碧生源控股有限公司

Besunyen Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 926

INTERIM REPORT 2019

Company 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 19 years, has dedicated itself to the marketing and sales of the Two Teas. As at 30 June 2019, the Two Teas recorded an accumulated sales volume of over 5.0 billion bags, with an accumulated sales amount of over RMB6.4 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 13.82%; and that of Besunyen Slimming Tea accounted for 33.19%, taking the first place in the market.

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 high-speed 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 2019, 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 246 sub-distributors for the Two Teas and 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. Ren Guangming
Mr. He Yuanping
Mr. Fu Shula

AUDIT COMMITTEE

Mr. He Yuanping *(Chairman)*
Mr. Ren Guangming
Mr. Fu Shula

REMUNERATION COMMITTEE

Mr. Fu Shula *(Chairman)*
Mr. Zhao Yihong
Mr. Ren Guangming
Mr. He Yuanping

NOMINATION COMMITTEE

Mr. Ren Guangming *(Chairman)*
Mr. Zhao Yihong
Mr. He Yuanping
Mr. Fu Shula

COMPANY SECRETARY

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

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Corporate Information

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LEGAL ADVISORS

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Financial Highlights

THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2019 was RMB338.2 million, representing an increase of 101.7% as compared with the revenue of RMB167.7 million for the same period of 2018.

Gross profit of the Group amounted to RMB246.8 million for the first half of 2019, representing an increase of 103.0% from the gross profit of RMB121.6 million for the same period of 2018. The gross profit margin of the Group for the first half of 2019 was 73.0%, representing a slight increase of 0.5 percentage point from the gross profit margin of 72.5% for the same period of 2018.

Total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2019 were RMB252.9 million, representing an increase of 50.2% as compared with the total operating expenses of RMB168.4 million for the same period of 2018.

The operating profit of the Group for the first half of 2019 is RMB222.9 million, excluding the gain on disposal of subsidiaries of RMB225.6 million, the operating loss of the Group for the first half of 2019 is RMB2.7 million, while the operating loss for the same period of 2018 is RMB35.8 million.

The Group recorded a total comprehensive income of RMB172.7 million for the first half of 2019, compared with the total comprehensive loss of RMB28.9 million for the same period of 2018.

The basic and diluted earnings per share attributable to owners of the Company for the first half of 2019 were both RMB10.48 cents (for the same period of 2018: both the basic and diluted losses per share attributable to owners of the Company were RMB1.64 cents).

Management Discussion and Analysis

BUSINESS REVIEW

Capturing Consumer Demand and Pursuing Innovation and Change to Enhance Product Competitiveness

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

We take the people's desire for a healthy life as our goal. In the first half of 2019, the Group adhered to consumer-oriented concepts and expanded its product lines, introducing new products including Besunyen Miao Miao Jiao Enzyme Jelly, Besunyen Day and Night White Collagen Powder, Besunyen red bean and adlay tea and Besunyen lotus leaf green tea on the e-commerce platform. Focusing on an array of weight management product offerings and intestine healthcare product offerings, comprising "OTC drug + Health food + Ordinary food", the Group continues the development of "OTC drug + Health food + Ordinary food" under the product categories of dietary supplements as well as health and beauty products. The Group captured consumer demand while pursuing innovation and change to enable the continuous creation of popular products.

Exploring New Branding Models and Broadening Brand Promotion Channels to Highlight Brand Value

Leveraging Radio Platform to Increase Brand Exposure and Expand Brand Influence

In the first half of 2019, the Group placed frequent advertisements on The Voice of China and Music Radio of China National Radio at different times of the day to create brand memory in a short period of time. The Group continued to use slogans such as "Give Your Intestines a Bath" to awaken the brand memory of the audience, which served to increase brand exposure while facilitating product sales. The Group also sponsored the "I Want to Go to School 1200 Student Aid Programme" jointly promoted by the China Children and Teenagers' Fund and Music Radio of China National Radio to make children's dreams come true, thereby sharing social responsibility, enhancing brand reputation and expanding its influence.

Making Strategic Use of Elevator Media to Aim Precisely at Family Consumer Group for the Shift to New Operation Model

In the first half of 2019, the Group made strategic use of elevator media to aim precisely at family users, and integrated offline terminals and online data to reshape the new operation model of "people, goods and venues". Our advertisements were shown on more than 300,000 elevator monitors in nearly 70 cities to delve into the pain points of users, resonate with the target audience and meet the consumption demand of families. As socialisation becomes personalised and mobile, the new operation philosophy which integrates terminal-based advertising will usher in a simpler, more efficient and easier way for the circulation of goods, which further promoted the shift of the operation of the Group from a conventional model to a new operation model and further conducive to the Group's promotion of the sales of offline pharmacy chains nationwide.

Fully Upgrading Product Placement into Movies and Television Dramas to Create New Branding Models and Promoting Brand Rejuvenation

Expanding Product Placement into Web Dramas and Variety Shows to Enhance Brand Competitiveness with Contents Marketing and Scenario Marketing

In the first half of 2019, the Group fully upgraded its brand promotion campaigns to create new branding models of community dissemination and scenario marketing, actively promote brand rejuvenation and step up product placement into web dramas and variety shows, which improved brand awareness among young internet users and enhanced brand competitiveness with contents marketing and scenario marketing. In the first half of 2019, a total of two dramas with placement have been confirmed and are expected to be broadcast this year and next year respectively. In addition, adhering to the principle of "brand rejuvenation", a number of online videos have been produced, and are distributed to younger active consumers over time.

Increasing Joint Marketing Efforts to Keep Enhancing Brand Competitiveness

The variety show Living It Up (《人生加減法》), which was specially supported by Besunyen Slimming Tea, was broadcast on Dragon Television, iQiyi, Tencent and Youku concurrently, injecting the audience with a green, healthy and positive booster of weight management. The programme was produced by Mr. Yu Fan, who had 13 years of experience in making variety shows and was one of the earliest producers of reality shows which featured amateurs in China. The 100-day life-changing stories of a group of 14 amateurs, who were led by the skilful singer Will Liu, were filmed in the form of documentary. Meanwhile, the Group increased its joint distribution efforts in the first half of 2019, gaining the enterprise a greater competitive advantage and more development opportunities.

