



碧生源控股有限公司  
Besunyen Holdings Company Limited

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 926

# 功能 好茶

Sustaining Health From  
Nature's Nourishing

Interim Report 2014





# CORPORATE PROFILE

Besunyen Holdings Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) are the leading provider of therapeutic tea in China, mainly engaging in the business of the development, production, sales and promotion of therapeutic tea.

In 2013, the majority of the Group’s revenue came from the Group’s two bestselling products, namely Besunyen Detox Tea and Besunyen Slimming Tea. According to a survey conducted by an independent third party research organisation, these two products were the leading therapeutic tea products sold through retail pharmacies in China in the laxative and slimming products markets in terms of retail sales value in 2013, with a market share of 22.7% and 38.2% 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 at 30 June 2014, the Group’s distribution network covers 125 distributors and 558 sub-distributors in 31 provinces, autonomous regions and centrally administered municipalities in China. Through these distributors and sub-distributors, we are able to serve nearly 125,000 retail terminals, of which 95% are retail pharmacies.



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# 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. Wang Jing

Mr. Ren Guangming

## AUDIT COMMITTEE

Mr. Wang Jing *(Chairman)*

Mr. Huang Jingsheng

Mr. Ren Guangming

## REMUNERATION COMMITTEE

Mr. Huang Jingsheng *(Chairman)*

Mr. Zhao Yihong

Mr. Wang Jing

Mr. Ren Guangming

## NOMINATION COMMITTEE

Mr. Ren Guangming *(Chairman)*

Mr. Zhao Yihong

Mr. Huang Jingsheng

Mr. Wang Jing

## COMPANY SECRETARY

Mr. Au Lap Ming, *CPA, ACIS, ACS*

## REGISTERED OFFICE IN CAYMAN ISLANDS

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## WEBSITE OF THE COMPANY

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## INVESTOR RELATIONS

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## CORPORATE INFORMATION

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### **AUDITOR**

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# FINANCIAL HIGHLIGHTS



## THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2014 was RMB314.0 million, representing an increase of 24.7% as compared with the revenue of RMB251.8 million for the same period in 2013.

Gross profit of the Group amounted to RMB270.1 million for the first half of 2014, representing an increase of 24.6% from RMB216.8 million for the same period of 2013. The gross profit margin of the Group was 86.0% for the first half of 2014, representing a decrease of 0.1 percentage point from 86.1% for the same period of 2013.

Total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2014 were RMB269.3 million, representing an increase of 19.3% as compared with the operating expenses of RMB225.8 million for the same period of 2013.

The Group recorded a net profit of RMB17.2 million for the first half of 2014, whilst it recorded the net loss of RMB4.6 million for the same period of 2013.

The basic and diluted earnings per share for the first half of 2014 were RMB1.12 cents and RMB1.12 cents, respectively (for the same period of 2013: the basic and diluted loss per share were RMB0.30 cent and RMB0.30 cent, respectively).

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1.25 cents per share for the six months ended 30 June 2014 to the shareholders of the Company whose names appear on the register of members of the Company on 28 August 2014. The interim dividend will be paid on 8 September 2014.



# MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2014, GDP in China increased by 7.4% and the economy was moderate and stable. Under the stable economic landscape, the Group completed the integration of sales teams and sales channels in 2013 and continuously improved the operation of all systems of the Company in the first half of 2014. After the rebound of the market demand for the Group's products in 2013, the distributors' demand for the Group's products had been increasing rapidly in the first half of 2014. The revenue of the Group in the first half of 2014 amounted to RMB314.0 million, representing an increase of 24.7% as compared with the revenue of RMB251.8 million in the corresponding period in 2013. In the first half of 2014, gross profit of the Group amounted to RMB270.1 million, representing an increase of 24.6% from RMB216.8 million for the same period of 2013. The gross profit margin of the Group was 86.0% for the first half of 2014, representing a decrease of 0.1 percentage point from 86.1% for the same period of 2013. On the other hand, the total operating expenses (including selling and marketing expenses, administrative expenses, research and development costs) of the Group in the first half in 2014 were RMB269.3 million, representing an increase of 19.3% as compared with RMB225.8 million in the corresponding period in 2013. In the first half of 2014, profit before interest expense, taxation, depreciation and amortization amounted to RMB50.9 million, representing an increase of 154.5% from RMB20.0 million for the same period of 2013. The gain in the first half of 2014 was RMB10.0 million (the corresponding period in 2013: Nil) in respect of disposal of a subsidiary. Moreover, one-off government grant of RMB6.3 million was obtained in the first half of 2014 (the corresponding period in 2013: RMB0.3 million). Due to the aforementioned factors, the net profit of the Group in the first half of 2014 amounted to RMB17.2 million while the net loss of the Group in the corresponding period in 2013 amounted to RMB4.6 million.

## BUSINESS REVIEW

### Expanding Sales Network of Traditional Channels

Subsequent to the second half of 2013, the Group completed the restructuring of sales team of traditional channels and the integration of sales channels, and reclassified the sales area in China into 13 regions for management. The sales team of traditional channels put much effort in market expansion in the first half of 2014, with remarkable success. At present, the sales network of the Group has already covered all the provinces, autonomous regions and centrally administered municipalities in Mainland China. In the first half of 2014, in order to provide a better understanding of the Company and products for distributors, the Group set up a scheme of "BACK HOME" (「回家」), inviting major distributors to visit the Company. In the first half of the year, more than 50 distributors' representatives visited Besunyen production base located in Fangshan, Beijing and the headquarter — Besunyen Building, which is located in West 4th Ring Road North, Beijing. These distributors spanned across 13 regions in China and contributed more than 60% of the total revenue of the Group in the past two years. Through the scheme of "BACK HOME", mutual trust was enhanced between the Company and major distributors. Taking this opportunity, the Company went into in-depth discussion and analysis with the major distributors in terms of the mode of cooperation, inventory management and the retail channel management for the second half of the year and the years ahead.



## MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2014, in order to maintain the stability of the channels and manage the pricing system of the Company's products effectively, the Company continued to carry out the strategy formulated in 2013, which advocated the integration of the distributors and sub-distributors in China. Under the strategy, it formulated clear standards for distributors and sub-distributors, allocated more resources of the Group to the major distributors of high quality which had great contributions to the Company. Through the integration of the channels of distributors and sub-distributors, the Company's products were able to be circulated in a fixed direction in accordance with the designated channels of the Company, which further enhanced the control of the sales channels of products. In the first half of 2014, the Company downgraded distributors which were unable to comply with our requirements to sub-distributors, and ceased to cooperate with those distributors which failed to reach our standards. The number of distributors of the Group decreased from 148 in the end of 2013 to 125 as at 30 June 2014, while the number of sub-distributors decreased from 630 in the end of 2013 to 558 as at 30 June 2014. Leveraging a series of management initiatives which "aided the competent and eliminated the incompetent", the Company not only enhanced the management of the channels but also underpinned the development of distributors which had greater contributions to the Company, resulting in a mutual growth of the business of the Company, distributors and sub-distributors. A sound, mutually supportive and close partnership was thus established, which boosted growth in sales effectively.

In the second half of 2013, the Group's traditional sales team established the operation management department, which was gradually improved in the first half of 2014. The department formulated a standard specially guiding the visits of the salesmen serving the retail terminals. The operation management department is responsible for regulating the sales personnel's service mode for the retail terminals, and providing guidance to the sales personnels on the hand of actively carrying out on-site visits and face to face introductions to the assistants of the retail pharmacies for the sale of the products. In the first half of 2014, the sales team was streamlined as compared to the year of 2013, while the number of retail outlets in service remained at 125,000.

