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 2023

THE OPERATION RESULTS OF THE GROUP

The revenue from continuing operations of the Group for the first half of 2023 was RMB343.0 million, representing a decrease of 15.1% as compared with the revenue from continuing operations of RMB403.8 million for the same period of 2022.

The gross profit from continuing operations of the Group for the first half of 2023 was RMB222.2 million, representing a decrease of 8.3% as compared with the gross profit from continuing operations of RMB242.3 million for the same period of 2022. The gross profit margin from continuing operations of the Group for the first half of 2023 was 64.8%, representing an increase of 4.8 percentage points as compared with the gross profit margin from continuing operations of 60.0% for the same period of 2022.

The total operating expenses (including selling and marketing expenses, administrative expenses and research and development costs) from continuing operations of the Group for the first half of 2023 were RMB222.6 million, representing a decrease of 1.4% as compared with the total operating expenses from continuing operations of RMB225.7 million for the same period of 2022.

The total comprehensive loss of the Group for the first half of 2023 was RMB174.5 million (for the same period of 2022: the total comprehensive loss was RMB9.1 million), of which the total comprehensive income from continuing operations was RMB1.3 million (for the same period of 2022: the total comprehensive loss from continuing operations was RMB4.0 million); and the total comprehensive loss from discontinued operations was RMB175.8 million (for the same period of 2022: the total comprehensive loss from discontinued operations was RMB5.1 million).

The total comprehensive loss attributable to owners of the Company for the first half of 2023 was RMB116.2 million, of which the total comprehensive income from continuing operations was RMB1.3 million and the total comprehensive loss from discontinued operations was RMB117.5 million (for the same period of 2022: the total comprehensive loss attributable to owners of the Company was RMB6.6 million, of which the total comprehensive loss from continuing operations was RMB4.0 million and the total comprehensive loss from discontinued operations was RMB2.6 million). The basic and diluted losses per share attributable to owners of the Company for the first half of 2023 were both RMB206.93 cents, of which the basic and diluted earnings per share attributable to owners of the Company from continuing operations were both RMB2.28 cents and the basic and diluted losses per share attributable to owners of the Company from discontinued operations were both RMB209.21 cents (for the same period of 2022: the basic and diluted losses per share attributable to owners of the Company were both RMB16.25 cents, of which the basic and diluted losses per share attributable to owners of the Company from continuing operations were both RMB9.89 cents and the basic and diluted losses per share attributable to owners of the Company from discontinued operations were both RMB6.36 cents).

INTERIM DIVIDEND

The Board has resolved not to declare and pay any interim dividend for the six months ended 30 June 2023.

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 2023 (the "**Result Announcement**"), as below:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2023 *RMB'000* (unaudited)	2022 *RMB'000* (unaudited)
Continuing operations			
Revenue	*4*	**342,987**	403,774
Cost of sales		**(120,827)**	(161,487)
Gross profit		**222,160**	242,287
Other income		**5,345**	2,398
Selling and marketing expenses		**(162,127)**	(162,396)
Administrative expenses		**(41,823)**	(59,167)
Research and development costs		**(18,609)**	(4,177)
Credit impairment losses		**(487)**	(549)
Fair value changes on investments measured at fair value through profit or loss		**279**	403
Other expenses		**(25)**	(242)
Other gains/(losses), net	*5*	**4,706**	(1,499)
Operating profit		**9,419**	17,058
Finance income		**537**	1,042
Finance costs		**(1,754)**	(4,383)
Finance costs, net		**(1,217)**	(3,341)
Share of net losses of associates and joint ventures accounted for using the equity method		**(1,173)**	(4,329)
Profit before income tax		**7,029**	9,388
Income tax expenses	*6*	**(5,747)**	(13,418)
Profit/(loss) for the period from continuing operations		**1,282**	(4,030)
Discontinued operations			
Loss for the period from discontinued operations, net of tax	*7*	**(175,772)**	(5,080)
Loss for the period		**(174,490)**	(9,110)

	Note	Six months ended 30 June 2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Other comprehensive income		**—**	—
Total comprehensive loss for the period		**(174,490)**	(9,110)
Total comprehensive income/(loss) attributable to:			
Owners of the Company			
— Continuing operations		**1,282**	(4,030)
— Discontinued operations		**(117,501)**	(2,591)
		(116,219)	(6,621)
Non-controlling interests			
— Continuing operations		**—**	—
— Discontinued operations		**(58,271)**	(2,489)
		(58,271)	(2,489)
Earnings/(losses) per share for the profit attributable to the ordinary equity holders of the Company (RMB cents)			
Basic earnings/(losses) per share	*8*		
— Continuing operations		**2.28**	(9.89)
— Discontinued operations		**(209.21)**	(6.36)
		(206.93)	(16.25)
Diluted earnings/(losses) per share	*8*		
— Continuing operations		**2.28**	(9.89)
— Discontinued operations		**(209.21)**	(6.36)
		(206.93)	(16.25)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**144,293**	398,114
Intangible assets		**9,243**	131,959
Right-of-use assets		**38,589**	78,219
Other non-current assets		**12,369**	14,086
Investments accounted for using the equity method		**28,023**	29,196
Financial assets measured at fair value through profit or loss		**55,562**	47,283
Long-term bank deposits		**—**	40,000
Deferred income tax assets		**46,172**	55,509
Total non-current assets		**334,251**	794,366
Current assets			
Inventories		**35,300**	109,239
Trade receivables	*9*	**108,101**	104,163
Bills receivable		**1,936**	5,153
Deposits, prepayments and other receivables		**53,736**	80,426
Restricted bank deposits		**—**	5,801
Short-term bank deposits		**112,915**	207,670
Cash and cash equivalents		**264,961**	230,320
Total current assets		**576,949**	742,772
Total assets		**911,200**	1,537,138

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**288**	288
Share premium		**1,039,108**	1,039,108
Other reserves		**342,871**	342,871
Accumulated losses		**(644,149)**	(527,930)
		738,118	854,337
Non-controlling interests		**—**	198,073
Total equity		**738,118**	1,052,410
LIABILITIES			
Non-current liabilities			
Deferred government grants		**2,255**	41,679
Lease liabilities		**4,190**	8,289
Deferred income tax liabilities		**7,208**	32,070
Long-term borrowings		**—**	52,681
Total non-current liabilities		**13,653**	134,719
Current liabilities			
Trade and bills payables	*10*	**3,532**	20,559
Other payables and accrued expenses		**135,646**	169,863
Contract liabilities		**6,280**	24,945
Borrowings		**5,000**	124,890
Lease liabilities		**8,151**	9,027
Current income tax liabilities		**820**	725
Total current liabilities		**159,429**	350,009
Total liabilities		**173,082**	484,728
Total equity and liabilities		**911,200**	1,537,138

NOTE:

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 manufacturing and sales of therapeutic tea products and weight-loss and other medicines.

