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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 926

Interim 2018 Report

Corporate Profile

Besunyen Holdings Company Limited (the "**Company**") together with its subsidiaries (collectively, the "**Group**") is a leading provider of therapeutic teas in the People's Republic of China (the "**PRC**"), mainly engaging in the research and development, production, sale and promotion of therapeutic teas and medicines. By tagging along with the concept of "herbal, healthy, quality functional tea", the Group started to produce Besunyen Detox Tea and Besunyen Slimming Tea (previously known as " 碧生源牌減肥茶 ") (collectively, the "**Two Teas**") in 2000, and for the last 18 years, has dedicated itself to the marketing and sales of the Two Teas. The approval for the change of product name from " 碧生源牌減肥茶 " to " 碧生源牌常菁茶 " was obtained from China Food and Drug Administration of the People's Republic of China (the "**CFDA**") in November 2016. As at 30 June 2018, the Two Teas recorded an accumulated sales volume of over 4.7 billion bags, with an accumulated sales amount of over RMB6.07 billion. Since April 2015, the Group commenced cooperation with Zhejiang Hisun Pharmaceutical Co., Ltd. ("**Hisun Pharmaceutical**") to sell LARLLY Orlistat slimming medicine. In October 2017, the Group acquired Zhongshan Wanhan Pharmacy Co., Ltd. ("**Zhongshan Wanhan**") and Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("**Zhongshan Wanyuan**", together "**Zhongshan Wanhan and Wanyuan**"), for the research and development, production and sales of medicines such as Besunyen Orlistat, so the Group has expanded from the market of slimming therapeutic teas to that of slimming medicines and comprehensively covered the slimming market segment. Since their launch, LARLLY Orlistat and Besunyen Orlistat slimming medicine have been highly praised among consumers.

According to the latest report issued by China Southern Medicine Economy Research Institute ("**SMERI**"), the market share of the Group's core products, the Two Teas, maintained a leading position for several consecutive years. During the reporting period, in national retail pharmacies, based on the retail price of the laxative and slimming products respectively, the market share of the Group's Besunyen Detox Tea represented 14.55%; and that of Besunyen Slimming Tea accounted for 31.86%, taking the first place in the market. Since the launch of LARLLY Orlistat slimming medicine in the spring of 2015, it has been gradually unveiled in several major markets including Shanghai, Guangdong and Beijing. In accordance with the data released by SMERI, LARLLY Orlistat has topped the list of the slimming medicines segment.

The production base of the Group's Two Teas is located in Fangshan District, Beijing. The production plant and the production process are in compliance with the requirements of the national GMP standards. The Two Teas have passed the system certifications of ISO9001, ISO22000 and HACCP. Introduced from IMA of Italy, the packing equipment is C24 tea bag highspeed machine. The machine is equipped with the specifically designed "cotton thread nautical knot for tea bag and tag fixing" so that the inner and outer bags can be shaped up at the same time and the tea bag can be produced automatically. Closed-ended management is conducted in the production facilities, and the pelleting facilities and inter packing facilities are 100,000 grade clean areas furnished with temperature and humidity monitoring. In the garden-like plant featured by a beautiful environment, hygiene, process, technology, procedure and management have reached the world's advanced level.

The Group uses natural Chinese herbal-based medicine and tea leaves as raw materials, researches and develops, formulates and produces the Two Teas, providing safe, effective, convenient-to-use and affordable healthcare products for those with mild or recurring health problems in laxative and weight management.

As at 30 June 2018, the sales teams of the Group spanned across 31 provinces, autonomous regions and municipals across the country. The Group had a total of 70 distributors and 366 sub-distributors for the Two Teas and LARLLY Orlistat. The entire sales team served about 100,000 over-the-counter (the "**OTC**") pharmacies and retail terminals in shopping malls and supermarkets. The Group constantly improves the nationwide sales network, and by means of the dynamics of brand attraction and channels' promotion, has a coverage of about 400,000 OTC pharmacies across the country. Meanwhile, new products were enabled to break into the market more quickly and effectively through the existing channels, thereby maintaining the leading position of the Group's products in the industry.

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

Mr. Huang Jingsheng
Mr. Ren Guangming
Mr. He Yuanping

AUDIT COMMITTEE

Mr. He Yuanping *(Chairman)*
Mr. Huang Jingsheng
Mr. Ren Guangming

REMUNERATION COMMITTEE

Mr. Huang Jingsheng *(Chairman)*
Mr. Zhao Yihong
Mr. Ren Guangming
Mr. He Yuanping

NOMINATION COMMITTEE

Mr. Ren Guangming *(Chairman)*
Mr. Zhao Yihong
Mr. Huang Jingsheng
Mr. He Yuanping

COMPANY SECRETARY

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

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Corporate Information

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Financial Highlights

THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2018 was RMB167.7 million, representing a decrease of 36.6% as compared with the revenue of RMB264.6 million for the same period in 2017.

Gross profit of the Group amounted to RMB121.6 million for the first half of 2018, representing a decrease of 42.4% from the gross profit of RMB211.1 million for the same period of 2017. The gross profit margin of the Group was 72.5% for the first half of 2018, representing a decrease of 7.3 percentage points from the gross profit margin of 79.8% for the same period of 2017.

Total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2018 were RMB168.4 million, representing a decrease of 8.7% as compared with the total operating expenses of RMB184.4 million for the same period of 2017.

The Group recorded a total comprehensive loss of RMB28.9 million for the first half of 2018, compared with the total comprehensive income of RMB27.4 million for the same period of 2017.

The basic and diluted losses per share of the Company for the first half of 2018 were both RMB1.64 cents (for the same period of 2017: both the basic and diluted earnings per share of the Company were RMB1.91 cents).

Management Discussion and Analysis

BUSINESS REVIEW

Concentrating on "One Focus and Two Dimensions" Strategy to Enhance Product Competitiveness

Leading the New Health Trend with the Launch of New National Essence Packages for the Two Teas

In the first half of 2018, to enhance product brand image and offer consumers with better services, the Group launched the national essence packages for Besunyen Slimming Tea and Besunyen Detox Tea based on established development strategy. The new packages exemplify the national essence with perfect integration between cheongsam elements and Besunyen products, advocating the reinstallation of traditional culture. Sales were initially launched in Beijing, Shanghai, Anhui and Yunnan and were well received by customers, bringing an extraordinary visual impact to the domestic slimming market and intestine management market. The launch of new national essence packages does not only satisfy esthetic demands among different consumers, but also leads the new fashion trend of healthy tea drinks.

Enhancing Market Competitiveness via Consumer-oriented Approaches and Product Lines Expansion

In the first half of 2018, the Group adhered to consumer-oriented concepts and expanded its product lines, introducing products including Besunyen high fibre meal replacement biscuits; Besunyen Aloe soft capsule; product series including Besunyen vitamin B tablets, vitamin C tablets and vitamin C chewable tablets, vitamin E soft capsule, vitamin complex; Besunyen micronutrients capsule, granules and tablets series that contain calcium, iron, zinc and selenium; Besunyen rose and ginseng brown sugar ginger tea, Besunyen fruit and vegetable composite enzyme powder, and Besunyen slimmer collagen drink, while reserving Besunyen Jinshutong (金舒通) capsule products in offline retail pharmacies. At present, the Group carries an array of slimming product offerings, comprising "OTC drug LARLLY Orlistat and Besunyen Orlistat" + "Health food Slimming Tea and Xian Xian Tea" + "Common food nutritious meal replacement milkshake, L-carnitine coffee and meal replacement biscuits" and an array of intestine healthcare product offerings, comprising "OTC drug Mei Yang Yang Glycerol Enema" + "Health food Detox Tea, Jinshutong capsules and aloe soft capsules", and to continue the development of the health food vitamin series under the dietary supplements, product categories of micronutrients series and the health and beauty product categories of ginseng brown sugar ginger tea, fruit and vegetable composite enzyme powder, collagen drink.

Innovating Branding Strategies to Highlight Brand Value

Title Sponsorship for Sakura Girls (《櫻花女生》), a Inke's Live Streaming Show, for Ongoing Brand Rejuvenation

In line with the Group's principal direction of marketing transformation, forging a new image of Besunyen as "a younger, healthier and trendier" brand in its 18th anniversary, in the first half of 2018, the Group provided a title sponsorship for Inke's Sakura Girls, a top-notch We Media programme in the live streaming industry. Such sponsorship has effectively facilitated the rejuvenation of the Group's brand and paved the path for scenario marketing.

With 2018 Sakura Girl, the Group has successfully formulated a closed loop for brand scenario marketing from the strategic launch conference in Hong Kong on 23 April to the celebrity festival in Guangzhou on 27 May, which mainly integrates with IP channels, namely "celebrities", "e-commerce", "topics", "public relationship", "live streaming contents", "creative interaction for festival", "offline promotion and hard advertising" and "production of derivative materials by contestants". Under such closed loop, our brand concept as "weight management expert" has been constantly delivered to consumers. At the same time, Besunyen Slimming Tea, our main product, and L-carnitine coffee product under the name of Inke's Sakura Girls, were embedded in the campaign in a precise and fun manner, and thus further boosted the image and favourability of our brand among young consumers.

Co-operating with Sakura Girls and about 30 celebrities and artists, the Group received brand reporting from over 180 media with over 30 million views for live streaming contents. Sakura Girls represented the Group's youngest and most attractive entertainment event in the first half of 2018, and realised exposure of 4.68 billion times in aggregate for the Group's brands during the programme. The Group integrated e-commerce channels and launched customised IP boxsets, which closely linked IP and the brand to thoroughly penetrate various channels of celebrities and Internet stars. Meanwhile, our online advertisements gained redirection from pages of various secondary campaigns, and thus further empowered the e-commerce channel.

Expansion of Product Placement into Movies and Television Dramas to Enhance Brand Competitiveness with Contents Marketing and Scenario Marketing

In the first half of 2018, the Group placed continuous efforts on contents marketing while also increased the utilisation of scenarios to deliver our product concepts with soft product placement. Currently, the Group has entered into co-operation with 5 television dramas and films, namely Always with You (《陪讀媽媽》), an urban romance and family drama co-starred Mei Ting and Xu Yajun premiered on China Blue Theater under Zhejiang Satellite TV and iQiyi; Half a Lifelong Romance (《半生緣》), a remake of classics co-starred Carina Lau and Rulu Jiang; Beijing Days and Nights (《北京晚九朝五》), a film directed by Jaycee Fong Jo Ming and co-starred Berlin Chen and Amber Kuo expected to be released in the second half of the year; If Time Flies Back (《如果歲月可回頭》), an urban family life and work place drama co-starred Jin Dong and Rulu Jiang; and Dare to Love Me (《愛我你敢嗎》), a television drama version of Ex-Files (前任攻略) co-starred Han Geng and Wan Xiaochen to be broadcasted in 2019. Leveraging on product placement in movies and television dramas, the Group manages to enhance brand exposure while facilitates brand rejuvenation and unleashes the multiplier effect on brand promotion.