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

In the first half of 2019, the Group joined hands with the collection activity of Academy Award of Advertisement and Art Festival for Chinese College Students in the 2019 spring competition and held "Besunyen Cup" Public Welfare Advertising Contest. The contest spanned 30 provinces and cities and involved 40 colleges and universities, with 18 creative lectures and 20 off-site product interactive experience sessions. The official proposition poster and strategy sheet covered more than 1,500 schools across the country.

In the current session of Academy Award, the Group was the only enterprise which used public welfare as its main proposition. 2019 witnesses the 19th anniversary of the Group, during which the Group launched brand new "classic packages" for the Two Teas nationwide, and the theme of "Classic Beauty and Slimming Tea" was well received by the students. The zero-distance contact with university students during the current session of Academy Award gained the Group a sound and profound brand reputation among the youth, in the hope of maintaining popularity of the Besunyen brand among the existing and future target consumers.

Adjusting Sales Team Structures and Functions and Focusing on Growth of Direct Sales to End Users

Adjusting Sales Team Structures to Enhance Management Efficiency and Team Competitiveness

In the first half of 2019, the Group adjusted its national sales systems, structures and functions. Under the foundation of the existing three major regions in national offline retail, Key Account ("**KA**") chain management was added to formulate a "3+1" management model. All of them compete against and improve each other, which stimulates their sense of ownership. This has significantly improved the work motivation of the sales team and has enhanced the overall capability of the sales team. To further improve management efficiency as well as sale capability, all sales team have made efforts in innovation, such as improving team development, making significant progress in major retail chains, innovating marketing model, eliminating the lowest, developing membership base, introducing new models and new products, etc.

Improving Distribution Penetration Rate for Offline Management, Enriching Terminal Promotion Modes and Enhancing Horizontal Growth

Based on the three major regions, in the first half of 2019, the Group's national offline management has established 15 direct sales departments and business departments in secondary regions, which are mainly responsible for distribution management and terminal promotion to optimise the resources of distributors, unblock circulation channels, establish a more reasonable distributor/sub-distributor portfolio and further improve distribution penetration rate. Key retail terminal works such as prevention of supply suspension, price maintenance, terminal display, promotion and interception of competing products have been done to boost the rate of priority recommendation of the Group's products, enrich terminal promotion modes, cultivate terminal image and enhance horizontal growth.

Improving Management and Operation of Chains for KA Management Department, Establishing Model Chains and Enhancing Vertical Growth

In the first half of 2019, the Group established KA management department to facilitate centralised management of pharmacy chains for the improvement of overall operation of the chains. The KA management department is mainly responsible for refined management of six core chains across the country, namely Dashenlin, LBX, Neptunus, Yixintang, Yifeng and Jianzhijia, and has established different sales policies targeting at the characteristics of different market chains. Vertical growth could therefore be achieved with the establishment of such model chains, penetration into non-core chains and launch of three-tier campaigns.

Establishing New Performance Appraisal Orientation and Focusing on Growth of Direct Sales to End Users

To make sales teams focus on the growth of direct sales to end users, eliminate the violation of the Group's management policies by distributors/sub-distributors and avoid the sales of stockpile in the market at low price, the Group connected the data of shipment on the distributor/sub-distributor side and the data of terminal sales, and changed the performance appraisal from distributors' shipment appraisal to direct sales to end users appraisal. By establishing direct sales to end users as a PK parameter for the sales personnel, it allows the sales personnel to completely participate in terminal management and maintenance and the excessive stockpile through the distributions has been avoided, leading to more solid and effective terminal management and terminal basic promotion.

Enhancing Flow Management and Maintaining a Smooth Operating Order of Market

In order to maintain the freshness of the products in the market and avoid obsolete products and returns due to stockpiling, with respect to flow control of distributors, the Group controlled the inventory turnover days of distributors from the source, upgraded logistics anti-counterfeiting system management system, and monitored the logistics information of distributors to further enhance the timely acquisition and supervision of logistics information. On the other hand, the Group made direct connection to the systems of distributors and sub-distributors, which provided a real-time command of data such as stock-out, stock-in and serial number of distributors and sub-distributors, allowed the acquisition of accurate flow data, avoided overstocking through the distributions and enabled better supervision of customers and distributions. Meanwhile, the Group strengthened regulation on product pricing and adopted a series of measures to safeguard the price stability. The confidence of distributors/sub-distributors has been improved and this will be beneficial to the healthy and stable development of the market.

Keeping Abreast of the Industry Development Trend, Creating and Optimising New Products and Building an Operation Team with High Standards

Implementing Refined Management and Adjusting Distribution Strategies

In the first half of 2019, the Group implemented refined management, enhanced the management and operation modes of e-commerce according to the type of goods and the scale of logistics, and conducted more standardised management for four stations (Beijing, Guangzhou, Hangzhou and drugs); to ensure the rapid development of e-commerce business; an e-commerce integrated marketing centre, supply chain group and sales support group were established; the original customer service team was upgraded to a customer service centre. Based on the e-commerce platform promotion policy, the Group fully explored and analysed the purchasing habits and feedback of platform users to track, analyse and give feedback on the operation and promotion results, and linked up the management, contents and customer service team to adjust distribution strategies accordingly to create a better user experience, which effectively improved the total revenue of the Two Teas, drugs and new products and laid a solid foundation for the future development of the Group's e-commerce distribution.

