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 Report 2012

涵養萬物

生生不息

Sustaining Health from
Nature's Nourishing

Corporate Profile

Besunyen Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") are the leading provider of therapeutic tea in China, engaging in the development, production, sales and promotion of therapeutic tea and the business of other health food products.

In 2011, the majority of the Group's turnover comes from the Group's two bestselling products, namely Besunyen Detox Tea and Besunyen Slimming Tea. According to a survey conducted by China Southern Medicine Economy Research Institute (南方醫藥經濟研究所), these two products were the leading therapeutic tea products sold through retail pharmacies in China in the laxative and slimming products market in terms of retail sales value in 2011, with a market share of 28.1% and 35.7% respectively.

Products of the Group use exclusive formulae and are manufactured with high quality Chinese herbal-based medicine and tea leaves, providing effective, safe, affordable and convenient to use health food products for those with chronic or recurring health problems, as well as those seeking to maintain a healthy body and lifestyle.

As of 30 June 2012, products of the Group are sold in nearly 131,000 retail outlets all over China, of which approximately 95% are retail pharmacies. The distribution network of the Group covers 388 distributors in 31 provinces, autonomous regions and centrally administered municipalities in China.

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Yihong
(Chairman and Chief Executive Officer)
Ms. Gao Yan *(Vice Chairman)*

Non-executive Director

Mr. Zhuo Fumin

Independent non-executive Directors

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

AUDIT COMMITTEE

Mr. Wong Lap Tat Arthur *(Chairman)*
Mr. Huang Jingsheng
Ms. Xin Katherine Rong

REMUNERATION COMMITTEE

Mr. Huang Jingsheng *(Chairman)*
Mr. Zhao Yihong
Mr. Wong Lap Tat Arthur
Ms. Xin Katherine Rong

NOMINATION COMMITTEE

Ms. Xin Katherine Rong *(Chairman)*
Mr. Zhao Yihong
Mr. Wong Lap Tat Arthur
Mr. Huang Jingsheng

COMPANY SECRETARY

Mr. Au Lap Ming, CPA, ACIS, ACS

REGISTERED OFFICE IN CAYMAN ISLANDS

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AUDITOR

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Certified Public Accountants
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LEGAL ADVISORS

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PRC

Financial Highlights

The Operation Results of the Group

The turnover of the Group in the first half of 2012 was RMB325.2 million, representing a decrease of 36.5% as compared with the turnover of RMB512.3 million for the same period in 2011. Gross profit decreased from RMB458.6 million to RMB279.5 million, down 39.0%. The gross profit margin decreased from 89.5% in the first half of 2011 to 86.0% in the same period of 2012. Total operating expenses (include selling and marketing expenses, administrative expenses, research and development costs) of the Group in the first half of 2012 were RMB415.7 million, representing an increase of 26.5% as compared with RMB328.5 million in the same period of 2011. Loss on disposal of a subsidiary of RMB6.7 million recognised in the first half of 2012 (for the same period of 2011: RMBNil). In addition, there was an impairment loss of RMB20.3 million in the first half of 2012 (for the same period of 2011: RMBNil) in respect of property, plant and equipment. The Group recorded a net loss of RMB167.6 million in the first half of 2012 as compared to the net profit of RMB113.3 million in the same period of 2011. The basic and diluted loss per share were RMB0.10 and RMB0.10 respectively (for the same period of 2011: the basic and diluted earnings per share were RMB0.07 and RMB0.07 respectively).

Interim Dividends

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

Management Discussion and Analysis

Business Review

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

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

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

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

Management Discussion and Analysis

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

Moderate expansion of sales network

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

Fast growing e-commerce business

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

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

Continued marketing effort for long-term brand building

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

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

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

New Product Development

Mei An Granules

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

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

Maishuping

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

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

Management Discussion and Analysis

Taps into teabag beverage market to broaden product portfolio

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

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

New product pipeline under research and development

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

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

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

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

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

Financial Review

Review of Interim Results for 2012

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

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

Turnover

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

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

Management Discussion and Analysis

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

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

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

Cost of Sales and Gross Profit

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

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

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

Other Income

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

Selling and Marketing Expenses

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

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

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

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

Management Discussion and Analysis

Administrative Expenses

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

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

Research and Development Costs

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

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

Loss on Disposal of a Subsidiary

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

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

Impairment Loss Recognised in Respect of Property, Plant and Equipment

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

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

Income Tax Expense

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

(Loss) Profit and Total Comprehensive (Expenses) Income

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

Use of the Net Proceeds from the IPO

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

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

Management Discussion and Analysis

Cash Flow and Capital Resources

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

Cash Flow

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

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

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

Cash and Bank Loans

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

Capital Expenditure

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

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

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

Investment properties

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

	As of	
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
Investment properties	**242,752**	–