Broadening Promotion Channels through New Media Marketing

In the first half of 2018, the Group integrated popular current affairs and important events, and continued to leverage on the dissemination nature of new media, promoting brand awareness by the dissemination advantage of We Media such as Weibo and WeChat while formulating a set of column contents with brand characteristics, which received awareness from extensive fans. In particular, in the "Inke's Sakura Girls" contest with our title sponsorship, the fans coverage recorded multi-fold growth via the initiation of competitions in terms of interaction, illustrations and composition, H5 and micro-video, promotion and reporting on the initiation of the contest, competition rules, campaigns, roadshow and evening parties, as well as joint promotion with various intra-group brands.

Joining Hands with Academy Award and Sponsoring Besunyen Cup Public Welfare Advertising Contest

In the first half of 2018, the Group obtained title sponsorship of the Academy Award of 16th Advertisement and Art Festival for Chinese College Students and held "Besunyen Cup" Public Welfare Advertising Contest. The contest spanned 30 provinces and cities and involved 40 colleges and universities. 20 creative seminars and 21 off-site product display sessions were held. The official proposition poster and strategy sheet covered more than 1,000 schools across the country.

2018 witnesses the 18th anniversary of Besunyen, and creative seminars themed "Gratitude to 18 Years of Love" were widely welcomed by students. The contest was completed successfully, receiving qualified public welfare themed works in total of 12,203 sets and 14,638 pieces, representing a record high in terms of number. As the sole title sponsor of the Academy Award using public welfare theme as the proposition, through the zero-distance contact with university students, the contest has created a sound and profound brand reputation for Besunyen among the youth.

Optimising Sales Structure and Enhancing Management Efficiency to Improve Team Competitiveness

In the first half of 2018, the Group optimised its national sales systems, structures and functions, categorising them into offline management and principal customers management. The offline management is built on the foundation of the original 13 business departments and is adjusted to formulate a "5+9" sales structure with 5 business departments and 9 provincial offices. It is mainly responsible for the distribution channel management and terminal promotion to optimise the qualification of distributors, unblock circulation channels, establish a more reasonable distributor/sub-distributor portfolio and further enhance channel penetration rate. With thorough penetration into non-core chains, three-tier campaigns were launched. Meanwhile, by implementing key retail terminal works such as prevention of supply suspension, price maintenance, terminal display, promotion and interception of competing products, the function aims to boost the rate of priority recommendation of the Group's products, enrich the terminal promotion modes and enhance horizontal growth.

Principal customers management is built via establishing a new KA sales management team, which mainly conducts refined management on core chains and establishes different sales policies targeting at the characteristics of different market chains. Vertical growth could therefore be achieved with the establishment of such model chains. The offline sales team and KA team co-operate in a complimentary manner to jointly enhance the competitiveness of sales team.

Adjusting Performance Appraisal and Concentrating on Growth of Sales to Pharmacies

To place sales team's focus on the growth of sales to pharmacies, eliminate the violation of the Group's management policies by distributors/sub-distributors and the sales of stockpile in the market at low price, the Group has adjusted its management policies for distributors/sub-distributors and motivation polices for sales personnel in the first half of 2018. While reducing the discount for bulk purchases by distributors/sub-distributors, the reward basis for sales personnel has shifted from "sales results to distributors/sub-distributors" to "sales results to pharmacies". By connecting the data for shipment to the terminal on the distributor/sub-distributor side and the data of sales to chain pharmacies, the Group has changed the appraisal of the results of sales team from "assessment based on shipment to distributors/sub-distributors" to "assessment based on sales to pharmacies".

According to the profit warning published by the Group on 6 May 2018, the Group's revenue decreased from the same period of last year. Such adjustment has affected the sales of the Group's products and its results for the first half of 2018 in short term; nonetheless, from a long-term perspective, it helps reduce disruptive market behaviours, strengthen channel management and enhance end-sales at pharmacies. Sales personnel could therefore completely participate in terminal management and maintenance to achieve more solid and effective terminal management and fundamental terminal promotion, which in turn, brings along higher return for shareholders. It is anticipated that the Group's results would record surge in the second half of 2018.

Enhancing Flow Management and Maintaining Market Order

In the first half of 2018, to maintain proper market operation and order, the Group strengthened its control over the commodity flow for distributors and upgraded PanPass logistics code management system. By monitoring the logistics information of distributors, the Group could maintain information on commodity flow and logistics in a timely manner. It is planned that direct connection to the data of distributors' and sub-distributors' systems would be completed in this year for the real-time command of data such as stock-out, stock-in and serial number.

Keeping Abreast of the Industry Development Trend and Upgrading from E-commerce 1.0 to 2.0

Forging a Closed Loop E-commerce of Front-end Sales, Middle-end Scenario Marketing and Back-end CRM Repeated Purchase

Traditional e-commerce solely concerns about promotion at early stages, which means sales are completed upon signing contracts and no consideration is made towards repeated procurement; while new e-commerce development trend places more focus on consumer services and addressing demands in one stop. In the first half of 2018, the Group continued to accelerate the transformation from traditional to new e-commerce mode. By adopting products with low price per order or hot-selling products to attract new customers — recommending new products to customers for repeated consumption — tracking and catering for users' needs via means such as CRM call centre, a consumption mode of repeated purchase has been generated, and thus formulated a closed loop for consumption. At the same time, the Group targets at distributors and attaches importance to the communication at C-end by offering customised services via obtaining users' information as well as thoroughly addressing users' problems.

Transforming from Single Office to Three Offices in Different Places to Enhance Work Effectiveness

In the first half of 2018, the Group's e-commerce team has completed structural upgrading and transformed from one Beijing office into three offices in Beijing, Hangzhou and Guangzhou, which has significantly enhanced work efficiency. Beijing office is mainly responsible for the operation support of the e-commerce shop on Jingdong platform and Northern China distributors, as well as the support and maintenance of functions such as products management, warehousing and logistics and data analysis for the overall e-commerce function. Hangzhou office is mainly responsible for the store operation of the e-commerce shop on Alibaba Group as well as the overall communication and co-ordination with AliHealth. Guangzhou office is mainly responsible for the operation and maintenance of the e-commerce shop on VIPShop and Pinduoduo platforms as well as management of CRM call centre.

Proactively Forging Hot-selling Products and Cultivating New E-commerce Products

In the first half of 2018, in close alignment with the demand of young consumers and keeping abreast of the trend of e-commerce products innovation, the e-commerce channel of the Group has shifted from the main promotion of the Two Teas brands to the exploration of more hot-selling and new products. Different new products targeting respective platforms and promotion channels are launched, of which LARLLY Orlistat and Besunyen Orlistat target at those in overweight condition and are in fond of fatty food; various kinds of low-cost health products target at users of Pinduoduo, a socialised sales channel, in order to attract new customers; story-based products which are more suitable for the youth, such as meal replacement biscuits, target at users of shared economy platforms such as Xiaohongshu. Meanwhile, with means including research and development of new weight management products and renewal of packages for existing products, the Group's products get closer with the mainstream consumer group aged between 18 and 25, and thus realise product and brand rejuvenation.

Parallel Operation of Multi-channel and Multi-platform and Utilisation of Comprehensive Promotion Modes

Through developing new platform business, such as shops on VIPShop (唯品會), Pinduoduo (拼多多) and Lama Scheme (辣媽計劃), in the first half of 2018, the Group's e-commerce channel aimed at direct promotion to the public for reaching out to new customers on top of solely relying on the platform flow on Jingdong or Tmall. The Group acquired new user bases via various channels and generated sales therefrom. In terms of promotion measures, emerging and easily disseminated means such as live streaming and Douyin (抖音) are adopted to replace traditional advertisements, television advertisements and direct advertisements. The Group has opened its own corporate account in Douyin and uploads interesting and easily disseminated video contents on an irregular basis, while introduced celebrities and Internet Stars live streaming for sales events during the "618" campaign.

Building the R&D Team at a Faster Pace and Fostering Research Collaboration to Enhance R&D Capabilities

Through attracting R&D talents and strengthening of R&D team establishment, the Group has currently formulated teams specialised in pharmacology, analysis, formulation, process and technical regulations and obtained the certificate of "Beijing Municipal Enterprise Technology Research and Development Institute". At the same time, the Group will sustainably strengthen external collaboration by jointly establishing innovative laboratories with research facilities and enterprises and building key raw herb materials plantation bases together. Besides, by building up a technical team consisting of R&D consultants and experts, the Company has significantly enhanced its R&D capabilities. In the first half of 2018, the Group continued to reserve new products and consummate the product chain. The Group also jointly developed a series of products with raw materials suppliers and outsourced processing factories, such as nutritious meal replacement product series, new probiotic formulation, health food and nutritious food supplements.

OUTLOOK

Macro-economy

According to the publication of the National Bureau of Statistics, China's economy was running smoothly and stably with steady improvement in terms of economic growth quality in the first half of 2018. The successful hold of the 3rd Plenary Session of the 19th Central Committee of the Communist Party of China greatly boosted the confidence of local and international communities in China's economic development. Since the advocation of new normal of economic development in the 18th National Congress of the Communist Party of China, China's economy has transformed from rapid growth to a quality development phase, with economic development driven by new development concepts followed by thorough structural reform on the supply side. With the national policy of "Healthy China" and the successive introduction of series of supporting policies, the big health industry embraces unprecedented development opportunities and will act as one of the pillar industries leading the industry transformation in China.

Continuous Innovation on Marketing Models and Enhancement of Team Competitiveness

Building on its new sales system and platform, the Group will create a more reasonable distributor/sub-distributor portfolio in the second half of 2018 to further increase its channel penetration rate while place continuous focus on the growth of sales to pharmacies. Such approaches will enable terminal management and fundamental terminal promotion to become more consolidated and effective. The Group will leverage on the current excellent market base to formulate appropriate new products promotion polices to boost the respective sales. By optimising products structure and continuously introducing new products by means of self-development as well as outsourced processing, the Group aims at realising further growth in various aspects.

Ongoing Penetration into E-commerce Platform to Create a Personalized Platform

In the second half of 2018, the Group will keep abreast of the development trend in e-commerce industry, and continue to foster e-commerce platform upgrading to build a closed loop of e-commerce consumption model with front-end sales, middle-end scenario marketing and back-end repeated purchase. With focus on promoting new and hot-selling products, the Group will connect the retail members of e-commerce platforms and strengthen the communication with end-users. The Group will consolidate and maintain online members in a detailed manner while entering into co-operation across multiple channels and platforms. Besides, the Group will continue to promote the upgrading and change of its e-commerce platform from pure retail to content-based e-commerce model by concentrating on meeting the customised needs of consumers.

