarded shareholders, customers, employees and social responsibility as the key to its sustainable development. The Group believes that a small charitable act can have a huge effect on society.

## PROSPECTS

### Macro-economy

According to the publication of the National Bureau of Statistics, China's economy showed favourable signs amid the steady growth trend in 2017. The successful hold of the 19th National Congress of the Communist Party of China boosted the confidence of local and international communities in China's economic development. Corporate profitability picked up, market expectations rose, and balance of payments was largely kept in check. The big health industry will continue to grow at a fast pace and become one of the key industries leading the PRC industrial transformation.

### Supporting Front-line Sales Platform, Enriching Product Line, Continuing to Focus on Sales

The Group will use the new sales system to further improve management efficiency and support front-line sales personnel. The Group will continue to focus on the development of new products, new users and new areas and to explore OTC chains and terminals. The Group aims at expanding its product range and promoting higher growth in various areas by introducing new products through self-development and outsourced processing.

### Ongoing Development of E-commerce Platform to Build a Younger Content-based E-Commerce Platform

The Group will continue to develop its e-commerce platform as the focus of its channel strategic development, revamp the visual effect of its e-commerce platform to give users a new visual experience, make the brand younger and bring it closer to internet users, and use internet language to resonate with consumers. Through continuous e-commerce promotion efforts, the Group will make its way further towards the content-based e-commerce model that connects to consumers more closely from a pure e-commerce retail merchant.

### Innovating Branding and Marketing Strategies to Fuel Brand Vitality

The Group will continue to integrate premium media resources with the Two Teas as the core, and activate young consumers through soft placement in a variety of programmes with high exposure. In view of the development trend of mobile internet, the Group will continue to try out new promotion channels, and make use of new media marketing to radiate the younger vibes of the brand. In addition, the Group will continue to explore the marketing model of traditional media + new media to build a closed media marketing loop, focus on key markets, and make use of the mutual complementary feature of traditional and new media and stereo dissemination to develop new growth drivers for the Group's revenue.

### Continuous Optimisation of Product Structure to Enhance Market Competitiveness

According to the product strategy of "One Focus and Two Dimensions", the Group will continue to focus on the development of new herbal products and embark on new healthcare herbal food products with effects such as weight reducing, throat clearing, immunity enhancing, fatigue relieving or adjuvant therapeutic effects on chemical liver injury. Given the research capabilities and product reserve of Zhongshan Wanhan and Wanyuan, the Group will continue to optimise its product structure and consummate its overall position in the pharmaceutical, healthcare products and big health industry.

## FINANCIAL REVIEW

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

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Revenue | **542,870** | 514,749 |
| Cost of sales | **(112,677)** | (89,229) |
| **Gross profit** | **430,193** | 425,520 |
| Other income | **28,645** | 40,736 |
| Selling and marketing expenses | **(339,684)** | (428,415) |
| Administrative expenses | **(106,921)** | (76,964) |
| Research and development costs | **(15,866)** | (12,570) |
| Other expenses | **(9,665)** | (10,912) |
| Other losses, net | **(3,305)** | (5,069) |
| Finance costs | **(180)** | — |
| Share of profit/(losses) of investments accounted for using the equity method | **9,599** | (2,997) |
| **Loss before income tax** | **(7,184)** | (70,671) |
| Income tax credit/(expense) | **12,465** | (3,895) |
| **Profit/(loss) for the year** | **5,281** | (74,566) |
| **Profit/(loss) attributable to:** | | |
| — Owners of the Company | **4,086** | (68,714) |
| — Non-controlling interests | **1,195** | (5,852) |
| | **5,281** | (74,566) |
| **Other comprehensive income** | **—** | — |
| **Total comprehensive income/(loss) for the year** | **5,281** | (74,566) |
| **Total comprehensive income/(loss) attributable to:** | | |
| — Owners of the Company | **4,086** | (68,714) |
| — Non-controlling interests | **1,195** | (5,852) |
| | **5,281** | (74,566) |

