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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 2022**

THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2022 was RMB460.1 million, representing a decrease of 31.4% as compared with the revenue of RMB670.7 million for the same period of 2021.

The gross profit of the Group for the first half of 2022 amounted to RMB274.5 million, representing a decrease of 39.8% from the gross profit of RMB455.9 million for the same period of 2021. The gross profit margin of the Group was 59.7% for the first half of 2022, representing a decrease of 8.3 percentage points from the gross profit margin of 68.0% for the same period of 2021.

The total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2022 were RMB271.7 million, representing a decrease of 31.8% as compared with the total operating expenses of RMB398.5 million for the same period of 2021.

The Group recorded a total comprehensive loss of RMB9.1 million for the first half of 2022, compared with the total comprehensive income of RMB56.3 million for the same period of 2021.

The total comprehensive loss attributable to owners of the Company for the first half of 2022 was RMB6.6 million (for the same period of 2021: the total comprehensive income attributable to owners of the Company was RMB26.4 million). The basic and diluted losses per share attributable to owners of the Company for the first half of 2022 were both RMB16.25 cents (for the same period of 2021: the basic and diluted earnings per share attributable to owners of the Company were both RMB66.26 cents).

INTERIM DIVIDEND

The Board has resolved not to declare and pay any interim dividend for the six months ended 30 June 2022.

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 2022 (the “**Result Announcement**”), as below:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
Revenue	5	460,099	670,695
Cost of sales		<u>(185,563)</u>	<u>(214,838)</u>
Gross profit		<u>274,536</u>	<u>455,857</u>
Other income		11,259	10,727
Selling and marketing expenses		(165,782)	(269,800)
Administrative expenses		(78,173)	(74,475)
Research and development costs		(27,711)	(54,206)
Credit impairment losses		(549)	(1,040)
Fair value changes on financial assets measured at fair value through profit or loss		403	—
Other expenses		(813)	(5,538)
Other losses, net	6	<u>(1,017)</u>	<u>(7,917)</u>
Operating profit		<u>12,153</u>	<u>53,608</u>
Finance income		1,557	1,697
Finance costs		<u>(4,441)</u>	<u>(3,156)</u>
Finance costs, net		(2,884)	(1,459)
Share of (losses)/profits of investments accounted for using the equity method		<u>(4,329)</u>	<u>13,773</u>
Profit before income tax		4,940	65,922
Income tax expenses	7	<u>(14,050)</u>	<u>(9,666)</u>
(Loss)/profit for the period		<u><u>(9,110)</u></u>	<u><u>56,256</u></u>

		Unaudited	
		Six months ended 30 June	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
(Loss)/profit attributable to:			
— Owners of the Company		(6,621)	26,429
— Non-controlling interests		(2,489)	29,827
		<u>(9,110)</u>	<u>56,256</u>
Other comprehensive income		<u>—</u>	<u>—</u>
Total comprehensive (loss)/income for the period		<u>(9,110)</u>	<u>56,256</u>
Attributable to:			
— Owners of the Company		(6,621)	26,429
— Non-controlling interests		(2,489)	29,827
		<u>(9,110)</u>	<u>56,256</u>
(Losses)/earnings per share attributable to owners of the Company (RMB cents)			
— Basic (losses)/earnings per share	<i>8</i>	(16.25)	66.26
— Diluted (losses)/earnings per share	<i>8</i>	(16.25)	66.26

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at 30 June 2022 <i>RMB'000</i>	Audited As at 31 December 2021 <i>RMB'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		395,767	401,486
Intangible assets		164,577	168,670
Right-of-use assets		80,223	103,675
Other non-current assets		18,397	12,191
Investments accounted for using the equity method		35,852	44,971
Financial assets measured at fair value through profit or loss		47,059	38,656
Long-term bank deposits		120,000	170,000
Deferred income tax assets		63,568	77,905
		925,443	1,017,554
Total non-current assets			
Current assets			
Inventories		133,747	136,341
Trade receivables	9	119,525	94,057
Bills receivable		11,426	2,974
Deposits, prepayments and other receivables		88,281	87,320
Restricted bank deposits		—	28,400
Short-term bank deposits		563	10,563
Cash and cash equivalents		261,659	216,042
		615,201	575,697
Assets classified as held for sale	10	—	48,881
		615,201	624,578
Total current assets			
Total assets		1,540,644	1,642,132

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		94	94
Share premium		913,393	913,393
Other reserves		340,274	340,274
Accumulated losses		<u>(432,865)</u>	<u>(426,244)</u>
		820,896	827,517
Non-controlling interests		<u>200,884</u>	<u>227,873</u>
Total equity		<u>1,021,780</u>	<u>1,055,390</u>
LIABILITIES			
Non-current liabilities			
Deferred government grants		41,830	33,348
Lease liabilities		10,026	21,877
Deferred income tax liabilities		38,110	42,274
Long-term borrowings		64,174	92,930
Other non-current liabilities		—	497
		<u>154,140</u>	<u>190,926</u>
Total non-current liabilities		<u>154,140</u>	<u>190,926</u>
Current liabilities			
Trade and bills payables	<i>11</i>	13,776	40,727
Other payables and accrued expenses		148,786	151,813
Contract liabilities		21,041	31,469
Borrowings		167,492	150,750
Lease liabilities		9,756	21,057
Current income tax liabilities		3,873	—
		<u>364,724</u>	<u>395,816</u>
Total current liabilities		<u>364,724</u>	<u>395,816</u>
Total liabilities		<u>518,864</u>	<u>586,742</u>
Total equity and liabilities		<u>1,540,644</u>	<u>1,642,132</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 Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The principal activities of the Company and its subsidiaries (collectively referred to as the “**Group**”) are the manufacturing and sales of therapeutic tea products and weight-loss and other medicines.

