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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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

The Operation Results of the Group

The turnover of the Group in the first half of 2012 was RMB325.2 million, representing a decrease of 36.5% as compared with the turnover of RMB512.3 million for the same period in 2011.

Gross profit decreased from RMB458.6 million to RMB279.5 million, down 39.0%. The gross profit margin decreased from 89.5% in the first half of 2011 to 86.0% in the same period of 2012.

Total operating expenses (include selling and marketing expenses, administrative expenses, research and development costs) of the Group in the first half of 2012 were RMB415.7 million, representing an increase of 26.5% as compared with RMB328.5 million in the same period of 2011.

Loss on disposal of a subsidiary of RMB6.7 million in the first half of 2012 (for the same period of 2011: RMBNil), in addition, there was an impairment loss of RMB20.3 million in the first half of 2012 (for the same period of 2011: RMBNil) in respect of property, plant and equipment.

The Group recorded a net loss of RMB167.6 million in the first half of 2012 as compared to the net profit of RMB113.3 million in the same period of 2011.

The basic and diluted loss per share were RMB0.10 and RMB0.10 respectively (for the same period of 2011: the basic and diluted earnings per share were RMB0.07 and RMB0.07 respectively).

Interim Dividends

The board of directors of the Company has resolved not to declare an interim dividend for the six months ended 30 June 2012 (for the same period of 2011: HK\$0.02 per share).

The board (the “Board”) of directors (the “Directors”) of Besunyen Holdings Company Limited (the “Company”) announces that the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 30 June	
		2012	2011
		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Turnover	3	325,157	512,323
Cost of sales		(45,619)	(53,721)
Gross profit		279,538	458,602
Other income		8,773	7,459
Selling and marketing expenses		(355,109)	(272,500)
Administrative expenses		(53,319)	(49,448)
Research and development costs		(7,263)	(6,571)
Loss on disposal of a subsidiary	6	(6,700)	–
Impairment loss recognised in respect of property, plant and equipment	9	(20,256)	–
(Loss) profit before taxation		(154,336)	137,542
Income tax expense	4	(13,218)	(24,219)
(Loss) profit and total comprehensive (expenses) income for the period	5	<u>(167,554)</u>	<u>113,323</u>
(Loss) earnings per share			
Basic (RMB)	8	<u>(0.10)</u>	<u>0.07</u>
Diluted (RMB)		<u>(0.10)</u>	<u>0.07</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	At 30 June 2012 <i>RMB'000</i> (unaudited)	At 31 December 2011 <i>RMB'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	479,296	428,851
Prepaid lease payments		62,229	67,284
Investment properties	10	242,752	–
Intangible assets		15,592	17,062
Non-current deposits	9,10	30,836	324,319
Deferred tax assets		10,679	15,077
Goodwill		–	5,305
		841,384	857,898
CURRENT ASSETS			
Inventories		11,136	8,499
Trade and notes receivables	11	78,944	302,028
Deposits, prepayments and other receivables	12	88,548	129,195
Restricted cash		–	5,000
Bank balances and cash		508,006	602,541
		686,634	1,047,263
CURRENT LIABILITIES			
Trade payables	13	4,476	7,248
Other payables and accrued expenses	14	84,498	190,960
Taxation payable		11,319	16,184
		100,293	214,392
NET CURRENT ASSETS		586,341	832,871
TOTAL ASSETS LESS CURRENT LIABILITIES		1,427,725	1,690,769
CAPITAL AND RESERVES			
Share capital		90	95
Reserves		1,410,455	1,672,071
		1,410,545	1,672,166
NON-CURRENT LIABILITIES			
Deferred government grant		8,292	8,684
Deferred tax liabilities		8,888	9,919
		17,180	18,603
		1,427,725	1,690,769

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has adopted the following accounting policy for its investment properties.

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Owner-occupied property is transferred from property, plant and equipment to investment property when there is a change in use evidenced by end of owner-occupation.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”).

IFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the invoiced value of therapeutic tea products sold to customers by the Group less returns, discounts, rebates, and sales related tax.

The Group operates and manages its business as a single segment that includes primarily the manufacture and sales of therapeutic tea products. The Group's chief operating decision maker has been identified as the Company's Chairman and Chief Executive Officer, who reviews the revenue analysis by major products of the Group when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for the assessment of performance of different products, no segment information is presented.

The revenues attributable to the Group's major products are as follows:

	Six months ended 30 June	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Detox tea	116,988	242,632
Slimming tea	196,632	266,804
Other tea products	11,537	2,887
	<u>325,157</u>	<u>512,323</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
The charge comprises		
Current tax:		
PRC income tax	10,278	20,657
Over provision in prior year:		
PRC income tax	(1,184)	–
Deferred tax:		
Current period	4,124	3,562
	<u>13,218</u>	<u>24,219</u>

5. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
(Loss) profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
– salaries and other allowances	77,497	65,341
– share-based compensation	3,230	11,096
– retirement benefit scheme contributions	4,654	3,406
	<u>85,381</u>	<u>79,843</u>
Total staff costs	<u>85,381</u>	<u>79,843</u>
Amortisation of intangible assets (included in cost of sales and administrative expense)	1,711	2,398
Auditors' remuneration	1,937	825
Allowance for doubtful debts	95	–
Cost of inventories recognised as expense	45,619	53,721
Depreciation of property, plant and equipment	17,196	12,324
(Gain) loss on disposal of property, plant and equipment	(272)	60
Government grants	(3,903)	(4,282)
Interest income	(4,251)	(7,336)
Net exchange (gain) loss	(261)	4,615
Release of prepaid lease payments	681	757
Write down of inventories	1,499	–

6. DISPOSAL OF A SUBSIDIARY

During the current interim period, the Group entered into a sale agreement to dispose of its 100% equity interest in Zhuhai Qi Jia Medical Industry Co., Ltd. (“Zhuhai Qi Jia”), a PRC company which is engaged in the manufacture and sale of therapeutic tea products in the PRC. The disposal was completed on 28 June 2012, on which date the Group lost control of Zhuhai Qi Jia.