## REVENUE

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | ***RMB'000*** | ***Percentage of total*** | *RMB'000* | *Percentage of total* |
| Revenue: | | | | |
| Besunyen Detox Tea | **225,764** | **41.6%** | 189,129 | 36.7% |
| Besunyen Slimming Tea* | **215,975** | **39.8%** | 209,292 | 40.7% |
| Slimming medicines | **62,694** | **11.5%** | 93,466 | 18.2% |
| Other products and medicines | **38,437** | **7.1%** | 22,862 | 4.4% |
| Total | **542,870** | **100.0%** | 514,749 | 100.0% |

In 2016, the revenue was RMB514.7 million and the revenue in 2017 increased by 5.5% to RMB542.9 million. Among these, the revenue of Besunyen Detox Tea increased by 19.4%, from RMB189.1 million in 2016 to RMB225.8 million in 2017, while the sales volume increased from 125.9 million tea bags in 2016 to 151.7 million tea bags in 2017. The revenue of Besunyen Slimming Tea increased by 3.2%, from RMB209.3 million in 2016 to RMB216.0 million in 2017, while the sales volume increased from 147.6 million tea bags in 2016 to 151.4 million tea bags in 2017. The revenue of the slimming medicine, Orlistat, decreased by 32.9%, from RMB93.5 million in 2016 to RMB62.7 million in 2017.

The average selling price of Besunyen Detox Tea and Besunyen Slimming Tea in 2016 were RMB1.50 and RMB1.42 per bag respectively, and were RMB1.49 and RMB1.43 pre bag respectively in 2017. The average selling price of Besunyen Detox Tea slightly decreased by 0.7% and the average selling price of Besunyen Slimming Tea slightly increased by 0.7%.

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

## COST OF SALES AND GROSS PROFIT

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | ***RMB'000*** | ***Percentage of revenue*** | *RMB'000* | *Percentage of revenue* |
| Cost of sales | **112,677** | **20.8%** | 89,229 | 17.3% |
| Gross profit | **430,193** | **79.2%** | 425,520 | 82.7% |

The Group's cost of sales increased by 26.3% from RMB89.2 million in 2016 to RMB112.7 million in 2017. Cost of sales as a percentage of revenue increased from 17.3% in 2016 to 20.8% in 2017. The increase in the cost of sales as a percentage of revenue was mainly due to the relatively higher cost of sales as a percentage of revenue for newly acquired companies.

Revenue increased by 5.5% and cost of sales increased by 26.3% in 2017 as compared with 2016, the gross profit of the Group increased by 1.1% from RMB425.5 million in 2016 to RMB430.2 million in 2017. Gross profit margin of the Group decreased from 82.7% in 2016 to 79.2% in 2017.

## OTHER INCOME

In 2017, the Group's other income mainly comprised interest income of RMB1.3 million (2016: RMB7.5 million), government grants of RMB5.2 million (2016: RMB13.5 million) provided by the PRC government to support the Group's operation of business, and rental income from investment properties of RMB22.0 million (2016: RMB19.2 million).

## SELLING AND MARKETING EXPENSES

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | ***RMB'000*** | ***Percentage of revenue*** | *RMB'000* | *Percentage of revenue* |
| Advertising costs | **99,753** | **18.4%** | 159,994 | 31.1% |
| Marketing and promotional expenses | **108,218** | **19.9%** | 118,111 | 22.9% |
| Employee benefit expenses | **98,902** | **18.2%** | 113,682 | 22.1% |
| Others | **32,811** | **6.1%** | 36,628 | 7.1% |
| Total | **339,684** | **62.6%** | 428,415 | 83.2% |

Selling and marketing expenses of the Group decreased by 20.7% from RMB428.4 million in 2016 to RMB339.7 million in 2017.

The advertising costs in 2017 recorded a decrease of 37.7% as compared with 2016, mainly due to the decrease in advertising costs as incurred in traditional television media.

The marketing and promotional expenses in 2017 recorded a decrease of 8.4% as compared with 2016, mainly due to more promotional campaigns incurred in 2016.

The employee benefit expenses for 2017 recorded a decrease of 13.0% as compared with 2016, mainly due to the flat management of the Group's sales structure, optimised personnel structure and reduced headcount in 2017.