In the first half of this year, the Group acted as the title sponsor for Besunyen Divas Hit the Road, a popular show produced by Hunan Satellite TV. The Group implemented a marketing plan which delivered comprehensive and close contact with the channel distributors and sub-distributors, retail terminals and customers through the social media platforms such as Weibo and WeChat. A series of promotional activities were also carried out, such as the lucky draw for the family trip to Europe, buying the products to get free T-shirt, on-line game of Divas Hit the Road, forwarding Weibo and WeChat messages to participate in lucky draw. These activities enhanced the products' popularity among the consumers, and increased the sales to some extent.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Multi-level Marketing

From 1 January 2014, the Group adopted new packages for Besunyen Detox Tea and Besunyen Slimming Tea. The design is based on the herbal ingredients of the products, which improves the product image and is highly recognised by the customers. The retail price of Besunyen Slimming Tea also increased by 32.9%, reaching the same price of Besunyen Detox Tea. In the first half of 2014, both the sales volume and prices of Besunyen Detox Tea and Besunyen Slimming Tea increased. In the first half of 2014, the sales volume of Besunyen Detox Tea increased by 7.8% from RMB81.7 million bags to RMB88.1 million bags, and the sales revenue increased by 8.4% from RMB117.7 million to RMB127.5 million, while the sales volume of Besunyen Slimming Tea increased by 9.9% from 117.7 million bags to 129.3 million bags, and the sales revenue increased by 39.8% from RMB130.8 million to RMB182.9 million, as compared with the corresponding period of 2013. The increase in both the sales volume and prices of the two products made a great contribution to the income growth of the Company in the first half of 2014. In the meantime, as a response to the new packages and price increase, in the first half of 2014, the Company ran advertisements on different medias including TV, internet and outdoor platform continuously, and produced propaganda about health for broadcasting. Such moves aimed at maintaining the existing clients as well as exploring the new clients through media campaign and market education.

In the spring of 2014, the twelfth (2013-2014) Chinese University Students Advertisement Art Show Academy Award “Besunyen Cup Public Service Advertising Contest” hosted by China Advertising Association selected the graphic works with the theme of public service at the headquarter of Besunyen. Hundreds of university students from a dozen universities participated in the contest with more than one hundred thousand works submitted. Through the appraisal, we delivered the concepts of “Herbal”, “Healthy”, “Functional” and “Eastern” of Besunyen to the young university students, which built a good brand image of Besunyen in the minds of young people.

In late April, Besunyen Divas Hit the Road, an entertainment reality show sponsored by the Group, was broadcast on Hunan Satellite TV. The show was broadcast each week with eight sessions in total. It recorded the highest audience ratings both online and offline among all the TV programmes broadcast in the same period of time, which further enhanced the brand effects. To amplify the influence of the show, the Group launched a series of promotion activities both online and offline, i.e. the online lucky draw and offline advertisements on the outdoor media, so as to increase the promotional effects of the advertisements. The click-through rate of Besunyen Divas Hit the Road, which was available on Mango TV exclusively, has exceeded 100 million.

In the mid of May, the 43rd IAA World Congress was held at China National Convention Center in Beijing. Besunyen is the only product-oriented exhibitor at the congress. On the sub-forum of the congress, Besunyen announced its plan to apply the world intangible cultural heritage for “Eastern tea-making technique” (東方茶術), a move aiming at promoting the traditional tea culture and leading the development of the whole industry. In addition, the Group was named the “Capital China Outstanding Health Products Group” (《資本中國傑出保健品集團》) in the ninth award ceremony of “Capital China Outstanding Enterprise Achievement Prize” (《資本中國傑出企業成就獎》) presented by Capital Magazine, a famous financial magazine in Hong Kong, which fully testified Besunyen’s achievement in the field of therapeutic tea products.

The Group was awarded Credible China Health Care Product Brand for three consecutive years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Actively Expanding Sales through E-business Channel

Sales through e-business channel is at its initial stage with great potential to explore. It contributed for 4.5% of the total revenue of the Group in the first half of 2014. In the second half of the year, the Group planned to further change the emphasis of promotion of e-business channel to herbal tea products in food and beverage. The Company specially designed new package for our herbal tea products in the first half of the year. We expect to record an increase in sales of herbal tea products through e-business channel and bring certain contribution to the revenue of the Group in the future.

## Quality Products Receiving Specialised Verification

On 27 June 2014, the fifth Healthplex & Nutraceutical China was grandly held in Shanghai, and the “Evidence-based Medicine Result of Making Tea with Besunyen Functional Bag (碧生源功能袋泡茶循證醫學結果)” by the Evidence-based Medicine Project Seminar of Health Food was published at the exhibition. According to the initial experimental results, Besunyen Detox Tea and Besunyen Slimming Tea are effective, safe and applicable. At the seminar, latest answers regarding the effectiveness and safety of Besunyen products were made to consumers and health food industry with scientific research method.

The Evidence-based Medicine Project of Health Food was a health food scientific and systematic research project in a large scale sponsored by China Health Care Association, as institutions involved in the experiment include Shanghai Municipal Center for Disease Control & Prevention, the Second Military Medical University, Institute of Chinese Materia Medica under China Academy of Chinese Medical Sciences (中國醫學科學院中藥研究所), etc. Besunyen Detox Tea and Besunyen Slimming Tea received the verifications from the Evidence-based Medicine Project of Health Food, which verified the high quality of the Group's products again.

In addition to ensuring safety and effectiveness of the ingredients of products, the Company also carries out stringent quality testing on products in the long run with strict control on quality of products from procurement of raw materials, production and logistics environment, examination of finished goods and other procedures. In order to supply customers with high quality products, the Company has imported IMA equipment which possess the world leading technologies from Italy year by year since 2009 to produce and process products. IMA equipment solidly ensures the supply of quality products to customers with its world leading technology and efficient production capacity of 300 bags per minute for each machine.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Prospects — Promising Internal and External Environment Facilitating the Development of Our Business

In 2014, the China introduced the new Good Supply Practice (“GSP”). GSP aims at formulating new industry standards for pharmaceutical trading enterprises including medical companies and retail pharmacies regarding the qualifications, facilities and equipment, storage environment, logistic compliance, quality regulation, legality of tax receipt and others. In this round of reshuffle, unqualified retail pharmacies will be forced to close down or regulated. Through such actions, retail pharmacy market will be cleaned up and the vicious competition in the irregulated environment will be improved, meanwhile the qualified retail pharmacies will in turn gain in both sales and reputation. The introduction of new GSP is a good opportunity for Besunyen which operates under regulation all the time, to regulate channels, manage prices and suppress vicious competition. With this opportunity of consolidation of the industry, the negative impact on the Company’s products from vicious competition of informal channels will be eliminated. With the force of formal channels, the sales of the Company’s products will further increase.

In the second half of 2014, the Group will adhere to the sales strategy for the first half of the year. It will continue to focus on implementing its existing marketing initiatives for Besunyen Detox Tea and Besunyen Slimming Tea, keep optimizing the sales channels, further enhance the management of sales terminals, closely monitor market inventories, take an active role in maintaining the relationship with sale terminals personnel, and promote the concept of a healthy living to the market as well as to the public. We look forward to a steady growth in sales revenue in the second half of the year as compared to the same period of the previous year and in turn a reasonable level of profit for the Group, although the second half of the year will not be a hot sale season for the Group’s product.