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

Unless otherwise stated, the financial information in the Result Announcement is presented in Renminbi ("**RMB**").

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been reviewed by the Company's auditor in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The independent auditor's review report to the Directors is included in the interim report to be sent to the shareholders.

2. SIGNIFICANT EVENT

On 30 June 2023, the Group has completed the disposals of three subsidiaries, which resulted in an after-tax loss for the period from discontinued operations amounting to approximately RMB175,772,000. Further details are disclosed in Note 7.

3. BASIS OF PREPARATION

The Group's interim condensed consolidated financial information for the six months ended 30 June 2023 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 2022 (the "**2022 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.

The accounting policies adopted are consistent with those of 2022 Annual Financial Statements, except for the adoption of new and amended standards as set out below.

(a) New and amended standards

The Group has applied the following new and amended standards for the first time to financial reporting periods commencing 1 January 2023:

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies — Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates — Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to IAS 12

The adoption of these new and 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.

(b) Amended standards not yet adopted

Certain amended standards as below have been published that are not mandatory for 30 June 2023 reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendment to IAS 1	Non-current liabilities with covenants	1 January 2024
Amendment to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IFRS 16	Lease liability in sale and leaseback	1 January 2024
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to IAS 21	Lack of Exchangeability	1 January 2025
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

These amended standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4. 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 deducting 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 from continuing operations for the six months ended 30 June 2023 are as follows:

	Tea products segment *RMB'000*	Weight-loss and other medicines segment *RMB'000*	Total *RMB'000*
Total revenue	**217,694**	**125,293**	**342,987**
Inter-segment revenue	**—**	**—**	**—**
Revenue from external customers	**217,694**	**125,293**	**342,987**
Timing of revenue recognition at a point in time	**217,694**	**125,293**	**342,987**
Cost of sales	**(56,264)**	**(64,563)**	**(120,827)**
Gross profit	**161,430**	**60,730**	**222,160**
Selling and marketing expenses	**(99,496)**	**(62,631)**	**(162,127)**
Research and development costs	**(8,353)**	**(10,256)**	**(18,609)**
Segment results	**53,581**	**(12,157)**	**41,424**
Other income			**5,345**
Other gains, net			**4,706**
Administrative expenses			**(41,823)**
Credit impairment losses			**(487)**
Fair value changes on financial assets measured at fair value through profit or loss			**279**
Other expenses			**(25)**
Operating profit			**9,419**
Finance income			**537**
Finance costs			**(1,754)**
Finance costs, net			**(1,217)**
Share of losses of investments accounted for using the equity method			**(1,173)**
Profit before income tax			**7,029**
Income tax expenses			**(5,747)**
Profit for the period from continuing operations			**1,282**
Other segment information:			
Depreciation	**(12,305)**	**(3,070)**	**(15,375)**
Amortisation	**(271)**	**(655)**	**(926)**

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

	Tea products segment *RMB'000*	Weight-loss and other medicines segment *RMB'000*	Total *RMB'000*
Total revenue	246,309	157,465	403,774
Inter-segment revenue	—	—	—
Revenue from external customers	246,309	157,465	403,774
Timing of revenue recognition at a point in time	246,309	157,465	403,774
Cost of sales	(65,872)	(95,615)	(161,487)
Gross profit	180,437	61,850	242,287
Selling and marketing expenses	(105,872)	(56,524)	(162,396)
Research and development costs	(4,177)	—	(4,177)
Segment results	70,388	5,326	75,714
Other income			2,398
Other losses, net			(1,499)
Administrative expenses			(59,167)
Credit impairment losses			(549)
Fair value changes on financial assets measured at fair value through profit or loss			403
Other expenses			(242)
Operating profit			17,058
Finance income			1,042
Finance costs			(4,383)
Finance costs, net			(3,341)
Share of losses of investments accounted for using the equity method			(4,329)
Profit before income tax			9,388
Income tax expenses			(13,418)
Loss for the period from continuing operations			(4,030)
Other segment information:			
Depreciation	(17,067)	(3,079)	(20,146)
Amortisation	(987)	(722)	(1,709)

For the six months ended 30 June 2023, the revenue of approximately RMB62,747,000 (six months ended 30 June 2022: RMB85,846,000) was derived from an e-commerce platform ("**Customer A**"), which took 18.3% (six months ended 30 June 2022: 21.3%) of the Group's total revenue from continuing operations 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 revenue from continuing operations.

5. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Continuing operations		
Net foreign exchange gains	**3,527**	563
Change in fair value of financial assets measured at fair value through profit or loss	**1,170**	1,898
Donation	**(400)**	(1,231)
Net (losses)/gains on disposals of land use rights and property, plant and equipment	**(29)**	57
Others	**438**	(2,786)
	4,706	(1,499)

6. INCOME TAX EXPENSES

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Continuing operations		
Current income tax		
— Current income tax for the period	**95**	268
	95	268
Deferred income tax	**5,652**	13,150
	5,747	13,418

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 profit 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 qualification for the three years from 2020 to 2022, 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 establishment 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%.

7. DISPOSALS OF SUBSIDIARIES

On 5 May 2023, Qianruiwanfu entered into an equity transfer agreement with Zhuhai Jiatai Chengzhang Investment Co., Ltd. (the "**Purchaser**"), which is controlled by Ms. Peng Wei (a substantial shareholder of the Company) and Zhongshan Wanhan Pharmacy Co., Ltd., Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. and Zhongshan Wanhan Pharmaceutical Co., Ltd. (collectively the "**Target Companies**"), which are subsidiaries of the Group, pursuant to which Qianruiwanfu has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire 51% equity interest in each of the Target Companies at the total cash consideration of RMB137,700,000.

The associated assets and liabilities were consequently classified to assets classified as held for sale and liabilities associated with assets classified as held for sales respectively as at 5 May 2023. As the Target Companies are a single cash generating unit (the "**CGU**") of the Group, and is a separate major line of the weight-loss and other medicines segment, the profit or loss of the Target Companies for period then ended were presented as "discontinued operation" in the interim condensed consolidated statement of comprehensive income, and the comparative information relating to the discontinued operations has been re-presented to conform to the current period's presentation.

The disposals of the Target Companies were completed on 30 June 2023.