This financial information in this Results Announcement is presented in Renminbi (“**RMB**”), unless otherwise stated.

This unaudited interim condensed consolidated financial information was approved for issue by the Board of Directors of the Company on 17 August 2022.

2. SIGNIFICANT EVENTS

The financial position and performance of the Group were particularly affected by the following events and transactions during the six months ended 30 June 2022:

- (i) The revenue of the Group for the six months ended 30 June 2022 has been decreased significantly as compared to the same period last year, which is mainly due to: 1) affected by the new wave of the Coronavirus Disease 2019 (“**COVID-19**”) pandemic, some cities have adopted strict pandemic prevention and control measures, which have a certain impact on the Group’s marketing business and logistics distribution, and 2) affected by market changes and price competitions, the shipment volume of weight-loss medicines, the major products of the Group, decreased significantly while the average settlement unit price also decreased.
- (ii) On 18 March 2022, the Company’s Board of Directors proposed a share consolidation on the basis that every 40 ordinary shares of USD0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of USD0.0003333332 each (the “**Share Consolidation**”). The Share Consolidation was subsequently approved by the shareholders of the Company on 13 April 2022, and was completed on 19 April 2022.

3. BASIS OF PREPARATION

The Group’s interim condensed consolidated financial information for the six months ended 30 June 2022 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 of the Company for the year ended 31 December 2021 (the “**2021 Annual Financial Statements**”), which have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), and any public announcement made by the Company during the current period and up to date of approval of this unaudited interim condensed consolidated financial information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group has applied the following amended standards in the interim condensed consolidated financial information:

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to IAS 16
- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020
- Reference to the Conceptual Framework — Amendments to IFRS 3

The adoption of these amended standards did not have any material impact on the significant accounting policies of the Group and the presentation of the interim condensed consolidated financial information.

The Group has not early adopted the new standards and amendments to IFRSs that have been issued and not yet effective for the year ending 31 December 2022 in the interim condensed consolidated financial information.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

5. REVENUE AND SEGMENT INFORMATION

The executive directors of the Company, identified as the chief decision makers (“CODM”) review the Group’s internal reporting in order to assess performance and allocate resources.

The CODM has determined the operating segments based on these reports and assessed the manufacturing and sales of tea products and weight-loss and other medicines as separate reportable segments, namely the tea products segment and the weight-loss and other medicines segment.

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

The segment results for the six months ended 30 June 2022 are as follows:

	Tea products segment <i>RMB'000</i>	Weight-loss and other medicines segment <i>RMB'000</i>	Total <i>RMB'000</i>
Total revenue	246,309	213,790	460,099
Inter-segment revenue	—	—	—
Revenue from external customers	<u>246,309</u>	<u>213,790</u>	<u>460,099</u>
Timing of revenue recognition at a point in time	<u>246,309</u>	<u>213,790</u>	<u>460,099</u>
Cost of sales	<u>(65,872)</u>	<u>(119,691)</u>	<u>(185,563)</u>
Gross profit	180,437	94,099	274,536
Selling and marketing expenses	(105,872)	(59,910)	(165,782)
Research and development costs	<u>(4,177)</u>	<u>(23,534)</u>	<u>(27,711)</u>
Segment results	<u>70,388</u>	<u>10,655</u>	<u>81,043</u>
Other income			11,259
Other losses, net			(1,017)
Administrative expenses			(78,173)
Credit impairment losses			(549)
Fair value changes on financial assets measured at fair value through profit or loss			403
Other expenses			<u>(813)</u>
Operating profit			12,153
Finance income			1,557
Finance costs			<u>(4,441)</u>
Finance costs, net			(2,884)
Share of losses of investments accounted for using the equity method			<u>(4,329)</u>
Profit before income tax			4,940
Income tax expenses			<u>(14,050)</u>
Loss for the period			<u><u>(9,110)</u></u>
Other segment information:			
Depreciation	<u>(17,067)</u>	<u>(19,367)</u>	<u>(36,434)</u>
Amortisation	<u>(987)</u>	<u>(5,151)</u>	<u>(6,138)</u>

The segment results for the six months ended 30 June 2021 are as follows:

	Tea products segment <i>RMB'000</i>	Weight-loss and other medicines segment <i>RMB'000</i>	Total <i>RMB'000</i>
Total revenue	305,293	365,402	670,695
Inter-segment revenue	—	—	—
Revenue from external customers	<u>305,293</u>	<u>365,402</u>	<u>670,695</u>
Timing of revenue recognition at a point in time	<u>305,293</u>	<u>365,402</u>	<u>670,695</u>
Cost of sales	<u>(79,986)</u>	<u>(134,852)</u>	<u>(214,838)</u>
Gross profit	225,307	230,550	455,857
Selling and marketing expenses	(178,428)	(91,372)	(269,800)
Research and development costs	<u>(5,131)</u>	<u>(49,075)</u>	<u>(54,206)</u>
Segment results	<u>41,748</u>	<u>90,103</u>	<u>131,851</u>
Other income			10,727
Other losses, net			(7,917)
Administrative expenses			(74,475)
Credit impairment losses			(1,040)
Other expenses			<u>(5,538)</u>
Operating profit			53,608
Finance income			1,697
Finance costs			<u>(3,156)</u>
Finance costs, net			(1,459)
Share of profits of investments accounted for using the equity method			<u>13,773</u>
Profit before income tax			65,922
Income tax expenses			<u>(9,666)</u>
Profit for the period			<u><u>56,256</u></u>
Other segment information:			
Depreciation	<u>(16,035)</u>	<u>(14,589)</u>	<u>(30,624)</u>
Amortisation	<u>(390)</u>	<u>(4,468)</u>	<u>(4,858)</u>

For the six months ended 30 June 2022, the revenue of approximately RMB85,846,000 (six months ended 30 June 2021: RMB129,429,000) was derived from an e-commerce platform (“Customer A”), which took 18.7% (six months ended 30 June 2021: 19.3%) of the Group’s total revenue and was primarily attributable to the weight-loss and other medicines segment. Other than Customer A, the revenues derived from any of the remaining external customers were less than 10% of the Group’s total revenues.

6. OTHER LOSSES, NET

	Six months ended 30 June	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
Impairment loss on prepayment for an equity transaction	—	(4,000)
Donation	(1,231)	(2,451)
Change in fair value of financial assets measured at fair value through profit or loss	1,922	1,784
Net gain/(loss) on disposals of land use rights and property, plant and equipment	57	(423)
Net foreign exchange gain/(loss)	563	(730)
Others	(2,328)	(2,097)
	<u>(1,017)</u>	<u>(7,917)</u>

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
Current income tax		
— Current income tax for the period	3,877	4,111
— Adjustments of prior year’s PRC income tax	—	(2,211)
	<u>3,877</u>	<u>1,900</u>
Deferred income tax	10,173	7,766
	<u>14,050</u>	<u>9,666</u>

The Company is incorporated in the Cayman Islands and the Company’s subsidiary, Besunyen Investment (BVI) Co. Ltd., is incorporated in the British Virgin Islands (“BVI”) which are tax exempted according to the laws of the Cayman Islands and the BVI, respectively.

Hong Kong profits tax is subject to the two-tiered profits tax regime, under which the tax rate is 8.25% for assessable profits in the first HK\$2 million and 16.5% for any assessable profits in excess.

In July 2020, Beijing Outsell Health Product Development Co., Ltd. (“**Beijing Outsell**”) obtained the High and New Technology Enterprise (“**HNTE**”) qualification for the three years from 2020 to 2022, the applicable income tax rate for the approved period is 15%.

In November 2020, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd (“**Zhongshan Wanyuan**”) obtained the HNTE qualification for the three years from 2020 to 2022, the applicable income tax rate for the approved period is 15%.

In June 2022, Zhongshan Wanhan Pharmacy Co., Ltd. (“**Zhongshan Wanhan**”) obtained the HNTE qualification for the three years from 2022 to 2024, the applicable income tax rate for the approved period is 15%.

Tibet Besunyen Trading Co., Ltd. and Tibet Qianruiwanfu Venture Investment Co., Ltd. (“**Qianruiwanfu**”), two subsidiaries established by the Group in February 2017, are entitled to the preferential policy of Encouraged Industries in the West Regions in Tibet from establish date to 31 December 2030, for which the applicable income tax during the approved period is 15%.

All other PRC subsidiaries of the Group are subject to the statutory corporate income tax rate of 25%.

8. EARNINGS PER SHARE

As described in Note 2(ii), the Share Consolidation has completed and become effective on 19 April 2022, every 40 ordinary shares of USD0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of USD0.0003333332 each. Following the share consolidation, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the six months ended 30 June 2022 and 2021 has been retrospectively adjusted.

(i) Basic

Basic earnings per share 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 those ordinary shares as purchased by the Company and held as treasury shares under the Company’s Restricted Share Award Scheme).

	Six months ended 30 June	
	2022	2021
(Losses)/profits attributable to owners of the Company (RMB’000)	(6,621)	26,429
Weighted-average number of ordinary shares in issue	40,755,195	39,885,156
Basic (losses)/earnings per share (RMB cents per share)	<u>(16.25)</u>	<u>66.26</u>

(ii) **Diluted**

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted-average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted earnings per share).

The share options had anti-diluted effect to the Group for the six months ended 30 June 2022 and 2021. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 30 June 2022 and 2021. Accordingly, the diluted (losses)/earnings per share is same as the basic (losses)/earnings per share for the six months ended 30 June 2022 and 2021.