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

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

Management Discussion and Analysis

Inventories

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

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

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

Trade and Notes Receivables

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

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

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

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

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

	For the six months ended 30 June 2012 days	For the year ended 31 December 2011 days
Trade and notes receivables turnover days[1]	**76**	78
of which, trade receivables turnover days	**12**	33

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

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

Management Discussion and Analysis

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

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

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

Trade Payables

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

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

	As of 30 June 2012 RMB'000	As of 31 December 2011 RMB'000
Trade payables	**4,476**	7,248

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

	For the six months ended 30 June 2012 days	For the year ended 31 December 2011 days
Trade payables turnover days	**23**	26

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

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

Risks in Foreign Exchange

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

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

Pledge of Assets

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

Contingent Liabilities and Guarantees

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

Off-Balance Sheet Commitments and Arrangements

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

Capital Commitment

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

Management Discussion and Analysis

Human Resources Management

The Group regards high quality employees as the most important resources. The Group has recently recruited the chief operating officer, Mr. Liu Jie, who has 18 years of experience in sales, marketing and corporate management and worked as senior management for several multi-national companies in China. As at 30 June 2012, the Group had 2,604 employees in mainland China and Hong Kong (including 644 promotional staff members employed by employment agencies) (as of 31 December 2011: 3,153 employees (including 826 promotional staff members employed by employment agencies)). For the six months ended 30 June 2012, the total labour cost (including Directors' remunerations and non-cash share-based compensation) was approximately RMB85.4 million (for the same period of 2011: RMB79.8 million). Staff remuneration is formulated with reference to individual performance, working experience, qualifications and current industry practice. Apart from basic salary and statutory pension welfare, staff welfare also includes discretionary bonus and stock options.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options based on a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company. The employee's share options scheme aims at giving staff members an incentive, to encourage them to work hard to enhance value and foster better long-term development of the Group. In November 2011, the Company also adopted a restricted share award scheme (the "Restricted Share Award Scheme") to grant restricted shares to eligible employees.

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

Prospects

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

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

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF BESUNYEN HOLDINGS COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Besunyen Holdings Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 39, which comprise the condensed consolidated statement of financial position as at 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

17 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

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

Condensed Consolidated Statement of Financial Position

At 30 June 2012

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital redemption reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Statutory surplus reserve RMB'000 (Note b)	Share option reserve RMB'000	Accumulated profits (losses) RMB'000	Total equity attributable to owners of the Company RMB'000
At 1 January 2011 (audited)	95	1,387,351	230,864	–	–	52,946	36,643	27,796	1,735,695
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	113,323	113,323
Dividends	–	(14,062)	–	–	–	–	–	–	(14,062)
Exercise of share options	–	498	–	–	–	–	(150)	–	348
Share-based payments	–	–	–	–	–	–	11,096	–	11,096
At 30 June 2011 (unaudited)	95	1,373,787	230,864	–	–	52,946	47,589	141,119	1,846,400
At 1 January 2012 (audited)	**95**	**1,351,715**	**230,864**	**–**	**–**	**60,995**	**49,626**	**(21,129)**	**1,672,166**
Loss and total comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(167,554)**	**(167,554)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**3,230**	**–**	**3,230**
Share repurchased and cancelled	**(5)**	**(57,980)**	**–**	**5**	**–**	**–**	**–**	**(5)**	**(57,985)**
Transfer of share option reserve upon forfeiture of share options	**–**	**–**	**–**	**–**	**–**	**–**	**(433)**	**433**	**–**
Purchase of shares under restricted share award scheme (Note 18)	**–**	**–**	**–**	**–**	**(39,312)**	**–**	**–**	**–**	**(39,312)**
At 30 June 2012 (unaudited)	**90**	**1,293,735**	**230,864**	**5**	**(39,312)**	**60,995**	**52,423**	**(188,255)**	**1,410,545**

Note a: Special reserve represents the aggregate of (i) the difference between the nominal value of the Company's share, issued upon the Group reorganisation and the net assets of Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") and Beijing Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage"), and (ii) a deemed distribution of RMB2,200,000 to the shareholders.