**ADMINISTRATIVE EXPENSES**

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | ***RMB'000*** | ***Percentage of revenue*** | *RMB'000* | *Percentage of revenue* |
| Employee benefit expenses | **40,432** | **7.5%** | 28,601 | 5.6% |
| Office expenses | **5,892** | **1.1%** | 6,709 | 1.3% |
| Professional service fees | **28,440** | **5.2%** | 16,616 | 3.2% |
| Entertainment and travelling expenses | **6,642** | **1.2%** | 6,571 | 1.3% |
| Others | **25,515** | **4.7%** | 18,467 | 3.6% |
| Total | **106,921** | **19.7%** | 76,964 | 15.0% |

The administrative expenses of the Group increased by 38.8% from RMB77.0 million in 2016 to RMB106.9 million in 2017. Administrative expenses as a percentage of revenue increased from 15% in 2016 to 19.7% in 2017, mainly due to the increases in staff dismissal costs and professional fees related to human resources consultation, investment and financing incurred by the Group in 2017.

## RESEARCH AND DEVELOPMENT COSTS

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | ***RMB'000*** | ***Percentage of revenue*** | *RMB'000* | *Percentage of revenue* |
| Research and development costs | **15,866** | **2.9%** | 12,570 | 2.4% |

The Group's research and development costs increased by 26.2% from RMB12.6 million in 2016 to RMB15.9 million in 2017. Research and development costs as a percentage of revenue increased from 2.4% in 2016 to 2.9% in 2017, mainly due to the consolidation of the post-acquisition research and development costs of the newly acquired companies, Zhongshan Wanhan and Wanyuan.

## TAXATION

Income tax credit of the Group in 2017 was RMB12.5 million whereas in 2016 was an income tax expense of RMB3.9 million. The income tax credit in 2017 was mainly attributable to the recognition of deferred income tax for certain deductible temporary differences 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 RMB5.3 million (2016: total comprehensive loss of RMB74.6 million).

## USE OF THE NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING ("IPO")

The net proceeds from the IPO amounted to approximately RMB1,033.2 million. The net proceeds have been applied by the Company according to the manner disclosed in the use of proceeds in the prospectus and the announcement dated 16 June 2015 by the Company. The respective uses of the net proceeds up to 31 December 2017 are as follows:

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

## LIQUIDITY AND CAPITAL RESOURCES

In 2017, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities and proceeds from the IPO and issue of shares.

## 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Net cash used in operating activities | **(738)** | (44,623) |
| Net cash used in investing activities | **(102,608)** | (54,427) |
| Net cash from/(used in) financing activities | **31,152** | (173,806) |
| Net decrease in cash and cash equivalents | **(72,194)** | (272,856) |
| Effects of changes in exchange rate on cash and cash equivalents | **(2,457)** | 882 |
| Net decrease in cash and cash equivalents | **(74,651)** | (271,974) |

In 2017, the Group's net cash used in operating activities was RMB0.7 million (2016: RMB44.6 million). The difference was primarily due to the reduced loss for the year of 2017 as compared with year 2016. In 2017, the net cash used in investing activities of the Group was RMB102.6 million (2016: RMB54.4 million). The net cash used in investing activities in 2017 mainly comprised of the net cash outflow (net of cash acquired) of RMB81.4 million for the acquisitions of Zhongshan Wanhan and Wanyuan, Zhuhai Kangbaina Pharmaceutical Co., Ltd. ("**Kangbaina**"), Zhuhai Aolixin Pharmaceutical Co., Ltd. ("**Aolixin**"), as well as RMB19.6 million for the further capital injection to the joint venture, Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) ("**Yuanyuan Liuchang Fund**"). In 2017, the net cash from financing activities of the Group was RMB31.2 million (2016: net cash used in the financing activities of RMB173.8 million). The net cash from financing activities in 2017 mainly comprised the proceeds from the issue of new shares, while the net cash used in financing activities in 2016 primarily comprised the settlement of dividends and the payments for the repurchase of shares.

## BANK BALANCES, CASH AND BANK BORROWINGS

The Group's bank balances and cash, comprising cash and cash equivalents, bank deposits with initial term of over three months and restricted bank deposits, decreased by 47.2% from RMB157.8 million as at 31 December 2016 to RMB83.3 million as at 31 December 2017. Meanwhile, the Group has a bank borrowing of RMB20.0 million as at 31 December 2017 (31 December 2016: Nil).