9. TRADE RECEIVABLES

	As at	
	30 June 2022 <i>RMB'000</i>	31 December 2021 <i>RMB'000</i>
Trade receivables	119,637	94,256
Less: Loss allowance	<u>(112)</u>	<u>(199)</u>
	<u>119,525</u>	<u>94,057</u>

The Group normally allows a credit period of 30–90 days to its customers. The following is an aging analysis of trade receivables (net of allowance for doubtful debts) based on the goods delivery dates, which approximated to their invoice dates:

	As at	
	30 June 2022 <i>RMB'000</i>	31 December 2021 <i>RMB'000</i>
0 to 90 days	119,179	93,965
91 to 180 days	284	31
181 to 365 days	27	—
Over 365 days	<u>35</u>	<u>61</u>
	<u>119,525</u>	<u>94,057</u>

10. ASSETS CLASSIFIED AS HELD FOR SALE

Movement in the assets classified as held for sale is as follows:

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
At beginning of period	48,881	—
Additions	—	48,881
Disposal (<i>Note</i>)	(48,881)	—
	<u> </u>	<u> </u>
At end of period	<u> </u>	<u>48,881</u>

Note :

On 29 November 2021, Shanghai Bisheng Property Management Co., Ltd. (“**Bisheng Property**”), an indirect wholly-owned subsidiary of the Company and two third parties entered into an agreement, pursuant to which Bisheng Property has agreed to dispose buildings including the underlying land use rights located in Shanghai at a total cash consideration of RMB56.0 million.

As at 31 December 2021, the land use rights of approximately RMB40,664,000 and investment properties of approximately RMB8,217,000 to be disposed have been presented as “Assets classified as held for sale”. The transaction was completed in January 2022 and the loss resulting from this transaction was insignificant.

11. TRADE AND BILLS PAYABLES

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

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
0 to 90 days	12,599	10,768
91 to 180 days	522	80
Over 180 days	655	29,879
	<u> </u>	<u> </u>
	<u>13,776</u>	<u>40,727</u>

12. DIVIDEND

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Dividend paid for the current period	—	49,384

The Board has resolved not to declare and pay any interim dividend for the six months ended 30 June 2022.

On 25 May 2021, the shareholders of the Company had approved the declaration of a final dividend of HK\$3.75 cents per share, amounting to a total dividend of HK\$61,133,000 (equivalent to RMB49,384,000).

The unaudited interim condensed consolidated statement of comprehensive income, the unaudited interim condensed consolidated balance sheet of the Group and its explanatory notes as presented above are extracted from the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2022, given the unexpected factors such as the rapid spread of Omicron variant in the country and the complex and volatile international situation, the downward pressure on the domestic economy increased. According to the national economic operation data released by the National Bureau of Statistics on 15 July 2022, the GDP of China increased by 2.5% compared with the same period last year, showing a slower growth for the first half of the year. In the consumer market, the total retail sales of consumer goods in China in the first half of 2022 decreased by 0.7% compared with the same period last year, indicating low consumer confidence and suppressed consumption willingness.

Scattered, widely spread and frequent outbreaks characterised the epidemic of China in the first half of the year. Beijing, Shanghai, Shandong, Shaanxi, Jilin and other places adopted strict measures to contain the situation, which affected the Group's production, distribution, and sales to a considerable extent. As for production, during the period between the end of April to mid-June 2022, the Group's Fangshan production base was suspended for a long period of 53 days in accordance with the local epidemic prevention and control requirements, which caused certain pressure on the output of therapeutic teas, the key products of Besunyen, and led to a decline in revenue from related products in the short term. Zhongshan Wanhan Pharmacy Co., Ltd., Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. and Henan Xueyinghua Pharmaceutical Co., Ltd. under the Group were also affected to varying degrees. At present, the production bases of the Group above have resumed normal production and operation according to the local resumption policies. Regarding logistics, disruption to cross-regional transport caused interruption in logistics, resulting in the inability to deliver the products of the Group to terminals in a timely manner and exposing the Group to the backlog of goods and other related risks. Interruption in courier services in some regions also had a certain impact on the Group's online business. To ensure delivery, the Group closely monitored the development of the pandemic, adjusted its logistics providers in a timely manner, and selected courier services with better timeliness, which led to a higher logistics cost while digesting the backlogs. As for marketing and sales, due to the travel restrictions imposed during outbreaks, the normal operation of the Group's offline business was impacted to a certain extent. In this regard, the offline sales team of the Group actively linked up with O2O platforms to try out the "online + offline" dual sales model and carried out live streaming and other activities on distributors' platforms.

Due to market changes and price competition, the overall sales scale of Orlistat products decreased, and the sales scale and income level of the Group's Orlistat-related products all fell significantly as compared with the same period last year. As such, the Group optimised the cost of Orlistat and compressed marketing and promotion expenses on the one hand while adopting a sustainable pricing mechanism to maintain the market position of its key products on the other. However, the smaller sales scale and the offset policies of platforms led to a decline in the profit level of Orlistat-related products.

Affected by the unfavourable factors above, in the first half of 2022, revenue of the Group amounted to RMB460.1 million, representing a decrease of 31.4% compared with the same period last year, of which revenue from the "Three Teas" (Detox Tea, Slimming Tea and Fit Tea) amounted to RMB161.0 million, representing a decrease of 21.6% compared with the same period last year, and revenue from weight-loss medicines amounted to RMB134.4 million, representing a decrease of 52.9% compared with the same period last year. To this end, the Group adhered to a sound operating strategy, focused on improving corporate management, and reasonably compressed operating costs by optimising its organisational structure, adjusting the principal place of business, and reducing advertising expenses in the short term. Meanwhile, the Group continued to explore new business growth drivers and made attempts in New Retail, cross-border e-commerce, and sales of Xueyinghua products proactively. However, the projects are still in the initial stage of development and there is room for further deepening and expansion.