Continuously Optimising New Products, Riding on the Trend of E-commerce and Improving the Operational Capabilities of the Team

Focusing on the area of weight management, the Group continued to optimise its product mix, expanded from the traditional herbal slimming tea to the OTC arena, focused on improving the packages, and producing graphics and videos of old products (Besunyen Xian Xian Tea, meal replacement milk shake, etc.), and launched the "dietary fibre" series of light meal replacement products and the "collagen" series of new health products for the health-savvy young consumers. Meanwhile, in face of continuous business hardship, the operation team became more mature and mastered the rules of each platform. The amazing growth stories of the aggressive and hardworking team were appraised as classic cases by Alibaba and Pinduoduo for many times. The sales campaign on 21 March in cooperation with the Alibaba Juhuasuan platform was a great success, and the brand was put on the key cultivation list by Juhuasuan and others. The customer service centre grew from 14 people last year to more than 70 people. A sound service mechanism was established to deepen the one-to-one service, which accumulated a large number of regular customers and realised a higher-than-average repurchase rate. The Group's products for e-commerce channels included the "Two Teas", Orlistat and new products, which performed well in this year's "6•18 Mid-year Sales" on major e-commerce platforms such as Tmall and JD.com. The overall transaction volume surged to 122% compared with that of "Double 11" last year, resulting in an explosive growth in product sales and brand exposure. "Besunyen's new retail model has gradually shown its vitality," China Economic Net and many other authoritative media in China wrote in their detailed commentaries.

Innovating R&D Philosophy, Strengthening External Development Cooperation and Continuing to Launch New Products

In 2019, the research and development work embraces China's "Health for All" principle and focuses on the two healthcare functions of weight management and intestinal health and expands herbal healthcare products and strengthens external cooperation efforts. The research and development of new health food products for weight loss, defaecation, throat clearing and liver protection continued. Through the participation in the key research and development program of the Ministry of Science and Technology named "Traditional Chinese Medicine Modernisation Project" and the cooperation with renowned research institutes such as Beijing University of Chinese Medicine on product research and development, the formula of the new laxative product based on the precise healthcare principle has entered the expert argumentation phrase and an agreement has been signed for related research and projects with regard to the marketed laxative healthcare products, namely Besunyen Runyuan Tea. The notices of evaluation comments for the renewal of registration of Besunyen Runyuan Tea and Besunyen Changwuyin Granules have been received. Preparation for permit issuance, production and market launch of Besunyen Yanyuan Granules have been completed. For e-commerce common food, the renewal of nutritious meal replacement milk shake, dietary fibre and collagen products has been completed and new products such as Besunyen Xian Xian Shake, Miao Miao Jiao Collagen Jelly and Day and Night White Collagen Powder have been launched. Development of new products such as Besunyen red bean and adlay tea bag and lotus leaf green tea bag has been completed.

In the first half of 2019, Zhongshan Wanyuan made one application and one licencing application and completed the supplementary research for two types of eye drops and submitted the supplementary research materials to the National Medical Products Administration. Zhongshan Wanhan made three invention patent applications and six licencing applications. On 1 April 2019, Zhongshan Wanhan and Zhongshan Wanyuan passed the certification of the intellectual property management system.

OUTLOOK

According to the publication of National Bureau of Statistics, China's economy achieved stable and healthy growth in 2019. China's economy has transformed from rapid growth to a high-quality development phase. To improve the health of the general public, China has put forward a feasible new medical reform proposal and the health development strategy of "Healthy China 2020" and advanced "Healthy and Powerful Country" to the national strategic level. The favourable policy will greatly encourage the development of the big health industry. The "Healthy China 2030 Strategy" also proposes higher requirements for people's health, health service capability and health system optimisation.

The Group will continue to regulate and manage its business while highly focusing on the growth of direct sales to end users in the market. Leveraging the current excellent market base and brand recognition, the Group will promote the development and launch of new products. Through establishment of reasonable new product incentive policy, enrichment of product range, and continuous introduction of new products based on independent research and development and outsourced processing, the Group will continue to develop its e-commerce business to achieve higher revenue growth.

FINANCIAL REVIEW

Revenue

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Revenue:				
Besunyen Detox Tea	**84,865**	**25.1%**	51,649	30.8%
Besunyen Slimming Tea	**92,922**	**27.5%**	78,438	46.8%
Others	**51,524**	**15.2%**	14,720	8.8%
Slimming medicines	**108,911**	**32.2%**	22,862	13.6%
Total	**338,222**	**100.0%**	167,669	100.0%

The revenue of the Group was RMB167.7 million in the first half of 2018 and increased by 101.7% to RMB338.2 million in the same period of 2019. Among these, the revenue of Besunyen Detox Tea increased by 64.5% from RMB51.6 million in the first half of 2018 to RMB84.9 million in the same period of 2019, while the sales volume increased by 59.7% from 37.2 million tea bags in the first half of 2018 to 59.4 million tea bags in the same period of 2019. The revenue of Besunyen Slimming Tea increased by 18.5% from RMB78.4 million in the first half of 2018 to RMB92.9 million in the same period of 2019, while the sales volume increased by 17.1% from 57.2 million tea bags in the first half of 2018 to 67.0 million tea bags in the same period of 2019. The revenue of the slimming medicine, Orlistat, increased by 375.5% from RMB22.9 million in the first half of 2018 to RMB108.9 million in the same period of 2019.

The average selling prices of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.39 and RMB1.37 per bag respectively in the first half of 2018, and were RMB1.43 and RMB1.39 per bag respectively in the first half of 2019. The average selling prices of Besunyen Detox Tea and Besunyen Slimming Tea increased by 2.9% and 1.5% respectively as compared to the same period of 2018.

Cost of Sales and Gross Profit

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Cost of sales	**91,434**	**27.0%**	46,088	27.5%
Gross profit	**246,788**	**73.0%**	121,581	72.5%

The Group's cost of sales increased by 98.3% from RMB46.1 million in the first half of 2018 to RMB91.4 million in the same period of 2019, which was in line with the increase in revenue. Cost of sales as a percentage of revenue slightly decreased from 27.5% in the first half of 2018 to 27.0% in the same period of 2019.