In addition, the Group will be prudent in controlling its advertising expenses for the second half of the year. It will further expand the influence of the advertising of Divas Hit The Road which was successfully broadcasted in the first half of the year by means of online-offline interactive media communication, so as to achieve desirable cost-effective marketing results with relatively economical measures. In the second half of the year, the Company has not planned to invest in similar projects at such cost. Instead, advertising expense is planned to be orderly made to a series of small-scale TV and online shows that are content-oriented so as to draw market attention by leveraging the content of the programs. Tapping into the existing promotion resources and program effect that remain after Divas Hit The Road, the Company aims to deepen the brand influence of the Group.

In the past few years, the Group has a certain quantity of new products in stock, acquired through its own research and development, external cooperation or direct external procurement. These new products are available for production, sales and being launched on the market. Once the two tea products, being the fundamental business of the Company, have been integrated to a certain extent, the Company will start to inspect market demands in an active manner and launch the new products on the market when appropriate.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Operational Results

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	2013
	2014	2013
	RMB'000	RMB'000
Revenue	314,001	251,802
Cost of sales	(43,948)	(35,003)
Gross profit	270,053	216,799
Other income	25,447	14,300
Selling and marketing expenses	(224,674)	(165,834)
Administrative expenses	(40,911)	(55,095)
Research and development costs	(3,750)	(4,833)
Other expenses	(6,798)	(5,446)
Other gain (loss)	255	(261)
Gain on disposal of a subsidiary	9,977	—
Profit (loss) before tax	29,599	(370)
Income tax expense	(12,397)	(4,206)
Profit (loss) and total comprehensive income (expense) for the period	17,202	(4,576)
Earnings (loss) per share		
Basic (RMB)	1.12 cents	(0.30)cent
Diluted (RMB)	1.12 cents	(0.30)cent

## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenue

	For the six months ended 30 June			
	2014	Percentage of the total revenue	2013	Percentage of the total revenue
	<i>RMB'000</i>		<i>RMB'000</i>	
Revenue:				
Besunyen detox tea	<b>127,502</b>	<b>40.6%</b>	117,661	46.7%
Besunyen slimming tea	<b>182,911</b>	<b>58.3%</b>	130,813	52.0%
Other products	<b>3,588</b>	<b>1.1%</b>	3,328	1.3%
<b>Total</b>	<b>314,001</b>	<b>100%</b>	251,802	100%

The Group's revenue increased by 24.7% from RMB251.8 million in the first half of 2013 to RMB314.0 million in the same period of 2014. Among which, the revenue of Besunyen Detox Tea increased by 8.4% from RMB117.7 million in the first half of 2013 to RMB127.5 million in the same period of 2014, mainly due to the increase in sales volume from 81.7 million tea bags in the first half of 2013 to 88.1 million tea bags in the same period of 2014. The revenue of Besunyen Slimming Tea increased by 39.8%, from RMB130.8 million in the first half of 2013 to RMB182.9 million in the same period of 2014, mainly due to (1) the increase in the sales volume of slimming tea by 9.9% from 117.7 million bags in the first half of 2013 to 129.3 million bags; and (2) the cross-the-board price increase of slimming tea from 1 January 2014.

In the first half of 2014, through the Group's dedicated and positive efforts in marketing and promotion, Besunyen's brand image was enhanced, which led to an increase in consumers' recognition of the products. The average selling price ("ASP") (revenue divided by sales volume) of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.45 per bag, and RMB1.41 per bag, respectively in the first half of 2014, increased by 0.7% and 27.0% from RMB1.44 per bag and RMB1.11 per bag, respectively in the same period of 2013. Although changes in the ASP of Besunyen Detox Tea were moderate, the ASP of Besunyen Slimming Tea changed significantly, mainly due to the increase in prices of Besunyen Slimming Tea.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Cost of Sales and Gross Profit

	For the six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	Percentage of revenue	<i>RMB'000</i>	Percentage of revenue
Cost of sales	43,948	14.0%	35,003	13.9%
Gross profit	270,053	86.0%	216,799	86.1%

Cost of sales of the Group increased by 25.6% from RMB35.0 million in the first half of 2013 to RMB43.9 million in the same period of 2014. Cost of sales as a percentage of revenue increased from 13.9% in the first half of 2013 to 14.0% in the same period of 2014.

As a result of the increase in revenue by 24.7% and decrease in cost of sales as a percentage of revenue by 0.1% in the first half of 2014 as compared to the same period of 2013, gross profit of the Group increased by 24.6% from RMB216.8 million in the first half of 2013 to RMB270.1 million in the same period of 2014. Gross profit margin of the Group slightly decreased from 86.1% in the first half of 2013 to 86.0% in the same period of 2014.

## Selling and Marketing Expenses

	For the six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	Percentage of revenue	<i>RMB'000</i>	Percentage of revenue
Advertising expenses	126,308	40.2%	68,525	27.2%
Other marketing and promotional expenses	41,609	13.3%	20,198	8.0%
Staff costs	42,403	13.5%	45,457	18.1%
Others	14,354	4.6%	31,654	12.6%
Total	224,674	71.6%	165,834	65.9%

Selling and marketing expenses of the Group increased by 35.5% from RMB165.8 million in the first half of 2013 to RMB224.7 million in the same period of 2014. To be specific, advertising expenses, other marketing and promotional expenses increased by 84.3% and 106.0%, respectively in the first half of 2014 as compared to the same period of 2013. Staff costs and others decreased by 6.7% and 54.7%, respectively as compared to the same period of 2013, mainly due to the decrease in the number of employees and enhancement of management.

The increase in other marketing and promotional expenses (including point-of-sale terminals expenses, promotional expenses and expenses on gifts, etc.) was mainly attributable to the Group's enhancement of management of distributors and sub-distributors and support to sales terminals, as well as its expansion of promotion channels.



## MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2014, in order to correspond to marketing actions of new packaging and higher prices of slimming tea, the Company produced a new promotion advertisement and released it intensively and massively. In the meantime, the Company also sponsored “Besunyen Divas Hit the Road (碧生源花兒與少年)” on Hunan Satellite TV, a large scale star reality show, in the second quarter. The show successfully attracted massive attention from customers and obtained wide recognition on the new packages of Besunyen Detox Tea and Besunyen Slimming Tea within a short period of time, which also facilitated stability and growth of the subsequent sales results to some extent. Therefore, in the first half of 2014, the Group’s revenue increased by 24.7% as compared to the same period of 2013 and the total selling and marketing expenses increased by 35.5%, selling and marketing expenses as a percentage of revenue increased from 65.9% in the first half of 2013 to 71.6% in the same period of 2014.

### Administrative Expenses

	For the six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	Percentage of revenue	<i>RMB'000</i>	Percentage of revenue
Staff Costs	11,791	3.7%	23,280	9.3%
Office Expenses	12,205	3.9%	14,104	5.6%
Professional Fees	10,690	3.4%	10,596	4.2%
Travel and Entertainment expenses	2,763	0.9%	2,814	1.1%
Others	3,462	1.1%	4,301	1.7%
<b>Total</b>	<b>40,911</b>	<b>13.0%</b>	<b>55,095</b>	<b>21.9%</b>

Administrative expenses of the Group decreased by 25.7% from RMB55.1 million in the first half of 2013 to RMB40.9 million in the same period of 2014. Administrative expenses as a percentage of revenue decreased from 21.9% in the first half of 2013 to 13.0% in the same period of 2014, mainly due to the Company’s effort in decreasing number of employees and strengthening internal management with stringent budget control management.