The net assets of Zhuhai Qi Jia at the date of disposal were as follows:

	<i>RMB'000</i>
Net assets disposed of excluding goodwill	6,523
Attributable goodwill	5,305
	<u>11,828</u>
Loss on disposal	(6,700)
	<u>5,128</u>
Total consideration	<u>5,128</u>
Satisfied by:	
Other payables (<i>Notes</i>)	<u>5,128</u>
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	<u>(498)</u>

Notes:

- (i) On 28 June 2012, Beijing Outsell Health Product Development Co., Ltd (“Beijing Outsell”), Zhuhai Qi Jia, the former shareholders of Zhuhai Qi Jia and the acquirer of Zhuhai Qi Jia, an independent third party, signed a four-party agreement. Pursuant to the terms of the agreement, a payable to Zhuhai Qi Jia amounting to RMB3,128,000 was transferred to the acquirer as settlement of part of the total consideration.

- (ii) On the same date, Beijing Outsell, Zhuhai Qi Jia, the former shareholders of Zhuhai Qi Jia and the acquirer of Zhuhai Qi Jia, an independent third party, signed another four-party agreement. Pursuant to the terms of the agreement, a payable for acquisition of a subsidiary amounting to RMB2,000,000 (Note 14) was transferred to the acquirer as settlement of the remaining part of the total consideration.

7. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period. The Directors have determined that no dividend will be paid in respect of the current interim period.

An interim dividend of HK\$0.02 per share (total dividend of RMB27,569,000) in respect of the six months ended 30 June 2011 was declared in August 2011 and paid during the year ended 31 December 2011.

In respect of the financial year ended 31 December 2010, a final dividend of HK\$0.01 per share (total dividend of RMB14,062,000) was declared on 29 April 2011 and paid in May 2011.

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
(Loss) earnings		
(Loss) earnings for the purpose of calculating basic and diluted (loss) earnings per share	(167,554)	113,323
	_____	_____
	Six months ended 30 June	
	2012	2011
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,607,918	1,681,106
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	–	41,474
	_____	_____
Weighted average number of ordinary shares for the purpose of calculating diluted (loss) earnings per share	1,607,918	1,722,580
	_____	_____

The weighted average number of ordinary shares shown above has been arrived at after deducting the weighted average effect of 61,000,000 ordinary shares held by the Company's restricted share award scheme during the six months ended 30 June 2012.

The computation of diluted loss per share for the period ended 30 June 2012 does not assume the exercise of the Company's outstanding share options as the exercise of the share options would result in a decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment amounting to RMB127,638,000 (six months ended 30 June 2011: RMB150,583,000), including an amount of RMB108,019,000 (six months ended 30 June 2011: RMB56,154,000) transferred from non-current deposit.

During the current interim period, the Group also disposed of certain property, plant and equipment with an aggregate carrying amount of RMB3,524,000 (six months ended 30 June 2011: RMB130,000), of which RMB3,392,000 (six months ended 30 June 2011: RMBNil) was attributable to the disposal of a subsidiary as set out in Note 6. In addition, the Group transferred an owner-occupied property with a carrying amount of RMB36,218,000 (six months ended 30 June 2011: RMBNil) from property, plant and equipment to investment properties upon end of owner-occupation.

During the period, the Directors conducted a review of the Group's plant and machinery and determined that a number of those assets were impaired. Accordingly, impairment losses of RMB20,256,000 (six months ended 30 June 2011: RMBNil) have been recognised in respect of production machinery. The recoverable amounts of the relevant assets have been determined on the basis of their fair value less costs to disposal. The fair value was estimated by the method of Depreciated Replacement Cost.

At 30 June 2012, the Group was in the process of obtaining a property certificate of the building with a carrying value approximate to RMB111,942,000 (31 December 2011: RMB76,055,000) which is located in the PRC.

10. INVESTMENT PROPERTIES

During the current interim period, the Group acquired investment properties amounting to RMB206,534,000 (six months ended 30 June 2011: RMBNil), including an amount of RMB199,116,000 (six months ended 30 June 2011: RMBNil) transferred from non-current deposit paid as of 31 December 2011. In addition, the Group transferred certain properties with a carrying amount of RMB36,218,000 (six months ended 30 June 2011: RMBNil) from property, plant and equipment to investment properties during the current interim period.

The investment properties are measured using the cost model and depreciated on a straight-line basis over the shorter of the lease term or the estimated useful life of 30 years. These investment properties are situated on land in the PRC held by the Group under medium-term leases.

At 30 June 2012, the Group was in the process of obtaining a property certificate of the building with a carrying value approximate to RMB206,534,000 (31 December 2011: RMBNil) which is located in the PRC.

11. TRADE AND NOTES RECEIVABLES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade receivables	24,226	19,176
Notes receivables	54,924	282,963
Less: allowance for doubtful debts	(206)	(111)
	78,944	302,028

The Group allows a credit period of 60-180 days to its trade customers. The following is an aged analysis of trade and notes receivables presented based on the invoice date at the end of the reporting period.

	30 June 2012 RMB'000	31 December 2011 RMB'000
0 – 90 days	75,180	300,115
91 – 180 days	3,556	1,597
181 – 360 days	208	316
	78,944	302,028

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customer internally. Limits and scoring attributed to customers are reviewed every year.

Included in the Group's trade and notes receivables are debtors with an aggregate carrying amount of approximately RMB208,000 (2011: RMB316,000) which are past due at 30 June 2012, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
181 – 360 days	<u>208</u>	<u>316</u>
	<u>208</u>	<u>316</u>

The Group anticipates a full collection of these amounts, and therefore no impairment has been recorded against these receivables.

