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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 2016

THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2016 was RMB324.5 million, representing a decrease of 6.7% as compared with the revenue of RMB347.9 million for the same period in 2015.

Gross profit of the Group amounted to RMB274.1 million for the first half of 2016, representing a decrease of 9.1% from RMB301.5 million for the same period of 2015. The gross profit margin of the Group was 84.5% for the first half of 2016, representing a decrease of 2.2 percentage points from 86.7% for the same period of 2015.

Total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2016 were RMB277.9 million, representing an increase of 5.4% as compared with the operating expenses of RMB263.6 million for the same period of 2015.

The Group recorded a net profit attributable to owners of the Company of RMB3.7 million for the first half of 2016, representing a decrease of 90.6% from a net profit attributable to owners of the Company of RMB39.3 million for the same period of 2015.

The basic and diluted earnings per share for the first half of 2016 were both RMB0.24 cents (for the same period of 2015: both the basic and diluted earnings per share were RMB2.57 cents).

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016.

The board (the “**Board**”) of directors (the “**Directors**”) of Besunyen Holdings Company Limited (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2016, as below:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	324,540	347,883
Cost of sales		(50,454)	(46,387)
Gross profit		274,086	301,496
Other income		18,609	18,265
Selling and marketing expenses		(234,057)	(208,505)
Administrative expenses		(38,898)	(52,951)
Research and development costs		(4,979)	(2,175)
Other expenses		(5,236)	(6,907)
Other losses, net		(327)	(1,059)
Share of losses of joint ventures		(298)	—
Profit before income tax		8,900	48,164
Income tax expense	5	(10,618)	(8,363)
(Loss)/profit for the period		(1,718)	39,801
(Loss)/profit attributable to:			
— Owners of the Company		3,682	39,292
— Non-controlling interests		(5,400)	509
		(1,718)	39,801
Other comprehensive income		—	—
Total comprehensive (loss)/income for the period		(1,718)	39,801
Total comprehensive (loss)/income attributable to:			
— Owners of the Company		3,682	39,292
— Non-controlling interests		(5,400)	509
		(1,718)	39,801
Earnings per share attributable to owners of the Company (<i>RMB cents</i>)			
— Basic earnings per share	6	0.24	2.57
— Diluted earnings per share	6	0.24	2.57

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2016 <i>RMB'000</i>	Audited 31 December 2015 <i>RMB'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		382,715	389,052
Land use rights		368,858	377,100
Investment properties		56,663	57,694
Intangible assets		8,934	9,608
Non-current deposits		6,902	6,755
Investments accounted for using the equity method	8	55,382	—
Deferred income tax assets		33,274	38,723
		<u>912,728</u>	<u>878,932</u>
Current assets			
Inventories		18,710	6,188
Trade and bills receivables	9	33,272	17,404
Deposits, prepayments and other receivables		40,587	32,905
Short-term investments	10	30,000	—
Restricted bank deposits		14,472	—
Term deposits with initial term of over three months		—	50,000
Cash and cash equivalents		225,708	425,858
		<u>362,749</u>	<u>532,355</u>
Total assets		<u><u>1,275,477</u></u>	<u><u>1,411,287</u></u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		84	89
Share premium		1,085,251	1,229,764
Other reserves		327,230	326,773
Accumulated losses		(313,169)	(316,851)
		<u>1,099,396</u>	<u>1,239,775</u>
Non-controlling interests		<u>560</u>	<u>5,960</u>
Total equity		<u><u>1,099,956</u></u>	<u><u>1,245,735</u></u>

		Unaudited	Audited
		30 June	31 December
		2016	2015
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Deferred government grants		5,932	6,325
Deferred income tax liabilities		8,124	8,429
Other non-current liabilities		1,698	1,698
		<u>15,754</u>	<u>16,452</u>
Current liabilities			
Trade and bills payables	11	24,360	7,577
Other payables and accrued expenses		128,773	135,110
Current income tax liabilities		6,634	6,413
		<u>159,767</u>	<u>149,100</u>
Total liabilities		<u>175,521</u>	<u>165,552</u>
Total equity and liabilities		<u>1,275,477</u>	<u>1,411,287</u>

NOTES:

1. GENERAL INFORMATION

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

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

This interim condensed consolidated financial information is presented in Renminbi (“RMB”), unless otherwise stated.

This interim condensed consolidated financial information for the six months ended 30 June 2016 (the “current period”) has been reviewed, not audited.

This unaudited interim condensed consolidated financial information was approved for issue by the board of directors of the Company on 19 August 2016.

2. KEY EVENTS

- (i) The operational highlight of the period was the investments in joint ventures. Further details are given in Note 8(b).
- (ii) During the six months ended 30 June 2016, the Group has been actively communicated with the China Food and Drug Administration (“CFDA”) in respect of the guidelines for the detailed implementation of the Notice on Related Matters to Further Regulation on Assigning Names to Healthcare Food (2015 No.168) (the “Notice 168”) and the Notice on Related Matters on Assigning Names to Healthcare Food (2016 No. 43) (collectively the “Notices”) as issued by CFDA. Pursuant to the Notices, the existing registered name of the Group’s major products, the slimming tea products, should be changed to another name which will not include any description of their underlying function within the registered name (the “revised registered name”).

The Group’s first submission of the revised registered name of the slimming tea products (the “First Submission”) has not been approved by CFDA by the end of April 2016. Accordingly, the Group temporarily suspended the production of the slimming tea products with the existing registered name with effective from 1 May 2016 pursuant to the Notices and the production can be resumed once the revised registered name has been approved by CFDA. By taking the CFDA’s advices on the interpretations of the Notices, the Group has re-submitted the revised registered name of the slimming tea products to CFDA on 7 July 2016 (the “Re-submission”) for the approval. By reference to the prevailing rules and provisions governing the registrations of healthcare food as issued by CFDA, management expects that the Re-submission should be approved by CFDA in November 2016 and the Group’s production of the slimming tea products will then be resumed accordingly.