Note b: According to the relevant laws in the PRC, the enterprises established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a general reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the previous year losses, if any. The general reserve fund is non-distributable other than upon liquidation.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Note	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
OPERATING ACTIVITIES			
(Loss) profit before taxation		**(154,336)**	137,542
Adjustments for:			
Allowance for doubtful debts		**95**	–
Amortisation of intangible assets		**1,711**	2,398
Depreciation of property, plant and equipment		**17,196**	12,324
Exchange (gain) loss		**(261)**	4,615
(Gain) loss on disposal of property, plant and equipment		**(272)**	60
Impairment loss on property, plant and equipment		**20,256**	–
Interest income		**(4,251)**	(7,336)
Loss on disposal of a subsidiary		**6,700**	–
Release of prepaid lease payments		**681**	757
Release of deferred government grant		**(392)**	(394)
Share-based compensation		**3,230**	11,096
Write down of inventories		**1,499**	–
Operating cash flows before movements in working capital		**(108,144)**	161,062
Increase in inventories		**(4,136)**	(4,393)
Decrease (increase) in trade and notes receivables		**219,764**	(68,070)
Decrease (increase) in deposits, prepayments and other receivables		**40,647**	(58,845)
(Decrease) increase in trade payables		**(2,772)**	6,045
Decrease in other payables and accrued expenses		**(107,257)**	(10,543)
Cash generated from operations		**38,102**	25,256
Income taxes paid		**(13,959)**	(24,204)
Interest received		**4,251**	7,336
NET CASH FROM OPERATING ACTIVITIES		**28,394**	8,388
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and investment properties		**(29,547)**	(101,728)
Purchase of land use rights		**(1,210)**	–
Disposal of a subsidiary	6	**(498)**	–
Purchase of intangible assets		**(42)**	(218)
Receipt of restricted cash		**5,000**	–
Proceeds from disposal of property, plant and equipment		**404**	70
NET CASH USED IN INVESTING ACTIVITIES		**(25,893)**	(101,876)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Payments on repurchase of shares	**(57,985)**	–
Payments for shares under restricted share award scheme	**(39,312)**	–
Advances from related parties	**–**	200
Dividend paid	**–**	(14,014)
Proceeds from issuance of shares upon exercise of share options	**–**	348
Repayment to related parties	**–**	(1,000)
NET CASH USED IN FINANCING ACTIVITIES	**(97,297)**	(14,466)
DECREASE IN CASH AND CASH EQUIVALENTS	**(94,796)**	(107,954)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD REPRESENTING BANK BALANCES AND CASH	**602,541**	1,170,469
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	**261**	(4,615)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD REPRESENTING BANK BALANCES AND CASH	**508,006**	1,057,900

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

1. Basis of Preparation

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

2. Principal Accounting Policies

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

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

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

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

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

3. Turnover and Segment Information

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

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

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

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

4. Income Tax Expense

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
The charge comprises		
Current tax:		
PRC income tax	**10,278**	20,657
Over provision in prior year:		
PRC income tax	**(1,184)**	–
Deferred tax (Note 16):		
Current period	**4,124**	3,562
	13,218	24,219

5. (Loss) Profit for the Period

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

6. Disposal of a Subsidiary

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

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

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

Notes:

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

(ii) On the same date, Beijing Outsell, Zhuhai Qi Jia, the former shareholders of Zhuhai Qi Jia and the acquirer of Zhuhai Qi Jia, an independent third party, signed another four-party agreement. Pursuant to the terms of the agreement, a payable for acquisition of a subsidiary amounting to RMB2,000,000 (Note 15) was transferred to the acquirer as settlement of the remaining part of the total consideration.

7. Dividends

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

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

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

8. (Loss) Earnings Per Share

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
(Loss) earnings		
(Loss) earnings for the purpose of calculating basic and diluted (loss) earnings per share	**(167,554)**	113,323

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

The weighted average number of ordinary shares shown above has been arrived at after deducting the weighted average effect of 61,000,000 ordinary shares held by the Company's restricted share award scheme as set out in Note 18 during the six months ended 30 June 2012.