(a) Loss for the period from discontinued operations was as below:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Revenue	**289,430**	84,308
Cost of sales, selling and marketing expenses, administrative expenses and research and development costs	**(238,546)**	(96,249)
Impairment loss *(note i)*	**(215,645)**	—
Other income	**3,155**	4,157
Other expenses	**(1,213)**	(572)
Other gains, net	**1,528**	1,062
Finance (costs)/income, net	**(986)**	2,845
Loss before income tax	**(162,277)**	(4,449)
Income tax expense	**(4,948)**	(631)
Loss for the period	**(167,225)**	(5,080)
Net loss on the disposals *(note ii)*	**(8,547)**	—
	(175,772)	(5,080)
Loss for the period from discontinued operations attributable to:		
— Owner of the Company	**(117,501)**	(2,591)
— Non-controlling interests	**(58,271)**	(2,489)

(i) As at 5 May 2023, the carrying amount of the 51% equity interests of Target Companies to be disposed was approximately RMB272,583,000, meanwhile the related cash consideration less transaction cost was approximately RMB136,959,000. Given the assets classified as held for sale are stated at lower of the carrying value and the fair value less costs to sell, an impairment loss of approximately of RMB215,645,000 was recognised. Such impairment was allocated to goodwill, other intangible assets, property, plant and equipment and right-of-use assets amounting to approximately RMB52,337,000, RMB32,385,000, RMB114,232,000 and RMB16,691,000 respectively.

(ii) Details of net loss on the disposals were as below:

	30 June 2023
	RMB'000
Total consideration	**137,700**
Transaction costs	**(741)**
Carrying amount of the 51% of equity interests held by the Group at the date of disposals *(Note b)*	**(145,506)**
Net loss on the disposals	**(8,547)**

(b) The carrying amount of net assets of the Target Companies at the date of disposals were as below:

	30 June 2023
	RMB'000
Property, plant and equipment	**124,434**
Intangible assets	**34,560**
Right-of-use assets	**19,424**
Other non-current assets	**5,507**
Inventories	**91,848**
Trade and bills receivables	**22,422**
Deposits, prepayments and other receivables	**10,891**
Restricted bank deposits	**1,305**
Short-term bank deposits	**206,007**
Short-term investment	**258**
Cash and cash equivalents	**50,896**
Total assets	**567,552**
Deferred government grants	**(38,525)**
Lease liabilities	**(1,796)**
Deferred income tax liabilities	**(26,125)**
Long-term borrowings	**(52,328)**
Trade and bills payables	**(26,377)**
Other payables and accrued expenses	**(61,529)**
Contract liabilities	**(20,064)**
Borrowings	**(55,500)**
Total liabilities	**(282,244)**
Net assets	**285,308**
Carrying amount of the 51% of equity interests of the Target Companies held by the Group at the date of disposals	**145,506**

(c) The cash flows from the disposals of subsidiaries are as below:

	30 June 2023 *RMB'000*
Cash consideration received	**137,700**
Transaction costs paid	**(431)**
Cash and cash equivalents disposed *(Note b)*	**(50,896)**
Proceeds from disposals of subsidiaries, net	**86,373**

(d) Re-presentation of comparative figures:

The comparative figures of this interim condensed consolidated financial information have been re-presented.

8. EARNINGS PER SHARE

(a) Basic

Basic earnings/(losses) 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.

	Six months ended 30 June	
	2023	2022
Profit/(Loss) attributable to owners of the Company *(RMB'000)*		
— Continuing operations	**1,282**	(4,030)
— Discontinued operations	**(117,501)**	(2,591)
	(116,219)	(6,621)
Weighted-average number of ordinary shares in issue	**56,164,008**	40,755,195
Basic earnings/(losses) per share *(RMB cents per share)*		
— Continuing operations	**2.28**	(9.89)
— Discontinued operations	**(209.21)**	(6.36)
	(206.93)	(16.25)

(b) Diluted

There were no unvested restricted shares or share options which would result in dilutive effect to the Group as at 30 June 2023 and 2022. Accordingly, the diluted earnings/(losses) per share is same as the basic earnings/(losses) per share for the six months ended 30 June 2023 and 2022.

9. TRADE RECEIVABLES

	As at 30 June 2023 *RMB'000*	As at 31 December 2022 *RMB'000*
Trade receivables	**108,319**	104,290
Less: Loss allowance	**(218)**	(127)
	108,101	104,163

(a) 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 loss allowance) based on the goods delivery dates, which approximated to their invoice dates:

	As at 30 June 2023 *RMB'000*	As at 31 December 2022 *RMB'000*
0 to 90 days	**107,584**	103,125
91 to 180 days	**227**	551
Over 180 days	**290**	487
	108,101	104,163

10. 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 2023 *RMB'000*	As at 31 December 2022 *RMB'000*
0 to 90 days	**3,051**	19,175
91 to 180 days	**330**	998
Over 180 days	**151**	386
	3,532	20,559

11. DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2023, revenue of the Group amounted to RMB343.0 million, representing a decrease of 15.1% as compared with the same period last year, of which revenue from the "Four Teas" (Besunyen Detox Tea (碧生源牌常潤茶), Besunyen Slimming Tea (碧生源牌常菁茶), Besunyen Fit Tea (碧生源牌纖纖茶) and Besunyen Relief Tea (碧生源牌清源茶)) amounted to RMB163.4 million, representing a decrease of 3.9% as compared with the same period last year, and revenue from weight-loss medicines amounted to RMB116.2 million, representing a decrease of 3.1% as compared with the same period last year. In the first half of 2023, the Group adhered to the keynote of seeking progress while maintaining stability and made every effort to reduce cost and enhance efficiency. Organizational operation efficiency was enhanced through optimizing organizational structure and staffing and profitability was improved through adjusting and optimizing product mix. Meanwhile, the Group continued to explore new business growth drivers and actively made attempts to initiate new sales models such as new retail, Douyin, Kuaishou, O2O, B2C and cross-border e-commerce. However, as the projects were still in the exploration and development stage, there was room for further deepening and expansion.

The Group continued to exert great efforts on therapeutic teas (i.e. the "Four Teas") and weight-loss medicines (namely Orlistat) in the first half of 2023 by continuously expanding the promotion of the Group's products and brand via medium including high-speed rail, screen media, Xiaohongshu, KOLs, Douyin and Kuaishou. In the first half of 2023, the Group's offline sales business covered about 410,000 OTC pharmacies and third terminals, spanning across 31 provinces, autonomous regions and municipalities across the country through 118 distributors and 98 sub-distributors, and its offline sales team has been able to serve about 100,000 OTC pharmacies and third terminals directly. The Group's online sales team has established 120 shops on 36 e-commerce platforms to conduct the sales of the Four Teas, Orlistat and other products of the Group. In proactively adapting to the development of new sales trend, the Group made repeated attempts in respect of new retail including Douyin, Kuaishou, O2O, B2C and cross-border e-commerce. The above mature and innovative channels enabled the Group to launch its new products to the market more quickly, thereby maintaining the industrial leading position of the Group in terms of sales of products.