Revenue increased by 101.7% and cost of sales increased by 98.3% in the first half of 2019 as compared to the same period of 2018. As a result, gross profit of the Group increased by 103.0% from RMB121.6 million in the first half of 2018 to RMB246.8 million in the same period of 2019. Gross profit margin of the Group slightly increased from 72.5% in the first half of 2018 to 73.0% in the same period of 2019.

Selling and Marketing Expenses

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Advertising costs	**52,968**	**15.7%**	23,515	14.0%
Marketing and promotional expenses	**63,110**	**18.6%**	28,160	16.8%
Employee benefit expenses	**48,854**	**14.4%**	38,925	23.2%
Others	**22,505**	**6.7%**	14,600	8.7%
Total	**187,437**	**55.4%**	105,200	62.7%

Selling and marketing expenses of the Group increased from RMB105.2 million in the first half of 2018 to RMB187.4 million in the same period of 2019.

The advertising costs in the first half of 2019 increased by RMB29.5 million as compared to the same period of 2018, mainly due to the fact that the expenditure in advertising via pre-show media, elevator advertisement, radio media, etc. increased apart from the existing expenditures in advertising via TV media and internet media.

The marketing and promotional expenses increased by RMB35.0 million in the first half of 2019 as compared to the same period of 2018, mainly due to the expenditure of marketing and promotion via e-commerce platform increased.

Employee benefit expenses increased by RMB9.9 million in the first half of 2019 as compared to the same period of 2018, mainly due to the increase in performance commission for sales personnel resulting from the increase in revenue.

Administrative Expenses

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Employee benefit expenses	**20,030**	**5.9%**	17,664	10.5%
Office expenses	**3,294**	**1.0%**	1,850	1.1%
Professional service fees	**12,729**	**3.8%**	10,686	6.4%
Entertainment and travelling expenses	**3,007**	**0.9%**	2,934	1.8%
Others	**10,574**	**3.1%**	18,457	11.0%
Total	**49,634**	**14.7%**	51,591	30.8%

Administrative expenses of the Group decreased by 3.9% from RMB51.6 million in the first half of 2018 to RMB49.6 million in the same period of 2019.

Research and Development Costs

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Research and development costs	**15,856**	**4.7%**	11,575	6.9%

The Group's research and development costs increased by 37.1% from RMB11.6 million in the first half of 2018 to RMB15.9 million in the same period of 2019, mainly because of the increased self-research and development as well as outsourced research and development.

Gain on Disposal of Subsidiaries

Gain on disposal of subsidiaries was approximately RMB225.6 million in the first half of 2019, which was attributed to disposal of 100% equity interest in Beijing Chang Sheng Business Consulting Co., Ltd ("**Beijing Chang Sheng**") and its wholly-owned subsidiary Beijing Besunyen Property Management Co., Ltd. ("**Besunyen Property**"). Please refer to the section headed "Material Acquisitions or Disposals" below for details of such disposal (as at 30 June 2018: nil).

Taxation

Income tax expense of the Group for the first half of 2019 is RMB34.8 million, the pre-tax profit of the Group during the current period is mainly attributable to the gain from the disposal of subsidiaries of the Group, and the assessable profit derived from the abovementioned disposal has been fully offset by the deferred income tax assets recognised for the deductible temporary differences/tax losses in previous year from the subsidiary which preferential tax rate was applied. The income tax credit of the same period of 2018 is RMB14.1 million, which is mainly attributable to the recognition of deferred income tax assets for previously unrecognised deductible temporary differences/tax losses.

Total Comprehensive Income/(Loss) for the Period

Due to the factors set out above, the Group recorded a total comprehensive income of RMB172.7 million in the first half of 2019 (for the same period of 2018: total comprehensive loss of RMB28.9 million).

Liquidity and Capital Resources

In the first half of 2019, funds and capital expenditure required in the operation of the Group mainly came from the cash flows from operating activities and proceeds from borrowings and disposal of subsidiaries.

Cash Flows

The following table summarises the net cash flows of the Group for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Net cash outflow from operating activities	**(40,107)**	(94,882)
Net cash inflow/(outflow) from investing activities	**264,209**	(12,048)
Net cash (outflow)/inflow from financing activities	**(77,534)**	125,265
	146,568	18,335
Effect of foreign exchange rate changes on cash and cash equivalents	**785**	1,696
Net increase in cash and cash equivalents	**147,353**	20,031

In the first half of 2019, net cash outflow from operating activities of the Group was RMB40.1 million (for the same period of 2018: net cash outflow from operating activities was RMB94.9 million). The decrease of outflow as compared to the same period of 2018 was mainly due to the decrease in operating loss during the current period. In the first half of 2019, the net cash inflow from investing activities of the Group was RMB264.2 million, which was mainly attributable to the net cash received from the sale of 100% equity interest of Beijing Chang Sheng and its wholly-owned subsidiary Besunyen Property, which is partially offset by the increase in term deposits with RMB170.0 million (for the same period of 2018: net cash outflow from investing activities was RMB12.0 million, mainly infrastructure construction expenditure). In the first half of 2019, the net cash outflow from financing activities of the Group was RMB77.5 million, which was mainly due to the repayment of borrowings (for the same period of 2018: net cash inflow from financing activities was RMB125.3 million, mainly due to the cash from the drawdown of borrowings).

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 pledged bank deposits, increased by 578.3% from RMB56.6 million as at 31 December 2018 to RMB383.9 million as at 30 June 2019. In addition, the Group had bank borrowings of RMB81.0 million as at 30 June 2019 (31 December 2018: RMB150.0 million).

Capital Expenditure

In the first half of 2019, capital expenditure of the Group was RMB31.4 million (for the same period of 2018: RMB14.9 million), mainly on the construction of plants.

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 2019	31 December 2018
	RMB'000	RMB'000
Raw materials and packaging materials	**17,916**	11,201
Work in progress	**3,216**	1,249
Finished goods	**21,797**	18,022
Total inventories	**42,929**	30,472

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 2019, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (for the same period of 2018: nil).