STRENGTHENING THE REFINED MANAGEMENT OF OFFLINE CHANNELS AND OPENING UP A NEW BATTLEFIELD BEING LIVE-STREAMING COMMERCE

The Group has a well-established offline sales network and maintains its advantage in terms of channels in the offline market by continuously strengthening the building of its sales team. In the first half of 2022, on the principle of "top-down, flat and efficient management approach", the OTC Business Division optimised and adjusted the organisational structure and market segmentation, whereby the nine major battlefields were reorganised into three working groups and the development of end market was enhanced. As a result, it was able to obtain the front-line information quickly. The OTC Business Division also adjusted the sales strategy in real time, and completed the management of product batch numbers. For the channel expansion, while deepening the cooperative and symbiotic relationship with the NKA (National Key-Account) chain and the LKA (Local Key-Account) chain, the Group was attentive to regional small and medium-sized chains and single stores. Through the refined management, the Group strived to extend the offline market coverage to achieve sales goal.

DEEPENING THE E-COMMERCE ORGANISATIONAL AND MANAGEMENT STRUCTURE AND STABILISING THE PRICE MANAGEMENT MECHANISM

In the first half of 2022, the E-commerce Business Division continued to deepen its matrix organisational and management structure. Focusing on the three business lines, namely, the “Four Teas” (Detox Tea, Slimming Tea, Fit Tea and Relief Tea), medicines and new products, the E-commerce Business Division coordinated and deployed the marketing strategies for each e-commerce platform, store and business unit, devised the layout of each product line and formulated a uniform pricing mechanism. The E-commerce Business Division carried out the refined management of marketing and sales expenses, and paid attention to operating results and avoiding internal competition. Good results had been achieved in the “3•18”, “6•18” and other e-commerce festival activities held in the first half year. At the same time, the E-commerce Business Division kept on strengthening the talent training and professional development of the four general platforms: live-streaming platform, member platform, content platform and promotion platform, providing multi-dimensional support for its business operations.

CATERING TO THE MARKETING TREND AND ESTABLISHING KUAISHOU BUSINESS DIVISION

As short video and live-streaming marketing are becoming more and more popular, in order to cater to this new development trend, the Group established Kuaishou Business Division in the first half of 2022. With the historical origin and good reputation of Besunyen products, as well as the strategic partnership between the Group and Kuaishou platform, Besunyen therapeutic teas quickly gained the attention of the KOLs of such platform. The cooperation with Kuaishou platform increased the product exposure effectively. Not only the number of supporters is rising continuously, new customers has also been flowed to the store.

CONVEYING THE IDEA OF “HEALTHY LIVING AND GREEN EXERCISE” AND CONTINUOUSLY PROMOTING BRAND REJUVENATION

The Group is committed to the big health industry and the conveyance of health idea to the public. The Spring Festival coincided with the Beijing Winter Olympics in 2022. Through the video of new-year wishes by the Olympic champions, the Group conveyed the brand idea of “healthy living and green exercise”, which has brought a high social communication flow to Besunyen. On brand rejuvenation, the “Youth Campus” remains to be the focus of the Group, and the Group establishes emotional links with the younger group, builds a good reputation and cultivates long-term potential customers by penetrating into the life scenarios of the younger generation. Till the first half of 2022, Besunyen has joined hands with the “Academy Award” for 14 years and continued to meet over a million students, unceasingly absorbing fresh and young creative vitality.

ACTIVELY PROMOTING NEW PRODUCT DEVELOPMENT AND IMPROVING THE INTELLECTUAL PROPERTY MANAGEMENT SYSTEM

With a view to consolidating the position of the Group's products in the market, in the first half of 2022, the Group continued to implement the "One Focus and Two Dimensions" product strategy in terms of research and development, focusing on the two major healthcare functional areas, namely "weight loss and weight management" and "laxative and gastrointestinal health", and pushed forward the research and development of a variety of new products as planned. The research and development centre focused on the maintenance of the existing health food approvals. According to the latest regulations and policies, it further improved product safety and quality by strengthening experimental research, optimising process parameters, improving product technology, standardising product descriptions, etc. The Group has obtained approvals for a number of products during the first half year.

SOCIAL WELFARE

Over the years, the Group has been actively fulfilling its social responsibilities and pursuing the concept of sustainable development. It partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund" for public welfare undertakings, including carrying out social assistance activities, providing support to the underprivileged and playing a supplementary role in social security. Meanwhile, it has made several donations to China Green Carbon Foundation and Beijing Green Sunshine Environmental Protection Public Welfare Foundation, contributing to the maintenance of ecological balance and ecological security. The Group has been awarded the "China Social Responsibility Public Welfare Charity Award" and "China Corporate Social Responsibility — Best Charity Demonstration Award" for many times.

OUTLOOK

On 27 April 2022, the State Council issued the "14th Five-Year Plan for National Health", the promulgation of which reflects the Chinese government's emphasis on the safety and physical health of people, and also provides an important guidance for the future development of the big health industry.