SOUND OPERATION OF OFFLINE CHANNELS

The Group continued to conduct regional management in block mode for the offline OTC business, while it interspersed with financial, human resource and business management lines to form a reticulated penetration. In terms of products, on top of the sales of traditional therapeutic teas, a deep layout of Orlistat products was deployed. In response to the market changes, the Group conducted comprehensive trial and implementation of the "Detox and Control" (一排一控) promotional and marketing activities at the chain end, focusing on weight-loss and laxative products. Effort went into expanding new consumer groups in a proactive manner while serving old customers with high quality. Also, with the focus on chains at various levels, the Group was committed to building core chains and regional key chains and optimizing the implementation of marketing strategy. In the first half of 2023, the key aspects of implementation of the Group's offline channel are set out below:

I. Cooperation with chains to jointly develop the product category

In view of the needs of chains for professional service teams and marketing empowerment, the Group put its focus on weight-loss product category. From the perspectives of consumer groups and case analysis, it developed the concept of losing weight healthily, and launched a product mix of "Detox and Control", which contained new and old products with the purposes of control, detox and double reduction. Its diversified promotion provided consumers with efficient solutions, helping chain terminals to enhance consumer stickness. Effective marketing plans were made and implemented together with chains to expand product category and increase volume. Through joint development with chains, a strategic cooperation between manufacturers and retailers for joint development of product category was achieved.

II. Operation of multi-promotion platforms

Through interactive promotion such as O2O, membership platform and live streaming, advertorial, recommendations on membership platform and provision of complete sets of solutions based on case analysis, promotion reached consumers, arousing members' purchasing desire. Diversified live streaming was also launched in the chain system to interact with consumers. Promotional activities were conducted during holidays and store celebrations, where special areas for laxative and weight-loss products, banner site display, promotion, group buying and lightning deal improved the convenience of purchase. With the combination and alignment of offline and online promotional activities, the improved professional promotion and services by shop assistants, and the addition of tasting sessions, consumer experience was enhanced and consumer orders increased.

III. **Provision of professional services and strengthening of execution capabilities**

First of all, it was achieved on three types of occasions, namely the kick-off meeting, the training session and the product launch meeting. For the kick-off meeting, the senior management of both parties signed contracts and determined the strategic direction, and formulated the promotion requirements and two-way management with indicators for all team members; for the training session, product knowledge and sales skills were mainly trained (with the slogan of "Detox and Control and Keep Fit Healthily"); and for the product launch meeting, sales skills of shop assistants were enhanced through the storefront meeting, counter display and store replication. The second one was about experience enhancement. The Group, together with the chains, conducted an internal Besunyen health and weight-loss competition themed "Detox and Control and Keep Fit Healthily" which lasted for 10 to 15 days. It included forming a chat group, check-in and daily service by professional health practitioners, who guided and helped trainees to improve the quality of health and weight-loss. The event was aimed at enhancing the personal experience and confidence of shop assistants, as well as improving trustworthiness when serving customers with their own experience.

IV. **Implementation of elimination system and diversified incentive programs to improve the motivation of employees and agents**

The OTC business division implemented a system that would eliminate bottom performers based on the staff ranking in terms of quarterly operating results, thereby optimizing the personnel structure and improving the employees' motivation and passion for work. Sales competitions, regional PKs, large order incentives and sales commissions were seen at all levels and among divisions, so as to improve the sales motivation of agents, the willingness to sell and continuity to develop the recommendation-to-customers habits among agents, and improve execution capabilities.

V. **Timely review and conclusion**

Multi-dimensional data review and analysis were conducted in complete reliance on, among other things, distribution rate, number of increased stores, customer order growth, and single-store productivity, such that pros and cons were analyzed, and promotion plans were optimized continuously. A professional service system exclusive for chains was created, in which the operations of various divisions developed together to boost sales.

REFINED OPERATION OF E-COMMERCE SECTOR

I. Adhering to the profit-oriented business strategy and deepening the refined operation

From the start of the new financial year, the e-commerce business division pursued the profit-oriented business strategy emphasizing return on investment and cost-efficiency ratio. The input and output of various operating expenses were tracked daily and reviewed monthly with periodic adjustments. Based on various operating data, it followed up the input and output of various expenses of different operating units in real time and reviewed the operating effects of various activities. In addition, it focused on the market and competitive product dynamics, and adjusted the operating strategy and expense allocation strategy in a timely manner according to market changes and results evaluation. Therefore, both the operating results and the rate of operating results have been significantly improved compared with previous years;

The e-commerce business division strengthened the stocking plan and inventory management and paid attention to the inventory turnover, which effectively shortened the stocking cycle and inventory turnover cycle of customers. A "sales-based production" model was adopted, wherein the sales plan and the responsibility of business entity within the stocking cycle were clarified, the implementation of sales plan was followed up in real time, and the expiry of inventory was updated on a weekly basis. As such, while avoiding the loss of expired products, the amount of inventory and the occupation of the company's stocking funds were effectively reduced and improved.

II. Grasping the traffic flow to monetize user services

1) **Customer acquisition in market through information flow:** In recent years, as the traffic on shopping platforms such as Tmall, JD.com and Pinduoduo has shifted to user traffic on Douyin and other short video platforms, in order to effectively grasp the opportunities of traffic flow and obtain user traffic of better quality through more effective exposure, since the new financial year, while optimizing the overall cost ratio, the e-commerce business division has increased investment in information flow of user behavior data, improved content production capabilities, and accumulated experience in information flow promotion. The operation team and the customer service team worked together, and by means of traffic monetization combining customer acquisition through information flow, platform monetization and continuous re-purchase, they achieved positive operating results and grasped the traffic advantages and business opportunities from short video information flow;

2) **Monetization of Xiaohe traffic:** In respect of the operation on the Douyin platform, the e-commerce drug station set up a business unit in Xiaohe Health, becoming the first batch of merchants settled in Xiaohe Health. It deeply developed the operation of Orlistat products on the Douyin platform and realized a closed-loop operation system of in-station promotion and trading on the Douyin platform. By improving the promotion effect of the Douyin platform, more high-quality new customer resources were obtained, and the internal traffic trading channel was opened up by cooperating with the data marketing team. Also, the secondary monetization and conversion of traffic helped drive traffic to the front-end platform, thus a monetization model for product operation service on the Douyin platform was successfully established.

III. Focusing on platform resource cooperation to achieve cost reduction and efficiency increase

1) **Strengthening of platform communication and implementation of platform resource cooperation:** In the first half of 2023, under the guidance and assistance of the e-commerce management division, all stations of the e-commerce business division achieved big breakthroughs in platform negotiation, channel expansion and supplier resources. In terms of platform commerce, through regular visits and communication with the platform's staff, platform-end collaboration was strengthened, and several types of platform resources were examined. In the 8-March, 5-May, 18-June and other major promotional and regular activities of various platforms, the Group gained resource support from various e-commerce platforms in terms of site resource niches, promotion subsidies and rebates. At the same time, in the annual contract negotiations with platform customers such as JD.com, the Group also secured better cooperation conditions and policy support;

2) **Channel expansion and cooperation with brand customers:** In terms of channels, in the first half of 2023, the e-commerce channel was expanded with the new settlement in Baidu Health Mall and Dewu Platform. At the same time, through the daily management and tracking of various distributors, policy support was given to distributors with strong operational capabilities, while targeted elimination of those with weak operational capabilities was also carried out to ensure the operational quality and efficient output of distribution channels. In terms of cross-border operation, the cooperation with brand customers such as VitaRealm was deepened, and satisfactory results were achieved in commodity price negotiation and brand policy support.