## CAPITAL EXPENDITURE

In 2017, cash payments for capital expenditure of the Group amounted to RMB30.9 million (2016: RMB34.2 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 | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment | **25,288** | 32,294 |
| Intangible assets | **5,562** | 1,912 |
| Total | **30,850** | 34,206 |

## INVESTMENT PROPERTIES

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

| | At 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Investment properties | **48,881** | 55,632 |

The Group owns Besunyen Building, Linglong Tiandi which is located in No. 160 West 4th Ring Road North, Haidian District, Beijing 100036, and certain office properties in Changcheng Building located in No. 3000, Zhongshan Road North, Putuo District, Shanghai. In 2017, the Group has obtained all property ownership certificates for its buildings in the PRC. The Group will not put all units of these properties into full use and has leased the unused units to independent third parties until the Group needs to recover such units for business expansion in the future. The properties held for lease are classified as investment properties.

As at 31 December 2017, carrying values of the investment properties amounted to RMB48.9 million (2016: RMB55.6 million). Such investment properties are measured on the basis of cost method and depreciated on a straight-line basis over the estimated useful life of 30 years. As at 31 December 2017, the Group assessed the fair values of the investment properties based on a valuation carried out by an independent valuer and determined that the related fair values exceed the carrying values of such investment properties.

## INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | At 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Investments accounted for using the equity method | **96,112** | 66,933 |

As at 31 December 2017, the carrying value of the Group's investments in the joint ventures, Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. and the Yuanyuan Liuchang Fund, was RMB92.2 million, and the carrying value of the Group's investment in the associate, Yunzhi Besunyen Pharmaceutical Co., Ltd., was RMB3.9 million.

## INVENTORIES

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

| | At 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials and packaging materials | **7,969** | 3,816 |
| Work in progress | **1,803** | 1,028 |
| Finished goods | **7,914** | 17,876 |
| Total inventories | **17,686** | 22,720 |

The turnover days of the Group's inventories in 2017 (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 64 days (2016: 59 days).

## RISKS IN FOREIGN EXCHANGE RATE

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

For the year ended 31 December 2017, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2016: Nil).

## MATERIAL ACQUISITION OR DISPOSAL

On 10 March 2017 and 25 July 2017, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**") entered into the equity transfer agreement and its supplementary agreement with Zhonghang Tuohong (Xi'an) Property Co., Ltd, an independent third party, ("**Zhonghang Tuohong**") and Beijing Besunyen Food and Beverage Co., Ltd. ("**Besunyen Food and Beverage**"), respectively, pursuant to which (i) Beijing Outsell agreed to dispose of and Zhonghang Tuohong agreed to acquire 100% equity interest in Besunyen Food and Beverage for an aggregate consideration of RMB75,000,000; and (ii) Besunyen Food and Beverage agreed to pay the debt of RMB50,000,000 to Beijing Outsell. Upon completion of the equity transfer, Besunyen Food and Beverage will cease to be a subsidiary of the Company. Proceeds from the equity transfer and the debt paid by Besunyen Food and Beverage will be applied by Beijing Outsell for its operation of business and strategic investments. For details, please refer to the announcements of the Company dated 10 March 2017 and 25 July 2017.

On 10 March 2017 and 28 July 2017, Beijing Outsell, Zhongshan Wanyuan, Zhongshan Wanhan, Zhuhai Yinchen Investment Consulting Co., Ltd., Zhuhai Jiatai Chengzhang Investment Co., Ltd., Ms. Luo Dongfang, Mr. Zhao Rui, Mr. Zou Yong and Ms. Peng Wei (collectively, the "**Sellers**") entered into an investment agreement (the "**Investment Agreement**") and its supplemental agreement, respectively. Pursuant to the Investment Agreement: (1) Beijing Outsell conditionally agreed to purchase and the Sellers of Zhongshan Wanhan conditionally agreed to sell 39.66% equity interest in Zhongshan Wanhan for a consideration of RMB77,100,000; and (2) Beijing Outsell conditionally agreed to make capital contribution in cash to each of Zhongshan Wanhan and Zhongshan Wanyuan in the total sum of RMB60,600,000. Pursuant to the supplemental agreement, all the rights and obligations of Beijing Outsell under the Investment Agreement shall be taken over by another subsidiary of the Group, Khorgos Besunyen Venture Investment Co., Ltd. ("**Besunyen Venture Investment**"). Upon completion of the Investment Agreement, Besunyen Venture Investment will hold 51% equity interest in each of Zhongshan Wanhan and Zhongshan Wanyuan. This transaction will facilitate the Group to obtain more comprehensive qualifications in pharmaceutical research and development, manufacture and medical e-commerce, and also lay a good foundation for the Group's comprehensive layout and development in pharmaceutical industry. For details, please refer to the announcements of the Company dated 10 March 2017 and 28 July 2017.