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Prepaid advertising	64,621	103,964
Other prepayments	11,732	14,467
Prepayment to suppliers	6,982	4,703
Other receivables	3,861	4,614
Prepaid lease payments	<u>1,352</u>	<u>1,447</u>
	<u>88,548</u>	<u>129,195</u>

13. TRADE PAYABLES

The following is an aged analysis of trade payables at the end of reporting period:

	30 June 2012 RMB'000	31 December 2011 RMB'000
0 to 90 days	4,360	6,924
91 to 180 days	<u>116</u>	<u>324</u>
	<u>4,476</u>	<u>7,248</u>

14. OTHER PAYABLES AND ACCRUED EXPENSES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Advances from customers	25,255	105,448
Accrued sales rebate	18,502	32,375
Other payables	15,638	3,185
Payable for land use right	10,000	11,210
Accrued payroll	8,840	24,955
Accrued expenses	4,768	2,624
Deferred government grant	786	786
Advertising expenses payable	709	–
Payable to former shareholders of Zhuhai Qi Jia	–	4,199
Other tax payables	–	4,178
Payable for acquisition of a subsidiary (<i>Note</i>)	<u>–</u>	<u>2,000</u>
	<u>84,498</u>	<u>190,960</u>

At 31 December 2011, the amounts due to former shareholders of Zhuhai Qi Jia were unsecured, non-trade related and interest free.

Note: As set out in Note 6, this payable was transferred to the acquirer of Zhuhai Qi Jia as settlement of the consideration and therefore was derecognised in the current interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The global economic crisis has left virtually no country untouched. Although China and other emerging economies were once the driving forces behind the global recovery, China's economic growth has slowed down remarkably in the first half of 2012. The latest report from the National Bureau of Statistics indicated that China's GDP grew by 7.8% in the first half of this year, with second quarter growth of only 7.6% year-on-year, marking the slowest quarter of expansion since the first quarter of 2009 at the depths of the global financial crisis.

On the domestic scene, credit-tightening measures to curb inflation have stifled economic development. To cope with it, China's government has strived to adopt macro-economic policies to bolster growth. In June and July 2012, China's central bank cut interest rates twice. The second cut sparked some fears that the economy may be slowing more sharply than earlier expected.

Given the challenging economic environment, the Group faced a slow recovery in demand for its products from distributors after the reduction in demand in the second half of 2011. The turnover of the Group in the first half of 2012 was RMB325.2 million, representing a decrease of 36.5% as compared with the turnover of RMB512.3 million for the same period in 2011. Gross profit decreased from RMB458.6 million to RMB279.5 million, down 39.0%. The gross profit margin decreased from 89.5% in the first half of 2011 to 86.0% in the same period of 2012. On the other hand, the total operating expenses (include selling and marketing expenses, administrative expenses, research and development costs) of the Group in the first half of 2012 were RMB415.7 million, representing an increase of 26.5% as compared with RMB328.5 million in the same period of 2011. Loss on disposal of a subsidiary of RMB6.7 million in the first half of 2012 (for the same period of 2011: RMBNil). In addition, there was impairment loss of RMB20.3 million in the first half of 2012 (for the same period of 2011: RMBNil) in respect of property, plant and equipment. Due to these factors, the Group recorded a net loss of RMB167.6 million in the first half of 2012 as compared to a net profit of RMB113.3 million in the same period of 2011.

Against such a difficult backdrop, we still believe that the long-term growth of China's economy and strong demand for health food products remain unchanged. As the leading brand and provider of therapeutic tea products in China, we will continue to maintain and strengthen our long-term competitive advantages, such as strong national brand name, national distribution and sales network as well as innovative research and development. We will stick to our well-established business strategy and business objectives of satisfying consumers' demand for quality health food products.

During the first half of 2012, we had the following business development:

Moderate expansion of sales network

Since 2010, the Group has continued to expand the sales network to include all provinces, autonomous regions and centrally administered municipalities in Mainland China. From its solid market position in first- and second-tier cities, the Group has been proactively deepening its market penetration to expand its network to lower tier cities. The Group has moved to streamline its distribution system by selecting large-scale distributors, to clarify channel segmentation and remove under-performing distributors from our list. As a result, the number of distributors dropped from 420 as of 31 December 2011 to 388 as of 30 June 2012. Despite the decrease in the number of distributors, the number of retail outlets covered by our distributors increased moderately to approximately 131,000 as of 30 June 2012 (including about 124,000 retail pharmacies and about 7,000 supermarkets, hypermarkets and chain stores), compared with approximately 130,000 retail outlets as of 31 December 2011.

Fast growing e-commerce business

The Group strategically developed its e-commerce business in order to leverage the trend of shopping online by urban residents and accommodate demand from customers in remote areas. The Group's products are extensively sold in its own e-commerce website www.7cha.com and other popular e-commerce platforms such as Tmall, 360buy, Dangdang, Amazon, etc. The sales volume in Tmall and www.7cha.com increased dramatically by over 200% in the first half of 2012 compared to the same period in 2011. Sales in 360buy alone in the first half of 2012 rose by six times compared to the same period in 2011. Tmall's monthly top-10 list of best-selling products (health care product sector) has included some of the Group products.

In June 2012, the Group launched its tea beverage products. The e-commerce channel will be one of the major channels to sell the products.

Continued marketing effort for long-term brand building

The Group has engaged in brand building across a multitude of platforms including TV, broadcasting, outdoor media and new media. The Group focused its marketing activities through satellite TV channels like Jiangsu Satellite TV, Hunan Satellite TV and Dragon TV etc. In January 2012, the Group sponsored a popular match-making series "If You are the One"(非誠勿擾) at Jiangsu Satellite TV. The program is one of the hottest TV shows in recent years and attracts a wide audience across China. Through the Group's "Happy, Seize and Enjoy" (幸福搶樂匯) marketing program, customers who purchase Besunyen products may get tickets to the live show. This sponsorship has lifted recognition of the Besunyen brand across China. The Group also sponsored "Romance TV Theatre"(情感劇場) on Jiangsu Satellite TV, "Idol Exclusive TV Theatre"(偶像獨播劇場) on Hunan Satellite TV, "Talents in life"(點事成金) in Heilongjiang Satellite TV. The Group has arranged implantation advertisements in two of Dragon TV's hit entertainment programs, "Star Space"(娛樂星天地) and "Sing it"(我心唱響). On the other hand, the Group has extended its advertising activities from product-oriented to corporate image and placed community-oriented advertisement in CCTV channel which definitely gave endorsement to Besunyen products.

To seize the future consumers groups, the Group continues to sponsor the University Advertisement Art Show Academy Award (大學生廣告藝術節學院獎) and collects thousands of creative works from college students on the theme that "Slimming Makes Life More Wonderful" (減一減 生活更精彩). The roadshows carried in 18 cities and 20 universities built the brand awareness among young people and raised its profile among potential consumers.