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

9. Property, Plant and Equipment

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

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

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

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

10. Investment Properties

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

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

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

11. Non-Current Deposits

	30 June 2012 RMB'000	31 December 2011 RMB'000
Deposits for purchase of property, plant and equipment (Note a)	**29,688**	322,972
Deposits for purchase of intangible assets (Note b)	**1,148**	1,347
	30,836	324,319

Notes:

(a) As at 31 December 2011, included in such deposits was a full prepayment of RMB306,000,000 related to a deposit for purchasing an office property in Beijing. During the six months ended 30 June 2012, the Group obtained the legal title and ownership of such property and transferred the non-current deposit of RMB307,135,000 to property, plant and equipment and investment properties. Further details are set out in Note 9 and Note 10.

(b) Deposits for purchase of intangible assets represented amounts paid for the acquisition of trademarks.

12. Trade and Notes Receivables

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

12. Trade and Notes Receivables *(Continued)*

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

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

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
181 – 360 days	**208**	316
	208	316

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

13. Deposits, Prepayments and Other Receivables

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

14. Trade Payables

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

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

15. Other Payables and Accrued Expenses

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

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

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

16. Deferred Tax

The following are the major deferred tax (liability) asset recognised and movements thereon during the current period:

	Fair value adjustment on assets acquired through business combinations RMB'000	Accrued expenses, accrued payroll and sales rebates RMB'000	Prepaid advertisement expenses RMB'000	Withholding tax on undistributed earnings RMB'000	Deferred government grant RMB'000	Trademark RMB'000	Total RMB'000
At 1 January 2011	(4,882)	7,476	145	(6,422)	787	–	(2,896)
Credit (charge) to profit or loss during the period	303	(3,923)	98	–	(40)	–	(3,562)
At 30 June 2011	(4,579)	3,553	243	(6,422)	747	–	(6,458)
Credit to profit or loss during the period	1,082	9,680	34	–	100	720	11,616
At 31 December 2011	(3,497)	13,233	277	(6,422)	847	720	5,158
Credit (charge) to profit or loss during the period	274	(5,480)	(277)	–	1,421	(62)	(4,124)
Disposal of a subsidiary	757	–	–	–	–	–	757
At 30 June 2012	(2,466)	7,753	–	(6,422)	2,268	658	1,791

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

16. Deferred Tax *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Deferred tax assets	**10,679**	15,077
Deferred tax liabilities	**(8,888)**	(9,919)
	1,791	5,158

At 30 June 2012, the Group had unused tax losses of RMB155,560,000 (31 December 2011: RMB85,189,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of RMB155,560,000 (31 December 2011: RMB85,189,000) due to the unpredictability of future profit streams. Tax losses of RMB75,752,000 (31 December 2011: RMB78,754,000) will expire in various years before 2017 (31 December 2010: 2016). At 30 June 2012, no deferred tax asset has been recognised for deductible temporary difference amounting to RMB20,256,000 (31 December 2011: RMBNil) in respect of impairment losses. There was no other significant unprovided deferred tax asset at 30 June 2012 and 31 December 2011.

17. Share Capital

	Number of shares	**Amount** US$	**Shown in the Financial Statements as** RMB'000
Authorised:			
At 1 January 2011, 31 December 2011 and 30 June 2012	6,000,000,000	50,000	341
Issued and fully paid:			
At 1 January 2011	1,681,091,320	14,009	95
Exercise of Share Options (Note a)	300,000	3	–
At 30 June 2011	1,681,391,320	14,012	95
Exercise of Share Options (Note a)	3,337,500	28	–
At 31 December 2011	1,684,728,820	14,040	95
Share repurchased and cancelled (Note b)	(100,483,000)	(837)	(5)
At 30 June 2012	**1,584,245,820**	**13,203**	**90**

Notes:

(a) During the year ended 31 December 2011, share options to subscribe for 3,637,500 ordinary shares of US$0.00000833333 each were exercised at HK$1.4 per share (equivalent to RMB1.23 per share).

(b) During the six months ended 30 June 2012, the Company repurchased and cancelled 100,483,000 ordinary shares of par value of US$0.00000833333 each with an aggregated consideration of HK$71,385,000 (equivalent to RMB57,985,000).

(c) At 30 June 2012, 61,000,000 ordinary shares of par value of US$0.00000833333 each were held by the Company's restricted share award scheme as set out Note 18.

(d) The shares rank pari passu with other shares in issue in all respects.

18. Share-Based Payments

Share option scheme

The Company's Pre-IPO Share Option Scheme, was adopted pursuant to a resolution passed on 30 April 2010 for the primary purpose of providing incentives to eligible employees. Under the Scheme, the board of directors of the Company may grant options to eligible directors, employees and consultant to subscribe for shares in the Company.