At present, both challenges and opportunities exist in the big health industry, and there is still ample room for the development of the market of "weight loss and weight management". According to the Dietary Guidelines for Chinese Residents (2022), over half (50.7%) of Chinese adult residents are overweight or obese, and the resulting problems of cardiovascular, respiratory, endocrine and other multi-system diseases have become increasingly serious. To date, a large number of new medicines related to "weight loss and weight management" have not been approved in China, and Orlistat is still the dominant product with high safety and obvious efficacy in the weight-loss medicine market. According to the statistics of Alibaba "Business Consultant", in the first half of 2022, the aggregate market share of Besunyen Orlistat and LARLLY Orlistat was 28.0%, retaining the number one spot in the market segment of Orlistat on Alibaba's e-commerce platforms.

In respect of therapeutic teas, the Group also maintained its leading market position. According to the latest report issued by National Medical Products Administration Southern Medicine Economic Research Institute (“SMERI”), in 2021, based on the retail prices of products with laxative function and weight-loss function in retail pharmacies across the country, the market share of the Group’s Besunyen Slimming Tea and Besunyen Detox Tea were 22.7% and 12.7% respectively, staying at the forefront in the market.

Looking forward to the second half of the year, in the face of various unfavourable factors such as the possible recurrence of the pandemic, the time required for consumption recovery and the increasingly fierce market competition, the Group will follow the general work principle of “making progress while maintaining stability”. While continuing to cultivate the sectors of “weight loss and weight management” as well as “laxative and gastrointestinal health”, the Group will focus on investment in research and development to grasp the market development trend and meet the consumption needs of the young generation, thereby enhancing the competitiveness of the products of Besunyen. Meanwhile, the Group will strive to create new growth momentum for the Group by expanding its multi-channel deployment, refining offline operation while innovating e-commerce business and exploring New Retail business. As a domestic brand focusing on the health industry for twenty-two years, the Group will also increase its efforts in brand building and enhance the brand awareness and social influence of Besunyen through scene-based marketing, social communication and rejuvenation. The Group will pay close attention to the ever-changing market and consumption needs, continue to carry out product development and brand building, and explore the big data resources accumulated in years of operation and customer service, in a bid to support performance growth and gradually create the big health ecosystem of Besunyen for meeting the ever-growing national needs for health.

FINANCIAL REVIEW

	For the six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>Percentage of revenue</i>	<i>RMB'000</i>	<i>Percentage of revenue</i>
Revenue:				
Besunyen Detox Tea	62,867	13.7%	78,948	11.8%
Besunyen Slimming Tea	66,503	14.4%	87,360	13.0%
Besunyen Fit Tea	31,612	6.9%	38,993	5.8%
Weight-loss medicines (<i>Note</i>)	134,403	29.2%	285,216	42.5%
Other products (<i>Note</i>)	85,327	18.5%	99,992	14.9%
Other medicines (<i>Note</i>)	79,387	17.3%	80,186	12.0%
Total	<u>460,099</u>	<u>100%</u>	<u>670,695</u>	<u>100%</u>

Note: Weight-loss medicines mainly consist of Besunyen Orlistat, other products mainly consist of health food and other tea products, and other medicines mainly consist of eye drops and finished medicines.

The Group's revenue in the same period of 2021 was RMB670.7 million, and the revenue in the first half of 2022 was RMB460.1 million, representing a decrease of 31.4%. In particular, revenue from the Three Teas decreased by 21.6% from RMB205.3 million in the same period of 2021 to RMB161.0 million in the first half of 2022, revenue from weight-loss medicines decreased by 52.9% from RMB285.2 million in the same period of 2021 to RMB134.4 million in the first half of 2022, revenue from other products decreased by 14.7% from RMB100.0 million in the same period of 2021 to RMB85.3 million in the first half of 2022, while revenue from other medicines decreased by 1.0% from RMB80.2 million in the same period of 2021 to RMB79.4 million in the first half of 2022.

The decrease in revenue for the first half of 2022 as compared to the same period of 2021 was mainly due to: (i) affected by the new wave of the COVID-19 pandemic, some cities have adopted strict pandemic prevention and control measures, which have a certain impact on the Group's marketing business and logistics distribution; and (ii) affected by market changes and price competition, the shipment volume of weight-loss medicines, the major products of the Group, in the first half of the year decreased by over 50% compared with the same period last year, while the average settlement unit price also decreased.

Cost of Sales, Gross Profit and Gross Profit Margin

	For the six months ended 30 June	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of sales	<u>185,563</u>	<u>214,838</u>
Gross profit	<u>274,536</u>	<u>455,857</u>
Gross profit margin	<u>59.7%</u>	<u>68.0%</u>

The Group's cost of sales decreased by 13.6% from RMB214.8 million in the same period of 2021 to RMB185.6 million in the first half of 2022, and the gross profit margin decreased from 68.0% in the same period of 2021 to 59.7% in the first half of 2022, mainly due to the decrease in costs caused by the decrease in revenue and the decrease in the percentages of revenue of the products with higher gross profit margin, resulting from the product diversification.

Selling and Marketing Expenses

	For the six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>Percentage of revenue</i>	<i>RMB'000</i>	<i>Percentage of revenue</i>
Advertising costs	3,075	0.7%	53,796	8.0%
Marketing and promotion expenses	77,009	16.7%	107,599	16.0%
Employee benefit expenses	63,104	13.7%	79,166	11.8%
Others	<u>22,594</u>	<u>4.9%</u>	<u>29,239</u>	<u>4.4%</u>
Total	<u>165,782</u>	<u>36.0%</u>	<u>269,800</u>	<u>40.2%</u>

Selling and marketing expenses of the Group decreased from RMB269.8 million in the same period of 2021 to RMB165.8 million in the first half of 2022.