### Research and Development Costs

	For the six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	Percentage of revenue	<i>RMB'000</i>	Percentage of revenue
Research and development costs	3,750	1.2%	4,833	1.9%

The Group’s research and development costs decreased by 22.4% from RMB4.8 million in the first half of 2013 to RMB3.8 million in the same period of 2014. Research and development cost remained relatively low. The Group has successfully obtained 16 approvals for health care products issued by the relevant authorities of the State through continuous independent research and development since its establishment. The research and development cost in the current period was mainly used for upgrading and maintenance of such products.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Taxation

Income tax expense of the Group increased from RMB4.2 million in the first half of 2013 to RMB12.4 million in the same period of 2014. This was mainly due to Chinese income tax reimbursement in respect of prior years and change in tax rate during this period.

## Profit (Loss) and Total Comprehensive Income (Expense)

Due to the aforementioned factors, the profit (loss) and total comprehensive income (expense) of the Group thoroughly reversed from the loss of RMB4.6 million in the first half of 2013 to the profit of RMB17.2 million in the same period of 2014.

As Ever Assure recorded continuing losses in the past years, the Directors unanimously resolved to dispose it. The disposal was completed, with the consideration of RMB5.68 million. Such disposal was also the one of the key factors for the Company to achieve profitability for the period for the six months ended 30 June 2014.

## Use of Net Proceeds from the IPO

Net proceeds from the IPO amounted to approximately RMB1,033.2 million, which have been used in accordance with the uses as disclosed in the prospectus of the Company. As at 30 June 2014, details of the use of the above net proceeds were as follows:

	Net Proceeds from the IPO		
	Available RMB'000	Used RMB'000	Unused RMB'000
Purchase of new production equipment and construction of new production facilities	364,913	240,503	124,410
Set-up of the East China Headquarters	150,000	77,518	72,482
Beijing new office building	123,664	123,664	—
Expansion of sales and distribution network, channels and brand building	73,092	73,092	—
Design, R&D of new products	146,185	57,348	88,837
Improvement of ERP and overall IT system	43,855	7,569	36,286
Loan repayment	73,000	73,000	—
Working capital	58,474	58,474	—
<b>Total</b>	<b>1,033,183</b>	<b>711,168</b>	<b>322,015</b>

## Liquidity and Capital Resources

In the first half of 2014, 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. The Company has carefully reviewed the performance of budget for the first half of 2014, each of the income and profit indicators has met the budget. In the second half of 2014, the Company intends to strictly control expenses as in the past to ensure that the income could meet the budget while the expenses do not exceed the budget.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Cash Flow

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

	For the six months ended	
	30 June	
	2014	2013
	RMB'000	RMB'000
Net cash from operating activities	102,358	87,030
Net cash used in investing activities	(79,542)	(148,684)
Net increase (decrease) in cash and cash equivalents (before effect of foreign exchange rate changes)	22,816	(61,654)
Effect of foreign exchange rate changes	190	(506)
Increase (decrease) in cash and cash equivalents (after effect of foreign exchange rate changes)	23,006	(62,160)

In the first half of 2014, net cash from operating activities of the Group was RMB102.4 million (the same period of 2013: RMB87.0 million) and net profit was RMB17.2 million, and the difference was mainly caused by a decrease in trade and bills receivables amounting to RMB0.2 million, the increase in deposits, prepayments and other receivables amounting to RMB2.9 million, an increase in trade and bills payables amounting to RMB 41.5 million, and an increase in other payables and accrued expenses amounting to RMB36.3 million. Net cash used in investing activities of the Group was RMB79.5 million (the same period of 2013: RMB148.7 million), and the decrease from that in the same period of 2013 was mainly due to a decrease in term deposits.

## Bank Balances and Cash and Bank Loans

As of 30 June 2014, the bank balance and cash of the Group totalled RMB233.7 million (as at 31 December 2013: RMB207.6 million), representing an increase of RMB26.1 million as compared to the end of the previous year. It was mainly due to cash earned from operating activities. Around 94.3% of the bank balance and cash of the Group was in Renminbi. In addition, as at 30 June 2014, the Group did not have any bank borrowings (as at 31 December 2013: Nil) and any unused bank credit lines (as at 31 December 2013: Nil).



# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Expenditure

In the first half of 2014, capital expenditure of the Group was RMB18.2 million (the same period of 2013: RMB20.6 million), which mainly included payment for purchases of properties, plants and equipment as well as land-use rights. The following table sets forth capital expenditure used in operating activities by the Group for the six months ended 30 June as indicated:

	For the six months ended	
	30 June	
	2014	2013
	RMB'000	RMB'000
Property, plant and equipment	15,203	20,250
Intangible assets	—	366
Land-use rights	3,000	—
Total	18,203	20,616

## Investment Properties

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

	As of	
	2014	2013
	30 June	31 December
	RMB'000	RMB'000
Investment properties	317,656	324,805

The Group owns certain office premises at Besunyen Building of Linglong Tiandi located at No. 160 West 4th Ring Road North, Haidian District, Beijing 100036 and Changcheng Building located in Shanghai. The Group does not hold the permanent titles of these properties. The Group will not fully use up all of the units of these properties and has leased the unused units to independent third parties until the Group needs to take up such units for the expansion of its operations in the future. The properties held for lease are classified as investment properties.

As at 30 June 2014, carrying value of the investment properties amounted to RMB317.7 million (31 December 2013: RMB324.8 million). These investment properties are measured using the cost method and depreciated on a straight-line basis over the estimated utilisation period of 30 years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Inventories

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

	As of	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Raw materials and packing materials	4,309	2,724
Work in progress	1,316	1,139
Finished goods	7,953	1,811
<b>Total inventories</b>	<b>13,578</b>	<b>5,674</b>

The turnover days of the Group's inventories in the first half of 2014 (calculated by dividing the average amount of inventories 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 2013: 31 days). The Group actively monitors its inventories level to ensure that the inventories volumes of raw materials and packing materials, work in progress and finished goods remain at a rather low but sufficient level. Throughout the distribution and retail process, the Group monitors and evaluates sales performance and product trends, so as to better estimate inventories requirements.

## Trade and Bills 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. The Group provides a credit period of 60 days or a maximum of six months to a tiny number of distributors. These are mainly 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 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 bills receivables analysis as of the dates indicated:

	As of	
	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade receivables	6,515	14,552
Bills receivables	8,072	200
Less: allowance for doubtful debts	(456)	(568)
<b>Total</b>	<b>14,131</b>	<b>14,184</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

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

	<b>For the six months ended 30 June 2014 Number of days</b>	<b>For the year ended 31 December 2013 Number of days</b>
Trade and bills receivables turnover days <sup>(1)</sup>	7	19
of which, trade receivables turnover days	6	11

- (1) Since the advance payment from distributors amounting to RMB3.9 million in the form of bills receivables as at 30 June 2014 was recognised as turnover only when the products were made and shipped to the distributors after 30 June 2014, the amount was deducted from the balances as of the closing dates of bills receivables in the calculation of the turnover days.

Trade and bills receivables turnover days of the Group decreased from 19 days for the year ended 31 December 2013 to 7 days for the first half of 2014. In the meantime, the Group adopted a more prudent credit policy and the trade receivables turnover days decreased from 11 days for the year ended 31 December 2013 to 6 days for the six months ended 30 June 2014.

The Group allows a credit period of 60 to 180 days to its customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the date of delivery of goods, which approximated to the respective revenue recognition dates.