The following table discloses movement of the Company's share options held by directors, employees and consultant for the six months ended 30 June 2012:

Date of grant	Option type	Vesting period	Outstanding at 1/1/2012	Exercised during the period	Forfeited during the period	Outstanding at 30/6/2012
6.5.2010	1st	3.5 Years	78,420,000	–	(1,540,000)	76,880,000
6.5.2010	2nd	4 Years	11,520,000	–	(1,830,000)	9,690,000
6.5.2010	3rd	3 Years	1,560,000	–	(1,560,000)	–
6.5.2010	4th	4 Years	1,000,000	–	(1,000,000)	–
31.5.2010	5th	3.9 Years	4,600,000	–	–	4,600,000
21.6.2010	6th	3.9 Years	100,000	–	–	100,000
28.6.2010	7th	3.9 Years	1,400,000	–	–	1,400,000
Total			98,600,000	–	(5,930,000)	92,670,000
Weighted average exercise price (RMB)			1.25	–	1.58	1.23

The following table discloses the details of the Company's share options held by directors, employees and consultant for the six months ended 30 June 2011:

Date of grant	Option type	Vesting period	Outstanding at 1/1/2011	Exercised during the period	Forfeited during the period	Outstanding at 30/6/2011
6.5.2010	1st	3.5 Years	78,770,000	–	–	78,770,000
6.5.2010	2nd	4 Years	15,460,000	–	(1,295,000)	14,165,000
6.5.2010	3rd	3 Years	14,000,000	(300,000)	–	13,700,000
6.5.2010	4th	4 Years	4,000,000	–	–	4,000,000
31.5.2010	5th	3.9 Years	5,100,000	–	–	5,100,000
21.6.2010	6th	3.9 Years	100,000	–	–	100,000
28.6.2010	7th	3.9 Years	1,400,000	–	–	1,400,000
Total			118,830,000	(300,000)	(1,295,000)	117,235,000
Weighted average exercise price (RMB)			1.3	1.23	1.23	1.3

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

18. Share-Based Payments *(Continued)*

Restricted Share Award Scheme

The Company adopted a restricted share award scheme (the "Restricted Share Award Scheme") on 11 November 2011 for a period of 10 years. The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants (the "Eligible Participants") of the Group. The Company has set up the Restricted Share Award Scheme Trust (the "Trust"). Pursuant to the Restricted Share Award Scheme, existing shares will be purchased by the trustee from the open market using cash contributed by the Company and be held in trust for the relevant participants until such shares are vested with the relevant participants in accordance with the provisions of the Restricted Shares Award Scheme.

During the six months period ended 30 June 2012, the Trust purchased 61,000,000 ordinary shares of the Company in a total net consideration of HK$48,291,000 (equivalent to RMB39,312,000) for the Restricted Share Award Scheme. These shares had not been granted to any Eligible Participants at the reporting date.

19. Operating Lease Commitments

The Group as lessee

At the end of respective reporting periods, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within one year	**5,382**	4,945
In the second to fifth year inclusive	**926**	823
	6,308	5,768

Operating lease payments represent rental payable by the Group for certain of its office and staff quarters. Rentals are fixed for an average of 1 year.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within one year	**1,382**	–
In the second to fifth year inclusive	**1,634**	–
	3,016	–

20. Capital Commitments

	30 June 2012 RMB'000	31 December 2011 RMB'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	**48,576**	67,787

21. Related Party Transactions and Balances

The Group has the following significant transactions with related parties:

Name of related party	Nature of transactions	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Besunyen Investment Co., Ltd. (i)	Rental expense	**600**	600

(i) Mr. Zhao Yihong, executive director of the Company, controlled this entity.

During the period, the remuneration of directors and other members of key management is as follows:

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Salaries and other benefits	**5,099**	5,045
Retirement benefits scheme contributions	**67**	62
Share-based payments	**2,346**	8,533
	7,512	13,640

Other Information

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2012, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (b) to be and were entered into in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