Management considered that the First Submission has not been approved by CFDA in April 2016 and also the consequential temporary suspension in the production of the Group’s slimming tea products constitute triggering events for reassessing the recoverable amounts of the Group’s production plant and facilities (the “Key Operating Assets”) of the cash-generating unit for the manufacturing and sales of the Group’s therapeutic tea products (the “Tea Product CGU”). Therefore, management has performed an impairment assessment to assess the recoverable amounts of the key operating assets of the Tea Product CGU as at 30 June 2016. Based on the result of impairment assessment as conducted by management in the current period, the Directors of the Company concluded that no provision for impairment on the key operating assets of the Tea Product CGU has to be recognised as of 30 June 2016.

3. BASIS OF PREPARATION AND PRESENTATION

This interim condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The amendments to IFRSs and annual improvements (2014 cycle) which are effective for the financial year beginning on or after 1 January 2016 do not have any material impact on the Group.

The Group has not early adopted the new standards and amendments to IFRS that have been issued and not yet effective for the year ending 31 December 2016 in this interim condensed consolidated financial information, but has already commenced an assessment of the related impact to the Group. The Group is not yet in a position to state whether any substantial changes to the Group’s significant accounting policies and presentation of the financial information will be resulted.

4. 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 Group had two reportable segments namely, the tea products segment and the slimming medicine segment for six months ended 30 June 2016 and certain segment information for the six months ended 30 June 2015 has been extended to conform with the current period’s presentation.

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.

The segment results for the six months ended 30 June 2016 are as follows:

	Tea products segment RMB'000	Slimming medicine segment RMB'000	Total RMB'000
Total revenue	252,040	72,500	324,540
Inter-segment revenue	—	—	—
Revenue from external customers	252,040	72,500	324,540
Cost of sales	(35,532)	(14,922)	(50,454)
Gross profit	216,508	57,578	274,086
Selling and marketing expenses	(164,745)	(69,312)	(234,057)
Research and development costs	(4,979)	—	(4,979)
Segment results	46,784	(11,734)	35,050
Other income			18,609
Other losses, net			(327)
Administrative expenses			(38,898)
Other expenses			(5,236)
Share of losses of joint ventures			(298)
Profit before income tax			8,900
Income tax expense			(10,618)
Loss for the period			(1,718)
Other segment information:			
Depreciation	17,654	18	17,672
Amortisation	4,876	408	5,284

The segment results for six months ended 30 June 2015 are as follows:

	Tea products segment RMB'000	Slimming medicine segment RMB'000	Total RMB'000
Total revenue	327,327	20,556	347,883
Inter-segment revenue	—	—	—
Revenue from external customers	327,327	20,556	347,883
Cost of sales	(42,685)	(3,702)	(46,387)
Gross profit	284,642	16,854	301,496
Selling and marketing expenses	(194,174)	(14,331)	(208,505)
Research and development costs	(2,175)	—	(2,175)
Segment results	88,293	2,523	90,816
Other income			18,265
Other losses, net			(1,059)
Administrative expenses			(52,951)
Other expenses			(6,907)
Profit before income tax			48,164
Income tax expense			(8,363)
Profit for the period			39,801
Other segment information*:			
Depreciation	17,184	—	17,184
Amortisation	5,419	3	5,422

* The other segment information has been adjusted as a result of the prior year reclassification as mentioned in Note 41(b) to the Group's annual financial statements for the year ended 31 December 2015.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax	6,634	8,158
— Over provision of PRC corporate income tax in the prior year	(1,160)	(3,849)
	5,474	4,309
Deferred income tax charge	5,144	4,054
	10,618	8,363

The effective tax rate for the six months ended 30 June 2016 is approximately 119% (2015: 17%). The higher effective tax rate for the current period was primarily attributable to the significant increase in non-deductible expenditure items during the current period.

6. EARNINGS PER SHARE

(a) Basic

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

	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (<i>in RMB’000</i>)	3,682	39,292
Weighted average number of ordinary shares in issue	<u>1,523,389,319</u>	<u>1,531,454,253</u>
Basic EPS (<i>RMB cent per share</i>)	<u>0.24</u>	<u>2.57</u>

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the EPS. Diluted EPS 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 and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS). The share options had anti-diluted effect to the Group for the six months ended 30 June 2016 and 2015. No unvested restricted shares would result in dilutive effect to the Group as at 30 June 2016 (2015: 80,495 shares). No adjustment is made to earnings (numerator).

	Six months ended 30 June	
	2016	2015
Profit attributable to owners of the Company (<i>in RMB’000</i>)	3,682	39,292
Weighted average number of ordinary shares in issue	1,523,389,319	1,531,454,253
Diluted equivalent shares arising from restricted shares	—	80,495
	<u>1,523,389,319</u>	<u>1,531,534,748</u>
Diluted EPS (<i>RMB cent per share</i>)	<u>0.24</u>	<u>2.57</u>

7. DIVIDENDS

(a) Dividends attributable to the current period

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016 (2015: HK1.25 cent per share (HK\$19,618,000 in aggregate, equivalent to approximately RMB15,483,000)).

(b) Dividends attributable to the previous financial year, approved and paid during the current period

	Six months ended 30 June	
	2016	2015
	<i>RMB’000</i>	<i>RMB’000</i>
Ordinary final dividend in respect of the previous financial year, approved and paid during the current period, of HK\$0.05 (equivalent to approximately RMB0.04) (2015: HK\$0.02 (equivalent to approximately RMB0.016)) per share	<u>64,378</u>	<u>24,180</u>
Special dividend in respect of the previous financial year, approved and paid during the current period, of HK\$0.05 (equivalent to approximately RMB0.04) (2015: Nil) per share	<u>63,591</u>	<u>—</u>

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Associate (a)	—	—
Joint ventures (b)	55,382	—
	<u>55,382</u>	<u>—</u>

(a) Investment in an associate

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

The principal business of Yunzhi Besunyen includes: the sales of pharmaceutical, medical equipment, cosmetics, pre-packed food, dairy products, imports and exports of technology and goods, and storage and freight services.