Broadening Brand Promotion Approaches to Assist Brand Rejuvenation

In the second half of 2018, apart from ongoing focus on innovative marketing approaches, the Group will spread its product concepts and enhance the usage scenarios of products via the increase in utilisation of content-based and scenario marketing. Given the dissemination function of new media, the Group will enhance its brand awareness through its continuous exploration of internet marketing channels and broaden brand promotion approaches. While increasing brand exposure and promoting brand rejuvenation, the Group will highlight the brand value as its new income driver.

Continuous Reinforcement of R&D Co-operation and Enhancement of Products Competitiveness

According to the product strategy of "One Focus and Two Dimensions", the Group will increase efforts in building up its R&D team, and continue its project development of new products with effects such as throat clearing, liver caring, nutritious meal replacement and probiotic products while join force with raw materials suppliers and outsourced processing manufacturers to develop new products with herbal functions. Meanwhile, leveraging on the research advantages and product reserves of Zhongshan Wanhan and Wanyuan, the Group will continue to expand product lines, enhance products competitiveness and consummate its overall position in the big health industry.

FINANCIAL REVIEW

Upon the adoption of International Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("**IFRS 15**"), certain promotion expenses paid or payable to customers of the distributors and sub-distributors of the Group have been net off against the Group's revenue. For the six months ended 30 June 2018, the promotion expenses as net off against the Group's revenue amounted to RMB6.3 million. For the six months ended 30 June 2017, the promotional expenses as separately recognised as selling and marketing expenses amounted to RMB23.6 million. The Group has used modified retrospective approach to adopt IFRS 15, and thus the comparative financial information for the same period has not been restated accordingly. For the "Financial Review" section, the revenue, gross profit and selling and marketing expenses for the six months ended 30 June 2017 were adjusted as if the Group has adopted the IFRS 15 by using the full retrospective approach so as to illustrate a more comparable result.

Revenue

	For the six months ended 30 June					
	2018		2017 (as if adjusted)		2017	
	RMB'000	**% of revenue**	RMB'000	% of revenue	RMB'000	% of revenue
Revenue:						
Besunyen Detox Tea	**51,649**	**30.8%**	105,183	39.7%	112,778	39.1%
Besunyen Slimming Tea	**78,438**	**46.8%**	114,554	43.3%	122,826	42.6%
Others	**14,720**	**8.8%**	17,880	6.8%	19,171	6.7%
Slimming medicines	**22,862**	**13.6%**	27,000	10.2%	33,466	11.6%
Total	**167,669**	**100%**	264,617	100.0%	288,241	100%

The Group's revenue decreased by 36.6% from RMB264.6 million in the first half of 2017 to RMB167.7 million in the same period of 2018, Among this, revenue of Besunyen Detox Tea decreased by 50.9% from RMB105.2 million in the first half of 2017 to RMB51.6 million in the same period of 2018, while its sales volume decreased by 49.4% from 73.5 million tea bags in the first half of 2017 to 37.2 million tea bags in the same period of 2018. Revenue of Besunyen Slimming Tea decreased by 31.6%, from RMB114.6 million in the first half of 2017 to RMB78.4 million in the same period of 2018 and its sales volume decreased by 29.6% from 81.2 million tea bags in the first half of 2017 to 57.2 million tea bags in the same period of 2018. The average selling prices of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.43 and RMB1.41 per bag respectively in the first half of 2017, and were RMB1.39 and RMB1.37 per bag respectively in the first half of 2018. The average selling prices of Besunyen Detox Tea and Besunyen Slimming Tea both dropped by 2.8% respectively as compared to the same period of 2017.

Cost of Sales and Gross Profit

	For the six months ended 30 June					
	2018		2017 (as if adjusted)		2017	
	RMB'000	**% of revenue**	RMB'000	% of revenue	RMB'000	% of revenue
Cost of sales	**46,088**	**27.5%**	53,507	20.2%	53,507	18.6%
Gross profit	**121,581**	**72.5%**	211,110	79.8%	234,734	81.4%

The Group's cost of sales decreased by 13.8% from RMB53.5 million in the first half of 2017 to RMB46.1 million in the same period of 2018. Cost of sales as a percentage of revenue increased from 20.2% in the first half of 2017 to 27.5% in the same period of 2018. The increase in cost of sales as a percentage of revenue was mainly due to the consolidation of acquired companies by the Group in the second half of 2017, namely Zhongshan Wanhan, Zhuhai Kangbaina Pharmaceutical Co., Ltd ("**Kangbaina**") and Zhuhai Aolixin Pharmaceutical Co., Ltd ("**Aolixin**") which had higher cost of sales as a percentage of revenue, in the first half of 2018.

Revenue decreased by 36.6% and cost of sales decreased by 13.8% in the first half of 2018 as compared to the same period of 2017. As a result, gross profit of the Group decreased by 42.4% from RMB211.1 million in the first half of 2017 to RMB121.6 million in the same period of 2018. Gross profit margin of the Group decreased from 79.8% in the first half of 2017 to 72.5% in the same period of 2018.

Selling and Marketing Expenses

	For the six months ended 30 June					
	2018		2017 (as if adjusted)		2017	
	RMB'000	**% of revenue**	RMB'000	% of revenue	RMB'000	% of revenue
Advertising costs	**23,515**	**14.0%**	43,552	16.5%	43,552	15.1%
Marketing and promotional expenses	**28,160**	**16.8%**	25,520	9.6%	45,320	15.7%
Employee benefit expenses	**38,925**	**23.2%**	41,082	15.5%	44,906	15.6%
Others	**14,600**	**8.7%**	15,543	5.9%	15,543	5.4%
Total	**105,200**	**62.7%**	125,697	47.5%	149,321	51.8%

Selling and marketing expenses of the Group decreased by 16.3% from RMB125.7 million in the first half of 2017 to RMB105.2 million in the same period of 2018. The advertising costs in the first half of 2018 decreased by RMB20.0 million as compared to the same period of 2017, but the marketing and promotional expenses increased by RMB2.6 million as compared to the same period of 2017, mainly due to the fact that the expenditure in advertising via traditional TV media decreased and gradual transition to marketing and promotion via internet media and channel network.

Administrative Expenses

	For the six months ended 30 June			
	2018		**2017**	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Employee benefit expenses	**17,664**	**10.5%**	26,155	9.1%
Office expenses	**1,850**	**1.1%**	2,286	0.8%
Professional service fees	**10,686**	**6.4%**	12,630	4.4%
Entertainment and travelling expenses	**2,934**	**1.8%**	2,905	1.0%
Others	**18,457**	**11.0%**	10,194	3.5%
Total	**51,591**	**30.8%**	54,170	18.8%

Administrative expenses of the Group decreased by 4.8% from RMB54.2 million in the first half of 2017 to RMB51.6 million in the same period of 2018. Employee benefit expenses decreased by 32.4% from RMB26.2 million in the first half of 2017 to RMB17.7 million in the same period of 2018, mainly due to the relatively significant staff dismissal cost incurred by the Group in the first half of 2017. Others increased by 81.4% from RMB10.2 million in the first half of 2017 to RMB18.5 million in the same period of 2018, mainly due to the inclusion of depreciation and amortisation costs of companies acquired by the Group in the second half of 2017, namely Zhongshan Wanhan and Wanyuan, Kangbaina and Aolixin in the first half of 2018.

Research and Development Costs

	For the six months ended 30 June			
	2018		2017	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Research and development costs	**11,575**	**6.9%**	4,538	1.6%

The Group's research and development costs increased by 157.8% from RMB4.5 million in the first half of 2017 to RMB11.6 million in the same period of 2018, mainly because of the consolidation of research and development costs of Zhongshan Wanhan and Wanyuan (the companies as acquired by the Group in the second half of 2017) in the first half of 2018.

Taxation

Income tax credit of the Group amounted to RMB14.1 million in the first half of 2018, compared to income tax expense amounted to RMB4.5 million in the same period of 2017. The increase of income tax credit in the first half of 2018 as compared to the first half of 2017 was primarily attributable to the recognition of deferred income tax assets on certain previously unrecognised deductible temporary differences/tax losses in the current period by reference to the latest financial forecast which indicated that these previously unrecognised deductible temporary differences/tax losses could be utilised in the foreseeable future.

Total Comprehensive (Loss)/Income for the Period

Due to the factors set out above, the Group recorded a total comprehensive loss of RMB28.9 million in the first half of 2018 (for the same period of 2017: total comprehensive income of RMB27.4 million).

Liquidity and Capital Resources

In the first half of 2018, funds and capital expenditure required in the operation of the Group mainly came from the cash generated from operating activities and proceeds from financing.

Cash Flows

The following table summarises the net cash flows of the Group for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	**(94,882)**	46,725
Net cash outflow from investing activities	**(12,048)**	(89,915)
Net cash inflow from financing activities	**125,265**	32,316
	18,335	(10,874)
Effect of foreign exchange rate changes on cash and cash equivalents	**1,696**	891
Net increase/(decrease) in cash and cash equivalents	**20,031**	(9,983)

In the first half of 2018, net cash outflow from operating activities of the Group was RMB94.9 million (for the same period of 2017: net cash inflow from operating activities was RMB46.7 million). The decrease as compared to the same period of 2017 was mainly due to the decrease in operating profits as well as the changes of working capitals during the current period. In the first half of 2018, the net cash outflow from investing activities of the Group was RMB12.0 million, which was mainly for infrastructure projects (for the same period of 2017: RMB89.9 million, mainly for the acquisition of Zhongshan Wanhan and Wanyuan. In the first half of 2018, the net cash inflow from financing activities of the Group was RMB125.3 million, which was mainly due to the proceeds from the drawdown of borrowings (for the same period of 2017: net cash inflow from financing activities was RMB32.3 million, mainly due to the issuance of shares of the Company).

Bank Balances, Cash and Bank Loans

The Group's bank balances and cash, comprising cash and cash equivalents, bank deposits with initial term of over three months and restricted bank deposits, increased by 23.6% from RMB83.3 million as at 31 December 2017 to RMB103.0 million as at 30 June 2018. In addition, the Group had bank borrowings of RMB150.0 million as at 30 June 2018 (as at 31 December 2017: the Group had a bank borrowing of RMB20.0 million).

Capital Expenditure

In the first half of 2018, capital expenditure of the Group was RMB14.9 million (for the same period of 2017: RMB10.9 million), mainly on the construction of plants and purchases of production equipment.

Inventories

The Group's inventories include raw materials and packaging materials, work in progress (semi-finished goods) and finished goods, which are set forth below:

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Raw materials and packing materials	**8,818**	7,969
Work in progress	**1,894**	1,803
Finished goods	**11,409**	7,914
Total inventories	**22,121**	17,686

Risks in Foreign Exchange Rate

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

For the six months ended 30 June 2018, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (for the same period of 2017: nil).