In April 2012, the Group was awarded as one of the top 10 credible health food brands in the Fourth China Credible Health Food Forum (第四屆中國保健品公信力論壇) organized by the China Health Care Association. The award highlighted growing market recognition of Besunyen products and of its healthy image.

New Product Development

Mei An Granules

Since March 2012, Mei An Granules have been available countrywide with products sold in over 6,000 retail pharmacies. A recent survey report issued in June 2012 by IPSOS Marketing, a global leader among market research firms, revealed two facts: First, the concept of “Beauty Sleep” is widely accepted by the focus group in the survey; Second, it highlighted the fact that the combination of improving sleep quality and skin tone made Mei An Granules unique in its chosen market segment.

The Group has commenced a three-month integrated market campaign in Beijing and Guangzhou since late June 2012. Featuring roadshows with the theme of “Give you Mei An, bring you Beauty Sleep”(“美安大派送，送你美容覺”), the Group has dispatched products through the internet, metro, bus, shopping malls and offices. These advertising activities have helped to strengthen the Besunyen’s brand further. Two versions of viral video commercials were put in popular video websites like Youku.com, Tudou.com, Sina.com and Sohu.com.

Maishuping

The planned launch of Maishuping, an OTC medicine teabag which helps stabilize blood pressure, is on track. Maishuping obtained the approvals from the State Food and Drug Administration of China (“SFDA”) in November 2011. A clinical trial undertaken in four large hospitals in China showed that the overall efficacy rate on blood pressure control reached 96% among 300 people who took the medicine.

As a final step before product launch, the Group has applied for the GMP certificate for Maishuping’s teabag production and is now in the verification process carried out by the relevant government authorities. The positioning and marketing strategies of Maishuping have been well in place. The Group expects to receive the GMP certificate for Maishuping by the end of 2012 and will commence production and sales soon afterwards.

Taps into teabag beverage market to broaden product portfolio

Compared with functional health food products, general food and beverage products enjoy a more extensive consumer base and higher frequency in consumption. In China, the branded Chinese teabag beverage market offers huge business potential. Leveraging on its leading brand position in the therapeutic tea market and its innovation capabilities, the Group launched two new tea beverage products – Chinese herbal tea series and floral tea series, in June 2012.

Besunyen’s Chinese herbal tea series is a delicious and healthy teabag drink, using only the best tea leaves, resulting in a perfect blend of natural herbal benefits with wisdom of Chinese medicine. The Chinese herbal tea series has three flavors – lemon and ginger tea, ginger tea, chrysanthemum and goji tea, packaged in 12 bags or 20 bags a box. Besunyen’s floral tea series is a perfect blend of choice of tea leaves with quality petals. The series has two flavors – rose black tea and royal chrysanthemum green tea, packaged in 20 bags or 25 bags a box. The products are mainly to be sold in supermarkets and e-commerce channels. The Group will also continue to enrich its product mix in the future.

New product pipeline under research and development

The Group has its own Research and Development Center (R&D Center) to develop new products with significant market potential and consumer demand, proven health efficacy as well as a relatively high technical entry barrier.

A product designed to alleviate physical fatigue and assist in improving memory has already passed all the tests as well as evaluation of the SFDA and is waiting for final approval. Another product aiming to improve skin tone and repair ageing skin has also passed all the relevant tests on safety, efficacy and quality reliability set by the SFDA and application will be submitted to the SFDA soon.

Furthermore, the development of new products for the benefits of the throat, sights and digestion are well under way.

The extensive experience of the R&D Center has also assisted in the development and launch of the tea beverage products, including Chinese herbal tea series and floral tea series. The Group will launch a wider selection of tea beverage products in different flavours and more premium products in the near future.

The Product Safety and Quality Assurance Centre continues to set higher standards on the analysis and tests on the quality and safety of raw materials and finished products. The Center focused on the optimization of quality management, ensuring that all the products meet the increasingly strict quality and safety standards in China.

Financial Review

Review of Interim Results for 2012

The following table sets forth the interim results of the Group for the six months ended 30 June as indicated:

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Turnover	325,157	512,323
Cost of sales	<u>(45,619)</u>	<u>(53,721)</u>
Gross profit	279,538	458,602
Other income	8,773	7,459
Selling and marketing expenses	(355,109)	(272,500)
Administrative expenses	(53,319)	(49,448)
Research and development costs	(7,263)	(6,571)
Loss on disposal of a subsidiary	(6,700)	–
Impairment loss recognised in respect of property, plant and equipment	<u>(20,256)</u>	<u>–</u>
(Loss) profit before taxation	(154,336)	137,542
Income tax expense	<u>(13,218)</u>	<u>(24,219)</u>
(Loss) profit and total comprehensive (expenses) income for the period	<u><u>(167,554)</u></u>	<u><u>113,323</u></u>
(Loss) earnings per share		
Basic (RMB)	<u><u>(0.10)</u></u>	<u><u>0.07</u></u>
Diluted (RMB)	<u><u>(0.10)</u></u>	<u><u>0.07</u></u>

Turnover

	For the six months ended 30 June			
	2012		2011	
	RMB'000	Percentage of turnover	RMB'000	Percentage of turnover
Turnover:				
Besunyen detox tea	116,988	36.0%	242,632	47.4%
Besunyen slimming tea	196,632	60.5%	266,804	52.1%
Other products	<u>11,537</u>	<u>3.5%</u>	<u>2,887</u>	<u>0.5%</u>
Total	<u><u>325,157</u></u>	<u><u>100.0%</u></u>	<u><u>512,323</u></u>	<u><u>100.0%</u></u>

The turnover of the Group decreased by 36.5% from RMB512.3 million in the first half of 2011 to RMB325.2 million in the first half of 2012.

The turnover of Besunyen Detox Tea decreased by 51.8% from RMB242.6 million in the first half of 2011 to RMB117.0 million in the first half of 2012, mainly due to the decrease of sales volume from 151.7 million tea bags to 80.6 million tea bags. The turnover of Besunyen Slimming Tea decreased by 26.3%, from RMB266.8 million in the first half of 2011 to RMB196.6 million in the first half of 2012, mainly due to the decrease in sales volume from 249.8 million tea bags to 186.8 million tea bags.