The Group has committed to contribute capital of RMB24,500,000 to Yunzhi Besunyen in accordance with the investment agreement and as at 30 June 2016, the Group has not yet contribute any capital to Yunzhi Besunyen.

(b) Investments in joint ventures

On 29 March 2016, Beijing Besunyen Pharmaceutical Co., Ltd. (“Besunyen Pharmaceutical”), a wholly owned subsidiary of the Group, Mr. Bai Jiguang (the “Co-Partner”) and Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. (the “Fund Management Company”) have entered into a limited partnership agreement, pursuant to which the involved parties agreed to establish Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the “Fund”) in the PRC. The Fund has a total capital commitment of RMB100,000,000 and owned as to 89%, 10% and 1% by Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company, respectively and the Fund Management Company is jointly owned by Besunyen Pharmaceutical and the Co-Partner.

The principal business of the Fund is investment in portfolio companies with 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 parties.

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

	Fund Management Company <i>RMB'000</i>	Fund <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1 January 2016	—	—	—
Capital contribution	500	55,180	55,680
Share of losses for the period	(210)	(88)	(298)
Balance as at 30 June 2016	<u>290</u>	<u>55,092</u>	<u>55,382</u>

9. TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Trade receivables	12,917	5,881
Bills receivables	20,646	11,724
	33,563	17,605
Less: allowance for doubtful debts	(291)	(201)
	33,272	17,404

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 related goods to the customers, which are approximate to their invoice dates:

	As at	
	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
0 to 90 days	29,282	10,865
91 to 180 days	3,920	6,482
181 to 365 days	64	29
Over 365 days	6	28
	33,272	17,404

10. SHORT-TERM INVESTMENTS

	As at	
	30 June	31 December
	2016	2015
	RMB'000	RMB'000

Investments in wealth management products	<u>30,000</u>	<u>—</u>
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The short-term investments represent the Group's investments in wealth management products as issued by banks and are classified as available-for-sale financial assets. These wealth management products are with variable return rates indexed to the performance of certain underlying assets and are maturing within one year. As at 30 June 2016, the carrying amounts of these investments approximated to their fair values.

11. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables based on invoice date were as follows:

	As at	
	30 June	31 December
	2016	2015
	RMB'000	RMB'000

0 to 90 days	24,233	7,447
91 to 180 days	127	130
181 to 365 days	—	—
	<u>24,360</u>	<u>7,577</u>

The unaudited interim condensed consolidated statement of comprehensive income, the unaudited interim condensed consolidated balance sheet of the Group and its explanatory notes 1 to 11 as presented above are extracted from the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2016, which has been reviewed by the auditor of the Company, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Risk Relating to Change of Product Name of Besunyen Slimming Tea

Article 3 of the Notice 168 for the Year 2015 issued by China Food and Drug Administration (the “CFDA”) stipulates that “effective from 1 May 2016, no healthcare food with description of its underlying function within its name shall be produced, and the products already produced prior to the date may be sold until the expiry of their shelf life.” As Besunyen Slimming Tea contains description of its underlying function within its name, the Group has ceased the production of Besunyen Slimming Tea since 1 May 2016 in accordance with the requirements of such notice, and the products already produced prior to the date may be sold until the expiry of their shelf life. In addition, the Group has submitted the application for change of product name for Besunyen Slimming Tea to the CFDA on 30 December 2015 and onwards, but no approval for the new name has been granted so far. In order to smooth the name change process, the Group has commenced systematic work on the change of product name of Besunyen Slimming Tea to ensure seamless transition in re-naming, package design, information notification, market introduction and other process so as to mitigate challenges arising from the change of product name. Due to the impact of the name change of slimming tea products on the sales of the Two Teas, the Group issued a profit warning to inform shareholders and investors of potential risks on 27 May 2016. Management expects that the re-naming submission should be approved by CFDA in November 2016, and the Group’s production of the slimming tea product will then be resumed accordingly. The Group will also continue to follow up the progress of the name change of Besunyen Slimming Tea, and will publish the information on important progress to inform our investors in a timely manner.

Holding “Strategic Cooperation Meetings between Besunyen and Terminals” to Get Closer to Customers and Encourage Terminals’ Marketing Efforts

In order to establish and maintain a good cooperation relationship with terminal pharmacies and keep an orderly market, hundreds of “Strategic Cooperation Meetings between Besunyen and Terminals” were held with employees, managers, owners, salespeople, billing clerks, deliverymen and procurement managers of pharmacy chains and local independent pharmacies in all major sales areas across China in the first half of 2016. Leveraging these strategic cooperation meetings as a platform, interactive activities were held by the Group with terminal pharmacies to deliver the contents of Besunyen’s corporate culture, product knowledge, sales skills, brand promotion, resources matching and etc., which have provided terminal pharmacies with stronger incentives to sell Besunyen products, enabled rapid growth of sales of Besunyen products in terminal pharmacies in these areas, and created the chance of improving sales performance for Besunyen products while the general market demand for healthcare food slowed. As at the end of June 2016, a total of over 400 strategic cooperation meetings were held across China by the Group, which has consolidated the brand images of the Two Teas and the LARLLY Orlistat among channels and terminals, these meetings have been well received by both pharmacy chains and independent pharmacies, and laying solid foundation for the promotion of the products of the Group among terminals.

Adopting Advertising Packages to Give Full Play to Brand Advertising Effectiveness

As for the advertising placement strategy for the year 2016, the Group adopted two basic principles, being function-centric product advertisement and precise advertising. In addition, taking into account that customers have steady demand for Besunyen Detox Tea and the fact that Besunyen Slimming Tea is under the process of changing name, the Group's advertising placement for the Two Teas in the first half of 2016 mainly focused on Besunyen Detox Tea while expanding and improving Besunyen's brand reputation.