Material Acquisitions or Disposals

For the six months ended 30 June 2018, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures.

Significant Investments Held and Future Plans for Material Investments or Capital Assets

Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) ("**Yuanyuan Liuchang Fund**"), a company with a total committed capital contribution of RMB100.0 million, is owned by the Group with 89% of its shares. It mainly focuses on investment projects in the healthcare industry, TMT (technology, media and telecommunications) industry and consumer industry, as well as investment in several early stage partnership enterprises. For the six months ended 30 June 2018, Yuanyuan Liuchang Fund did not invest in new projects.

Save as disclosed above, there were no other significant investments held by the Group during the first half of 2018. There was no plan of the Group for other material investments or additions of capital assets as at the date of this report.

Issue of Shares

On 6 May 2018, the Company and Aurum Credo Limited (the "**Subscriber**") entered into a share subscription agreement pursuant to which the Subscriber subscribed for an aggregate of 293,041,564 new ordinary shares of the Company (the "**Subscription Shares**") at the subscription price of HK$0.5 per share (the "**Subscription**"). The aggregate nominal value of the Subscription Shares will be US$2,442.01. The gross proceeds of the Subscription will be HK$146,520,782. The net subscription price is approximately HK$0.5 per Subscription Share. The closing price of the shares of the Company as quoted on the Stock Exchange on 4 May 2018, being the trading day immediately preceding the date of the share subscription agreement, was HK$0.455 per share. The net proceeds of the Subscription, after the deduction of the related expenses, will be approximately HK$146.4 million. The Company intends to apply the net proceeds of the Subscription for, including but not limited to, replenishing the working capital of the Group and appropriate acquisitions and potential investment opportunities of the Group. For details, please refer to the announcement of the Company dated 6 May 2018. As at the date of this report, the Subscription Shares have not yet been issued.

Pledge of Assets

As at 30 June 2018, the Group received certain bank borrowings of RMB120.0 million, through pledging properties with book value of RMB90.2 million and land use rights with book value of RMB25.2 million with banks and guarantee companies. (As at 31 December 2017, the Group received certain bank borrowings of RMB20.0 million, through pledging land use rights with book value of RMB19.4 million with banks.)

Gearing Ratio

As at 30 June 2018, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 21.34% (as at 31 December 2017: 17.79%).

Contingent Liabilities and Guarantees

As at 30 June 2018, the Group had no material contingent liabilities and guarantees (as at 31 December 2017: nil).

Capital Commitments

As at 30 June 2018, capital expenditure of property, plant and equipment contracted for but not yet incurred amounted to RMB9.6 million (as at 31 December 2017: RMB12.7 million).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2018, the Group had 1,117 employees in mainland China and Hong Kong (31 December 2017: 1,020 employees), which included 22 promotional staff employed by employment agents (31 December 2017: 25). For the six months ended 30 June 2018, total labour costs (including Directors' remunerations and non-cash share-based compensation) were RMB69.2 million (for the same period of 2017: RMB80.7 million). Staff remuneration is formulated with reference to individual performance, work experience, qualification and prevailing industry practice. Apart from basic salary and statutory pension welfare, staff welfare also includes discretionary bonus and stock options.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options under the pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") and the share option scheme (the "**Share Option Scheme**") adopted by the Company on 30 April 2010 and 8 September 2010, respectively, which are to motivate staff, to encourage them to work hard to enhance the value and foster better long-term development of the Group. The Company has also adopted a restricted share award scheme (the "**Restricted Share Award Scheme**") to grant restricted shares to eligible employees.

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

Report on Review of Interim Financial Information

pwc 羅兵咸永道

TO THE BOARD OF DIRECTORS OF BESUNYEN HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 19 to 45, which comprises the condensed consolidated balance sheet of Besunyen Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other 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". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information 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 interim financial information 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 interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 August 2018

Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2018 RMB'000	 2017 RMB'000
Revenue	7	**167,669**	288,241
Cost of sales of goods	8	**(46,088)**	(53,507)
Gross profit		**121,581**	234,734
Other income		**12,360**	13,541
Selling and marketing expenses	8	**(105,200)**	(149,321)
Administrative expenses	8	**(51,591)**	(54,170)
Research and development costs	8	**(11,575)**	(4,538)
Other expenses	8	**(3,760)**	(4,525)
Other gains/(losses), net		**2,411**	(1,512)
Finance costs	9	**(2,856)**	—
Share of losses of investments accounted for using the equity method	17	**(4,329)**	(2,363)
(Loss)/profit before income tax		**(42,959)**	31,846
Income tax credit/(expense)	10	**14,087**	(4,454)
(Loss)/profit for the period		**(28,872)**	27,392
(Loss)/profit is attributable to:			
— Owners of the Company		**(26,195)**	27,392
— Non-controlling interests		**(2,677)**	—
		(28,872)	27,392
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the period		**(28,872)**	27,392
Total comprehensive (loss)/income for the period is attributable to:			
— Owners of the Company		**(26,195)**	27,392
— Non-controlling interests		**(2,677)**	—
		(28,872)	27,392
(Losses)/earnings per share for the (loss)/profit attributable to owners of the Company (RMB cents)			
— Basic (losses)/earnings per share	11	**(1.64)**	1.91
— Diluted (losses)/earnings per share	11	**(1.64)**	1.91

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**240,290**	364,996
Land use rights	13	**341,294**	345,624
Investment properties	14	**170,094**	48,881
Intangible assets	15	**193,252**	200,158
Non-current deposits	16	**9,948**	8,726
Investments accounted for using the equity method	17	**89,730**	96,112
Deferred income tax assets	24	**62,894**	49,645
Total non-current assets		**1,107,502**	1,114,142
Current assets			
Inventories	18	**22,121**	17,686
Trade and bills receivables	19	**39,855**	52,976
Deposits, prepayments and other receivables	20	**46,600**	26,994
Restricted bank deposits		**2**	299
Term deposits with initial term of over three months		**4,191**	4,185
Cash and cash equivalents		**98,821**	78,790
		211,590	180,930
Assets classified as held for sale	21	**96,396**	94,325
Total current assets		**307,986**	275,255
Total assets		**1,415,488**	1,389,397

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	22	**94**	94
Share premium		**1,120,685**	1,120,685
Other reserves		**322,090**	322,414
Accumulated losses		**(409,786)**	(383,956)
		1,033,083	1,059,237
Non-controlling interests		**80,369**	83,046
Total equity		**1,113,452**	1,142,283
LIABILITIES			
Non-current liabilities			
Deferred government grants		**20,398**	20,953
Deferred income tax liabilities	24	**38,671**	39,570
Other non-current liabilities		**1,296**	1,296
Total non-current liabilities		**60,365**	61,819
Current liabilities			
Trade and bills payables	25	**5,501**	13,336
Other payables and accrued expenses	26	**51,166**	143,920
Contract liabilities	26	**27,464**	—
Borrowings	23	**150,000**	20,000
Current income tax liabilities		**174**	673
		234,305	177,929
Liabilities directly associated with assets classified as held for sale	21	**7,366**	7,366
Total current liabilities		**241,671**	185,295
Total liabilities		**302,036**	247,114
Total equity and liabilities		**1,415,488**	1,389,397

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

	Unaudited						
	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	86	1,055,961	319,050	(385,565)	989,532	—	989,532
Total comprehensive income for the period	—	—	—	27,392	27,392	—	27,392
Transactions with owners, in their capacity as owners:							
Share-based payments under share option scheme and restricted share award scheme	—	—	295	—	295	—	295
Repurchase and cancellation of shares	(1)	(7,026)	—	—	(7,027)	—	(7,027)
Issue of shares	5	39,338	—	—	39,343	—	39,343
Balance at 30 June 2017	90	1,088,273	319,345	(358,173)	1,049,535	—	1,049,535
Balance at 1 January 2018	**94**	**1,120,685**	**322,414**	**(383,956)**	**1,059,237**	**83,046**	**1,142,283**
Total comprehensive loss for the period	**—**	**—**	**—**	**(26,195)**	**(26,195)**	**(2,677)**	**(28,872)**
Total transactions with owners, recognised directly in equity:							
Share-based payments under share option scheme and restricted share award scheme	**—**	**—**	**41**	**—**	**41**	**—**	**41**
Liquidation of a subsidiary	**—**	**—**	**(365)**	**365**	**—**	**—**	**—**
Balance at 30 June 2018	**94**	**1,120,685**	**322,090**	**(409,786)**	**1,033,083**	**80,369**	**1,113,452**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	**(94,444)**	48,205
Income taxes paid	**(560)**	(1,979)
Interest received	**122**	499
Net cash (outflow)/inflow from operating activities	**(94,882)**	46,725
Cash flows from investing activities		
Purchases of short-term investments	**(64,050)**	(25,000)
Proceeds from maturity of short-term investments	**64,329**	25,503
Increase in term deposits with initial term of over three months	**(6)**	—
Placement of pledged bank deposits	**—**	(8,313)
Withdrawal of pledged bank deposits	**296**	6,869
Purchases of property, plant and equipment	**(14,670)**	(14,387)
Purchases of intangible assets	**—**	(1,633)
Prepayment for acquisition of a subsidiary	**—**	(73,035)
Distribution from a joint venture	**2,053**	—
Proceeds from disposals of property, plant and equipment	**—**	81
Net cash outflow from investing activities	**(12,048)**	(89,915)
Cash flows from financing activities		
Proceeds from borrowings	**130,000**	—
Repurchase of shares	**—**	(7,027)
Proceeds from issue of shares	**—**	39,343
Bank loan interest and other finance costs paid	**(4,735)**	—
Net cash inflow from financing activities	**125,265**	32,316
Net increase/(decrease) in cash and cash equivalents	**18,335**	(10,874)
Cash and cash equivalents at beginning of the period	**78,790**	153,884
Effects of exchange rate changes on cash and cash equivalents	**1,696**	891
Cash and cash equivalents at end of period	**98,821**	143,901

Major non-cash transactions:

During the six-month ended 30 June 2018, bills receivables of RMB15,472,000 (2017: RMB5,831,000) have been endorsed to certain suppliers as the Group's settlement for certain purchases of raw materials and advertisement costs.

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

1. GENERAL INFORMATION

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

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

This financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This interim condensed consolidated financial information for the six months ended 30 June 2018 (the "current period") has been reviewed, not audited.

This unaudited interim condensed consolidated financial information of the Group was approved for issue by the board of directors of the Company on 17 August 2018.