Due to the challenging economic environment, there was a slow recovery in demand for the Group's products from distributors after the reduction of sales in the second half of 2011.

During the period under review, the average selling price ("ASP") of Besunyen Detox Tea and Besunyen Slimming Tea (turnover divided by sales volume) were RMB1.45 per bag and RMB1.05 per bag respectively (compared to RMB1.60 per bag and RMB1.07 per bag respectively in the first half of 2011). The "ASP" of Besunyen Detox Tea and Besunyen Slimming Tea decreased by 9.4% and 1.9% respectively. The decrease was mainly due to the increase in free products and special rebates given to distributors in order to encourage their payments by cash instead of bank acceptance notes.

Cost of Sales and Gross Profit

	For the six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage of turnover</i>	<i>RMB'000</i>	<i>Percentage of turnover</i>
Total	<u>45,619</u>	<u>14.0%</u>	<u>53,721</u>	<u>10.5%</u>
Gross profit	<u><u>279,538</u></u>	<u><u>86.0%</u></u>	<u><u>458,602</u></u>	<u><u>89.5%</u></u>

The cost of sales of the Group decreased by 15.1%, from RMB53.7 million in the first half of 2011 to RMB45.6 million for the same period of 2012. The cost of sales as a percentage of turnover increased from 10.5% in the first half of 2011 to 14.0% for the same period of 2012. It was attributable to the increase in market prices of the Group's major raw materials and packaging materials. In addition, the increase of Italian-made automated tea bag packaging machines caused more energy consumption and asset depreciation, driving the increase in manufacturing overhead costs. Besides, the average salary of factory labour increased resulting in a higher labour cost. All the above caused the increase in cost of sales as a percentage of turnover.

As a result of the decrease in turnover by 36.5% and decrease in cost of sales by 15.1% in the first half of 2012 compared to the same period of 2011, the gross profit of the Group decreased 39.0% from RMB458.6 million in the first half of 2011 to RMB279.5 million in the same period of 2012. The gross profit margin of the Group was down from 89.5% in the first half of 2011 to 86.0% for the same period of 2012.

Other Income

Other income for the first half of 2012 of RMB8.8 million (for the same period of 2011: RMB7.5 million) mainly comprised an interest income amounting to RMB4.3 million (for the same period of 2011: RMB7.3 million), and an exchange gain of RMB0.3 million (for the same period of 2011: an exchange loss of RMB4.6 million), a research and development service income of RMB354,000 (for the same period of 2011: RMB50,000), a government grant of RMB3.9 million (for the same period of 2011: RMB4.3 million) from the Chinese government to support the Group's operations and business in Fangshan District, Beijing.

Selling and Marketing Expenses

	For the six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage of turnover</i>	<i>RMB'000</i>	<i>Percentage of turnover</i>
Advertising expenses	232,399	71.5%	165,410	32.3%
Other marketing and promotional expenses	42,910	13.2%	34,255	6.7%
Staff costs	56,245	17.3%	48,853	9.5%
Others	23,555	7.2%	23,982	4.7%
Total	355,109	109.2%	272,500	53.2%

The selling and marketing expenses of the Group increased 30.3% from RMB272.5 million in the first half of 2011 to RMB355.1 million in the same period of 2012. Advertising expenses, other marketing and promotional expenses and staff costs increased by 40.5%, 25.3% and 15.1% respectively in the first half of 2012 as compared with the same period of 2011.

The increase in advertising expenses was mainly due to the increased spending on television and other commercials as well as brand sponsorship activities during the first half of 2012. The Group has sponsored a very popular match-making series "If You are the One"(非誠勿擾) on Jiangsu Satellite TV since January 2012. This was the largest single advertising sponsorship activity during the first half of 2012 and it has helped to achieve a higher recognition of "Besunyen" brand name across the country. The increase in other marketing and promotional expenses (including point-of-sale terminals expenses, promotional expenses and expenses in gifts, etc.) was mainly attributable to the increased sales activities in point-of-sale terminals conducted by the Group. The increase in staff costs in relation to selling and marketing of the Group was mainly attributable to the increase in general salary level. The total number of sales and marketing staff of the Group was 2,060 (including 644 promotion staff members employed through employment agencies) as of 30 June 2012.

As a result of the 36.5% decrease in turnover but 30.3% increase in total selling and marketing expenses in the first half of 2012 compared with the same period of 2011, the selling and marketing expenses as a percentage of turnover increased substantially from 53.2% in the first half of 2011 to 109.2% for the same period of 2012.

Administrative Expenses

	For the six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage of turnover</i>	<i>RMB'000</i>	<i>Percentage of turnover</i>
Staff costs	22,329	6.9%	26,830	5.3%
Office expenses	9,604	2.9%	9,105	1.8%
Professional fees	11,410	3.5%	2,059	0.4%
Travel and entertainment expenses	3,797	1.2%	3,675	0.7%
Others	6,179	1.9%	7,779	1.5%
Total	<u>53,319</u>	<u>16.4%</u>	<u>49,448</u>	<u>9.7%</u>

The administrative expenses of the Group increased 7.8% from RMB49.4 million in the first half of 2011 to RMB53.3 million in the same period of 2012. The administrative expenses as a percentage of turnover increased from 9.7% in the first half of 2011 to 16.4% for the same period of 2012 due to the 36.5% decrease in turnover. The staff costs in relation to administrative function decreased 16.8% from RMB26.8 million in the first half of 2011 to RMB22.3 million in the same period of 2012. This was mainly due to the non-cash employee share option expenses, which decreased from RMB9.8 million in the first half of 2011 to RMB3.4 million in the same period of 2012.

Research and Development Costs

	For the six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage of turnover</i>	<i>RMB'000</i>	<i>Percentage of turnover</i>
Research and development costs	<u>7,263</u>	<u>2.2%</u>	<u>6,571</u>	<u>1.3%</u>

The Group's research and development costs increased by 10.5% from RMB6.6 million in the first half of 2011 to RMB7.3 million in the same period of 2012 due to the Group's efforts in improving production quality and enhancing research and development capabilities.