Besunyen Detox Tea Advertisement

According to interviews with customers, previous advertising slogans of Besunyen Detox Tea, being "Clearing stool, reducing internal heat and moistening intestines" ("清宿便、降火氣、潤腸道") and "Give your intestines a wash!" ("快給你的腸子洗洗澡吧!") are still fresh in their memory. Such slogans' idea of emphasizing functions are continued to be used in this year, with changes in advertising form, in order to remind previous consumers, attract new consumers and retain loyal consumers so that the established advertising effectiveness can be maintained. In the first half of 2016, the Group was the title sponsor of the medical science programme "I'm a Great Doctor" ("我是大醫生") on Beijing Satellite TV so as to attain a rational and high-end consumer base. Such programme obtained a rating point as high as 1.2% when broadcasted in provincial network, maintaining its No.1 position among programmes during the same time slot across China, which has created remarkable advertising results to attract to repeat customers. The advertising methods for Besunyen Detox Tea included national coverage of satellites TVs, placement in specific local TVs and videos on public transport vehicles, formed a multi-dimensional and intertwining advertisement dissemination model with wide coverage, precise placement and deep communication.

Besunyen Slimming Tea Advertisement

The Group caters to young females' preference in health, the advertisement of Besunyen Slimming Tea takes herbs as an interest point and promotes the accompany of rational diets and healthy sports, advocates a healthy slimming lifestyle and is equipped with a lively and fashionable tone. The advertising slogan of Besunyen Slimming Tea is "Herbs are your good slimming partner" ("減肥好夥伴，草本嘍"). The Group was the title sponsor of "Customised Good Shape" ("定制好身材"), a slimming reality show programme of Southeast Satellite TV in Fujian Province and the "Lip Sync Battle" ("對口型大作戰"), season 1, of Shenzhen Satellite TV. Customized to target young female audience, the "Lip Sync Battle" has been viewed over 200 million times on the internet. In addition to entertainment marketing, a guidance of healthy weight loss and slimming has also been introduced to consumers. It is recommended to accompany with reasonable exercise methods to meet the consumers' expectations for future beautiful life.

LARLLY Orlistat Advertisement

Due to its strong function and obvious effect, advertisement of the LARLLY Orlistat seeks to directly focus on its product function of "oil removal" as the major promotional idea, and its advertising slogan is "One capsule of LARLLY with meal to remove oil and lose weight" ("來利，排油減肥，隨餐一粒").

Distribution of Millions of Free Tea Bags of Besunyen Detox Tea to Build the New Generation of User Base

Through distribution of free tea bags of Besunyen Detox Tea, which is safe with obvious effect, to potential customers, the Group strives to develop new customers and expand the user base of Besunyen Detox Tea, with the ultimate goal of increasing sales in terminal pharmacies. Our sales staff across China distributed free tea bags of Besunyen Detox Tea to potential customers in the places and at the time designated in the Group's distribution proposal precisely, and conducted various promotional activities with the aid of terminal pharmacies in order to draw consumers to purchase Besunyen Detox Tea at nearby pharmacies. As shown in the sales data of terminal pharmacies in the relevant areas monitored in the first half of 2016, there had been significant increases in the sales volume of Besunyen Detox Tea in terminal pharmacies in such areas.

Integrating High-quality E-commerce Resources to Directly Approach Consumers and Increase Sales Volume

Through focusing on the development of e-commerce flagship store and conducting membership marketing, WeChat marketing and etc., the Group's e-commerce business for the Two Teas achieved distinguished sales performance in the first half of 2016, with revenue increased by approximately 88% as compared to the corresponding period of 2015.

Exploring customers' consumption preferences to improve repeat purchase ratio and provide precise data support to online channels

- Through Besunyen's WeChat official account "I Want Good Shape" ("我要好身材"), we have successfully connected to Aiagain WeChat CRM tool, a connection has been established between the Tmall flagship store and the WeChat official account, which enables WeChat subscribers to have direct access to all the online retail channels of Besunyen and place orders, check information on logistics and collect points through the WeChat platform. This has saved onerous procedures for redirecting among various platforms, brought convenience to customers and improved users' loyalty and repeat purchase ratio.
- The first large-scale fans activity of flagship store was held with the theme of "Accompany is the best confession" ("陪伴是最長情的告白"). With thousands of fans' participation, it was Besunyen's first showcase interaction with fans on the Tmall platform in cooperation with Alibaba.
- Building model market and data model for duplication to other platforms.

Integrating high-quality resources to expand into Big Health industries

- The Group has in-depth cooperation with influential online platforms such as Tencent, Baihe.com and LeEco to increase brand and product exposure and coverage of new users. With a total of 23 cooperation platforms and page view of approximately 20 million times in the first half of 2016, the number of new customers significantly increased, and an in-depth model of cooperation with online media was established.
- The Group established a new joint marketing system with several famous traditional brands to share brand reputation and high-quality users. During the first half of 2016, the Group had a total of more than 20 cooperation brands and page view of approximately 20 million times, the number of new customers significantly increased, thereby an in-depth model of crossover cooperation with traditional brands was established.

Strengthening membership marketing, focusing on repeat purchase and guiding word-of-mouth communication based on users' purchasing experience

- A comprehensive service model incorporating visual experience, product, price, promotion, logistics and aftersales services etc. based on end consumers services was established to improve the quality of membership services and customer satisfaction.

Developing New Products under the Guiding Principles of the “One Focus and Two Dimensions” Development Strategy

Leveraging the market advantages of Besunyen Slimming Tea and LARLLY Orlistat, the Group developed a meal replacement milkshake in the weight loss and control market to expand its weight management product mix. Through elaborate research and development, Besunyen’s new product — meal replacement milkshake with each box containing 7 bags, was officially launched via e-commerce channels on 28 June 2016.

According to public market information, meal replacement products account for more than 60% of the global weight loss and control market. Meal replacement products, currently have a market size of over RMB6 billion in China, are preferred by young consumers among the slimming and body-shaping products.

To consolidate the Group’s laxative product mix, the Group plans to launch a new probiotic solid drink product in the near future, together with several new tea bag products with health care function.