Material Acquisitions or Disposals

On 31 December 2018, A Li Yun Shan (Beijing) Business Consulting Co., Ltd. ("**A Li Yun Shan**"), an indirect wholly-owned subsidiary of the Group, entered into an equity transfer agreement with Tosalco Pte. Ltd., pursuant to which A Li Yun Shan has conditionally agreed to sell and Tosalco Pte. Ltd. has conditionally agreed to acquire 100% equity interest of Beijing Chang Sheng together with Besunyen Property, its wholly-owned subsidiary at a consideration of RMB555.0 million, and all amount have been settled by Tosalco Pte. Ltd. by cash. Besunyen Property's major asset is Besunyen Building. The equity transfer agreement and the transactions thereunder have been approved at the extraordinary general meeting held on 22 February 2019 by the shareholders of the Company, and such transaction was completed on 8 March 2019. For details, please refer to the announcements of the Company dated 31 December 2018, 22 February 2019 and 26 March 2019, and the circular of the Company dated 4 February 2019. The significant increase of the Group's net profit for the six months ended 30 June 2019 is mainly attributable to the gain from the aforesaid disposal.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries, associates and joint ventures in the first half of 2019.

Significant Investments Held and Future Plans for Material Investments or Additions of 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 2019, 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 2019. There was no plan of the Group for other material investments or additions of capital assets as at the date of this report.

Pledge of Assets

As at 30 June 2019, the Group received certain bank borrowings of RMB81.0 million, through pledging properties with book value of RMB86.4 million and land use rights with book value of RMB24.6 million to banks and guarantee companies (as at 31 December 2018: the Group received certain bank borrowings of RMB150.0 million, through pledging properties with book value of RMB88.3 million and land use rights with book value of RMB24.9 million to banks and guarantee companies).

Gearing Ratio

As at 30 June 2019, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 21.6% (as at 31 December 2018: 27.0%).

Contingent Liabilities and Guarantees

As at 30 June 2019, the Group had no material contingent liabilities and guarantees (as at 31 December 2018: nil).

Capital Commitments

As of 30 June 2019, capital expenditure of property, plant and equipment expected to be incurred amounted to RMB108.7 million (as of 31 December 2018: RMB78.6 million).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2019, the Group had 1,216 employees in mainland China and Hong Kong (31 December 2018: 1,121 employees), which included 11 promotional staff employed by employment agents (31 December 2018: 13). For the six months ended 30 June 2019, total labour costs (including Directors' remunerations and non-cash share-based compensation) were RMB84.4 million (for the same period of 2018: RMB69.2 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

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 51, which comprises the interim condensed consolidated balance sheet of Besunyen Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim 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, 23 August 2019

Interim Condensed Consolidated Statement of Comprehensive Income

		Unaudited Six months ended 30 June	
		2019	2018
	Note	**RMB'000**	RMB'000
Revenue	7	**338,222**	167,669
Cost of sales of goods	8	**(91,434)**	(46,088)
Gross profit		**246,788**	121,581
Other income		**8,295**	12,360
Selling and marketing expenses	8	**(187,437)**	(105,200)
Administrative expenses	8	**(49,634)**	(51,591)
Research and development costs	8	**(15,856)**	(11,575)
Other expenses	8	**(2,281)**	(3,760)
Other (losses)/gains, net	9	**(2,594)**	2,411
Gain on disposal of subsidiaries	10	**225,571**	—
Operating profit/(loss)		**222,852**	(35,774)
Finance costs	11	**(3,758)**	(2,856)
Share of losses of investments accounted for using the equity method	18	**(11,586)**	(4,329)
Profit/(loss) before income tax		**207,508**	(42,959)
Income tax (expense)/credit	12	**(34,760)**	14,087
Profit/(loss) for the period		**172,748**	(28,872)
Profit/(loss) is attributable to:			
— Owners of the Company		**167,173**	(26,195)
— Non-controlling interests		**5,575**	(2,677)
		172,748	(28,872)
Other comprehensive income		**—**	—
Total comprehensive income/(loss) for the period		**172,748**	(28,872)
Total comprehensive income/(loss) for the period is attributable to:			
— Owners of the Company		**167,173**	(26,195)
— Non-controlling interests		**5,575**	(2,677)
		172,748	(28,872)
Earnings/(losses) per share for the profit/(loss) attributable to owners of the Company (RMB cents)			
— Basic earnings/(losses) per share	13	**10.48**	(1.64)
— Diluted earnings/(losses) per share	13	**10.48**	(1.64)

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

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited As at 30 June 2019 RMB'000	Audited As at 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**211,207**	210,266
Land use rights	22	**—**	117,176
Investment properties	15	**160,227**	144,996
Intangible assets	16	**175,775**	182,029
Right-of-use assets	22	**120,953**	—
Non-current deposits	17	**6,566**	12,573
Investments accounted for using the equity method	18	**80,134**	94,019
Deferred income tax assets	26	**30,377**	64,353
Total non-current assets		**785,239**	825,412
Current assets			
Inventories	19	**42,929**	30,472
Trade receivables	20(a)	**84,150**	37,054
Bills receivables	20(b)	**19,790**	13,747
Deposits, prepayments and other receivables	21	**104,248**	40,522
Restricted bank deposits		**4,802**	—
Short-term investments		**42,500**	38,300
Term deposits with initial term of over three months		**170,000**	—
Cash and cash equivalents		**209,110**	56,575
		677,529	216,670
Assets classified as held for sale	23	**95,727**	394,686
Total current assets		**773,256**	611,356
Total assets		**1,558,495**	1,436,768