	<b>As of 30 June 2014 RMB'000</b>	<b>31 December 2013 RMB'000</b>
0–90 days	13,596	12,407
91–180 days	79	1,392
181–365 days	456	385
<b>Total</b>	<b>14,131</b>	<b>14,184</b>

Included in the Group's trade and bills receivables are debtors with an aggregate carrying amount of approximately RMB456,000 (31 December 2013: RMB385,000) which are past due at 30 June 2014, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Trade and Bills Payables

The Group's trade payables mainly comprise payables by the Group 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 and bills payables analysis as of the dates indicated:

	<b>As of</b>	
	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	5,993	3,601
Bills payables	47,246	8,131
Bills payables for purchase of property, plant and equipment	450	5,500
	<b>53,689</b>	<b>17,232</b>

The following table sets forth the turnover days of the Group's trade payables during the periods as indicated (calculated by dividing the average amount of trade payables 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):

	<b>For the six</b>	For the year
	<b>months</b>	ended
	<b>ended</b>	31 December
	<b>30 June 2014</b>	2013
	<b>Number of days</b>	Number of days
Trade and bills payables turnover days	145	45
of which, trade payables turnover days	20	14

Trade and bills payables turnover days of the Group increased from 45 days for the year ended 31 December 2013 to 145 days for the first half of 2014. It was mainly due to the sharp increase in bills payables for the period ended 30 June 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following table summarises the age of the Group's trade payables as of the dates as indicated:

	<b>As of</b>	
	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>RMB'000</b>	<b>RMB'000</b>
0–90 days	<b>5,884</b>	3,519
91–180 days	<b>32</b>	82
181–365 days	<b>77</b>	—
	<b>5,993</b>	3,601

## Risks in Foreign Exchange Rate

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

For the six months ended 30 June 2014, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools (2013: Nil).

## Material Acquisition or Disposal

For the six months ended 30 June 2014, the Group had no material acquisition or disposal (for the six months ended 30 June 2013: Nil).

## Pledge of Assets

As at 30 June 2014, the Group had no pledge of assets (as at 31 December 2013: Nil).

## Gearing Ratio

As at 30 June 2014, the Group had gearing ratio (total liabilities divided by total assets, in percentage) of 16.40% (as at 31 December 2013: 12.45%).

## Contingent Liabilities and Guarantees

As at 30 June 2014, the Group had no material contingent liabilities or guarantees (as at 31 December 2013: Nil).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Off-Balance Sheet Commitments and Arrangements

As at 30 June 2014, the Group had no off-balance sheet commitments or arrangements (as at 31 December 2013: Nil).

## Capital Commitments

As at 30 June 2014, the Group had no capital commitments (as at 31 December 2013: Nil).

## Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2014, the Group had about 1,022 employees in mainland China and Hong Kong (31 December 2013: 1,015 staff members), which includes 174 promotional staff employed by employment agents (31 December 2013: 178). For the six months ended 30 June 2014, the total labour costs (including Directors' remunerations and non-cash share-based compensation) was approximately RMB60.0 million (same period of 2013: RMB76.8 million). Staff remuneration is formulated with reference to individual performance, work experience, qualification and current industry practice. Apart from basic salary and statutory pension welfare, staff welfare also includes discretionary bonus and stock options.

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

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

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



## 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 23 to 42, which comprise the condensed consolidated statement of financial position as at 30 June 2014 and the related condensed consolidated statement of profit or loss and other 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  
8 August 2014



# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue	3	314,001	251,802
Cost of sales		(43,948)	(35,003)
Gross profit		270,053	216,799
Other income		25,447	14,300
Selling and marketing expenses		(224,674)	(165,834)
Administrative expenses		(40,911)	(55,095)
Research and development costs		(3,750)	(4,833)
Other expenses		(6,798)	(5,446)
Other gain (loss)		255	(261)
Gain on disposal of a subsidiary	6	9,977	—
Profit (loss) before tax		29,599	(370)
Income tax expense	4	(12,397)	(4,206)
Profit (loss) and total comprehensive income (expense) for the period	5	17,202	(4,576)
Earnings (loss) per share			
Basic (RMB)	8	1.12 cents	(0.30) cent
Diluted (RMB)	8	1.12 cents	(0.30) cent

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	418,335	423,583
Prepaid lease payments		59,527	60,202
Investment properties	10	317,656	324,805
Intangible assets		2,063	2,215
Non-current deposits		247	1,278
Deferred tax assets		15,113	14,496
		<b>812,941</b>	<b>826,579</b>
<b>CURRENT ASSETS</b>			
Inventories		13,578	5,674
Trade and bills receivables	11	14,131	14,184
Deposits, prepayments and other receivables	12	39,929	38,802
Short term investments	13	120,000	—
Pledged bank deposits	14	21,817	13,631
Term deposits with initial term of over three months	15	142,629	201,000
Bank balances and cash		233,745	207,578
		<b>585,829</b>	<b>480,869</b>
Assets classified as held for sale	6	—	7,600
		<b>585,829</b>	<b>488,469</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	16	53,689	17,232
Other payables and accrued expenses	17	149,274	115,974
Tax payable		11,477	2,794
		<b>214,440</b>	136,000
Liabilities associated with assets classified as held for sale	6	—	11,897
		<b>214,440</b>	147,897
<b>NET CURRENT ASSETS</b>		<b>371,389</b>	340,572
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,184,330</b>	1,167,151
<b>CAPITAL AND RESERVES</b>			
Share capital		89	89
Reserves		1,169,254	1,151,253
		<b>1,169,343</b>	1,151,342
<b>NON-CURRENT LIABILITIES</b>			
Deferred government grant		6,720	7,112
Deferred tax liabilities		6,674	7,104
Other non-current liabilities		1,593	1,593
		<b>14,987</b>	15,809
		<b>1,184,330</b>	1,167,151

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital redemption reserve RMB'000 (Note c)	Treasury share reserve under restricted share award scheme RMB'000 (Note d)	Statutory surplus reserve RMB'000 (Note b)	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Attributable to owners of the Company RMB'000
At 1 January 2013	89	1,287,209	230,864	6	(34,962)	61,360	51,004	(360,060)	1,235,510
Loss and total comprehensive expense for the period	—	—	—	—	—	—	—	(4,576)	(4,576)
Share-based payments under share option schemes	—	—	—	—	—	—	1,033	—	1,033
Share-based payments under restricted share award scheme	—	—	—	—	—	—	3,284	—	3,284
Transfer of share-based payment reserve upon forfeiture of share options	—	—	—	—	—	—	(878)	878	—
Vesting of restricted shares under restricted share award scheme (Note 18)	—	—	—	—	7,308	—	(3,244)	(4,064)	—
At 30 June 2013 (Unaudited)	89	1,287,209	230,864	6	(27,654)	61,360	51,199	(367,822)	1,235,511
At 1 January 2014	89	1,287,209	230,864	6	(26,013)	61,360	51,277	(453,450)	1,151,342
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	17,202	17,202
Share-based payments under share option schemes	—	—	—	—	—	—	91	—	91
Share-based payments under restricted share award scheme	—	—	—	—	—	—	708	—	708
Transfer of share-based payment reserve upon forfeiture of share options	—	—	—	—	—	—	(2,574)	2,574	—
Vesting of restricted shares under restricted share award scheme (Note 18)	—	—	—	—	1,415	—	(708)	(707)	—
At 30 June 2014 (Unaudited)	89	1,287,209	230,864	6	(24,598)	61,360	48,794	(434,381)	1,169,343

**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 Besunyen Food and Beverage Co., Ltd., and (ii) a deemed distribution of RMB2,200,000 to the shareholders.

**Note b:** According to the relevant laws in the People's Republic of China ("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.