Name of Director/ Chief Executive	Nature of interest	Number of Shares*	Number of Shares subject to options granted under the Pre-IPO Share Option Scheme	Approximate percentage of interest of total issued Shares (%)[9]
Mr. ZHAO Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director[1][3]	1,075,864,600[1][L]	36,000,000[1][L]	67.91%
Ms. GAO Yan	Beneficial owner and interest of her spouse[2][3]	1,075,864,600[2][L]	36,000,000[2][L]	67.91%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	536,000[4][L]	400,000[4][L]	0.03%
Mr. WANG Bing[5]	Beneficial owner	400,000[5][L]	400,000[5][L]	0.03%
Mr. HUANG Jingsheng	Beneficial owner	500,000[6][L]	500,000[6][L]	0.03%
Mr. WONG Lap Tat Arthur	Beneficial owner	700,000[7][L]	500,000[7][L]	0.04%
Ms. XIN Katherine Rong	Beneficial owner	500,000[8][L]	500,000[8][L]	0.03%

(1) Mr. Zhao Yihong, the Company's executive Director, beneficially owns 24,000,000 Shares pursuant to the grant of an option for 24,000,000 Shares under the Pre-IPO Share Option Scheme and 1,726,000 Shares directly. Mr. Zhao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 1,031,178,600 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;

(ii) 6,960,000 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and

(iii) 12,000,000 Shares which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse, pursuant to the grant of an option for 12,000,000 Shares under the Pre-IPO Share Option Scheme.

(2) Ms. Gao Yan, the Company's executive Director, beneficially owns 12,000,000 Shares pursuant to the grant of an option for 12,000,000 Shares under the Pre-IPO Share Option Scheme. Ms. Gao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 1,726,000 Shares which are beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;

(ii) 1,031,178,600 Shares which are deemed to be beneficially owned by Mr. Zhao, as controlling shareholder of Foreshore Holding Group Limited;

(iii) 6,960,000 Shares which are deemed to be beneficially owned by Mr. Zhao, as controlling shareholder of Better Day Holdings Limited; and

(iv) 24,000,000 Shares which are beneficially owned by Mr. Zhao, pursuant to the grant of an option for 24,000,000 Shares under the Pre-IPO Share Option Scheme.

(3) 84.15% of the issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(4) Mr. Zhuo Fumin, the Company's non-executive Director, beneficially owns 400,000 Shares pursuant to the grant of an option for 400,000 Shares under the Pre-IPO Share Option Scheme. Mr. Zhuo is also deemed or taken to be interested in the 136,000 Shares beneficially owned by his wife for the purposes of the SFO.

(5) Mr. Wang Bing, the Company's non-executive Director, beneficially owns 400,000 Shares pursuant to the grant of an option for 400,000 Shares under the Pre-IPO Share Option Scheme. Mr. Wang resigned as a non-executive Director with effect from 6 July 2012.

(6) Mr. Huang Jingsheng, the Company's independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme.

(7) Mr. Wong Lap Tat Arthur, the Company's independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme and 200,000 Shares directly.

(8) Ms. Xin Katherine Rong, the Company's independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme.

(9) This is calculated based on 1,584,245,820 Shares, being the number of Shares in issue as at 30 June 2012. The Shares and the percentage of interest in the columns include the Pre-IPO Share options.

* The letter "L" denotes the person's long position in such Shares.

Other Information

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2012, so far as known to any Director or chief executive of the Company, persons (other than a Director or chief executive of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Substantial Shareholders	Number of Shares*	Approximate percentage of interest of total issued Shares (%)(3)
Foreshore Holding Group Limited(1)	1,031,178,600(L)	65.09%
KCS Trust Limited(1)	1,031,178,600(L)	65.09%
Sea Network Holdings Limited(1)	1,031,178,600(L)	65.09%
GGV III Entrepreneurs Fund L.P.(2)	102,788,640(L)	6.49%
Granite Global Ventures III L.L.C.(2)	102,788,640(L)	6.49%
Granite Global Ventures III L.P.(2)	102,788,640(L)	6.49%

(1) 84.15% of the issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(2) Granite Global Ventures III L.L.C. is the general partner of Granite Global Ventures III L.P., which beneficially owns 101,144,040 Shares, and GGV III Entrepreneurs Fund L.P., which beneficially owns 1,644,600 Shares. Granite Global Ventures III L.P. and GGV III Entrepreneurs Fund L.P. are parties to an agreement under section 317 of the SFO and are deemed or taken to be interested in a total of 102,788,640 Shares.

(3) This is calculated based on 1,584,245,820 Shares, being the number of Shares in issue as at 30 June 2012.

* The letter "L" denotes the person's long position in such Shares.