Forming Alliance with Yunnan Phytopharmaceutical to Advance New Business Development Progress

Following the signing of a strategic cooperation agreement by the Group with Yunnan Phytopharmaceutical Co., Ltd. at the end of 2015 in respect of the cooperation project, Yunzhi Besunyen Pharmaceutical Sales Co., Ltd. (“**Yunzhi Besunyen**”) was established on 9 May 2016, and the first instalment of investment has been contributed thereto in July 2016. The cooperation project achieved smooth progress. It is expected that the Yunzhi Besunyen will conduct full-scale marketing activities, promote the launch of products and stimulate the new business development progress under control in the second half of 2016.

COLLECTING QUANTITATIVE MARKET INFORMATION TO SUPPORT PRECISE MARKETING DECISION-MAKING

The basic principle of management of the Group is “only what is measurable can be managed and only what can be managed is able to be improved.” The Group established the Supervising Department last year to collect quantitative market information in a timely and precise manner. In the first half of 2016, the Supervising Department collected information on a monthly basis from 3,500 sample pharmacies in 109 prefecture-level cities across China. Through collection, sorting and analysis of market information on a monthly basis, the Supervising Department has concluded quantitative analysis information of the ageing, terminal inventory, price, market penetration ratio, shelf share ratio and competitive products of the Two Teas and LARLLY Orlistat, in order to provide the management with accurate market information in a timely manner as the basis for marketing decision-making.

Holding the Third PRC Functional Tea Bag Industry Seminar for 2016

On 11 March 2016, the Third PRC Functional Tea Bag Industry Seminar for 2016 was held by the Group at its garden-like plant located in Doudian, Fangshan, Beijing, which was sponsored by The Research Center for Development & Regulation of Food and Drug Industry, Chinese Academy of Social Sciences (中國社會科學院食品藥品產業發展與監管研究中心) with support from the China Health Care Association (中國保健協會). At the seminar there were in-depth discussions about the development trend of functionalization of the PRC tea bag industry. As pointed out by attending guests, the corporate development process of Besunyen is representative of that of the PRC functional tea bag industry. Tea bags have brought people convenient life. As a leading tea bag enterprise, the Group announced at the seminar that it will continue its research and development of functional tea bags and launch more products catering to the needs of different consumers.

Cooperation with the Academy Award for Eight Years and Obtaining Title Sponsorship of the “Besunyen Cup” Public Service Advertising Contest for Five Sessions

The Group was the title sponsor of the fourteenth Chinese University Students Advertisement and Art Show Academy Award (Spring Contest) (中國大學生廣告藝術節學院獎 (春季賽)), and held the “Besunyen Cup” Public Service Advertising Contest. The contest lasted for 10 months with a coverage of 30 cities during which 40 universities were visited, and 40 creative lectures were held. The national lecture tour was rounded off in April 2016, directly approaching 28,850 persons, with creative topics collected from 1,200 universities and colleges across China.

With the public service theme of “Change from losing weight” (“改變，從輕開始”), this session of “Besunyen Cup” Public Service Advertising Contest promoted green public welfare. The contest collected creative works of print advertisements, advertising copies, marketing plannings and internet mini-movies. On 29 May 2016, this session of “Besunyen Cup” Public Service Advertising Contest was successfully held at a plant of the Group, with a total of 15,205 qualified works in 11,983 groups collected, hitting a historical high.

The Chinese University Students Advertisement and Art Show Academy Award is a creativity contest among universities sponsored by China Advertising Association (中國廣告協會) and has been held for 14 years, with its influence extending from universities and colleges to the whole advertising industry. The Academy Award has established a platform for communication between enterprises and university students. This year is the eighth year of cooperation between Besunyen and the Academy Award and also the fifth time Besunyen has obtained the title sponsorship of the public service advertising contest. Over the past eight years, Besunyen has become a leading brand in the industry which is deeply rooted in the mind of university students. Following the footsteps of the Academy Award, Besunyen entered campuses of universities and colleges all around China to share Besunyen’s mission and charity philosophy with thousands of students.

The Besunyen Brand Winning the Award of Top Ten Brand with Public Credibility in Four Consecutive Sessions

On 18 June 2016, the Sixth China Health Care Products Public Credibility Forum & the Sixth China Health Care Products with Public Credibility and Brand Selection Conference (“第六屆中國保健品公信力論壇暨第六屆中國保健品公信力產品及品牌推選活動發佈會”), sponsored by China Health Care Association, was successfully concluded at the New Media Building of People. cn. At the conference, Besunyen Slimming Tea and Besunyen Detox Tea won the Product Award of the Sixth China Health Care Products with Public Credibility and the Besunyen brand was granted the Brand Award of the Sixth Top Ten Brand with Public Credibility among China Health Care Products. Since 2010, Besunyen has been winning such awards in four consecutive sessions, with participants including thousands of products and hundreds of enterprises.

OUTLOOK

Macro-Economy

According to an article published by China Logistics Information Center, China's economic growth in the first half of 2016 is expected to be maintained at around 6.8%. In the second half of 2016, there will be a strong base for steady economic growth, while the risk of uncertainties will remain. It is hard for the economy to show significant recovery trend, which will tend to stabilize in general and fluctuate in a relatively narrow range. It is expected that the average Purchasing Managers' Index in the manufacturing industries for the year 2016 will remain at about 49.8%, with GDP growth of approximately 6.7%.

Continuous Focus on Existing Product Market

As the economy is slowing down, the Group will continue to adopt the marketing strategy for the first half of 2016. In the second half of 2016, the Group will continue to focus on the management of sales, channels, terminals and inventory of Besunyen Detox Tea, Besunyen Slimming Tea and the LARLLY Orlistat and actively establish close relationship with the staff of terminal pharmacies so as to obtain the strongest support for the sales of Besunyen products.

The Group will continue to adopt its precise marketing strategy by expanding into cities at all levels across China and penetrating into terminal pharmacies in order to fully capture potential growth opportunities in the market. It will hold procurement conferences for pharmacy chains on a regular basis and use the resources of pharmacy chains to promote its products as a means to improve performance with stronger promotional support in the market. It will also regularly hold trainings for pharmacy chains at which the product usage will be explained to expand the product knowledge of terminal pharmacy staff so that they can provide consumers with high-quality services.