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited As at 30 June 2019 RMB'000	Audited As at 31 December 2018 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	24	**94**	94
Share premium		**1,120,685**	1,120,685
Other reserves		**321,422**	321,384
Accumulated losses		**(310,958)**	(478,131)
		1,131,243	964,032
Non-controlling interests		**90,448**	84,873
Total equity		**1,221,691**	1,048,905
LIABILITIES			
Non-current liabilities			
Deferred government grants		**34,774**	35,167
Lease liabilities	29	**10,617**	—
Deferred income tax liabilities	26	**37,084**	36,867
Other non-current liabilities		**11,970**	14,647
Total non-current liabilities		**94,445**	86,681
Current liabilities			
Trade and bills payables	27	**19,045**	8,752
Other payables and accrued expenses	28	**111,295**	92,057
Contract liabilities		**16,381**	34,896
Borrowings	25	**81,000**	150,000
Lease liabilities	29	**6,804**	—
Current income tax liabilities		**499**	547
		235,024	286,252
Liabilities directly associated with assets classified as held for sale	23	**7,335**	14,930
Total current liabilities		**242,359**	301,182
Total liabilities		**336,804**	387,863
Total equity and liabilities		**1,558,495**	1,436,768

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

Interim 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 2019	**94**	**1,120,685**	**321,384**	**(478,131)**	**964,032**	**84,873**	**1,048,905**
Total comprehensive income for the period							
Profit for the period	**—**	**—**	**—**	**167,173**	**167,173**	**5,575**	**172,748**
Total transactions with owners, recognised directly in equity:							
Share-based payments under share option scheme and restricted share award scheme	**—**	**—**	**38**	**—**	**38**	**—**	**38**
Balance at 30 June 2019	**94**	**1,120,685**	**321,422**	**(310,958)**	**1,131,243**	**90,448**	**1,221,691**
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							
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 interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Cash flows from operating activities		
Cash used in operations	**(40,677)**	(94,444)
Income taxes paid	**(615)**	(560)
Interest received	**1,185**	122
Net cash outflow from operating activities	**(40,107)**	(94,882)
Cash flows from investing activities		
Payments for short-term investments	**(107,000)**	(64,050)
Proceeds from maturity of short-term investments	**103,200**	64,329
Increase in term deposits with initial term of over three months	**(170,000)**	(6)
(Increase)/decrease in restricted bank deposits	**(4,802)**	296
Payments for property, plant and equipment	**(14,871)**	(14,670)
Payments for intangible assets	**(320)**	—
Payments for investment properties	**(16,205)**	—
Distribution from a joint venture	**3,941**	2,053
Payments for liquidation of an associate	**(1,642)**	—
Proceeds from disposal of subsidiaries, net (Note 10)	**469,919**	—
Proceeds from disposals of land use rights	**1,259**	—
Proceeds from disposals of property, plant and equipment	**730**	—
Net cash inflow/(outflow) from investing activities	**264,209**	(12,048)
Cash flows from financing activities		
Proceeds from borrowings	**61,000**	130,000
Repayment of borrowings	**(130,000)**	—
Principal elements of lease payments	**(4,481)**	
Bank loan interest and other finance costs paid	**(4,053)**	(4,735)
Net cash (outflow)/inflow from financing activities	**(77,534)**	125,265
Net increase in cash and cash equivalents	**146,568**	18,335
Cash and cash equivalents at beginning of the period (note b)	**61,759**	78,790
Effects of exchange rate changes on cash and cash equivalents	**785**	1,696
Cash and cash equivalents at end of period	**209,112**	98,821
Representing:		
— Bank balances and cash	**209,110**	98,821
— Bank balances and cash classified as held for sale	**2**	—
	209,112	98,821

Interim Condensed Consolidated Statement of Cash Flows

Notes:

(a) Major non-cash transactions:

During the six-month ended 30 June 2019, bills receivables of RMB23,994,000 (2018: RMB15,472,000) have been endorsed to certain suppliers as the Group's settlement for certain purchases of raw materials and advertisement costs.

(b) Cash and cash equivalents as of 1 January 2019 include the cash and bank balances of Beijing Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage") of approximately RMB158,000, Beijing Chang Sheng Business Consulting Co., Ltd. ("Beijing Chang Sheng") and Besunyen Property Management Co., Ltd. ("Besunyen Property") of approximately RMB5,026,000, which have been classified and included as assets held for sale in the interim condensed consolidated balance sheet.

The above interim 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 2019

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").

The interim condensed consolidated financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This interim condensed consolidated financial information for the six months ended 30 June 2019 (the "current period") has been reviewed, not audited.

This unaudited interim condensed consolidated financial information was approved for issue by the board of directors of the Company on 23 August 2019.

2. SIGNIFICANT EVENTS AND TRANSACTIONS

The financial position and performance of the Group was particularly affected by the following transactions during the six months period ended 30 June 2019:

Pursuant to an equity transfer agreement entered into by A Li Yun Shan (Beijing) Business Consulting Co., Ltd. ("A Li Yun Shan"), an indirect wholly-owned subsidiary of the Company, and a third party, Tolsalco Pte Ltd. (the "Purchaser") dated on 31 December 2018 (the "Agreement"), A Li Yun Shan has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 100% equity interests in Beijing Chang Sheng, which is an wholly-owned subsidiary of A Li Yun Shan as established on 18 July 2018, at a cash consideration of approximately RMB555,000,000. Beijing Chang Sheng is a vehicle company set up for the purpose of holding the equity interests in Besunyen Property, an indirect wholly-owned subsidiary of the Company which was established on 2 June 2017 and is the registered owner of a commercial building located in Beijing (the "Besunyen Building"). The disposal was completed on 8 March 2019, and the after-tax gain on such disposal was approximately RMB191,735,000 (Note 10). The significant increase of the Group's net profit for the six months ended 30 June 2019 is mainly attributable to the gain from the aforesaid disposal.

The Group has also entered into a property lease contract with the Purchaser to lease back certain portion of the Besunyen Building and the details of which has been set out in Note 22(b).

3. BASIS OF PREPARATION AND PRESENTATION

The Group's interim condensed consolidated financial information for the six months ended 30 June 2019 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 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (the "2018 Annual Financial Statements") and any public announcement made by the Company during the current period.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the 2018 Annual Financial Statements, except as described below.