2. SIGNIFICANT EVENTS AND TRANSACTIONS

The financial position and performance of the Group was particularly affected by the following event and transactions during the six months period ended 30 June 2018:

(i) To prevent the Group's distributors/sub-distributors from selling stockpiled goods in the market at low prices in violation of the Group's pricing management policy, the Group has reduced the discount rates offered to distributors/sub-distributors for their bulk purchases in the current period. The distributors/sub-distributors have therefore reduced their purchases from the Group significantly because it becomes less attractive for them to have any early bulk purchases. As a result, the Group's revenue from the tea products segment has been decreased significantly.

(ii) Management considered that significant decline in revenue as described in Note 2(i) constitutes a triggering event for reassessing the recoverable amounts of the Group's production plant and facilities (the "Key Operating Assets") of the cash-generating unit for the manufacturing and sales of the Group's therapeutic tea products (the "Tea Product CGU"). Therefore, management has performed an impairment assessment to assess the recoverable amounts of the Key Operating Assets of the Tea Product CGU as of 30 June 2018. Further details are given in Note 5.

(iii) On 6 May 2018, the Company has entered into a share subscription agreement with a third party company (the "Subscriber"), pursuant to which the Subscriber conditionally agree to subscribe for, and the Company conditionally agreed to issue and allot 293,041,564 shares (the "Subscription Shares") at HK$0.5 per share subject to a lock-up period of 6 months. As of 30 June 2018, the Company has not yet issued the Subscription Shares.

3. BASIS OF PREPARATION AND PRESENTATION

The interim condensed consolidated financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting". The interim condensed consolidated financial information should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (the "2017 Annual Financial Statements").

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the 2017 Annual Financial Statements, except as described below.

The following new standards, interpretations and annual improvements are mandatory for the first time for the Group's financial year beginning on 1 January 2018 and are applicable for the Group:

IFRS 9 "Financial Instruments"
IFRS 15 "Revenue from Contracts with Customers"
Annual Improvement to IFRSs 2014-2016 cycle*
IFRIC-Int 22, "Foreign Currency Transactions and Advance Consideration"

* It includes amendment to IFRS 12 "Disclosure of interests in other entities" which was effective in 1 January 2017 and does not have a material impact on the Group.

Except for the impact on the adoption of the IFRS 9 and IFRS 15 as described below, the adoption of the aforesaid new standards, interpretation and annual improvements does not have any material impact on the Group's interim consolidated financial information.

IFRS 9 "Financial Instrument"

From 1 January 2018 onwards, the Group classifies its financial assets, depending on the Group's business model for managing the financial assets and the contractual terms of the related cash flows, under the following measurement categories:

- those to be measured at amortised cost, and
- those to be measured at fair value (either through other comprehensive income, or through profit or loss).

The new classification and measurement requirements under the IFRS 9 did not have any impact on the Group's financial assets as at 30 June 2018 and 31 December 2017.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IFRS 9 "Financial Instrument" *(Continued)*

In addition, the Group has adopted the simplified expected credit loss model for its trade and bills receivables upon the adoption of IFRS 9. Applying the new expected credit loss model did not result in any significant changes to the loss allowances for trade and bills receivable as at 30 June 2018 and 31 December 2017.

Other financial assets at amortised cost include cash and cash equivalents, term deposits and other receivables, etc. They are considered to be of low credit risk and thus the impairment provision recognised is limited to 12 months expected losses. Management considers that the expected credit loss is insignificant.

IFRS 15 "Revenue from Contracts with Customers"

The Group's adoption of IFRS 15 did not result in any significant changes in the timing of revenue as recognised by the Group. However, certain promotion expenses paid or payable to ultimate customers of the distributors and sub-distributors of the Group have been net off against the Group's revenue upon the adoption of IFRS 15. Such promotion expenses were recognised separately as selling and marketing expenses prior to the adoption of IFRS 15. During the six months ended 30 June 2018, the promotion expenses as net off against the Group's revenue amounted to approximately RMB6,272,000 and the promotion expenses as separately recognised as selling and marketing expenses during the six months ended 30 June 2017 amounted to approximately RMB23,624,000. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the related comparative financial information has not been restated accordingly.

The Group has not early adopted the new standards and amendments to IFRSs that have been issued and not yet effective for the year ending 31 December 2018 in the interim condensed consolidated financial information, but has already commenced an assessment on the related impact to the Group. The implication or potential impact on the Group upon the adoption of these new standards and amendments to IFRSs have already been disclosed in the 2017 Annual Financial Statements of the Company.

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

5. ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2017 Annual Financial Statements of the Company, except that the impairment assessment as conducted by management due to the changes in circumstances as described in Note 2(ii) have involved significant management's judgement and estimates. Some of the key estimates as adopted by management in the impairment assessment have been disclosed below.

The key assumptions as adopted in the impairment assessment to assess the recoverable amounts of the Key Operating Assets of the Tea Product CGU have been made referenced to the latest financial budget as approved by management covering the upcoming three-year period. The annual growth rate of revenue used in the financial budget for the three-year period ranged from 3% to 13%. The growth rate considers the long-term average growth rate for the industry and expected market penetration of the Group's products. A terminal value is calculated based on the expected residual value of Key Operating Assets. The pre-tax discount rate used was 17.0%.

Based on the impairment assessment, management of the Company has concluded that no impairment provision has to be recognised on the Key Operating Assets of the Tea Product CGU as of 30 June 2018.

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2017 Annual Financial Statements of the Company.

There have been no changes in the risk management policies since 31 December 2017.

6.2 Liquidity risk

During the current period, the Group has drawn down new bank borrowings of RMB130,000,000 to primarily finance its funding needs on operating activities. As a result, there is a net increase in the Group's financial liabilities as compared to the position as of 31 December 2017.

Considering the expected cash inflows to be derived from the planned disposal of the Group's 100% equity interest in Beijing Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage") (Note 21) and also the proceeds to be derived from the issue of the Subscription Shares (Note 2(iii)), the directors of the Company are of the view that there will be sufficient financial resources available to the Group which enabling the Group to meet its liabilities as they fall due and to carry on its business without a significant curtailment of operations in the twelve months from 30 June 2018.

7. REVENUE AND SEGMENT INFORMATION

The chief operating decision maker ("CODM") has been identified as the Executive Directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources.

The CODM had identified the manufacturing and sales of tea products and also the sales of sliming and other medicine as separate reportable segments, namely the tea products segment and the slimming and other medicine segment.

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

The segment results for the six months ended 30 June 2018 are as follows:

	Tea products segment RMB'000	Slimming and other medicine segment RMB'000	Total RMB'000
Total revenue	**139,201**	**28,468**	**167,669**
Inter-segment revenue	**—**	**—**	**—**
Revenue from external customers	**139,201**	**28,468**	**167,669**
Timing of revenue recognition			
At a point in time	**139,201**	**28,468**	**167,669**
Cost of sales	**(32,663)**	**(13,425)**	**(46,088)**
Gross profit	**106,538**	**15,043**	**121,581**
Selling and marketing expenses	**(90,509)**	**(14,691)**	**(105,200)**
Research and development costs	**(3,894)**	**(7,681)**	**(11,575)**
Segment results	**12,135**	**(7,329)**	**4,806**
Other income			**12,360**
Other gains, net			**2,411**
Administrative expenses			**(51,591)**
Other expenses			**(3,760)**
Finance costs			**(2,856)**
Share of losses of investments accounted for using the equity method			**(4,329)**
Loss before income tax			**(42,959)**
Income tax credit			**14,087**
Loss for the period			**(28,872)**
Other segment information:			
Depreciation	**16,552**	**1,784**	**18,336**
Amortisation	**5,833**	**5,403**	**11,236**

For the six months ended 30 June 2018

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

The segment results for the six months ended 30 June 2017 are as follows:

	Tea products segment RMB'000	Slimming and other medicine segment RMB'000	Total RMB'000
Total revenue (Note)	254,775	33,466	288,241
Inter-segment revenue	—	—	—
Revenue from external customers	254,775	33,466	288,241
Timing of revenue recognition			
At a point in time	254,775	33,466	288,241
Cost of sales	(45,021)	(8,486)	(53,507)
Gross profit	209,754	24,980	234,734
Selling and marketing expenses (Note)	(128,117)	(21,204)	(149,321)
Research and development costs	(4,538)	—	(4,538)
Segment results	77,099	3,776	80,875
Other income			13,541
Other losses, net			(1,512)
Administrative expenses			(54,170)
Other expenses			(4,525)
Share of losses of investments accounted for using the equity method			(2,363)
Profit before income tax			31,846
Income tax expense			(4,454)
Profit for the period			27,392
Other segment information:			
Depreciation	15,803	97	15,900
Amortisation	4,998	408	5,406

Note:

During the six months ended 30 June 2017, the promotion expense paid or payable to ultimate customers of the distributors and sub-distributors of the Group of approximately RMB23,624,000 had been recognised as selling and marketing expenses. Upon the adoption of the IFRS 15, these type of promotion expenses have been net off against the Group's revenue. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the related comparative financial information has not been restated accordingly.

Non-current assets are all located in the PRC.

All the revenue derived from any single external customer were less than 10% of the Group's total revenue for the six months ended 30 June 2018 and 2017.

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2018

8. EXPENSES BY NATURE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**(3,461)**	5,777
Raw materials and consumables used	**27,075**	21,082
Advertising costs	**23,515**	43,552
Employee benefit expense	**69,184**	80,681
Marketing and promotional expenses	**28,160**	45,320
Depreciation and amortisation	**29,572**	21,306
Entertainment and travelling expenses	**7,359**	6,969
Professional service fees	**10,686**	12,630
Stamp duties, property and other taxes	**5,453**	5,972
Office expenses	**1,850**	2,286
Maintenance and testing costs	**4,580**	3,130
Others	**14,241**	17,356
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**218,214**	266,061

9. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest expenses	**2,260**	—
Guarantee fee for bank borrowings	**596**	—
Total	**2,856**	—

10. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current income tax		
— Current income tax on profit for the period	**—**	11,979
— Under provision of PRC income tax in prior year	**61**	—
	61	11,979
Deferred income tax		
— Origination and reversal of temporary differences	**(14,148)**	(7,525)
	(14,087)	4,454

The Company was incorporated in Cayman Islands and Besunyen Investment (BVI) Co. Ltd. was incorporated in the British Virgin Islands ("BVI") that are tax exempted under the tax laws of the Cayman Islands and the BVI.

The tax rate applicable to the Group's subsidiary incorporated and operated in Hong Kong is 16.5%. No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit derived from or generated in Hong Kong for the current and the prior period.

Certain PRC subsidiaries have obtained the High and New Technology Enterprise ("HNTE") qualifications and hence are eligible to the preferential income tax rate of 15% for a three-year period. In addition, a PRC subsidiary is entitled to the preferential policy of newly established enterprise in Kashgar and Khorgos Special Economic Development Zone in Xinjiang and hence is exempted from enterprise income tax for the years from 2017 to 2020.