**Note c:** The amount represented the nominal value of the shares repurchased by the Company.

**Note d:** Treasury share reserve is comprised of the consideration paid for the treasury shares held for the restricted share award scheme.



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
<b>OPERATING ACTIVITIES</b>			
Profit (loss) before tax		29,599	(370)
Adjustments for:			
(Reversal of) allowance for doubtful debts		(112)	663
Amortisation of intangible assets		152	301
Depreciation of investment properties		5,313	4,706
Depreciation of property, plant and equipment		15,809	15,412
Exchange (gain) loss		(190)	506
Gain on disposal of a subsidiary		(9,977)	—
Bank interest income		(4,434)	(759)
Investment income from short term investments		(3,522)	(2,913)
Loss on disposal of property, plant and equipment		24	18
Release of deferred government grant		(392)	(392)
Release of prepaid lease payments		675	675
Share-based compensation		799	4,317
Write down of inventories		500	1,326
Operating cash flows before movements in working capital		34,244	23,490
Increase in inventories		(8,404)	(6,631)
Decrease in trade and bills receivables		165	39,995
Increase in deferred expenditure		—	(3,046)
Increase in deposits, prepayments and other receivables		(2,863)	(28,182)
Increase in trade and bills payables		41,507	21,553
Increase in other payables and accrued expenses		36,300	39,343
Increase in other non-current liabilities		—	2,250
Cash generated from operations		100,949	88,772
Income taxes paid		(4,761)	(2,501)
Interest received		6,170	759
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>102,358</b>	<b>87,030</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
<b>INVESTING ACTIVITIES</b>			
Purchase of short term investments		(672,000)	(283,000)
Placement of term deposits		(142,629)	(100,000)
Purchase of property, plant and equipment		(15,203)	(20,250)
Placement of pledged bank deposits		(28,003)	(27,505)
Payment for land use right		(3,000)	—
Proceeds on redemption of short term investments		555,522	282,413
Maturity of term deposits with initial term of over three months		201,000	—
Withdrawal of pledged bank deposits		19,817	—
Refund for properties purchased in previous period		2,326	—
Net cash inflow arising from disposal of a subsidiary	6	2,519	—
Proceeds from disposal of property, plant and equipment		109	24
Purchase of intangible assets		—	(366)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(79,542)</b>	<b>(148,684)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		22,816	(61,654)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>			
		210,739	447,478
<b>REPRESENTED BY,</b>			
Bank balances and cash		207,578	447,478
Bank balances and cash classified as held for sale		3,161	—
<b>EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>			
		190	(506)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD REPRESENTING BANK BALANCES AND CASH</b>			
		<b>233,745</b>	<b>385,318</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 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.

## 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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"):

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

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

## 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the invoiced value of therapeutic tea products and other 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 in these condensed consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 3. REVENUE AND SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Detox tea	127,502	117,661
Slimming tea	182,911	130,813
Other tea products	3,588	3,328
	<b>314,001</b>	251,802

## 4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
The charge comprises		
Current tax:		
PRC income tax	14,273	9,210
Over provision in prior year:		
PRC income tax	(829)	(6,174)
	<b>13,444</b>	3,036
Deferred tax:		
Current period	(1,047)	1,170
	<b>12,397</b>	4,206

During the six months ended 30 June 2013, Beijing Outsell, a subsidiary of the Group obtained the approval from the tax bureau in respect of the application of the preferential tax rate at 15% which applies to High and New Technology Enterprise from 2012 to 2013. The over provision during the six months ended 30 June 2013 mainly resulted from the reduction in the applicable tax rate from 25% to 15% of Beijing Outsell for 2012.

During the current interim period, all PRC subsidiaries of the Group are subject to a united Enterprise Income Tax rate of 25%.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 5. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Profit (loss) for the period has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
— salaries and other allowances	56,728	67,806
— share-based compensation	799	4,317
— retirement benefit scheme contributions	3,007	4,673
<b>Total staff costs</b>	<b>60,534</b>	<b>76,796</b>
Gross rental income from investment properties	(9,812)	(8,212)
Less:		
Direct operating expense (including depreciation) incurred for investment properties that generated rental income during the period	5,295	5,099
Direct operating expense (including depreciation) incurred for investment properties that did not generate rental income during the period	316	347
	<b>(4,201)</b>	<b>(2,766)</b>
Amortisation of intangible assets (included in cost of sales)	152	301
(Reversal of) allowance for doubtful debts	(112)	663
Cost of inventories recognised as expense (including write-down of inventories amounting to RMB500,000 (six months ended 30 June 2013: RMB1,326,000))	43,948	35,003
Depreciation of property, plant and equipment	15,809	15,412
Depreciation of investment properties	5,313	4,706
Government grant	(7,679)	(2,416)
Investment income from short term investments	(3,522)	(2,913)
Bank interest income	(4,434)	(759)
Loss on disposal of property, plant and equipment	24	18
Release of prepaid lease payments	675	675

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 6. DISPOSAL GROUP HELD FOR SALE/DISPOSAL OF A SUBSIDIARY

In December 2013, the directors of the Company initiated negotiations with an interested party to dispose of the Group's subsidiary — Ever Assure Limited ("**Ever Assure**"). The assets and liabilities attributable to Ever Assure, which were expected to be sold within twelve months from 31 December 2013, were classified as a disposal group held for sale and were presented separately in the condensed consolidated statement of financial position as at 31 December 2013. On 14 March 2014, a sale and purchase agreement was signed to dispose of Ever Assure at a cash consideration of RMB5,680,000.

The net assets of Ever Assure at the date of disposal were as follows:

	<b>RMB'000</b> (Unaudited)
Net liability disposed of	
Property, plant and equipment	1,806
Other receivables	2,633
Bank balances and cash	3,161
Other payables	(11,897)
	(4,297)
Gain on disposal	9,977
Total consideration	5,680
Represented by:	
Cash paid by purchaser	5,680
Net cash inflow arising on disposal:	
Cash consideration	5,680
Less: Bank balances and cash disposed of	(3,161)
	2,519

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 7. DIVIDENDS

No dividends were paid, declared or proposed during the current and prior interim period.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK1.25 cents per share (2013: Nil) with an aggregate amount of approximately HK\$19.6 million will be paid to the owners of the Company whose names appear on the register of members on 28 August 2014.

## 8. EARNINGS (LOSS) PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Earnings (loss) attributable to owners of the Company:		
Earnings (loss) for the purpose of calculating basic and diluted earnings (loss) per share	<b>17,202</b>	(4,576)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	<b>1,529,096</b>	1,518,243
Effect of dilutive potential ordinary shares:		
Restricted shares granted by the Company	<b>388</b>	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings (loss) per share	<b>1,529,484</b>	1,518,243

The computation of diluted earnings per share for the six months ended 30 June 2014 does not assume the exercise of the Company's outstanding share options as the exercise price of these share options was higher than the average market price of its shares.

The computation of diluted loss per share for the six months ended 30 June 2013 does not assume the exercise of the Company's outstanding share options as it would result in a decrease in loss per share.

The weighted average number of ordinary shares shown above has been arrived at after adjusting the effect of shares repurchased by the Company and the shares held by the Company's restricted share award scheme under the Trust (defined in Note 18) for the both periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2014*

## **9. PROPERTY, PLANT AND EQUIPMENT**

During the current interim period, the Group acquired property, plant and equipment amounting to RMB10,694,000 (six months ended 30 June 2013: RMB36,594,000), including an amount of RMB1,031,000 (six months ended 30 June 2013: RMB8,472,000) transferred from non-current deposit paid.