Other than as disclosed above, as at 30 June 2012, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 30 April 2010. The Pre-IPO Share Option Scheme gives the employees an opportunity to have a personal stake in the Company and to motivate the employees to optimize their performance and efficiency, and to retain the employees whose contribution are important to the long-term growth and profitability of the Group. No further options under the Pre-IPO Share Option Scheme can be granted after the date of listing of the shares of the Company on the Stock Exchange.

Details of the Pre-IPO Share Options outstanding and movements during the six months ended 30 June 2012 are set out in note 18 to the unaudited consolidated financial statements of this interim report.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 8 September 2010.

The purpose of the Share Option Scheme is to provide an incentive to motivate, attract and retain eligible person, and to encourage them to optimize their performance efficiency, enhance the value of the Company and promote the long-term growth of the Company. This Scheme will provide the eligible participants, including employees, consultants, executives or officers of the Company to have a personal stake in the Company to achieve its intended purpose.

The Share Option Scheme shall be valid and effective for a period of 10 years from 8 September 2010, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The maximum number of shares in respect of which may be issued upon exercise of all options to be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme shall not, in aggregate, exceed 168,109,132, being 10% of the shares of the Company in issue immediately after the IPO on the listing date (i.e. 29 September 2010) which is the effective date of such scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person under the Share Option Scheme shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company from time to time. Any further grant of share options in excess of this limit is subject to the issue of a circular and shareholders' approval in general meeting. The period within which an option may be exercised under the Share Option Scheme or the Pre-IPO Share Option Scheme will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the particular option. Under the Share Option Scheme, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

Other Information

No share options were granted under the Share Option Scheme by the Company during the six months ended 30 June 2012 and there were no outstanding share options under the Share Option Scheme as at 30 June 2012.

Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme on 11 November 2011.

The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants who shall receive offers of restricted shares as designated by the administration committee (the "Selected Participants") and to increase the degree to which the Selected Participants' remuneration and interests are tied to the financial performance of the Company and fortunes of the shareholders of the Company. This scheme will provide the eligible participants, which includes any director, employee, consultant, executive or officer of the Company or any of its subsidiaries, to have a personal stake in the Company.

The total number of restricted shares which may be granted under the Restricted Share Award Scheme shall not exceed 5% of the aggregate of the shares in issue on 2 December 2011; and the total number of restricted shares which may be granted under the Restricted Share Award Scheme to an individual Selected Participant shall not exceed 1.5% of the aggregate of the shares in issue on 2 December 2011.

The Company has set up the Restricted Share Award Scheme Trust (the "Trust"). Pursuant to the Restricted Share Award Scheme, existing shares will be purchased by the trustee from the open market using cash contributed by the Company and be held in trust for the relevant participants until such shares are vested with the relevant participants in accordance with the provisions of the Restricted Shares Award Scheme.

During the six months period ended 30 June 2012, the Trust purchased 61,000,000 Shares in a total net consideration of HK$48,291,000 (equivalent to RMB39,312,000) for the Restricted Share Award Scheme. These shares had not been granted to any Selected Participants at the reporting date.

Save as disclosed above, during the six months ended 30 June 2012, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

Corporate Governance

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

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

Code Provision A.2.1 of both the Former CG Code and the New CG Code

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 22 years of experience in China's food and beverage industry. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

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

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

Code Provision A.6.7 of the New CG Code

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

Audit Committee

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

Review of Interim Results

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

Model Code for Securities Transactions

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

Other Information

Purchases, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2012, the trust set up for the Restricted Share Award Scheme purchased 61,000,000 Shares in a total net consideration of HK$48,291,000 for the Restricted Share Award Scheme.

During the six months ended 30 June 2012, the Company made the following repurchase of Shares on the Stock Exchange:

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

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

Changes in the Information of Directors

The changes in the information of the Directors from 1 January 2012 to the date of this interim report that are required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

Name of Director	Details of Changes
Wang Bing (resigned on 6 July 2012)	• Retired as an independent non-executive director of China Huiyuan Juice Group Limited (a company listed on the Stock Exchange, stock code: 1886) on 29 June 2012
Wong Lap Tat Arthur	• Appointed as an independent director of China Automotive Systems, Inc. (a company listed on NASDAQ, stock code: CAAS) on 15 May 2012
	• Ceased as the chief financial officer of GreenTree Inns Hotel Management Group, Inc. on 31 May 2012

Dividends

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

On behalf of the Board
ZHAO Yihong
Chairman

Hong Kong, 17 August 2012