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

The effective tax rate for the six months ended 30 June 2018 is approximately 33% (2017: 14%). The higher effective tax rate in the current period was primarily attributable to the recognition of deferred income tax assets on certain previously unrecognised deductible temporary differences/tax losses in the current period by reference to the latest financial forecast which indicated that these previously unrecognised deductible temporary differences/tax losses could be utilised in the foreseeable future.

For the six months ended 30 June 2018

11. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period (excluding those ordinary shares as purchased by the Company and held as treasury shares under the Company's Restricted Share Award Scheme) (Note 22).

	Six months ended 30 June	
	2018	2017
(Loss)/profit attributable to owners of the Company (in RMB'000)	**(26,195)**	27,392
Weighted average number of ordinary shares in issue	**1,594,791,809**	1,434,372,745
Basic (losses)/earnings per share (RMB cent per share)	**(1.64)**	1.91

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted (losses)/earnings per share). The share options had anti-diluted effect to the Group for the six months ended 30 June 2018 and 2017. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 30 June 2018 and 2017. No adjustment is made to earnings (numerator). Accordingly, the diluted (losses)/earnings per share is the same as the basic (losses)/earnings per share for the six months ended 30 June 2018 and 2017.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Plant and machinery RMB'000	Furniture and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2017					
Cost	234,601	212,933	38,554	100,315	586,403
Accumulated depreciation	(53,939)	(126,123)	(28,108)	—	(208,170)
Accumulated impairment	(1,630)	(11,607)	—	—	(13,237)
Net book value	179,032	75,203	10,446	100,315	364,996
Six months ended 30 June 2018					
Opening net book amount	**179,032**	**75,203**	**10,446**	**100,315**	**364,996**
Additions	**187**	**1,444**	**1,529**	**11,691**	**14,851**
Transfers	**13,067**	**2,208**	**—**	**(15,275)**	**—**
Transfer to investment properties	**(40,389)**	**(2,399)**	**—**	**(79,370)**	**(122,158)**
Transfer to construction in process	**—**	**(1,246)**	**—**	**1,246**	**—**
Disposals/write-off	**—**	**—**	**(8)**	**—**	**(8)**
Depreciation charge	**(5,170)**	**(9,803)**	**(2,418)**	**—**	**(17,391)**
Closing net book amount	**146,727**	**65,407**	**9,549**	**18,607**	**240,290**
At 30 June 2018					
Cost	**202,835**	**209,790**	**39,902**	**18,607**	**471,134**
Accumulated depreciation	**(54,478)**	**(132,776)**	**(30,353)**	**—**	**(217,607)**
Accumulated impairment	**(1,630)**	**(11,607)**	**—**	**—**	**(13,237)**
Net book value	**146,727**	**65,407**	**9,549**	**18,607**	**240,290**

(a) In March 2017, Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") has entered into a lease agreement, pursuant to which: (1) Beijing Outsell agree to lease the self-occupied property located in Fangshan, Beijing to a third party company (the "leasee"); and (2) Beijing Outsell will follow the reconstruction plan provided by the leasee.

In June 2018, Beijing Outsell has received the reconstruction permission from Beijing Municipal Commission of Housing and Urban-rural Development so that Beijing Outsell can commence the construction works in accordance with the reconstruction plan as provided by the leasee. Accordingly, the property has been transferred to investment properties at the commencement of when the reconstruction is permitted.

(b) As at 30 June 2018, buildings with the carrying amounts of approximately RMB90,188,000 (As at 31 December 2017: Nil) have been pledged to a third party guarantee company, as the securities for being the guarantor of the Group's bank borrowings of totaling RMB100,000,000 (As at 31 December 2017: Nil) (Note 23).

13. LAND USE RIGHTS

The Group has no addition or disposals of land use rights during the six months ended 30 June 2018 and 2017.

As at 30 June 2018, land use rights with the carrying amounts of approximately RMB6,476,000 have been pledged to a third party guarantee company as the securities for being the guarantor of the Group's bank borrowings of totaling RMB100,000,000 (As at 31 December 2017: Nil) (Note 23).

As at 30 June 2018, land use rights with the carrying amounts of approximately RMB18,667,000 have been pledged to Zhongshan Rural Commercial Bank for a mortgage loan of RMB20,000,000 (As at December 2017: RMB20,000,000) (Note 23).

14. INVESTMENT PROPERTIES

	RMB'000
At 31 December 2017	
Cost	60,579
Accumulated depreciation	(11,698)
Net book value	48,881
Six months ended 30 June 2018	
Opening net book amount	**48,881**
Transfer from property, plant and equipment (Note 11 (a))	**122,158**
Depreciation charge	**(945)**
Closing net book amount	**170,094**
At 30 June 2018	
Cost	**187,727**
Accumulated depreciation	**(17,633)**
Net book value	**170,094**

15. INTANGIBLE ASSETS

	Goodwill	Trade-marks and brand name	Computer software	GSP license	Medicine production licenses	Patents and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017							
Cost	56,453	13,398	8,349	7,740	126,000	9,591	221,531
Accumulated amortisation and impairment	—	(10,589)	(1,983)	(2,137)	(1,401)	(5,263)	(21,373)
Net book value	56,453	2,809	6,366	5,603	124,599	4,328	200,158
Six months ended 30 June 2018							
Opening net book amount	**56,453**	**2,809**	**6,366**	**5,603**	**124,599**	**4,328**	**200,158**
Amortisation charge	**—**	**(214)**	**(1,866)**	**(400)**	**(4,200)**	**(226)**	**(6,906)**
Closing net book amount	**56,453**	**2,595**	**4,500**	**5,203**	**120,399**	**4,102**	**193,252**
At 30 June 2018							
Cost	**56,453**	**13,398**	**8,349**	**7,740**	**126,000**	**9,591**	**221,531**
Accumulated amortisation and impairment	**—**	**(10,803)**	**(3,849)**	**(2,537)**	**(5,601)**	**(5,489)**	**(28,279)**
Net book value	**56,453**	**2,595**	**4,500**	**5,203**	**120,399**	**4,102**	**193,252**

16. NON-CURRENT DEPOSITS

	As at	
	30 June 2018	31 December 2017
	RMB'000	RMB'000
Deposits for purchases of property, plant and equipment and intangible assets	**9,948**	8,726

For the six months ended 30 June 2018

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Associate (a)	—	3,861
Joint ventures	**89,730**	92,251
	89,730	96,112

The amounts recognised in the condensed consolidated statement of comprehensive income are as follows:

	Six months ended	
	30 June 2018 RMB'000	30 June 2017 RMB'000
Associate (a)	**(3,861)**	(1,984)
Joint ventures	**(468)**	(379)
	(4,329)	(2,363)

(a) On 18 July 2018, the board of directors of Yunzhi Besunyen Pharmaceutical Sales Co., Ltd. ("Yunzhi Besunyen") has made a resolution to liquidate Yunzhi Besunyen voluntarily.

The Group's share of the loss of the associate for the current period of RMB3,861,000 includes an impairment provision of approximately RMB642,000 for the write-down the Group's interest in the associate down to zero.

18. INVENTORIES

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Raw materials and packaging materials	**8,818**	7,969
Work in progress	**1,894**	1,803
Finished goods	**11,409**	7,914
	22,121	17,686
Less: provision for impairment	**—**	—
	22,121	17,686

19. TRADE AND BILLS RECEIVABLES

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Trade receivables	**33,865**	22,767
Bills receivables	**7,371**	31,546
	41,236	54,313
Less: allowance for doubtful debts	**(1,381)**	(1,337)
	39,855	52,976

The Group allows a credit period of 20–180 days to its customers. The following is an ageing analysis of trade and bills receivables (net of allowance for doubtful debts) based on the dates of deliveries of related goods to the customers, which are approximate to their invoice dates:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
0 to 90 days	**35,999**	39,285
91 to 180 days	**3,502**	13,495
181 to 365 days	**276**	83
Over 365 days	**78**	113
	39,855	52,976

For the six months ended 30 June 2018

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Prepayment for advertisement	**14,406**	8,926
Prepayments to suppliers	**8,912**	6,521
Other receivables	**7,599**	7,732
Interest receivables	**405**	351
Value-added tax recoverable	**7,594**	—
Others	**7,684**	3,464
	46,600	26,994

21. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 10 March 2017, Beijing Outsell has entered into an equity transfer agreement (the "Initial Agreement") with Zhonghang Tuohong (Xi'an) Property Co., Ltd. ("Zhonghang Tuohong") and Besunyen Food and Beverage, a wholly-owned subsidiary of Beijing Outsell, pursuant to which (i) Beijing Outsell agreed to dispose of its entire 100% equity interest in Besunyen Food and Beverage to Zhonghang Tuohong at an aggregate consideration of RMB75,000,000 (the "Consideration") (the "Disposal"); and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell within 45 days upon the completion of the registration of the related equity transfer.

On 27 December 2017, the Group received a deposit at RMB5,000,000 from Zhonghang Tuohong. The assets and liabilities attributable to Besunyen Food and Beverage, which were expected to be sold within twelve months from 31 December 2017, were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 30 June 2018 and 31 December 2017.

22. SHARE CAPITAL

	Number of shares	**Amount** US$	**Share capital** RMB'000
Ordinary shares of US$0.00000833333 each			
Authorised:			
At 30 June 2018 and 31 December 2017	6,000,000,000	50,000	341
Issued and fully paid:			
At 30 June 2018 and 31 December 2017	1,630,207,820	13,585	94

Note:

As at 30 June 2018, 35,401,567 (As at 31 December 2017: 35,401,567) ordinary shares with par value of US$0.00000833333 each were held by the Company for its restricted share award scheme (Note 27).

23. BORROWINGS

As at 30 June 2018, of the Group's borrowings were as follows:

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	**120,000**	20,000
Bank borrowing, unsecured (b)	**30,000**	—
	150,000	20,000

(a) Zhongshan Wanyuan has pledged its land use right (32,490 square meters) of approximately RMB18,667,000 to Zhongshan Rural Commercial Bank as the security for a short-term borrowing of RMB20,000,000. This borrowing bears interests at fixed rate of 5.74% per annum. Interest is payable monthly and the principal is due for repayment on 20 July 2018.

Beijing Outsell has pledged its land use right (55,857 square meters) and buildings (15,072 square meters) with carrying amounts of approximately RMB6,476,000 and RMB90,188,000 to a third party guarantee company as the securities for being the guarantor of the Group's short-term bank borrowings of RMB50,000,000 (interest rate: 5.655% per annum) and RMB50,000,000 (interest rate: 5.67% per annum). The interest is payable quarterly and the principals are due for repayment by 28 June 2019.

(b) The unsecured bank borrowing of RMB30,000,000 bears interests at a pre-determined interest rate, which is by reference to the one-year benchmark lending rate as announced by the People's Bank of China, plus a margin. Interest is payable quarterly and the principal is due for repayment on 17 January 2019.