Continuing to Adopt Advertising Packages

As for advertising communications, the Group will continue to adopt its advertising strategy for the first half of 2016, being advertising packages by brand and by product, focus on the brand's promotion, further enhance the awareness of the brand among consumers to elaborate the functions and timing and occasions for using the relevant product, in order to expand the consumer base and increase sales.

Strict Control over Expenses

The Group will adopt correlative online and offline media communication models to improve the effectiveness of advertising and achieve maximum marketing results in a relatively cost-effective manner. Meanwhile, it will control its advertising and promotion expenses cautiously to realise a more reasonable expenses to sales output ratio.

Introducing a New Marketing Model to Support the Launch of New Products

The Group will leverage the advantages of low operating cost and high response speed to the market of its e-commerce platform to launch new product series, which will not only expand its e-commerce product mix but also allow the e-commerce platform to be used as a testing tool before new products can be officially launched. Popular online new products will be quickly introduced to offline markets across China to make full use of economies of scale. Such new integrated marketing model, under which new products will be tested online before large-scale offline launch, will significantly lower the risk relating to new product promotion and improve the odds of successful launch of new products.

Change of Name of Besunyen Slimming Tea

In the second half of 2016, the Group will put full effort in stimulating the progress of change of name of Besunyen Slimming Tea, with the aim to strive for its completion in the shortest time, so as to ensure that the products with a new name will be produced in a timely manner and processed smoothly. The Group expects that the new name would not have significant impact to the future sales of Besunyen Slimming Tea.

The Launch of Besunyen Xian Xian Tea

According to the relevant market researches and consumer insights, females aged from 18 to 24 years old account for 54% of target population of the general weight losing market, constituting the major population of the weight losing market. They have different demands towards slimming teas, which include fashionable design, good tasting and obvious efficacy. Many people who have weight losing demand expect to keep their current body shape by taking products with mild slimming function. Leveraging the advantages of the Besunyen brand, the Group intends to launch a new slimming product in the second half of 2016, which caters to the demand of young consuming target group. The positioning set for the Besunyen Xian Xian Tea is to provide a tea product with mild slimming function to young and fashionable females who pursue in good tasting slimming tea. Being a new product of Besunyen's product mix, we are looking forward that Besunyen Xian Xian Tea will contribute a new increase in income for the Group.

Capturing New Opportunities and Developing New Business

While the Big Health industries thrive, the Group has been monitoring, identifying and assessing new products and new business suitable for its development. In the second half of 2016, the Group will actively explore new business development opportunities in herbal health, weight loss and management and laxative areas in accordance with its new business development strategy and the guiding principles of "One Focus and Two Dimensions" ("一豎兩橫"), and will quickly enter these strategic segments by way of mergers and acquisitions, equity investments, joint venture and agency agreements in order to capture the development opportunities in the Big Health industries. It will also expand its product mix, improve product competitiveness and broaden sales channels to meet people's needs of healthy life, to improve Besunyen's competitive advantages in the industry and generate more profits for the Group.

FINANCIAL REVIEW

Revenue

	For the six months ended 30 June			
	2016		2015	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Revenue:				
Besunyen Detox Tea	110,732	34.1%	146,877	42.2%
Besunyen Slimming Tea	137,804	42.5%	179,593	51.6%
Other tea products	3,504	1.1%	857	0.3%
Slimming medicines	72,500	22.3%	20,556	5.9%
Total	<u>324,540</u>	<u>100%</u>	<u>347,883</u>	<u>100%</u>

The Group's revenue decreased by 6.7% from RMB347.9 million in the first half of 2015 to RMB324.5 million in the same period of 2016. Among this, revenue of Besunyen Detox Tea decreased by 24.6% from RMB146.9 million in the first half of 2015 to RMB110.7 million in the same period of 2016, mainly due to the decrease in sales volume by 21.9% from 94.5 million tea bags in the first half of 2015 to 73.8 million tea bags in the same period of 2016. Revenue of Besunyen Slimming Tea decreased by 23.3%, from RMB179.6 million in the first half of 2015 to RMB137.8 million in the same period of 2016, mainly due to the decrease in sales volume of Besunyen Slimming Tea by 18.3% from 120.5 million tea bags in the first half of 2015 to 98.5 million tea bags in the same period of 2016. The decrease in revenue was mainly due to the impact on the revenue of the Two Teas of the Group in the first half of 2016 resulting from the change of name of Besunyen Slimming Tea. On the other hand, the sales revenue from the Group's new product, LARLLY Orlistat, has brought a larger contribution to our Group; the steady increase in sales revenue from e-commerce channels have also contributed to the revenue of the Group.

The average selling price (revenue divided by sales volume) of Besunyen Detox Tea was RMB1.50 per bag in the first half of 2016, decreased by 3.2% from RMB1.55 per bag in the same period of 2015. The average selling price (revenue divided by sales volume) of Besunyen Slimming Tea was RMB1.40 per bag in the first half of 2016, decreased by 6.0% from RMB1.49 per bag in the same period of 2015. The decrease in average selling price was mainly due to the increase in promotion efforts on the Two Teas which aimed to boost consumption.

Cost of Sales and Gross Profit

	For the six months ended 30 June			
	2016		2015	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Cost of sales	<u>50,454</u>	<u>15.5%</u>	<u>46,387</u>	<u>13.3%</u>
Gross profit	<u>274,086</u>	<u>84.5%</u>	<u>301,496</u>	<u>86.7%</u>

Cost of sales of the Group increased by 8.8% from RMB46.4 million in the first half of 2015 to RMB50.5 million in the same period of 2016. Cost of sales as a percentage of revenue increased from 13.3% in the first half of 2015 to 15.5% in the same period of 2016. The increase in cost of sales as a percentage of revenue was mainly due to the introduction of the new product LARLLY Orlistat, which led to a change in the sales structure of the Group's products.

Revenue decreased by 6.7% and cost of sales as a percentage of revenue increased by 2.2% in the first half of 2016 as compared to the same period of 2015. As a result, gross profit of the Group decreased by 9.1% from RMB301.5 million in the first half of 2015 to RMB274.1 million in the same period of 2016. Gross profit margin of the Group slightly decreased from 86.7% in the first half of 2015 to 84.5% in the same period of 2016.