The following new or amended standards, interpretations and annual improvements are mandatory for the first time for the Group's financial year beginning on 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation — Amendments to IFRS9
- Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- IFRIC 23 Uncertainty over Income Tax Treatments
- Plan Amendment, Curtailment or Settlement — Amendments to IAS 19

Except for the impact on the adoption of the IFRS 16 as described below, the adoption of the aforesaid new or amended standards, interpretation and annual improvements does not have any material impact on the Group's interim condensed consolidated financial information.

IFRS 16 "Leases"

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.59%.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IFRS 16 "Leases" *(Continued)*

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	**2,640**
Discounted using the Group's incremental borrowing rate of at the date of initial application	**2,552**
Less: Short-term leases recognised on a straight-line basis as expense	**(979)**
Low-value leases recognised on a straight-line basis as expense	**(12)**
Lease liability recognised as at 1 January 2019	**1,561**
Of which are:	
— Current lease liabilities	**793**
— Non-current lease liabilities	**768**
	1,561

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets — increased by RMB118,737,000
- Land use right — decreased by RMB117,176,000
- Lease liabilities — increased by RMB1,561,000

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standards:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IFRS 16 "Leases" *(Continued)*

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

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 2019 in the interim condensed consolidated financial information.

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

5. 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 2018 Annual Financial Statements of the Company.

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, liquidity risk and fair value 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 2018 Annual Financial Statements of the Company.

There have been no changes in the risk management policies since 31 December 2018.

6.2 Liquidity risk

There was no material change in the contractual undiscounted cash out flows for financial liabilities.

The Group is not subject to any significant liquidity risk in view of the sufficiency of its working capital.

For the six months ended 30 June 2019

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

6.3 Fair value risk

The Group has two types of financial assets that are measured at fair value as at 30 June 2019 (31 December 2018: two), which are the Group's bill receivables and short-term investments. The Group's bills receivables and short-term investments have been designated as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss respectively. The Group does not have any financial liabilities that are measured at fair value.

The following table presents the Group's financial assets that are measured at fair value as at 30 June 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2019				
Assets				
Financial assets at fair value through other comprehensive income	—	—	**19,790**	**19,790**
Financial assets at fair value through profit or loss	—	—	**42,500**	**42,500**

The following table presents the changes in Level 3 instruments for the period ended 30 June 2019:

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000
Opening balance	**38,300**	**13,747**
Additions	**107,000**	**63,877**
Disposals	**(102,800)**	**(57,834)**
Closing balance	**42,500**	**19,790**
Total gains for the year recognised in profit or loss under "other income"	**536**	—

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 segments.

The segment results for the six months ended 30 June 2019 are as follows:

	Tea products segment RMB'000	Slimming and other medicine segment RMB'000	Total RMB'000
Total revenue	224,796	113,426	338,222
Inter-segment revenue	—	—	—
Revenue from external customers	224,796	113,426	338,222
Timing of revenue recognition			
At a point in time	224,796	113,426	338,222
Cost of sales	(50,614)	(40,820)	(91,434)
Gross profit	174,182	72,606	246,788
Selling and marketing expenses	(150,048)	(37,389)	(187,437)
Research and development costs	(4,397)	(11,459)	(15,856)
Segment results	19,737	23,758	43,495
Other income			8,295
Other losses, net			(2,594)
Administrative expenses			(49,634)
Other expenses			(2,281)
Gain on disposal of subsidiaries			225,571
Operating profit			222,852
Finance costs			(3,758)
Share of losses of investments accounted for using the equity method			(11,586)
Profit before income tax			207,508
Income tax expense			(34,760)
Profit for the period			172,748
Other segment information:			
Depreciation	14,682	4,012	18,694
Amortisation	2,804	5,065	7,869

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

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)
Operating loss			(35,774)
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

Note:

Non-current assets are all located in the PRC.

For the six months ended 30 June 2019, revenue of approximately RMB64,482,000 are derived from a single external customer (out of which, revenue of approximately RMB62,734,000 are attributable to the slimming and other medicine segment while the rest are attributable to the tea products segment). Except for the aforesaid customer, the revenue derived from any of the remaining external customers were less than 10% of the Group's total revenue.

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

8. EXPENSES BY NATURE

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**(5,742)**	(3,461)
Raw materials and consumables used	**71,321**	27,075
Advertising costs	**52,968**	23,515
Employee benefit expense	**84,419**	69,184
Marketing and promotional expenses	**63,110**	28,160
Depreciation and amortisation	**26,563**	29,572
Entertainment and travelling expenses	**7,687**	7,359
Distribution costs	**7,629**	2,497
Professional service fees	**12,729**	10,686
Stamp duties, property and other taxes	**2,872**	5,453
Office expenses	**3,294**	1,850
Maintenance and testing costs	**2,657**	4,580
Others	**17,135**	11,744
Total cost of sales of goods, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**346,642**	218,214

9. OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Impairment loss on non-current deposits	**(2,831)**	—
Net gain/(loss) on disposals of land use rights and property, plant and equipment	**590**	(8)
Gain/(loss) on liquidation of a subsidiary	**31**	(896)
Net foreign exchange gains	**681**	1,694
Others	**(1,065)**	1,621
	(2,594)	2,411

10. GAIN ON DISPOSAL OF SUBSIDIARIES

Details of the disposal of subsidiaries as described in Note 2:

	Six months ended 30 June 2019 RMB'000
Consideration received or receivable:	
Cash received	**493,178**
Consideration receivable	**61,822**
Total disposal consideration	**555,000**
Carrying amount of net assets of the subsidiaries at the date of disposal	**(295,162)**
Transaction costs	**(19,809)**
Deferral of net gain resulted from sales and leaseback (Note 22(b))	**(14,458)**
Net gain before income tax	**225,571**
Income tax expense on gain	**(33,836)**
Net gain after income tax	**191,735**