The advertising costs in the first half of 2022 decreased by RMB50.7 million as compared to the same period of 2021, mainly due to the decrease in the advertising activities.

The marketing and promotion expenses in the first half of 2022 decreased by RMB30.6 million as compared to the same period of 2021, mainly due to the decrease in the expenses of marketing and promotion via e-commerce platform.

In the first half of 2022, employee benefit expenses decreased by RMB16.1 million as compared to the same period of 2021, mainly due to the decrease in number of employees in sales department and the decrease in performance-based wages of employees in 2022.

Administrative Expenses

	For the six months ended 30 June		2021	
	2022	Percentage		Percentage
	<i>RMB'000</i>	<i>of revenue</i>	<i>RMB'000</i>	<i>of revenue</i>
Employee benefit expenses	31,772	6.9%	32,972	4.9%
Office expenses	2,041	0.4%	3,672	0.6%
Professional and consultation service fees	9,159	2.0%	17,719	2.6%
Entertainment and travelling expenses	3,089	0.7%	4,878	0.7%
Others	32,112	7.0%	15,234	2.3%
Total	<u>78,173</u>	<u>17.0%</u>	<u>74,475</u>	<u>11.1%</u>

Administrative expenses of the Group increased by 5.0% from RMB74.5 million in the same period of 2021 to RMB78.2 million in the first half of 2022, which was mainly due to that the fixed overhead cost was converted to administrative expenses during the suspension of operation of the Group's main production bases as affected by the pandemic.

Research and Development Costs

	For the six months ended 30 June		2021	
	2022	Percentage		Percentage
	<i>RMB'000</i>	<i>of revenue</i>	<i>RMB'000</i>	<i>of revenue</i>
Research and development costs	<u>27,711</u>	<u>6.0%</u>	<u>54,206</u>	<u>8.1%</u>

The research and development costs in the first half of 2022 decreased by RMB26.5 million as compared to the same period of 2021, mainly due to the decrease in the Group's outsourced research and development expenses and the investment in research and development materials.

Share of Losses of Investments Accounted for Using the Equity Method

The Group's share of losses of investments accounted for using the equity method for the first half of 2022 was RMB4.3 million, which is mainly comprised of the loss of RMB7.3 million from the change in fair value of shares held by the Group's joint venture Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) ("Yuanyuan Liuchang Fund") in Chaoju Eye Care Holdings Limited.

Taxation

Income tax expenses of the Group in the first half of 2022 was RMB14.0 million, as compared to the income tax expenses of RMB9.7 million in the same period of 2021, and the increase in the income tax expenses was due to the utilisation of deductible losses recognised in the previous year.

Total Comprehensive Loss for the Period

Due to the factors set out above, the Group recorded a total comprehensive loss of RMB9.1 million in the first half of 2022 (for the same period of 2021: total comprehensive income of RMB56.3 million).

Liquidity and Capital Resources

In the first half of 2022, funds and capital expenditure required in the operation of the Group mainly came from the cash flows from operating activities and proceeds from bank borrowings.

Cash Flows

The following table summarises the net cash flows of the Group for the six months ended 30 June 2022 and 2021:

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Net cash inflow/(outflow) from operating activities	9,505	(67,558)
Net cash inflow/(outflow) from investing activities	85,016	(121,952)
Net cash outflow from financing activities	(49,463)	(66,676)
	45,058	(256,186)
Effect of foreign exchange rate changes on cash and cash equivalents	559	(380)
Net increase/(decrease) in cash and cash equivalents	45,617	(256,566)

In the first half of 2022, the Group's net cash inflow from operating activities amounted to RMB9.5 million, which was mainly attributable to the operating activities during the year (for the same period of 2021: net cash outflow from operating activities amounted to RMB67.6 million). In the first half of 2022, the Group's net cash inflow from investing activities was RMB85.0 million, which was mainly due to the disposal of land use rights and buildings held by Shanghai Bisheng Property Management Co., Ltd. ("**Bisheng Property**"), an indirect wholly-owned subsidiary of the Company (for the same period of 2021: net cash outflow from investing activities was RMB122.0 million). In the first half of 2022, the Group's net cash outflow from financing activities amounted to RMB49.5 million, which was mainly due to the repayment of borrowings and distribution of dividends (for the same period of 2021: net cash outflow from financing activities amounted to RMB66.7 million).

Financial Assets Measured at Fair Value through Profit or Loss

As at 30 June 2022, the Group's financial assets measured at fair value through profit or loss amounted to RMB47.1 million (31 December 2021: financial assets measured at fair value through profit or loss amounted to RMB38.7 million), which mainly included:

(i) The Group's investment to Vstar Investment Fund Limited Partnership amounted to approximately RMB15.3 million; (ii) the Group's investment in ERX Pharmaceuticals Inc. amounted to approximately RMB19.4 million; and (iii) the Group's investment to Nanjing Jinbi Venture Investment Management Partnership (Limited Partnership) amounted to approximately RMB12.4 million.

Bank Balances and Cash

The Group's bank balances and cash, comprising cash and cash equivalents, term deposits and restricted bank deposits, amounted to RMB382.2 million as at 30 June 2022 (31 December 2021: RMB425.0 million).