At 30 June 2014, the Group was in the process of obtaining property certificates of the leasehold land and buildings with a carrying amount approximate to RMB71,607,000 (31 December 2013: RMB73,264,000) which is located in Beijing, the PRC.

## **10. INVESTMENT PROPERTIES**

At 30 June 2014, the Group is in the process of obtaining a property certificate of the leasehold land and building with a carrying amount approximate to RMB246,361,000 (31 December 2013: RMB252,283,000) which is located in Beijing, the PRC.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 11. TRADE AND BILLS RECEIVABLES

	At 30 June 2014 <i>RMB'000</i> (Unaudited)	At 31 December 2013 <i>RMB'000</i> (Audited)
Trade receivables	6,515	14,552
Bills receivables	8,072	200
Less: allowance for doubtful debts	(456)	(568)
	<b>14,131</b>	14,184

The Group allows a credit period of 60–180 days to its trade customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the date of delivery of goods, which approximated to the respective revenue recognition dates.

	At 30 June 2014 <i>RMB'000</i> (Unaudited)	At 31 December 2013 <i>RMB'000</i> (Audited)
0 to 90 days	13,596	12,407
91 to 180 days	79	1,392
181 to 365 days	456	385
	<b>14,131</b>	14,184

## 12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2014 <i>RMB'000</i> (Unaudited)	At 31 December 2013 <i>RMB'000</i> (Audited)
Prepaid advertising	12,666	20,286
Other prepayments	17,113	7,742
Other receivables	7,281	5,884
Interest receivables	1,322	3,058
Prepaid lease payments	1,352	1,352
Prepayment to suppliers	195	480
	<b>39,929</b>	38,802



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 13. SHORT TERM INVESTMENTS

Short term investments represented investments in cash management products issued by banks in the PRC which are principle-protected and carry an average expected yield rate of 5.02% per annum with a maturity period of 30 to 93 days. The carrying amounts of short term investments are recorded at amortised cost in the condensed consolidated financial statements.

## 14. PLEDGED BANK DEPOSITS

Pledged bank deposits represent amounts deposited with banks as security for the bank acceptance bills issued to its suppliers for the purchase of raw materials and property, plant and equipment. Pledged bank deposits carry an average interest rate of 2.86% per annum (2013: 2.86%) as at 30 June 2014.

## 15. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

Term deposits with initial term of over three months represent short-term bank deposits and carry an average interest rate of 3.35% (2013: 3.19%) per annum as at 30 June 2014.

## 16. TRADE AND BILLS PAYABLES

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
Trade payables	5,993	3,601
Trade bills payables	47,246	8,131
Bills payables for purchase of property, plant and equipment	450	5,500
	<b>53,689</b>	17,232

The credit period granted by suppliers is 60 – 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)
0 to 90 days	5,884	3,519
91 to 180 days	32	82
181 to 365 days	77	—
	<b>5,993</b>	3,601

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2014*

## 16. TRADE AND BILLS PAYABLES *(Continued)*

The following is an aged analysis of trade bills payables presented based on issuance date at the end of the reporting period:

	At 30 June 2014 <i>RMB'000</i> (Unaudited)	At 31 December 2013 <i>RMB'000</i> (Audited)
0 to 90 days	47,246	8,131

## 17. OTHER PAYABLES AND ACCRUED EXPENSES

	At 30 June 2014 <i>RMB'000</i> (Unaudited)	At 31 December 2013 <i>RMB'000</i> (Audited)
Prepayments from customers	48,410	13,940
Accrued sales rebate	20,017	18,951
Accrued expenses	18,497	13,468
Other tax payables	18,180	17,687
Accrued payroll	17,363	14,655
Other payables	13,828	25,322
Payable for advertising expenses	5,193	1,165
Deferred government grant	786	786
Payable for land use right	—	3,000
Others	7,000	7,000
	149,274	115,974

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 18. SHARE-BASED PAYMENTS

### Share option schemes

The 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 Pre-IPO Share Option 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 maximum number of shares which can be granted under the Pre-IPO Share Option Scheme is 151,200,000.

The following table discloses the movement of the Company's share options held by the directors, employees and consultant for the six months ended 30 June 2014:

Date of grant	Option type	Vesting period	Outstanding at 01.01.2014	Exercised during the period	Forfeited during the period	Outstanding at 30.06.2014
6.5.2010	1st	3.5 Years	71,070,000	—	(180,000)	70,890,000
6.5.2010	2nd	4 Years	6,220,000	—	(330,000)	5,890,000
6.5.2010	3rd	3 Years	—	—	—	—
6.5.2010	4th	4 Years	—	—	—	—
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	780,000	—	—	780,000
Total			82,770,000	—	(5,110,000)	77,660,000
Weighted average exercise price (RMB)			1.23	—	1.23	1.23

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 18. SHARE-BASED PAYMENTS (Continued)

### Share option schemes (Continued)

The following table discloses the movement of the Company's share options held by the directors, employees and consultant for the six months ended 30 June 2013:

Date of grant	Option type	Vesting period	Outstanding at 01.01.2013	Exercised during the period	Forfeited during the period	Outstanding at 30.06.2013
6.5.2010	1st	3.5 Years	75,540,000	—	(2,730,000)	72,810,000
6.5.2010	2nd	4 Years	7,170,000	—	(580,000)	6,590,000
6.5.2010	3rd	3 Years	—	—	—	—
6.5.2010	4th	4 Years	—	—	—	—
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	900,000	—	(120,000)	780,000
Total			88,310,000	—	(3,430,000)	84,880,000
Weighted average exercise price (RMB)			1.23	—	1.23	1.23

The Group recognised a total expense of RMB91,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB1,033,000) in relation to share options granted by the Company.

### Restricted share award scheme

The Company adopted a restricted share award scheme (the “**Restricted Share Award Scheme**”) on 11 November 2011, details of which are set out in the consolidated financial statements for the year ended 31 December 2012.

In January 2012, the Employees' Share Award Scheme Trust (the “**Trust**”) purchased 61,000,000 shares of the Company on The Stock Exchange of Hong Kong Limited at a total consideration of HK\$48,291,000 (equivalent to RMB39,312,000 ) for the Restricted Share Award Scheme.

On 10 April 2013, 11,339,880 shares were granted by the Company to the eligible participants who shall receive offers of restricted shares as designated by the administration committee (the “**Selected Participants**”) at nil consideration, and vested on 13 May 2013. On 28 June 2013, 2,546,715 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 2 September 2013.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 18. SHARE-BASED PAYMENTS (Continued)

### Restricted share award scheme (Continued)

On 28 May 2014, 2,195,000 shares were granted by the Company to Selected Participants at nil consideration, and vested on 28 June 2014.

As at 30 June 2014, 38,167,567 shares (31 December 2013: 40,362,567 shares) were held by the Trust and not yet granted to Selected Participants.

The Group recognised a total expense of RMB708,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB3,284,000) in relation to the restricted shares granted under the Restricted Share Award Scheme by reference to the share price of the Company on the grant dates.

When the restricted shares were vested and awarded to employees, the amount of RMB1,415,000 (30 June 2013: RMB7,308,000) previously recognised in treasury share reserve was released and transferred to share-based payment reserve and accumulated losses. The amount transferred to accumulated losses represents the difference between the amount recognised as share-based payment and the cost for repurchasing the restricted shares, amounting to RMB707,000 (30 June 2013: RMB4,064,000).