IV. Improving manpower efficiency by internal collaboration and sharing

1) **Cross-division manpower collaboration:** Since September 2022, the e-commerce business division has reorganized the customer service team and matched its personnel according to business volume and undertaking capacity, thereby realizing cross-store, cross-region, cross-station and cross-division undertaking and deployment. In the case of a shortage of manpower, it would collaborate with customer service team of Kuaishou business division to share customer service resources, and conduct manpower efficiency settlement through the division of energy value and labor cost, effectively realizing the improvement of manpower efficiency and personnel integration;

2) **AI workflow optimization:** With the popularization and application of AIGC tools, the content team of the e-commerce business division quickly researched and studied the application of AI in various workflows. Through the promotion and application of ChatGPT-assisted design research, AI visual scene and design material plan generation and other tools in content and design, the content production process was simplified, the design and creation ideas were inspired, and the quality and effect of materials were improved. As such, the efficiency of content design and production was greatly improved and the production cycle was shortened, thereby improving the manpower efficiency and output in content design and production.

CONTINUOUS DEVELOPMENT OF NEW RETAIL, DOUYIN, KUAISHOU AND PRIVATE DOMAIN OPERATIONS

Following the integration of online and offline consumption channels, the new retail sector has begun to bear fruit. New retail is the integration of experience and shopping, which has gained the favor of many consumers due to the model of offline experience, online purchase, offline customer acquisition and online re-purchase. New retail makes the shopping process of consumers smoother. New retail has been on the rise rapidly. With the online and offline combination, new retail has won the support of people, while it better reduced marketing cost, achieved faster sales efficiency, and thus occupied a larger market share.

In recent years, the Group has innovated and expanded business channels through social community, data marketing, Douyin, Kuaishou and cross-border e-commerce, and has gained some initial experience and results.

CONTINUOUS DEVOTION TO MARKETING FOR BRAND REJUVENATION

I. Advertising in high-speed rail media to draw social attention and enhance brand influence with its charisma

In 2023, the Group joined hands with China's high-speed rail to reach a large passenger flow within a short period of time, quickly release the brand potential, and create a new model for the promotion of China's big health ecosystem.

The Group made use of China's high-speed rail as carrier to place advertisements, which highlighted the value, strength and confidence of the leading brand of big health ecosystem and drew widespread social attention. The partnership with China's high-speed rail enabled the Group to seize the high ground of communication and premium flow. Products were disseminated rapidly that aroused widespread attention from core consumers and swept the country with their high exposure and coverage. The products adopted a short-term, high-exposure brand strategy to quickly cover the target market, reach a large passenger flow, and release the brand potential strongly. The value of time and space facilitated powerful transformation. Benefitted from the characteristics of one-to-one, zero-distance, bundled, and strong contact of the media in the high-speed rail, the products had their exclusive mobile brand display space. Furthermore, users' attention was drawn within the 3-hour ultra-long audience contact time, which helped create a super single product of Orlistat, and enabled end-user conversion by scanning the code. The Group carried the values and missions of focusing on people's health. Besunyen joined hands with China's high-speed rail to continuously deepen and explore the path of creating a healthy and better life for users, bringing green, herbal and healthy products to millions of passengers.

II. Occupying the commanding heights of elevator traffic with Tikin Media, and creating an opportunity for manufacturer-retailer cooperation

The Group targeted the business groups' demand for weight-loss products. Leveraging Tikin Media (梯影傳媒)'s strong coverage of elevators in commercial office buildings in first-tier cities and the position advantage of large projection screens, it integrated into the work and life of white-collar groups and accurately hit the target customer groups. The strong coverage of large projection screens on white-collar groups perfectly matched the target audience of the Group, and through the scenario of elevator in office building, the audience and products were deeply bound, realizing the high-frequency dissemination and effective reach of advertisements, and building a precise scenario-based marketing portal for the brand. The Company communicated with consumers with professional quality. Through centralized exposure of brand information, it achieved the ultimate goal of awakening consumers' memory and influencing consumption decisions. Knowing the core scenario of target audience was the key to the success of brand precision marketing.

III. Accurately targeting family groups in the new retail era and finding the second growth curve of the lower-tier markets

The Group and Xiping elevator advertisement formed a strong alliance by entering into a strategic cooperation. With the support of the large elevator media platform in the lower-tier markets, it deeply deployed the third- and fourth-tier markets in 209 cities across the country and conducted brand marketing and publicity matrix. Through the big data analysis and life media value of Xiping Media (喜屏傳媒), the Group was tightly bound up with the pharmacy channels near the community, so that its quality products and services were accurately and effectively integrated into the daily life of consumers. Consumers' health needs were emphasized to accelerate consumption decisions, and the integration of online and offline marketing channels allowed more people to quickly taste Besunyen products. Relying on the unique media advantages of Xiping Media, the brand's health concept of "Detox and Control" penetrated into thousands of households, seized the living space of users, and realized close communication with consumers.

IV. Applying product placement within films and TV dramas, using content marketing and scenario-based marketing to promote brand

Product placement within TV dramas is an act that embeds product or brand information into TV dramas, unknowingly leading audiences and consumers to marketing of products when they indulge in watching the TV dramas. It dilutes the commercial characteristics of traditional advertisements, making it easier for audiences to accept information about products or brands unconsciously, making their memory more durable.

In the first half of 2023, the Group continued to devote itself to content marketing, and product concepts were promoted, and usage scenarios were strengthened through soft product placement. In May 2023, Sweet and Cold (《甜小姐與冷先生》), an urban emotion drama series starring Wang Ziwen, Jin Han and Jill Hsu, was broadcast simultaneously on Zhejiang Satellite TV and Youku Video. Once and Forever (《曾少年》), an emotion and romance drama series starring Zhang Yishan, Guan Xiaotong, Fan Chengcheng and Li Xirui, was broadcast on CCTV-8, Iqiyi and Tencent Video in July 2023.