Loss on Disposal of a Subsidiary

	For the six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage of turnover</i>	<i>RMB'000</i>	<i>Percentage of turnover</i>
Loss on disposal of a subsidiary	<u>6,700</u>	<u>2.1%</u>	<u>–</u>	<u>–</u>

In the first half of 2012, the Group entered into a sale agreement to dispose of its 100% equity interest in Zhuhai Qi Jia, after transfer of the intellectual properties of Maishuping from Zhuhai Qi Jia to the Group. The disposal was completed on 28 June 2012, on which date the Group lost control of Zhuhai Qi Jia. Total loss on disposal of Zhuhai Qi Jia recognised in the first half of 2012 was RMB6.7 million (for the same period of 2011: RMBNil).

Impairment Loss Recognised in Respect of Property, Plant and Equipment

	For the six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>Percentage of turnover</i>	<i>RMB'000</i>	<i>Percentage of turnover</i>
Impairment loss recognised in respect of property, plant and equipment	20,256	6.2%	–	–

The Group tests fixed assets annually for impairment or more frequently if there are indications that fixed assets might be impaired. During the first half of 2012, the Company recognised an impairment loss of RMB20.3 million (for the same period of 2011: RMBNil) in relation to the Italian-made automated tea bag packaging machines given that the recoverable amount was less than the carrying amount of these machines. The impairment was mainly caused by the decrease in the market price of these machines as well as the depreciation of the Euro.

Income Tax Expense

Taxation expenses of the Group decreased from RMB24.2 million in the first half of 2011 to RMB13.2 million in the same period of 2012. This was mainly due to the substantial decrease of taxable income in the first half of 2012 as compared to the same period in 2011.

(Loss) Profit and Total Comprehensive (Expenses) Income

Due to the aforementioned factors, the (loss) profit and total comprehensive (expenses) income of the Group declined from profit of RMB113.3 million in the first half of 2011 to loss of RMB167.6 million in the same period of 2012.

Use of the Net Proceeds from the IPO

The net proceeds from the IPO amounted to RMB1,033.2 million. The use of proceeds has been consistent with the disclosure in the Prospectus, and the respective use of the net proceeds until 30 June 2012 is as follows:

	Net Amount from IPO		
	Available	Used	Unused
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Acquisition of new production equipment and building new production facilities	364,913	148,760	216,153
Setup of the East China Headquarters Beijing new office building	150,000	77,518	72,482
Extension of sales and distribution network, channels and brand building	123,664	123,664	–
Design, R&D of new products	73,092	73,092	–
Improvement of ERP and overall IT system	146,185	41,000	105,185
Loan repayment	43,855	4,258	39,597
Working capital	73,000	73,000	–
	58,474	58,474	–
Total	1,033,183	599,766	433,417

Cash Flow and Capital Resources

During the first half of 2012, funds and capital expenditure required in the operation of the Group mainly came from cash flow generated from its internal operations as well as the proceeds from the IPO in 2010.

Cash Flow

The following table summarizes net cash flow of the Group for the six months ended 30 June as indicated:

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Net cash from operating activities	28,394	8,388
Net cash used in investing activities	(25,893)	(101,876)
Net cash used in financing activities	(97,297)	(14,466)
Decrease in cash and cash equivalents (before effect of foreign exchange rate changes)	(94,796)	(107,954)
Effect of foreign exchange rate changes	261	(4,615)
Decrease in cash and cash equivalents (after effect of foreign exchange rate changes)	<u>(94,535)</u>	<u>(112,569)</u>

In the first half of 2012, net cash generated from operating activities of the Group was RMB28.4 million (for the same period of 2011: RMB8.4 million), and net loss was RMB167.6 million. The difference was mainly caused by a decrease in trade receivables and notes receivables amounting to RMB219.8 million, and decrease in deposits, prepayments and other receivables amounting to RMB40.6 million, but offsetting by decrease in other payables and accrued expenses amounting to RMB107.3 million. Net cash used in investing activities of the Group was RMB25.9 million (for the same period of 2011: RMB101.9 million), and it was mainly due to purchases of production and other equipment as well as construction expenses for plants and properties. Net cash used in financing activities of the Group was RMB97.3 million (for the same period of 2011: RMB14.5 million). It was mainly due to the Company's repurchases of ordinary shares and the trustee of the restricted shares scheme's purchases of ordinary shares under the scheme.

Cash and Bank Loans

As at 30 June 2012, the bank balance and cash totalled RMB508.0 million (as at 31 December 2011: RMB602.5 million), representing a decrease of RMB94.5 million as compared to 31 December 2011. Over 83.4% of the bank balance and cash of the Group was in Renminbi. In addition, as of 30 June 2012, the Group did not have any bank borrowings (as of 31 December 2011: RMBNil) and any unused bank credit lines (as of 31 December 2011: RMBNil).

Capital Expenditure

In the first half of 2012, capital expenditure of the Group was RMB30.8 million (for the same period of 2011: RMB101.9 million).

The following table sets forth capital expenditure of the Group for the six months ended 30 June as indicated:

	For the six months ended 30 June	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Land-use rights	1,210	–
Property, plant and equipment	29,547	101,728
Intangible assets	42	218
	<hr/>	<hr/>
Total	30,799	101,946
	<hr/> <hr/>	<hr/> <hr/>

Investment properties

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

	As of	
	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Investment properties	242,752	–
	<hr/> <hr/>	<hr/> <hr/>

The Group owns certain office premises at Linglong Tiandi Center located in Haidian District, Beijing and Changcheng Building located in Shanghai. The Group will not fully use up all of the office space at these properties and has decided to lease the unused office space to independent third parties until the Group needs to take up the remaining office space as its operations expand in the future. The properties held for lease are classified as investment properties.

As at 30 June 2012, total investment properties amounted to RMB242.8 million (at 31 December 2011: RMBNil). These investment properties are measured using the cost model and depreciated on a straight-line basis over the shorter of the lease term or the estimated useful life of 30 years. As at 30 June 2012, the Group had estimated the fair value of the investment properties based on a valuation carried out by an independent valuer not connected with the Group and determined that the fair values were higher than the carrying values of these investment properties. As such, no impairment is considered required.