Borrowings and Pledge of Assets

As at 30 June 2022, the Group has bank borrowings and other borrowings of RMB231.7 million, of which the bank borrowings bear interest rate ranging from 3.70% to 6.80% (31 December 2021: RMB243.7 million, bearing interest rate ranging from 3.85% to 6.80%).

As at 30 June 2022, the Group has bank borrowings of RMB181.1 million pledged by properties with total book value of RMB152.2 million and land use rights with total book value of RMB51.1 million to banks and guarantee companies (as at 31 December 2021: the Group had bank borrowings of RMB191.1 million pledged by properties with total book value of RMB149.9 million and land use rights with total book value of RMB51.7 million to banks and guarantee companies).

On 14 January 2022, the Group signed a financial leasing contract with a third-party financial leasing company, pursuant to which the Group received approximately RMB4.79 million through the sale and leaseback arrangement of a machine. Such money is equivalent to borrowing pledged by the aforementioned machine under the accounting policy.

Capital Expenditure

In the first half of 2022, the capital expenditure of the Group amounted to RMB28.3 million (for the same period of 2021: RMB99.2 million), mainly including plant construction expenditure.

Inventories

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

	As at	
	30 June 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and packaging materials	39,441	38,759
Work in progress	5,100	2,279
Finished goods	<u>89,206</u>	<u>95,303</u>
Total inventories	<u><u>133,747</u></u>	<u><u>136,341</u></u>

Risks in Foreign Exchange Rate

Almost all of the revenue, costs of sales and 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 also denominated in Renminbi. Since Renminbi is the functional currency of the Group, risks in foreign exchange rate mainly come from the assets and liabilities denominated in Hong Kong dollar and US dollar.

For the six months ended 30 June 2022, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (for the same period of 2021: Nil).

Share Consolidation

On 18 March 2022, the Board proposed to implement the share consolidation on the basis that every 40 ordinary shares of USD0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of USD0.0003333332 each (the “**Share Consolidation**”).

The Share Consolidation was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 13 April 2022 and became effective on 19 April 2022. Upon the completion of the Share Consolidation, the number of issued shares of the Company was changed from 1,630,207,820 to 40,755,195, and the shares will continue to be traded in board lot size of 1,000 Shares.

Please refer to the announcements of the Company dated 18 March 2022 and 13 April 2022, and the circular of the Company dated 29 March 2022 for details.

Material Acquisitions or Disposals

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the first half of 2022.

Gearing Ratio

As at 30 June 2022, the Group’s gearing ratio (total liabilities divided by total assets, in percentage) was 33.7% (31 December 2021: 35.7%).

Contingent Liabilities and Guarantees

As at 30 June 2022, the Group had no material contingent liabilities and guarantees (31 December 2021: Nil).

Capital Commitments

As at 30 June 2022, capital expenditure for property, plant and equipment as contracted for but not yet incurred amounted to RMB17.9 million (31 December 2021: RMB24.9 million).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2022, the Group had 1,431 employees in mainland China and Hong Kong (31 December 2021: 1,626 employees). As at 30 June 2022, the labour costs (including Directors’ remunerations) of the Group were RMB118.8 million (for the same period of 2021: RMB135.1 million). Employee remuneration is determined with reference to individual performance, work experience, qualification and prevailing industry practice. Apart from basic remuneration and statutory pension welfare scheme, employee welfare also includes discretionary bonus and share options.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options under the share option scheme (the “**Share Option Scheme**”) adopted by the Company on 8 September 2010, the purpose of which is intended to motivate staffs, and to encourage them to work hard to enhance the value and foster better long-term development of the Group.

The Group invests considerable efforts in continuous education and training for its employees, so as to keep enhancing the knowledge, skill and team spirit of employees. The Group often provides internal and external training courses to relevant staff members based on various needs.

CORPORATE GOVERNANCE

For the six months ended 30 June 2022, the Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), except for code provision C.2.1 of the CG Code.

CODE PROVISION C.2.1

Under code provision C.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 32-year 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. He Yuanping (a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee), Mr. Ren Guangming and Mr. Fu Shula). The Audit Committee has reviewed the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2022 and this announcement, 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 Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2022.

INTERIM DIVIDEND

The Board has resolved not to declare and pay any interim dividend for the six months ended 30 June 2022.

SUBSEQUENT EVENTS

In order to reserve sufficient available cash to fulfill the repayment obligations and improve the gearing ratio while maintaining the size of the Group's operation, on 12 July 2022, the Company proposed to implement the rights issue on the basis of two (2) rights shares for every one (1) Share held on the record date at the subscription price of HK\$1.75 per rights share, to raise up to (i) approximately HK\$142.6 million before deducting the costs and expenses by way of issuing up to 81,510,390 rights shares (assuming no change in the number of Shares in issue on or before the record date); or (ii) approximately HK\$144.0 million before deducting the costs and expenses by way of issuing up to 82,276,390 rights shares (assuming no change in the number of Shares in issue on or before the record date other than the full exercise of outstanding share options), to the qualifying Shareholders.

The Company intends to use the net proceeds from the rights issue for the settlement of the outstanding indebtedness of the Group, the expenses of advertising and marketing, the development of the new retail business division, and the replenishment of general working capital of the Group. For details of the rights issue, please refer to the announcement of the Company dated 12 July 2022.

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 2022 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, 17 August 2022

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