V. Rejuvenating brand and opening up a new world with the power and thoughts of the youth

The spending habits of the Gen-Z youth changed fundamentally. This spring, keeping pace with the Academy Award Spring Competition, the "Be Sisters" (碧家小妹) arrived at the campus with a new China-chic IP image, and started a wonderful campus trip with 5,000+ offline fans. The cooperation with the Academy Award continued to empower brand rejuvenation to the Group, and the brand's in-depth implantation in the university classrooms provided them with practical topics and enriched the practical teaching content. In addition, the cooperation between schools and enterprises helped establish new thinking of talent training, creative innovation and application services, providing a practical platform for self-realization for millions of creative students. Besunyen visited 17 well-known universities and held 15 brand presentations to share the inspiration with the youth, and nationwide live streaming on Netease led a wave of youth creativity. It made an in-depth interpretation of the core proposition of "Be Sisters", which implanted the life philosophy of "Keeping Fit Healthily" in 100,000+ creative teachers and students across the country. With the use of trendy language, the brand became widely known and entered a new stage of brand rejuvenation. Besunyen was provided with young minds for the research and development and marketing of its products, and established a rich and creative resource pool for the brand.

ORDERLY ADVANCEMENT OF RESEARCH AND DEVELOPMENT WORK

I. Successful completion of the tasks under the special project of the Ministry of Science and Technology

In the first half of 2023, in the National Key Research and Development Plan on Modernization of Chinese Medicine, the Group successfully completed the conclusion work of the project of evaluation system and demonstration research of TCM compound health products themed "Research on the evaluation technology system of TCM compound health products based on dialectical health theory and the establishment of demonstration research and development platform" (基於辨證保健的中藥複方保健產品評價技術體系研究及示範研發平台的建立) (key special project 4.1.2). The project was led by Beijing University of Chinese Medicine and participated by 12 organizations including Tianjin University of Traditional Chinese Medicine, Peking University, Xiyuan Hospital of Chinese Academy of Chinese Medical Sciences and the National Institutes for Food and Drug Control.

As a participant of the project, the Group successfully completed the tasks of building an efficacy research system of TCM compound health products, safety evaluation system, new product R&D evaluation system and demonstration R&D platform. It cooperated with Beijing University of Chinese Medicine to complete the R&D and academic research of new product of Poria Alisma Tablets (茯苓澤瀉片), which have weight-loss and healthcare functions. In addition, the Group was deeply involved in the research of TCM compound health products which have been launched. The project team selected "Besunyen Detox Tea" as a demonstration research product with good modern research foundation and application prospect, and conducted research on functional ingredients, interpretation of modern scientific connotation, research on functional factors and large sample clinical trial and research, which fully demonstrated the scientificity, efficacy, safety and stability of Besunyen Detox Tea. The successful acceptance of the project will provide a series of research and development and evaluation standards for the TCM health product industry and provide a scientific basis for the precise application and development of TCM health products.

II. Continuous deepening of the layout of intellectual property rights

The Group's R&D center continued to deepen the layout and transformation of intellectual property rights, and actively conducted the exploration and declaration of invention patents, utility model patents, software copyrights and design patents. In the first half of 2023, based on the research results, 2 invention patents and 1 utility model patent were newly declared, and 2 utility model patents were granted. The intellectual property management system was further improved to comprehensively protect the Group's inventions and creations and increase the commercial value of products.

III. Reserves of new health food products

In February 2023, the Group successfully completed the technical update of the health food product named "Besunyen Lingzhi Goji Berry Poria Tea" (碧生源牌靈芝枸杞茯苓茶) and obtained the health food registration certificate (Guo Shi Jian Zhu G20080562) upon review and approval by the State Administration for Market Regulation. In the first half of 2023, the Group completed the technical review and pilot scale-up production of "Besunyen Lingzhi Goji Berry Poria Tea" (which has auxiliary effect on chemical-driven liver damage) and "Besunyen Lingzhi Ginseng Granules" (碧生源牌靈芝人參顆粒) (which improve sleep and enhance immunity). Pre-launch preparation is expected to be completed in the second half of 2023. The technical reserves of the two new healthcare functional products lay a solid foundation for further building a diversified product matrix, tapping into new market segment, and horizontally expanding into new functional fields.

PROSPECTS

Since the beginning of the year, China's economic recovery continued its steady progress, and demonstrated an overall upward trend. Nonetheless, the prevailing economic operation encounters new difficulties and challenges with relatively large number of risks and hazards in key areas under complex and severe external environment, coupled with increasingly intense market competition and various unfavourable factors. Based on the practical situation of its companies, the Group will continue to adhere to the operation principles of stabilizing operation, adjusting structure, reducing cost and enhancing quality, while cultivating the sectors of "weight loss and weight management" and "laxative and gastrointestinal health". By placing focus on research and development, the Group will capture the market development trend and consumption demand of the new generation to strengthen the competitiveness of Besunyen products. Meanwhile, the Group will introduce an innovative access-to-customers mechanism to encourage its staff to operate the Company's products in an innovative manner with entrepreneurship. With continuous expansion of multi-channel deployment, streamlining of offline operation, optimization of e-commerce business as well as exploration and following-up of new retail development, the Group strives to capture new growth drivers. As a domestic brand with 23 years of experience in the health industry, the Group will also enhance its efforts on brand building and lift up the awareness and reputation of Besunyen brand via scenario-based marketing, integrated media interaction, social influence and rejuvenation. The Group will closely pay attention to the ever-changing market and consumption demand, continue to undergo product research and development to satisfy growing pursuit of healthiness among the public.

FINANCIAL REVIEW

Revenue

	For the six months ended 30 June			
	2023		2022	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*
Revenue:				
Besunyen Detox Tea	**56,290**	**16.4%**	62,867	15.6%
Besunyen Slimming Tea	**63,587**	**18.5%**	66,503	16.5%
Besunyen Fit Tea	**35,374**	**10.3%**	31,612	7.8%
Besunyen Relief Tea	**8,130**	**2.4%**	8,990	2.2%
Weight-loss medicines	**116,184**	**33.9%**	119,892	29.7%
Other health food	**54,313**	**15.8%**	76,337	18.9%
Other medicines	**9,109**	**2.7%**	37,573	9.3%
Total	**342,987**	**100.0%**	403,774	100.0%

Note: Weight-loss medicines mainly consist of Besunyen Orlistat, other health food mainly consists of health food and other tea products (excluding the Four Teas), and other medicines mainly consist of finished medicines.

The Group's revenue in the first half of 2023 was RMB343.0 million, representing a decrease of 15.1% from RMB403.8 million in the first half of 2022.

In particular, revenue from the Four Teas in the first half of 2023 was RMB163.4 million, representing a decrease of 3.9% from RMB170.0 million in the first half of 2022, revenue from weight-loss medicines in the first half of 2023 was RMB116.2 million, representing a decrease of 3.1% from RMB119.9 million in the first half of 2022, revenue from other health food in the first half of 2023 was RMB54.3 million, representing a decrease of 28.9% from RMB76.3 million in the first half of 2022, and revenue from other medicines in the first half of 2023 was RMB9.1 million, representing a decrease of 75.8% from RMB37.6 million in the first half of 2022.