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the six months ended 30 June 2014 and outstanding at 30 June 2014:

<b>Employees</b>	<b>Number of awarded shares</b>
Outstanding as at 1 January 2013	—
Granted during the period	13,886,595
Vested during the period	(11,339,880)
Outstanding as at 30 June 2013	2,546,715
Outstanding as at 1 January 2014	—
Granted during the period	<b>2,195,000</b>
Vested during the period	<b>(2,195,000)</b>
Outstanding as at 30 June 2014	—

The closing prices of the Company's shares immediately before 28 May 2014, the dates of grant of the restricted shares, were HK\$0.40.

The closing price of the Company's shares immediately before 28 June 2014, the date on which the restricted shares were vested, was HK\$0.46.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 19. OPERATING LEASES COMMITMENTS

### The Group as lessee

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within one year	2,787	3,294
In the second to fifth year inclusive	678	1,945
	<b>3,465</b>	5,239

Operating lease payments represent rental payable by the Group for certain of its office and staff quarters. Rentals are fixed for a period ranges from 1 to 3 years.

### The Group as lessor

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within one year	17,695	18,965
In the second to fifth year inclusive	35,141	42,761
After five years	—	987
	<b>52,836</b>	62,713

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 20. RELATED PARTY TRANSACTIONS

The Group has the following significant transactions with related parties:

Name of related party	Nature of transactions	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Besunyen Investment Co., Ltd. (i)	Rental expense	—	321

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

During the current interim period, the remuneration of directors and other member of key management is as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Salaries and other benefits	3,777	4,968
Retirement benefit scheme contributions	75	84
Share-based payments	21	3,859
	3,873	8,911

## 21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.



## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, 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 to be 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 Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”):

Name of Director/ Chief Executive	Nature of interest	Number of Shares/ options	Number of options granted under the Pre-IPO Share Option Scheme	Approximate percentage of total issued Shares (%) <sup>(6)</sup>
Mr. ZHAO Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director <sup>(1)(3)</sup>	1,000,361,640 <sup>(1)(L)</sup>	36,000,000 <sup>(1)(L)</sup>	63.74%
Ms. GAO Yan	Beneficial owner and interest of her spouse <sup>(2)(3)</sup>	1,000,361,640 <sup>(2)(L)</sup>	36,000,000 <sup>(2)(L)</sup>	63.74%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	536,000 <sup>(4)(L)</sup>	400,000 <sup>(4)(L)</sup>	0.03%
Mr. HUANG Jingsheng	Beneficial owner	500,000 <sup>(5)(L)</sup>	500,000 <sup>(5)(L)</sup>	0.03%
Mr. WANG Jing	—	—	—	—
Mr. REN Guangming	—	—	—	—

(1) Mr. Zhao Yihong, executive Director, beneficially owns 24,000,000 options granted 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/options for the purposes of the SFO:

- (i) 949,880,600 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;
- (ii) 12,755,040 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and
- (iii) 12,000,000 options granted under the Pre-IPO Share Option Scheme, which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse.

(2) Ms. Gao Yan, executive Director, beneficially owns 12,000,000 options granted under the Pre-IPO Share Option Scheme. Ms. Gao is also deemed or taken to be interested in the following Shares/options for the purposes of the SFO:

- (i) 1,726,000 Shares which are beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;
- (ii) 949,880,600 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Foreshore Holding Group Limited;

## OTHER INFORMATION

- (iii) 12,755,040 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Better Day Holdings Limited; and
  - (iv) 24,000,000 options granted under the Pre-IPO Share Option Scheme, which are beneficially owned by Mr. Zhao.
- (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, non-executive Director, beneficially owns 400,000 options granted 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. Huang Jingsheng, independent non-executive Director, beneficially owns 500,000 options granted under the Pre-IPO Share Option Scheme.
- (6) This is calculated based on 1,569,421,820 Shares, being the number of Shares in issue as at 30 June 2014. The percentage of interest in the column includes the Pre-IPO Share options.
- \* The letter “L” denotes the person’s long position in such Shares.

## SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, so far as known to any Director 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 total issued Shares (%) <sup>(3)</sup>
Foreshore Holding Group Limited <sup>(1)</sup>	949,880,600 <sup>(L)</sup>	60.52%
KCS Trust Limited <sup>(1)</sup>	949,880,600 <sup>(L)</sup>	60.52%
Sea Network Holdings Limited <sup>(1)</sup>	949,880,600 <sup>(L)</sup>	60.52%
GGV III Entrepreneurs Fund L.P. <sup>(2)</sup>	102,788,640 <sup>(L)</sup>	6.55%
Granite Global Ventures III L.L.C. <sup>(2)</sup>	102,788,640 <sup>(L)</sup>	6.55%
Granite Global Ventures III L.P. <sup>(2)</sup>	102,788,640 <sup>(L)</sup>	6.55%

- (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 1,569,421,820 Shares, being the number of Shares in issue as at 30 June 2014.

\* The letter “L” denotes the person’s long position in such Shares.

Save as disclosed above, as at 30 June 2014, the Company has not been notified by any person (other than a Director or chief executive of the Company) who had interests or short positions 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.

## OTHER INFORMATION

### 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 optimise their performance and efficiency, and to retain the employees whose contributions 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 2014 are set out in note 18 to the unaudited condensed 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 persons, and to encourage them to optimise 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, an opportunity 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 is 168,109,132, being 10% of the shares of the Company in issue immediately after the initial public offering (the “**IPO**”) on the listing date (i.e. 29 September 2010) which is the effective date of such scheme and representing approximately 10.71% of the issued Shares as at the date of this interim report.

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.

No share options were granted under the Share Option Scheme by the Company during the six months ended 30 June 2014 and there were no outstanding share options under the Share Option Scheme as at 30 June 2014.



## OTHER INFORMATION

### 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 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 include any director, employee, consultant, executive or officer of the Company or any of its subsidiaries, an opportunity 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 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.

Details of the restricted shares movements during the six months ended 30 June 2014 are set out in note 18 to the unaudited condensed consolidated financial statements of this interim report.

Save as disclosed above, during the six months ended 30 June 2014, 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 aforesaid period.

### CORPORATE GOVERNANCE

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2014, except for code provision A.2.1 of the CG Code.

#### CODE PROVISION A.2.1

Under code provision A.2.1, the roles of chairman and chief executive 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 24 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.

## OTHER INFORMATION

### AUDIT COMMITTEE

As at the date of this interim report, the audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. Wang Jing, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Huang Jingsheng and Mr. Ren Guangming. The Audit Committee has reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2014 and this interim report, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

### REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014 have been reviewed by Deloitte Touche Tohmatsu, the auditor of the Company.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the 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 2014.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company for the six months ended 30 June 2014.

### CHANGES IN THE INFORMATION OF DIRECTORS

The changes in the information of the Directors from the date of the 2013 annual report to the date of this interim report that is required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

<b>Name of Director</b>	<b>Details of Changes</b>
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Huang Jingsheng	Ceased to be a partner of TPG Capital on 1 July 2014.
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	Appointed as a managing executive director of Harvard Center Shanghai Co. Ltd. on 1 July 2014.
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### INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1.25 cents per share for the six months ended 30 June 2014 to the shareholders of the Company whose names appear on the register of members of the Company on 28 August 2014. The interim dividend will be paid on 8 September 2014.

## OTHER INFORMATION

### CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 August 2014 to 28 August 2014, both days inclusive. During such period, no transfer of shares of the Company will be registered. In order to be qualified for receiving the interim dividend, all completed transfer forms accomplished by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 25 August 2014.

On behalf of the Board

**ZHAO Yihong**

*Chairman*

Hong Kong, 8 August 2014