For the six months ended 30 June 2018

24. DEFERRED INCOME TAX

Deferred income tax assets

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Beginning of the period	**49,645**	34,237
Credited to profit or loss	**13,249**	7,425
End of the period	**62,894**	41,662

Deferred income tax liabilities

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Beginning of the period	**39,570**	7,066
Credited to profit or loss	**(899)**	(100)
End of the period	**38,671**	6,966

25. TRADE AND BILLS PAYABLES

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

	As at	
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
0 to 90 days	**4,478**	13,188
91 to 180 days	**1,023**	148
	5,501	13,336

26. OTHER PAYABLES AND ACCRUED EXPENSES

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Advances from customers (Note)	—	16,820
Accrued expenses	**11,934**	27,258
Taxes and surcharge payable	**1,596**	14,456
Accrued sales rebates (Note)	—	29,007
Payroll and welfare payable	**10,306**	21,888
Payable to suppliers for:		
— purchases of property, plant and equipment	**2,357**	6,046
— advertisement	**4,642**	9,593
Advance payment received for a subsidiary to be disposed	**5,000**	5,000
Others	**15,331**	13,852
	51,166	143,920

Note:

Upon the adoption of IFRS 15, the Company has classified the advances from customers and accrued sales rebates as contract liabilities. The Group has adopted the IFRS 15 by using the modified retrospective approach and hence the related comparative financial information has not been restated accordingly.

For the six months ended 30 June 2018

27. SHARE-BASED PAYMENTS

Share option scheme

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a post-IPO share option scheme ("Post-IPO Share Option Scheme") on 30 April 2010 and 8 September 2010, respectively for the granting of share options to qualified persons.

Movements in the number of share options outstanding under the share option schemes and the related weighted average exercise prices of the options granted are as follows:

	Pre-IPO Share Option Scheme Average exercise price (RMB)	Pre-IPO Share Option Scheme Number of options	Post-IPO Share Option Scheme Average exercise price (HK$)	Post-IPO Share Option Scheme Number of options	Total number of options
At 1 January 2017	1.23	75,020,000	1.01	27,060,000	102,080,000
Granted	—	—	—	—	—
Lapsed	1.23	(500,000)	1.00	(1,820,000)	(2,320,000)
At 30 June 2017	1.23	74,520,000	1.01	25,240,000	99,760,000
Exercisable as at 30 June 2017	1.23	74,520,000	1.00	12,845,000	87,365,000
At 1 January 2018	**1.23**	**74,370,000**	**1.01**	**24,440,000**	**98,810,000**
Granted	**—**	**—**	**—**	**—**	**—**
Lapsed	**1.23**	**(900,000)**	**1.00**	**(1,600,000)**	**(2,500,000)**
At 30 June 2018	**1.23**	**73,470,000**	**1.01**	**22,840,000**	**96,310,000**
Exercisable as at 30 June 2018	**1.23**	**73,470,000**	**1.01**	**22,143,000**	**95,613,000**

Restricted share award scheme

The Company adopted a restricted share award scheme on 11 November 2011 with duration of 10 years for the granting of restricted shares to eligible participants (the "Selected Participants").

The Company has set up a trust (the "Trust") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trust purchases the Company's shares being awarded from the open market using cash contributed by the Company.

In January 2012, the Trust purchased 61,000,000 shares of the Company on the Stock Exchange at a total consideration of HK$48,291,000 (equivalent to RMB39,312,000) for the restricted share award scheme.

As at 30 June 2018, 35,401,567 (As at 31 December 2017: 35,401,567) shares were held by the Trust and not yet granted to the Selected Participants.

For the six months ended 30 June 2018

27. SHARE-BASED PAYMENTS *(Continued)*

Movements in the number of restricted shares are as follows:

	Number of shares held for the Restricted Share Award Scheme	Number of awarded shares	Total
At 1 January 2017	36,601,567	200,000	36,801,567
Granted	(1,000,000)	1,000,000	—
Vested and transferred	—	(1,200,000)	(1,200,000)
At 30 June 2017	35,601,567	—	35,601,567
At 1 January 2018	**35,401,567**	**200,000**	**35,601,567**
Granted	—	—	—
Vested and transferred	—	**(200,000)**	**(200,000)**
At 30 June 2018	**35,401,567**	**—**	**35,401,567**

28. COMMITMENTS

(a) Capital commitments

As at 30 June 2018, capital expenditure of property, plant and equipment contracted for but not yet incurred amounted to approximately RMB9,614,000 (as at 31 December 2017: RMB12,686,000).

As at 30 June 2018, capital investments in an associate and a joint venture contracted for but not yet incurred amounted to nil and RMB11,843,000 (as at 31 December 2017: RMB14,700,000 and RMB9,790,000), respectively.

(b) Operating lease commitments

The Group as leasee

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

	As at	
	30 June 2018 RMB'000	31 December 2017 RMB'000
No later than 1 year	**1,864**	1,324
Later than 1 year and no later than 5 years	**409**	110
	2,273	1,434

Operating lease payments primarily represent rental payable by the Group for certain of its office building and staff dormitory.

For the six months ended 30 June 2018

28. COMMITMENTS *(Continued)*

(b) Operating lease commitments *(Continued)*

The Group as lessor

At the end of the reporting period, the future minimum lease receipts under non-cancellable operating leases are as follows:

	As at	
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
No later than 1 year	**24,957**	27,954
Later than 1 year and no later than 5 years	**12,531**	18,620
	37,488	46,574

29. RELATED PARTY TRANSACTIONS

Key management compensation

Key management includes Chief Executive Officer, Chief Financial Officer and Vice Presidents. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Salaries, bonus and other allowances	**4,172**	4,243
Share-based compensation	**135**	430
Pension cost — defined contribution plan	**174**	166
	4,481	4,839

Other Information

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

As at 30 June 2018, so far as known to the Directors, 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), or (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	Number of options granted under the Share Option Scheme	Approximate percentage of total issued Shares (%)(7)
Mr. ZHAO Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director(1)(3)	873,255,216(1)(L)	36,000,000(1)(L)	5,000,000(1)(L)	53.57%
Ms. GAO Yan	Beneficial owner and interest of her spouse(2)(3)	873,255,216(2)(L)	36,000,000(2)(L)	5,000,000(2)(L)	53.57%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	1,136,000(4)(L)	400,000(4)(L)	600,000(4)(L)	0.07%
Ms. ZHANG Guimei (resigned on 17 August 2018)	—	—	—	—	—
Mr. HUANG Jingsheng	Beneficial owner	1,100,000(5)(L)	500,000(5)(L)	600,000(5)(L)	0.07%
Mr. REN Guangming	Beneficial owner	970,000(6)(L)	—	600,000(6)(L)	0.06%
Mr. HE Yuanping	—	—	—	—	—

(1) Mr. Zhao Yihong, executive Director, beneficially owns 24,000,000 options granted under the Pre-IPO Share Option Scheme, 4,000,000 options granted under the Share Option Scheme and 1,741,000 Shares directly. Mr. Zhao is also deemed or taken to be interested in the following Shares/options for the purposes of the SFO:

(i) 816,259,176 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;

(ii) 14,255,040 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 and 1,000,000 options granted under the 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 and 1,000,000 options granted under the 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) 1,741,000 Shares beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;

(ii) 816,259,176 Shares which are deemed to be beneficially owned by Mr. Zhao, as controlling shareholder of Foreshore Holding Group Limited;

(iii) 14,255,040 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 and 4,000,000 options granted under the 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 and 600,000 options granted under the 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 and 600,000 options granted under the Share Option Scheme.

(6) Mr. Ren Guangming, independent non-executive Director, beneficially owns 600,000 options granted under the Share Option Scheme and 370,000 Shares.

(7) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 30 June 2018. The percentage of interest in the columns includes the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, so far as known to the Directors, persons (other than the Directors 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 (%)(3)
Foreshore Holding Group Limited(1)	816,259,176(L)	50.07%
Sea Network Holdings Limited(1)	816,259,176(L)	50.07%
TMF Trust (HK) Limited(1)	816,259,176(L)	50.07%
Ms. PENG Wei(2)	128,115,000(L)	7.86%
Everyoung Investment Holdings Limited(2)	123,750,000(L)	7.59%

(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 TMF Trust (HK) 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) The entire issued share capital of Everyoung Investment Holdings Limited is directly owned by Ms. Peng Wei. Ms. Peng beneficially owns 4,365,000 Shares.

(3) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 30 June 2018.

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

Save as disclosed above, as at 30 June 2018, the Company has not been notified by any person (other than the Directors 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.

PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Share Option Scheme for the first time by passing a resolution on 30 April 2010. The scheme aims to provide incentives for qualified employees. Pursuant to the Pre-IPO Share Option Scheme, the Board can provide qualified Directors, employees and consultants the share options to subscribe for shares of the Company.

The maximum number of shares which may be issued upon exercise of all options granted under the Pre-IPO Share Option Scheme is 73,470,000, representing approximately 4.51% of the issued shares as at the date of this interim report.

Details of specific category of options are as follows:

Options type	Date of grant	Share options granted	Vesting period	Exercise period	Exercise Price	Fair value of option at grant date
					RMB	RMB
1st	6.5.2010	94,524,000	6.5.2010–5.11.2013	6.11.2010–5.5.2020	1.23	0.50
2nd	6.5.2010	19,872,000	6.5.2010–5.5.2014	6.5.2011–5.5.2020	1.23	0.51
3rd	6.5.2010	16,800,000	6.5.2010–5.5.2013	6.5.2011–5.5.2020	1.23	0.50
4th	6.5.2010	4,800,000	6.5.2010–5.5.2014	6.5.2011–5.5.2020	3.30	0.28
5th	31.5.2010	6,120,000	31.5.2010–5.5.2014	6.5.2011–30.5.2020	1.23	0.50
6th	21.6.2010	120,000	21.6.2010–5.5.2014	6.5.2011–20.6.2020	1.23	0.87
7th	28.6.2010	1,680,000	28.6.2010–5.5.2014	6.5.2011–27.6.2020	1.23	0.87

Other Information

The following table discloses the movement of the Company's share options held by the Directors, employees and consultants under the Pre-IPO Share Option Scheme for the six months ended 30 June 2018:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2018	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30/6/2018
Executive directors								
Zhao Yihong	6.5.2010	1st	3.5 Years	24,000,000	—	—	—	24,000,000
Gao Yan	6.5.2010	1st	3.5 Years	12,000,000	—	—	—	12,000,000
				36,000,000	—	—	—	36,000,000
Non-executive director								
Zhuo Fumin	6.5.2010	2nd	4 Years	400,000	—	—	—	400,000
				400,000	—	—	—	400,000
Independent non-executive director								
Huang Jingsheng	6.5.2010	2nd	4 Years	500,000	—	—	—	500,000
				500,000	—	—	—	500,000
Employees and consultants in aggregate	6.5.2010	1st	3.5 Years	33,680,000	—	(900,000)	—	32,780,000
	6.5.2010	2nd	4 Years	3,490,000	—	—	—	3,490,000
	31.5.2010	5th	3.9 Years	—	—	—	—	—
	21.6.2010	6th	3.9 Years	100,000	—	—	—	100,000
	28.6.2010	7th	3.9 Years	200,000	—	—	—	200,000
				37,470,000	—	—	—	36,570,000
	Total			74,370,000	—	(900,000)	—	73,470,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the period								73,470,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the six months ended 30 June 2018.