On 28 July 2017, Besunyen Venture Investment, Kangbaina, Aolixin and their shareholders entered into an investment agreement, pursuant to which: (1) Besunyen Venture Investment agreed to purchase and the shareholders of Kangbaina agreed to sell 100% equity interest in Kangbaina for a total consideration of RMB6,000,000; and (2) Besunyen Venture Investment agreed to purchase and the shareholders of Aolixin agreed to sell 100% equity interest in Aolixin for a total consideration of RMB1,500,000. Upon completion of the transactions, Kangbaina and Aolixin will become indirect wholly-owned subsidiaries of the Company. For details, please refer to the announcement of the Company dated 28 July 2017.

For the progress of above-mentioned matters, please refer to the Notes 11 and 12 as set out on pages 15 and 16 of this annual results announcement.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures in 2017.

## 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's subsidiary, Beijing Besunyen Pharmaceutical Co., Ltd, 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. In 2017, the Group injected capital of RMB19.6 million to Yuanyuan Liuchang Fund, and Yuanyuan Liuchang Fund made an investment in an internet health project, amounting to RMB20.0 million in total.

Save as disclosed above, there were no other significant investments held by the Group in 2017. 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 of 31 December 2017, Zhongshan Wanyuan, a subsidiary of the Group, has pledged its land use right for an area of 32,490.1 square meter with a carrying value of RMB19.4 million to Huoju Development District branch of Zhongshan Rural Commercial Bank Co., Ltd. as the security of a bank borrowing of RMB20.0 million granted to Zhongshan Wanhan, a subsidiary of the Group (2016: Not applicable).

## GEARING RATIO

As of 31 December 2017, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 17.79% (2016: 13.56%).

## CONTINGENT LIABILITIES AND GUARANTEES

As of 31 December 2017, the Group had no material contingent liabilities or guarantees (2016: Nil).

## CAPITAL COMMITMENTS

As of 31 December 2017, the Group had capital commitments of RMB12.7 million (2016: RMB8.4 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 products production, quality and safety control systems are relatively comprehensive and imposes effective control on design and execution. It 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 2017, the Group provided generous social security benefits to its employees to motivate their proactivity at work while heightening their sense of belonging. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2017, 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 2017, the Group had 1,020 employees in the PRC mainland and Hong Kong (2016: 1,156 employees), which included 25 promotional staff employed by employment agents (2016: 79 employees). The staff costs of the Group (including remunerations of the Directors) were RMB161.7 million for the year ended 31 December 2017 (2016: RMB162.3 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 declaration and payment of a final dividend for the year ended 31 December 2017.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 May 2018 to 18 May 2018, 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 18 May 2018 will be 18 May 2018. 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 14 May 2018.

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in order to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of The Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the year ended 31 December 2017, except for code provision A.2.1 of the CG Code.

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

## CODE PROVISION A.2.1 UNDER THE CG CODE

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 28 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 2017.

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

The Shares repurchased by the Company on the Stock Exchange during the year ended 31 December 2017 are as follows:

| Month | No. of Shares repurchased | Price per Share Highest | Price per Share Lowest | Total consideration |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$'000* |
| January | 15,267,000 | 0.50 | 0.47 | 7,378 |
| Total | 15,267,000 | 0.50 | 0.47 | 7,378 |

The above repurchase was made to stabilise share price, alleviate the impact brought by share price fluctuation and increase earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2017.

**AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS**

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Huang Jingsheng and Mr. Ren Guangming. The Audit Committee has reviewed the consolidated financial statements and this annual results announcement of the Group for the year ended 31 December 2017, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

**PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE**

This announcement is published on the websites of the Company (http://ir.besunyen.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2017 will be dispatched to the Shareholders and available on the above websites in due course.

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

Hong Kong, 14 March 2018

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