Inventories

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

	As of	
	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Raw materials and packaging materials	3,799	3,687
Work in progress	1,300	2,962
Finished goods	6,037	1,850
Total	<u>11,136</u>	<u>8,499</u>

The inventory turnover days of the Group in the first half of 2012 (calculated by dividing the average amount of inventory balances at the beginning and the end of the period by the cost of sales of the period, then multiplying the number of days during the period) was 39 days (For the year ended 31 December 2011: 25 days), the increase was mainly due to the increase in finished goods. The Group actively monitors its inventory level to ensure that the inventory volumes of raw materials, work in progress and finished goods remain at a rather low but sufficient level. Throughout the distribution and retail process, the Group monitors and evaluates the sales performance and product trends, so as to better estimate inventory requirements.

Trade and Notes Receivables

The Group generally requests distributors to pay before the delivery of products. For certain major distributors having a long-term cooperation relationship with the Group, the Group may allow more favourable payment and settlement terms. For example, if these distributors provide an effective proof of payment, such as acceptance bills issued by a reliable bank. Although such acceptance bills are listed as notes receivables before its maturity date or before the Group has transferred them to a third party, the Group deems such acceptance bills as low risk and regards the payment as settled, the Group would deliver the products. The Group usually provides a credit period of 60 days or a maximum of six months to a limited number of distributors. These are mainly reliable and reputable distributors providing wholesale services to supermarkets and convenience store chains (general industry practice allows credit sales). For distributors not enjoying a credit period in the sales contract, they may apply for credit on an individual basis, and the Group would grant approval on a case by case basis considering marketing development needs, payment capabilities of the distributors and their past payment records.

The following table sets forth the Group's trade and notes receivables analysis as of the dates indicated:

	As of	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade receivables	24,226	19,176
Notes receivables ⁽¹⁾	54,924	282,963
Less: allowance for doubtful debts	<u>(206)</u>	<u>(111)</u>
Total	<u>78,944</u>	<u>302,028</u>

(1) As at 30 June 2012, the Group received advance payments from distributors amounting to RMB12.4 million (as at 31 December 2011: RMB94.3 million), in the form of acceptance bills and therefore included in the balance of notes receivables.

The following table sets forth the turnover days analysis of trade and notes receivables of the Group during the periods indicated(calculated by dividing the average amount of balances at the beginning and the end of the period by the turnover of the period, then multiplying the number of days during the period):

	For the six months ended 30 June 2012 days	For the year ended 31 December 2011 days
Trade and notes receivables turnover days ⁽¹⁾	76	78
of which, trade receivables turnover days	<u>12</u>	<u>33</u>

(1) Since the advance payment from distributors amounting to RMB12.4 million and RMB94.3 million in the form of notes receivables as of 30 June 2012 and 31 December 2011 will be recognised as turnover only when the products are made and shipped to the distributors, the amounts were deducted from the balances of notes receivables in calculation of the turnover days.

Trade and notes receivables turnover days of the Group remained fairly stable at the level of 76 days in the first half of 2012 as compared with 78 days for the year ended 31 December 2011. Since 2012, the Group encourages more cash settlements and only accepts payments from its distributors in the form of bank acceptance bills issued by reliable banks, which resulted in the amount of notes receivables of the Group decreasing by RMB228.0 million from RMB282.9 million as of 31 December 2011 to RMB54.9 million as of 30 June 2012. In the meantime, the Group adopted a more prudent credit policy and the trade receivables turnover days decreased from 33 days for the year ended 31 December 2011 to 12 days for the first half of 2012.

The following table summarizes the aging of the Group's trade and notes receivables as of the dates indicated:

	As of	
	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
0-90 days	75,180	300,115
91-180 days	3,556	1,597
181-365 days	208	316
	<hr/>	<hr/>
Total	78,944	302,028
	<hr/> <hr/>	<hr/> <hr/>

Included in the Group's trade and notes receivables are debtors with an aggregate carrying amount of approximately RMB208,000 (2011: RMB316,000) which are over 180 days as of 30 June 2012, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances. The Group anticipates a full collection of these amounts, and therefore no impairment has been recorded against these receivables.

Trade Payables

The Group's trade payables mainly comprise payables to the suppliers of raw materials and packaging materials. Based on the long-term relationships with major suppliers of the Group, the Group generally enjoys favourable credit terms of up to 90 days.

The following table sets forth the Group's trade payables as of the dates indicated:

	As of	
	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Trade payables	4,476	7,248
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

The following table sets forth the turnover days of trade payables of the Group during the periods indicated (calculated by dividing the average amount of the trade payables balance at the beginning and end of the period by the cost of sales of the period, then multiplying the number of days during the period):

	For the six months ended	For the year ended
	30 June 2012 <i>days</i>	31 December 2011 <i>days</i>
Trade payables turnover days	23	26
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

The following table summarizes the aging of the Group's trade payables as of the dates indicated:

	As of	
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
0-90 days	4,360	6,924
91-180 days	116	324
	<hr/>	<hr/>
Total	4,476	7,248
	<hr/> <hr/>	<hr/> <hr/>

Risks in Foreign Exchange

The majority of sales income, costs and expenses of sales, as well as administrative expenses of the Group are calculated in Renminbi. Apart from some bank deposits that are held in Hong Kong dollar and US dollar, most assets and liabilities of the Group are valued in Renminbi. Since Renminbi is the functional currency of the Group, risks in foreign exchange mainly come from assets valued in Hong Kong dollar and US dollar.

For the six months ended 30 June 2012, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools (for the same period of 2011: RMBNil).

Pledge of Assets

As of 30 June 2012, the Group had no pledge of assets (31 December 2011: RMBNil).

Contingent Liabilities and Guarantees

As of 30 June 2012, the Group had no material contingent liabilities or guarantees (31 December 2011: RMBNil).

Off-Balance Sheet Commitments and Arrangements

As of 30 June 2012, the Group had no off-balance sheet commitments or arrangements (31 December 2011: RMBNil).