The decrease in revenue in the first half of 2023 as compared to the first half of 2022 was mainly due to the adjustment of the Group's strategy by optimizing original equipment manufacturer ("**OEM**") products and trading products with small volume and no profit prospects.

Cost of Sales, Gross Profit and Gross Profit Margin

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Cost of sales	**120,827**	161,487
Gross profit	**222,160**	242,287
Gross profit margin	**64.8%**	60.0%

The Group's cost of sales in the first half of 2023 was RMB120.8 million, representing a decrease of 25.2% as compared to RMB161.5 million in the first half of 2022. The gross profit margin in the first half of 2023 was 64.8%, representing an increase of 4.8 percentage points as compared to 60.0% in the first half of 2022, which was mainly due to (i) the increase in the proportion of revenue from the Four Teas and weight-loss medicines with higher gross profit and the decrease in the proportion of revenue from other medicines and other health food with lower gross profit; and (ii) the decrease in the procurement cost of weight-loss medicines in the first half of 2023 as compared to the first half of 2022.

Selling and Marketing Expenses

	For the six months ended 30 June			
	2023		2022	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*
Advertising costs	**21,788**	**6.4%**	3,056	0.7%
Marketing and promotion expenses	**66,251**	**19.3%**	76,977	19.1%
Employee benefit expenses	**54,105**	**15.8%**	60,710	15.0%
Others	**19,983**	**5.8%**	21,653	5.4%
Total	**162,127**	**47.3%**	162,396	40.2%

The Group's selling and marketing expenses in the first half of 2023 were RMB162.1 million, which remained basically stable as compared to RMB162.4 million in the first half of 2022.

The advertising costs increased by RMB18.7 million in the first half of 2023 as compared to the first half of 2022, mainly due to the increase in expenditure on advertising activities.

The marketing and promotion expenses decreased by RMB10.7 million in the first half of 2023 as compared to the first half of 2022, mainly due to the decrease in expenditure of marketing and promotion via e-commerce platforms.

The employee benefit expenses decreased by RMB6.6 million in the first half of 2023 as compared to the first half of 2022, mainly due to the decrease in the number of sales personnel.

Administrative Expenses

	For the six months ended 30 June			
	2023		2022	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*
Employee benefit expenses	**19,169**	**5.6%**	25,187	6.2%
Office expenses	**1,111**	**0.3%**	1,447	0.4%
Professional and consultation service fees	**6,624**	**1.9%**	9,046	2.2%
Entertainment and travelling expenses	**2,768**	**0.9%**	2,909	0.8%
Others	**12,151**	**3.5%**	20,578	5.1%
Total	**41,823**	**12.2%**	59,167	14.7%

The Group's administrative expenses in the first half of 2023 were RMB41.8 million, representing a decrease of 29.3% from RMB59.2 million in the first half of 2022. This was mainly due to the decrease in employee benefit expenses, office expenses, professional and consultation service fees as well as entertainment and travelling expenses as a result of the Group's overall strategic planning for cost reduction and efficiency enhancement and optimization of organizational structure.

Research and Development Costs

	For the six months ended 30 June			
	2023		2022	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*
Research and development costs	**18,609**	**5.4%**	4,177	1.0%

The research and development costs in the first half of 2023 were RMB18.6 million, representing an increase of RMB14.4 million from RMB4.2 million in the first half of 2022, mainly due to the Group's outsourced research and development activities.

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 2023 was RMB1.2 million, which was mainly comprised of the loss of RMB1.6 million from the disposal of shares held by the Group's joint venture Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) in Chaoju Eye Care Holdings Limited.

Taxation

The income tax expenses of the Group in the first half of 2023 were RMB5.7 million, as compared to the income tax expenses of RMB13.4 million in the first half of 2022, which was mainly attributable to the utilization of deductible losses recognized in the previous years.

Total Comprehensive Loss for the Period

Due to the factors set out above, the total comprehensive loss of the Group for the first half of 2023 was RMB174.5 million (for the same period of 2022: the total comprehensive loss was RMB9.1 million), of which the total comprehensive income from continuing operations was RMB1.3 million (for the same period of 2022: the total comprehensive loss from continuing operations was RMB4.0 million) and the total comprehensive loss from discontinued operations was RMB175.8 million (for the same period of 2022: the total comprehensive loss from discontinued operations was RMB5.1 million).

Liquidity and Capital Resources

In the first half of 2023, funds and capital expenditure required in the operation of the Group mainly came from the cash flows from operating activities, bank borrowings, proceeds from the disposal of subsidiaries and proceeds from rights issue.

Cash Flows

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Continuing operations:		
Net cash inflow/(outflow) from operating activities	**44,126**	(52,704)
Net cash inflow from investing activities	**76,395**	27,633
Net cash outflow from financing activities	**(85,112)**	(25,859)
Discontinued operations:		
Net cash inflow from operating activities	**44,071**	62,209
Net cash (outflow)/inflow from investing activities	**(58,382)**	57,383
Net cash inflow/(outflow) from financing activities	**13,799**	(23,604)
Net increase in cash and cash equivalents	**34,897**	45,058
Exchange (losses)/gains on cash and cash equivalents	**(256)**	559
Cash and cash equivalents at end of period	**264,961**	261,659

In the first half of 2023, the Group's net cash inflow from operating activities of continuing operations was RMB44.1 million (for the same period of 2022: net cash outflow of RMB52.7 million), which was mainly attributable to the operating activities during the year. In the first half of 2023, the Group's net cash inflow from investing activities of continuing operations was RMB76.4 million, which was mainly due to the disposal of the Company's indirect subsidiaries, namely, Zhongshan Wanhan Pharmacy Co., Ltd. (中山萬漢製藥有限公司) ("**Wanhan**"), Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (中山萬遠新藥研發有限公司) ("**Wanyuan**") and Zhongshan Wanhan Pharmaceutical Co., Ltd. (中山萬漢醫藥有限公司) ("**Wanhan Pharmaceutical**") (for the same period of 2022: net cash inflow of RMB27.6 million, which was mainly due to the disposal of the land use rights and buildings held by Shanghai Bisheng Property Management Co., Ltd., an indirect wholly-owned subsidiary of the Company). In the first half of 2023, the net cash outflow from financing activities of continuing operations was RMB85.1 million, which was mainly due to the repayment of borrowings (for the same period of 2022: net cash outflow of RMB25.9 million, which was mainly due to the repayment of borrowings).

Financial Assets Measured at Fair Value through Profit or Loss

As at 30 June 2023, the Group's financial assets measured at fair value through profit or loss amounted to RMB55.6 million (31 December 2022: RMB47.3 million), which mainly included:

(i) The Group's investment in Vstar Investment Fund Limited Partnership amounting to approximately RMB15.3 million; (ii) the Group's investment in ERX Pharmaceuticals Inc. amounting to approximately RMB19.4 million; and (iii) the Group's investment in Nanjing Jinbi Venture Investment Management Partnership (Limited Partnership) amounting to approximately RMB20.9 million.