Pursuant to the Pre-IPO Share Option Scheme, the first option type granted on 6 May 2010 shall be exercisable during the period from the first semi-anniversary of the date of grant (the "**first semi-anniversary**") and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option was exercisable during the period from the first semi-anniversary and ending on the expiry of the option period;

(ii) up to 50% of the option was exercisable during the period from the first anniversary of the first semi-anniversary and ending on the expiry of the option period;

Other Information

(iii) up to 75% of the option was exercisable during the period from the second anniversary of the first semi-anniversary and ending on the expiry of the option period; and

(iv) up to 100% of the option was exercisable during the period from the third anniversary of the first semi-anniversary and ending on the expiry of the option period.

Pursuant to the Pre-IPO Share Option Scheme, the third option type granted on 6 May 2010, shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 30% of the option was exercisable during the period from 6 May 2011 and ending on the expiry of the option period;

(ii) up to 60% of the option was exercisable during the period from 6 May 2012 and ending on the expiry of the option period; and

(iii) up to 100% of the option was exercisable during the period from 6 May 2013 and ending on the expiry of the option period.

Pursuant to the Pre-IPO Share Option Scheme, except the first and third option types above, the options granted on 6 May 2010, 31 May 2010, 21 June 2010 and 28 June 2010 shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option was exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period;

(ii) up to 50% of the option was exercisable during the period from the second anniversary of the commencement date and ending on the expiry of the option period;

(iii) up to 75% of the option was exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the fourth anniversary of the commencement date and ending on the expiry of the option period.

The Group recognised no expense for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil) in relation to share options granted under the Pre-IPO Share Option Scheme by the Company.

SHARE OPTION SCHEME

The Company's Share Option Scheme was adopted pursuant to a resolution passed on 8 September 2010 for the purpose of providing incentives to eligible persons. Under the Share Option Scheme, the Board may grant options to eligible Directors, employees and consultants to subscribe for shares in the Company.

The maximum number of shares which can be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme shall not, in aggregate, exceed 168,109,132, being 10% of the shares of the Company in issue immediately after the initial public offering on the listing date and representing approximately 10.31% of the issued shares as at the date of this interim report.

On 27 October 2014, the Company granted 44,860,000 share options under the Share Option Scheme.

On 10 August 2015, the Company granted 2,900,000 share options under the Share Option Scheme.

On 15 March 2016, the Company granted 1,500,000 share options under the Share Option Scheme.

On 20 December 2016, the Company granted 400,000 share options under the Share Option Scheme.

Options type	Date of grant	Share options granted	Vesting period	Exercise period	Exercise Price	Fair value of option at grant date
					HK$	HK$
1st	27.10.2014	20,200,000	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.419
2nd	27.10.2014	21,060,000	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.388
3rd	27.10.2014	3,600,000	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.447
4th	10.8.2015	2,400,000	24.8.2015–23.8.2019	24.8.2016–23.8.2023	1.16	0.480
5th	10.8.2015	500,000	24.8.2015–23.8.2019	24.8.2016–23.8.2023	1.16	0.450
6th	15.3.2016	1,500,000	29.3.2016–28.3.2020	29.3.2017–28.3.2024	1.00	0.337
7th	20.12.2016	400,000	3.1.2017–2.1.2021	3.1.2018–2.1.2025	1.00	0.095

Other Information

The following table discloses the movement of the Company's share options held by the Directors, employees and consultants under the Share Option Scheme for the six months ended 30 June 2018:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2018	Granted during the period	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30/6/2018
Executive directors									
Zhao Yihong	27.10.2014	1st	4 Years	4,000,000	—	—	—	—	4,000,000
Gao Yan	27.10.2014	1st	4 Years	1,000,000	—	—	—	—	1,000,000
				5,000,000	—	—	—	—	5,000,000
Non-executive directors									
Zhuo Fumin	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
Zhang Guimei (resigned on 17 August 2018)	—	—	—	—	—	—	—	—	—
				600,000	—	—	—	—	600,000
Independent non-executive directors									
Huang Jingsheng	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
				1,200,000	—	—	—	—	1,200,000
Employees and consultants in aggregate	27.10.2014	1st	4 Years	7,800,000	—	—	(1,000,000)	—	6,800,000
	27.10.2014	2nd	4 Years	8,940,000	—	—	(600,000)	—	8,340,000
	27.10.2014	3rd	4 Years	—	—	—	—	—	—
	10.8.2015	4th	4 Years	400,000	—	—	—	—	400,000
	10.8.2015	5th	4 Years	—	—	—	—	—	—
	15.3.2016	6th	4 Years	500,000	—	—	—	—	500,000
	20.12.2016	7th	4 Years	—	—	—	—	—	—
				17,640,000	—	—	(1,600,000)	—	16,040,000
	Total			24,440,000	—	—	(1,600,000)	—	22,840,000
Weighted average exercise price (HK$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the period									22,143,000

Pursuant to the Share Option Scheme, the share options granted on 27 October 2014, 10 August 2015, 15 March 2016 and 20 December 2016, shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option was exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period;

(ii) up to 50% of the option was exercisable during the period from the second anniversary of the commencement date and ending on the expiry of the option period;

(iii) up to 75% of the option was exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the fourth anniversary of the commencement date and ending on the expiry of the option period.

The binomial option pricing model has been used to determine the fair value of share options granted during the six months ended 30 June 2018. The inputs into the model were as follows:

	Option type						
	1st	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**
Grant date share price (HK$)	0.98	0.98	0.98	1.16	1.16	0.92	0.53
Exercise price (HK$)	1.00	1.00	1.00	1.16	1.16	1.00	1.00
Expected volatility	50%	50%	50%	54%	54%	53%	52%
Option life	8 years	8 years	8 years	8 years	8 years	8 years	8 years
Dividend yield	1.00%	1.00%	1.00%	2.80%	2.80%	3.53%	6.13%
Risk-free interest rate	1.68%	1.68%	1.68%	1.52%	1.52%	1.30%	1.92%
Annual post-vesting forfeit rate	15.0%	25.0%	0.0%	15.0%	24.0%	16.0%	24.0%
Total estimated fair value of the options granted (HK$'000)	8,458	8,178	1,611	1,145	225	505	38

Expected volatility was estimated based on the historical share price volatility over the past 8 years of the Company and other comparable listed companies.

The risk-free interest rate of the option was estimated based on the yield of 8-year Hong Kong Sovereign Bond as at the grant date.

The selected dividend yield was estimated with consideration of the Company's expected dividend policy and analysis of historical trend of share price-to-earnings ratio of the Company.

The annual post-vesting forfeit rate was estimated with analysis of historical forfeit rate of the Company.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognized a total deductible of RMB47,000 for the six months ended 30 June 2018 (for the six months ended 30 June 2017: deductible of RMB255,000) in relation to share options granted under the Share Option Scheme by the Company.

RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme on 11 November 2011 with duration of 10 years commencing from the effective date. The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants who shall receive offers of restricted shares as designated by the administration committee (the "**Selected Participants**") and to increase the degree to which the Selected Participants' remuneration and interests are tied to the financial performance of the Company and the fortunes of the shareholders of the Company. This scheme will provide the Selected Participants, which includes any director, employee, consultant, executive or officer of the Company or any of its subsidiaries, to have a personal stake in the Company. The Company has set up the Employees' Share Award Scheme Trust (the "**Trust**") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trust purchases the Company's shares being awarded from the open market using cash contributed by the Company.

In January 2012, the Trust purchased 61,000,000 shares of the Company on the Stock Exchange in a total consideration of HK$48,291,000 (equivalent to RMB39,312,000) for the Restricted Share Award Scheme.

On 3 September 2012, 11,750,838 shares were granted by the Company to the Selected Participants. 6,750,838 shares were vested and awarded to a Selected Participant in October 2012. Another 5,000,000 shares were lapsed in December 2012.

On 10 April 2013, 11,339,880 shares were granted by the Company to a Selected Participant without consideration, and vested on 13 May 2013. On 28 June 2013, 2,546,715 shares were granted by the Company to a Selected Participant without consideration, and vested on 2 September 2013.

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. On 21 November 2014, 200,000 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 22 December 2014.

On 14 April 2015, 854,000 shares were granted by the Company to Selected Participants at nil consideration, and vested on 15 May 2015. On 6 July 2015, 112,000 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 21 August 2015. On 24 November 2015, 200,000 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 31 December 2015.

On 2 December 2016, 200,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 4 January 2017.

On 14 February 2017, 1,000,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 17 March 2017.

On 14 December 2017, 200,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 15 January 2018.

As at 30 June 2018, 35,401,567 shares (31 December 2017: 35,601,567 shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized a total expense of RMB88,000 for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB550,000) 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.

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the six months ended 30 June 2018 and outstanding at 30 June 2018:

Employees	Number of awarded shares
Outstanding as at 1 January 2018	200,000
Granted during the period	—
Vested during the period	(200,000)
Outstanding as at 30 June 2018	—

The closing price of the Company's shares immediately before 14 December 2017, the date of grant of the restricted shares, was HK$0.52.

Save as disclosed above, during the six months ended 30 June 2018, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the six months ended 30 June 2018, except for code provision A.2.1 of the CG Code.

CODE PROVISION A.2.1

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 28 years of experience in food and beverage industry in the PRC. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

AUDIT COMMITTEE

As at the date of this interim report, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Huang Jingsheng and Mr. Ren Guangming. The Audit Committee has reviewed the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2018 and this interim report, the accounting principles and practices adopted by the Group and discussed the Group's internal controls and financial reporting matters.

REVIEW OF INTERIM RESULTS

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2018 has been reviewed by PricewaterhouseCoopers, 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 2018.

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2018.

CHANGES IN THE INFORMATION OF DIRECTORS

The changes in the information of the Directors from the date of the 2017 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:

Name of Director	Details of Changes
Zhuo Fumin	Ceased to be an independent director of China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600675) on 29 June 2018.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018.

On behalf of the Board
ZHAO Yihong
Chairman

Hong Kong, 17 August 2018