Selling and Marketing Expenses

	For the six months ended 30 June			
	2016		2015	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Advertising expenses	113,317	34.9%	108,900	31.3%
Marketing and promotional expenses	53,871	16.6%	35,834	10.3%
Staff costs	48,121	14.8%	44,707	12.8%
Others	18,748	5.8%	19,064	5.5%
Total	<u>234,057</u>	<u>72.1%</u>	<u>208,505</u>	<u>59.9%</u>

Selling and marketing expenses of the Group increased by 12.3% from RMB208.5 million in the first half of 2015 to RMB234.1 million in the same period of 2016. As the Group has accumulated years of experience in media placement and accumulated media resources, the efficiency of the advertising placement of the Group gradually improves. In the first half of 2016, the Group's advertisement placement for the Two Teas in the first half of 2016 mainly focused on Besunyen Detox Tea while expanding and improving Besunyen's brand reputation. Meanwhile, the Group emphasized on the promotion for the new product LARLLY Orlistat to increase the customer awareness and stimulate the terminal sales. Advertising expenses, marketing and promotional expenses as well as staff costs increased by 4.1%, 50.3% and 7.6% respectively in the first half of 2016 as compared to the same period of 2015, and others decreased by 1.7% as compared to the same period of 2015. The increase of staff costs as compared to the same period last year was mainly because the staff costs of Guangzhou Runliang Pharmaceutical Co., Ltd. ("Guangzhou Runliang") from January to April 2015 were not included in the staff costs of the Group for the first half of 2015 (Guangzhou Runliang was not a subsidiary of the Group until May 2015).

In the first half of 2016, the Group's revenue decreased by 6.7% as compared to the same period of 2015 while the total selling and marketing expenses increased by 12.3%, as a result, the expenses in selling and marketing as a percentage of revenue increased from 59.9% in the first half of 2015 to 72.1% in the same period of 2016. The increase in selling and marketing expenses was mainly due to the promotion of the new product LARLLY Orlistat.

Administrative Expenses

	For the six months ended 30 June			
	2016		2015	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Staff costs	14,116	4.3%	20,585	5.9%
Office expenses	1,789	0.6%	2,373	0.7%
Professional fees	7,462	2.3%	13,490	3.9%
Travel and entertainment expenses	3,260	1.0%	3,299	0.9%
Others	12,271	3.8%	13,204	3.8%
Total	<u>38,898</u>	<u>12.0%</u>	<u>52,951</u>	<u>15.2%</u>

Administrative expenses of the Group decreased by 26.6% from RMB53.0 million in the first half of 2015 to RMB38.9 million in the same period of 2016. Administrative expenses as a percentage of revenue decreased from 15.2% in the first half of 2015 to 12.0% in the same period of 2016, mainly due to the decrease of share-based compensation expenses in the first half of 2016, which resulted in the decrease in staff costs under administration expenses as a percentage of revenue from 5.9% in the first half of 2015 to 4.3% in the same period of 2016, and the decrease in professional fees as a percentage of revenue from 3.9% in the first half of 2015 to 2.3% in the same period of 2016.

Research and Development Costs

	For the six months ended 30 June			
	2016		2015	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Research and development costs	<u>4,979</u>	<u>1.5%</u>	<u>2,175</u>	<u>0.6%</u>

The Group's research and development costs increased by 127.3% from RMB2.2 million in the first half of 2015 to RMB5.0 million in the same period of 2016. In the first half of 2016, the Group increased the investment in research and development, employed professionals in the aspects of research and development, enhanced the ability in analysis and quality control, developed certain research and development projects in the market sector of weight loss and weight control, introduced new products to the Group while ensured the quality and amelioration for the existing products.

Taxation

Income tax expense of the Group increased from RMB8.4 million in the first half of 2015 to RMB10.6 million in the same period of 2016. This was mainly due to the effect of the increase of non-deductible expenditures items of certain subsidiaries.

Loss and Total Comprehensive Loss

Due to the factors set out above, the Group has a loss and total comprehensive loss of RMB1.7 million in the first half of 2016 (while the profit and total comprehensive income in the same period of 2015 was RMB39.8 million).

Use of Net Proceeds from IPO

Net proceeds from the IPO amounted to approximately RMB1,033.2 million, which have been applied in accordance with the uses disclosed in the prospectus and the announcement dated 16 June 2015 of the Company. As at 30 June 2016, uses of the above net proceeds were detailed as follows:

	Net Proceeds from IPO		
	Available <i>RMB'000</i>	Utilised <i>RMB'000</i>	Unutilised <i>RMB'000</i>
Acquisition of new production equipment and building new production facilities	275,094	275,094	—
Establishment of East China Regional Headquarters Beijing new office building	77,518	77,518	—
Design, research and development of new products	123,664	123,664	—
Upgrading ERP and overall IT system	62,981	62,981	—
Loan repayment	8,834	8,834	—
Expansion of traditional and internet sales and distribution network, channels and brand building	73,000	73,000	—
Working capital	153,092	153,092	—
Investment in traditional and internet medical and pharmaceutical industries	109,000	109,000	—
	150,000	55,180	94,820
Total	<u>1,033,183</u>	<u>938,363</u>	<u>94,820</u>

Liquidity and Capital Resources

In the first half of 2016, funds and capital expenditure required in the operation of the Group mainly came from the cash generated from its internal operations and the proceeds from IPO.

Cash Flow

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

	For the six months ended 30 June	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Net cash (used in)/generated from operating activities	(4,244)	63,830
Net cash used in investing activities	(50,755)	(209,681)
Net cash used in financing activities	<u>(144,518)</u>	<u>(24,180)</u>
Net decrease in cash and cash equivalents (before effect of foreign exchange rate changes)	(199,517)	(170,031)
Effect of foreign exchange rate changes	<u>(633)</u>	<u>676</u>
Net decrease in cash and cash equivalents	<u>(200,150)</u>	<u>(169,355)</u>

In the first half of 2016, net cash used in operating activities of the Group was RMB4.2 million (for the same period of 2015: net cash generated from operating activities was RMB63.8 million). In the first half of 2016, the net cash used in investing activities of the Group was RMB50.8 million (for the same period of 2015: RMB209.7 million). The decrease from the same period of 2015 was mainly due to the decrease in term deposits with an initial term of over three months. In the first half of 2016, the net cash used in financing activities of the Group was RMB144.5 million (for the same period of 2015: RMB24.2 million). The increase from the same period of 2015 was mainly due to the dividend payments and share repurchase.