Bank Balances and Cash

The Group's bank balances and cash, comprising cash and cash equivalents and term deposits, amounted to RMB377.9 million as at 30 June 2023 (31 December 2022: RMB483.8 million).

Borrowings and Pledge of Assets

As at 30 June 2023, the Group had bank borrowings of RMB5.0 million, which bear interest rate of 4.70% (31 December 2022: RMB177.6 million, bearing interest rate ranging from 2.03% to 6.00%).

As at 30 June 2023, the Group's outstanding bank borrowings were all credit borrowings without any pledge of assets (as at 31 December 2022: the Group had bank borrowings of RMB133.6 million pledged by properties with total book value of RMB120.9 million and land use rights with total book value of RMB33.6 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).

Use of Proceeds from Rights Issue

The net proceeds from the rights issue of the Company (after deducting the expenses in relation to the rights issue) amounted to approximately RMB125.9 million. As at 30 June 2023, the proceeds from the rights issue were fully utilized as intended.

The following table sets forth the use of proceeds of the Group as at 30 June 2023:

	Net proceeds from rights issue *RMB million*	Amount utilized as at 31 December 2022 *RMB million*	**Amount utilized during the six months ended 30 June 2023** ***RMB million***	**Amount utilized as at 30 June 2023** ***RMB million***
For settlement of the outstanding indebtedness	61.4	44.1	**17.3**	**61.4**
For advertising and marketing expenses	29.7	23.9	**5.8**	**29.7**
For development of new retail business division	20.3	10.2	**10.1**	**20.3**
As working capital and for other general corporate purposes (including research and development expenses)	14.5	14.5	**0.0**	**14.5**
Total	125.9	92.7	**33.2**	**125.9**

Capital Expenditure

In the first half of 2023, the capital expenditure of the Group's continuing operations amounted to RMB3.2 million (for the same period of 2022: RMB15.5 million) as indicated in the following table:

	For the six months ended 30 June	
	2023 ***RMB'000***	2022 *RMB'000*
Property, plant and equipment	**3,164**	11,378
Intangible assets	**22**	4,076
Total	**3,186**	15,454

Inventories

The Group's inventories include raw materials and packaging materials, work in progress and finished goods as indicated in the following table:

	As at	
	30 June	31 December
	2023	2022
	RMB'000	*RMB'000*
Raw materials and packaging materials	**5,615**	41,297
Work in progress	**1,644**	8,919
Finished goods	**28,780**	59,762
	36,039	109,978
Less: provision for impairment	**(739)**	(739)
Total inventories	**35,300**	109,239

Risks of 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 HK 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 of foreign exchange rate mainly come from assets denominated in HK dollar and US dollar.

For the six months ended 30 June 2023, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (for the same period of 2022: Nil).

Material Acquisitions or Disposals

On 5 May 2023, (i) Tibet Qianruiwanfu Venture Investment Co., Ltd., an indirect wholly-owned subsidiary of the Company (as vendor), (ii) Zhuhai Jiatai Chengzhang Investment Co., Ltd., or entity(ies) controlled by Ms. Peng Wei (being a connected person of the Company at the subsidiary level) as designated by her from time to time (not being connected person(s) of the Company at the issuer level) (the "**Purchaser**") and (iii) Wanhan, Wanyuan and Wanhan Pharmaceutical (collectively, the "**Target Companies**") entered into the equity transfer agreement, pursuant to which the vendor sold 51% equity interest in each of the Target Companies to the Purchaser at the total consideration of RMB137.7 million, which was determined after arm's length negotiations between the Purchaser and the vendor taking into account of: (i) the net assets of the Target Companies; (ii) the previous financial performance and future prospects of the Target Companies; (iii) the market conditions for the core products and businesses of the Target Companies; and (iv) the reasons for and benefits of the disposal. As a result of the above disposal, the Group recorded (i) after-tax loss for the period from discontinued operations of RMB175.8 million; (ii) a decrease in total assets of approximately RMB567.6 million; (iii) a decrease in total liabilities of approximately RMB282.2 million; and (iv) a decrease in non-controlling interests of approximately RMB198.1 million for the six months ended 30 June 2023. For details, please refer to the announcement of the Company dated 5 May 2023 and the circular of the Company dated 8 May 2023.

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the first half of 2023.

Gearing Ratio

As at 30 June 2023, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 19.0% (31 December 2022: 31.5%).

Contingent Liabilities and Guarantees

As at 30 June 2023, the Group had no material contingent liabilities and guarantees (31 December 2022: Nil).

Capital Commitments

As at 30 June 2023, capital commitments for property, plant and equipment as contracted for but not yet incurred amounted to RMB7.2 million (31 December 2022: RMB12.6 million).

Compliance with Laws and Regulations

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

During the first half of 2023, so far as known to the Directors, there was no non-compliance with any relevant laws and regulations which would have a material impact on the Group.

Relationships with Employees, Suppliers and Customers

The Group endeavors to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realization and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the six months ended 30 June 2023, the Group provided generous social insurance benefits to its employees to motivate their proactivity at work and heighten their sense of belonging. The Group also understood the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group placed emphasis on supplier selection and encouraged fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and products, the Group abided by the principles of honesty and trustworthiness and committed itself to consistently providing quality products to establish a reliable service environment for its customers. For the six months ended 30 June 2023, there was no significant or material dispute between the Group and its suppliers and/or customers.

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2023, the Group had 802 employees in mainland China and Hong Kong (31 December 2022: 913 employees). As at 30 June 2023, the staff costs of the Group from continuing operations (including remunerations of the Directors) were RMB81.8 million (for the same period of 2022: RMB95.4 million). Employee remuneration was determined with reference to individual performance, work experience, qualification and prevailing industry practice. Apart from basic remuneration and statutory pension benefit scheme, employee benefits also included discretionary bonus.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. 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 2023, 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 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 33 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. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Fu Shula and Mr. Shi Xiangxin. The Audit Committee has reviewed the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 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 2023.

INTERIM DIVIDEND

The Board has resolved not to declare and pay any interim dividend for the six months ended 30 June 2023.

SUBSEQUENT EVENTS

No significant event affecting the Group has occurred subsequent to 30 June 2023 and up to the date of this announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (http://ir.besunyen.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2023 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, 28 August 2023

As at the date of this announcement, the executive Directors are Mr. Zhao Yihong (Chairman and Chief Executive Officer), Ms. Gao Yan (Vice Chairman) and Mr. Yu Hongjiang (Executive Vice President, Chief Operating Officer and Chief Financial Officer); and the independent non-executive Directors are Mr. He Yuanping, Mr. Fu Shula and Mr. Shi Xiangxin.