Capital Commitment

As of 30 June 2012, the Group had a total capital commitment of RMB48.6 million (31 December 2011: RMB67.8 million), mainly used in building new manufacturing facilities, acquiring manufacturing and other equipment.

Human Resources Management

The Group regards high quality employees as the most important resources. The Group has recently recruited the chief operating officer, Mr. Liu Jie, who has 18 years of experience in sales, marketing and corporate management and worked as senior management for several multi-national companies in China. As at 30 June 2012, the Group had 2,604 employees in mainland China and Hong Kong (including 644 promotional staff members employed by employment agencies) (as of 31 December 2011: 3,153 employees (including 826 promotional staff members employed by employment agencies)). For the six months ended 30 June 2012, the total labour cost (including Directors' remunerations and non-cash share-based compensation) was approximately RMB85.4 million (for the same period of 2011: RMB79.8 million). Staff remuneration is formulated with reference to individual performance, working experience, qualifications and current industry practice. Apart from basic salary and statutory pension welfare, staff welfare also includes discretionary bonus and stock 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 based on the pre-IPO share option scheme adopted by the Company. The employee's share options scheme aims at giving staff members an incentive, to encourage them to work hard to enhance value and foster better long-term development of the Group. In November 2011, the Company also adopted a restricted share award scheme to grant restricted shares to eligible employees.

The Group invests sufficient efforts into continuous education and training for its staff members, so as to keep enhancing staff knowledge and skills, and to promote the spirit of teamwork. The Group often provides internal and external training courses to relevant staff members based on various needs.

Prospects

In view of the slow recovery in demand from our distributors in the first half of 2012 after the reduction in such demand in the second half of 2011, and given the continuing decline in China's economic growth, we remain cautious about the sales performance of the Group in the second half of 2012. To maintain the long-term competitive advantages of the Group, we will continue to invest in our sales channels, brand building as well as research and development of new products according to our own pace despite the short-term volatility on sales. We foresee that the Group will continue to suffer a net loss in the second half of 2012, which will result in a substantial net loss for the whole year of 2012.

We believe that the long-term trend of rapid urbanization and increasing disposable income in China remains unchanged, therefore, it will create consumer demand for health and healthy lifestyle products and give rises to promising long-term market potential for detox and slimming as well as other new products of the Group. The Group will keep its effort on selling, producing and developing products that combine the modern way of tea brewing in teabags with the self-cure functionality of traditional Chinese herbs. We believe that our strong national brand recognition, and well established nationwide distribution and sales network, coupled with our knowledge of the strict regulatory requirements for health food products, will put us in a unique position for us to compete with our competitors. Our vision is to build the Besunyen brand as a Chinese household brand, promote its function in curing ailments of our customers and instil the enjoyment of a green lifestyle among them.

CORPORATE GOVERNANCE

The Code on Corporate Governance Practices (the “Former CG Code”) as set out in Appendix 14 of the Listing Rules was amended and renamed as the Corporate Governance Code (the “New CG Code”) on 1 April 2012.

The Company has applied the principles and complied with the code provisions of the Former CG Code during the period from 1 January 2012 to 31 March 2012 and the New CG Code during the period from 1 April 2012 to 30 June 2012, except with the following deviations:

Code Provision A.2.1 of both the Former CG Code and the New 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 22 years of experience in China’s food and beverage industry. 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.

Code Provision A.4.1 of both the Former CG Code and the New CG Code

Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Wong Lap Tat Arthur and Ms. Xin Katherine Rong, independent non-executive Directors, are appointed for a term of 3 years. Mr. Zhuo Fumin, Mr. Wang Bing (the then non-executive Director) and Mr. Huang Jingsheng are not appointed for a specific term during the period from 1 January 2012 to 15 March 2012. However, all Directors (including executive and non-executive) of the Company are subject to retirement by rotation at least once every three years at the annual general meeting in accordance with article 16.18 of the articles of association of the Company. The Board believes that this retirement by rotation requirement serves the same purpose as that of code provision A.4.1. Nevertheless, to promote good corporate governance practice, the Company entered into an appointment letter with each of Mr. Zhuo, Mr. Wang and Mr. Huang for a term of 3 years on 16 March 2012.

Code Provision A.6.7 of the New CG Code

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Zhuo Fumin, Mr. Wang Bing (the then non-executive Director), Mr. Huang Jingsheng and Ms. Xin Katherine Rong, did not attend the annual general meeting (the “2012 AGM”) of the Company held on 11 May 2012 due to their other commitments. However, the Board believes that the presence of Mr. Zhao Yihong, Ms. Gao Yan and Mr. Wong Lap Tat Arthur (an independent non-executive Director) at the 2012 AGM allowed the Board to develop a balanced understanding of the views of shareholders.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive Directors, namely Mr. Wong Lap Tat Arthur, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Huang Jingsheng and Ms. Xin Katherine Rong. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal controls and financial reporting matters including the review of the unaudited consolidated interim results of the Group for the six months ended 30 June 2012.

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

During the six months ended 30 June 2012, the trust set up for the restricted share award scheme of the Company purchased 61,000,000 Shares in a total net consideration of HK\$48,291,000 for the restricted share award scheme.

During the six months ended 30 June 2012, the Company made the following repurchase of Shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”):

Month	Number of Shares repurchased	Price per Share		Aggregate consideration HK\$’000
		Highest HK\$	Lowest HK\$	
March 2012	10,312,000	0.74	0.68	7,341
April 2012	34,570,000	0.74	0.64	23,733
May 2012	15,806,000	0.69	0.57	10,118
June 2012	39,795,000	0.84	0.67	30,193
Total	<u>100,483,000</u>			<u>71,385</u>

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as its own securities dealing code for the Directors. Having made specific inquiries of all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code during the six months ended 30 June 2012.

DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2012.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been reviewed by Deloitte Touche Tohmatsu, the auditor of the Company, and the Audit Committee.

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 interim report of the Company for the six months ended 30 June 2012 will be dispatched to 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, 17 August 2012

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. Huang Jingsheng, Mr. Wong Lap Tat Arthur and Ms. Xin Katherine Rong.