Cash and Cash Equivalents and Bank Loans

As at 30 June 2016, the cash and cash equivalents of the Group totalled RMB225.7 million (as at 31 December 2015: RMB425.9 million), representing a decrease of RMB200.2 million as compared to the end of the previous year. Approximately 93.8% of the cash and cash equivalents of the Group was RMB. In addition, as at 30 June 2016, the Group did not have any bank borrowings (as at 31 December 2015: nil) and unused bank credit lines (as at 31 December 2015: nil).

Capital Expenditure

In the first half of 2016, capital expenditure of the Group was RMB10.4 million (for the same period of 2015: RMB10.2 million), which mainly included payment for purchases of property, plant and equipment. The following table sets forth capital expenditure as paid out by the Group during the six months ended 30 June as indicated:

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	<u>10,408</u>	<u>10,159</u>

Investment Properties

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

	As at	
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Investment properties	<u>56,663</u>	<u>57,694</u>

The Group owns certain office premises at Besunyen Building of Linglong Tiandi located at No. 160 West 4th Ring Road North, Haidian District, Beijing 100036, certain office properties in Changcheng Building located in No. 3000, Zhongshan Road North, Putuo District, Shanghai. As at 30 June 2016, the Group was in the process of obtaining property ownership certificate of the building with a total carrying value approximate to RMB45.5 million which is located in the PRC. The Group will not fully use up all of the units of these properties and has leased the unused units to independent third parties until the Group needs to take up such units for the expansion of its operations in the future. The properties held for lease are classified as investment properties.

As at 30 June 2016, carrying value of investment properties amounted to RMB56.7 million (as at 31 December 2015: RMB57.7 million). These 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.

Investments Accounted For Using Equity Method

	As at	
	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Investments accounted for using equity method	<u>55,382</u>	<u>—</u>

As at 30 June 2016, the carrying amounts of the Group's investments in the Ningbo Yuanyuan Liuchang Investment Co., Ltd (the "Yuanyuan Liuchang Fund Management Company") and Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the "Yuanyuan Liuchang Fund") were RMB55.4 million.

Inventories

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

	As at	
	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Raw materials and packing materials	2,791	2,183
Work in progress	792	774
Finished goods	<u>15,127</u>	<u>3,231</u>
Total inventories	<u>18,710</u>	<u>6,188</u>

The turnover days of the Group's inventories in the first half of 2016 (calculated by dividing the average inventory balances at the beginning and the end of the period by the cost of sales of the period, then multiplying by the number of days during the period) was 49 days (for the year ended 31 December 2015: 21 days). This was mainly due to the Group has reserved more stocking for the production of Besunyen Slimming Tea. 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 sales performance and product trends, so as to better estimate inventory requirements.

Risks in Foreign Exchange Rate

Almost all of the revenue, costs of sales and expenses as well as administrative expenses of the Group are denominated in Renminbi. 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 Renminbi. Since Renminbi 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 six months ended 30 June 2016, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging instruments (for the six months ended 30 June 2015: nil).

Material Acquisition or Disposal

For the six months ended 30 June 2016, the Group had no material acquisition or disposal (for the six months ended 30 June 2015: nil).

Material Investment

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

As at 30 June 2016, the Yuanyuan Liuchang Fund had invested in 3 projects, with a total amount of RMB60.0 million. These projects were in different aspects such as retail of health products and nutrition supplements, orthopedic therapy and ophthalmic therapy.

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

Pledge of Assets

As at 30 June 2016, the Group had no pledge of assets (as at 31 December 2015: nil).

Gearing Ratio

As at 30 June 2016, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 13.76% (as at 31 December 2015: 11.73%).

Contingent Liabilities and Guarantees

As at 30 June 2016, the Group had no material contingent liabilities and guarantees (as at 31 December 2015: nil).

Capital Commitments

As at 30 June 2016, the Group had capital commitments of RMB59.9 million (as at 31 December 2015: RMB28.7 million).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2016, the Group had about 1,283 employees in mainland China and Hong Kong (31 December 2015: 1,231 employees), which included 107 promotional staff employed by employment agents (31 December

2015: 113). For the six months ended 30 June 2016, total labour costs (including Directors' remunerations and non-cash share-based compensation) was approximately RMB71.6 million (for the same period of 2015: RMB77.7 million). Staff remuneration is formulated with reference to individual performance, work experience, qualification and prevailing 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 under the pre-IPO share option scheme (the “**Pre-IPO Share Option Scheme**”) and the share option scheme (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 (the “**Restricted Share Award Scheme**”) to grant restricted shares to eligible employees.

The Group invests sufficient efforts in 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 based on various needs.

CORPORATE GOVERNANCE

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 on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) during the six months ended 30 June 2016, except for code provision A.2.1 of the CG Code.

CODE PROVISION A.2.1

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 26 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.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. Wang Jing, 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 unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2016 and this announcement, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

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

The Shares repurchased by the Company on the Stock Exchange during the six months ended 30 June 2016 are as follows:

Month	No. of Shares repurchased	Price per Share		Total consideration HK\$'000
		Highest HK\$	Lowest HK\$	
January	2,400,000	0.80	0.76	1,885
February	1,200,000	0.80	0.79	952
May	8,634,000	0.69	0.64	5,760
June	15,455,000	0.76	0.65	10,975
Total	27,689,000	0.80	0.64	19,572

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

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2016.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016.

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 2016 will be dispatched to the shareholders of the Company and published 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, 19 August 2016

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. Wang Jing and Mr. Ren Guangming.