The carrying amounts of assets and liabilities as at the date of disposal and 31 December 2018 were as below:

	8 March 2019 (the date of disposal) RMB'000	31 December 2018 RMB'000
Cash and cash equivalents	**8,664**	5,026
Deposits, prepayments and other receivables	**3**	29
Investment properties	**36,252**	36,252
Property, plant and equipment	**26,856**	26,856
Land use rights	**—**	219,781
Right-of-use assets	**219,781**	—
Deferred income tax assets	**10,760**	10,760
Total assets	**302,316**	298,704
Other payables and accrued expenses	**(4,401)**	(6,299)
Other non-current liabilities	**(2,753)**	(1,296)
Total liabilities	**(7,154)**	(7,595)
Net assets	**295,162**	291,109

10. GAIN ON DISPOSAL OF SUBSIDIARIES *(Continued)*

The cash flows from the disposal of subsidiaries are as below:

	Six months ended 30 June 2019 RMB'000
Cash received, net of cash disposed	**484,514**
Transaction costs paid	**(14,595)**
Proceeds from disposals of subsidiaries,net	**469,919**

11. FINANCE COSTS

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Interest expenses:		
— for borrowings	**3,295**	2,260
— for lease liabilities	**359**	—
Guarantee fee for bank borrowings	**604**	596
	4,258	2,856
Less: amount capitalised (note)	**(500)**	—
	3,758	2,856

Note:

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the period ended 30 June 2019 which was 5.91%.

For the six months ended 30 June 2019

12. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current income tax		
— Current income tax on profit for the period	**516**	—
— Under provision of PRC income tax in prior year	**51**	61
	567	61
Deferred income tax		
— Origination and reversal of temporary differences	**34,193**	(14,148)
	34,760	(14,087)

The Company was incorporated in Cayman Islands and Besunyen Investment (BVI) Co. Ltd. was incorporated in the British Virgin Islands ("BVI") which 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 corporate 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 corporate income tax for the years from 2017 to 2020.

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

The effective tax rate for the six months ended 30 June 2019 is approximately 17% (2018: 33%). A substantial part of the Group's profit before income tax for the current period is attributable to the net gain on disposal of subsidiaries as mentioned in Note 10 (the "Net Gain"). The Net Gain has resulted in the utilisation of deferred income tax assets on available tax losses which was previously recognised at the eligible preferential tax rate of 15%. In addition, additional deferred income tax credit was recognised in the prior period due to the recognition of previously unrecognised temporary differences or tax losses. These are the major reasons for the changes in the overall effective tax rate.

13. EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) 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 30).

	Six months ended 30 June	
	2019	2018
Profit/(loss) attributable to owners of the Company (in RMB'000)	**167,173**	(26,195)
Weighted average number of ordinary shares in issue	**1,595,004,031**	1,594,791,809
Basic earnings/(losses) per share (RMB cent per share)	**10.48**	(1.64)

(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 earnings/(losses) per share). The share options had anti-diluted effect to the Group for the six months ended 30 June 2019 and 2018. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 30 June 2019 and 2018. No adjustment is made to earnings. Accordingly, the diluted earnings per share is the same as the basic earnings per share for the six months ended 30 June 2019 and 2018.

14. 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 2018					
Cost	167,627	215,411	41,004	26,576	450,618
Accumulated depreciation	(50,063)	(144,818)	(32,234)	—	(227,115)
Accumulated impairment	(1,630)	(11,607)	—	—	(13,237)
Net book value	115,934	58,986	8,770	26,576	210,266
Six months ended 30 June 2019					
Opening net book amount	**115,934**	**58,986**	**8,770**	**26,576**	**210,266**
Additions	**55**	**370**	**2,309**	**15,459**	**18,193**
Transfers	**7,518**	**5,364**	**1,267**	**(14,149)**	**—**
Disposals/write-off	**(477)**	**(3)**	**(59)**	**—**	**(539)**
Depreciation charge	**(4,271)**	**(10,039)**	**(2,403)**	**—**	**(16,713)**
Closing net book amount	**118,759**	**54,678**	**9,884**	**27,886**	**211,207**
At 30 June 2019					
Cost	**174,538**	**221,111**	**43,290**	**27,886**	**466,825**
Accumulated depreciation	**(54,149)**	**(154,826)**	**(33,406)**	**—**	**(242,381)**
Accumulated impairment	**(1,630)**	**(11,607)**	**—**	**—**	**(13,237)**
Net book value	**118,759**	**54,678**	**9,884**	**27,886**	**211,207**

As at 30 June 2019, buildings with the carrying amounts of approximately RMB86,359,000 (31 December 2018: RMB88,273,000) were pledged to a third party guarantee company as the securities for the guarantee of the Group's bank borrowings of RMB50,000,000 (31 December 2018: RMB100,000,000) (Note 25(a)).

15. INVESTMENT PROPERTIES

	RMB'000
At 31 December 2018	
Cost	155,308
Accumulated depreciation	(10,312)
Net book value	144,996
Six months ended 30 June 2019	
Opening net book amount	**144,996**
Additions	**16,205**
Depreciation charge	**(974)**
Closing net book amount	**160,227**
At 30 June 2019	
Cost	**171,513**
Accumulated depreciation	**(11,286)**
Net book value	**160,227**

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16. INTANGIBLE ASSETS

	Goodwill	Trademarks and brand name	Computer software	Exclusive medicine distribution right	Medicine production licenses	Patents and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018							
Cost	56,453	13,398	9,005	7,740	126,000	4,971	217,567
Accumulated amortisation	—	(11,004)	(5,799)	(2,938)	(9,719)	(1,276)	(30,736)
Accumulated impairment	—	—	—	(4,802)	—	—	(4,802)
Net book amount	56,453	2,394	3,206	—	116,281	3,695	182,029
Six months ended 30 June 2019							
Opening net book amount	**56,453**	**2,394**	**3,206**	**—**	**116,281**	**3,695**	**182,029**
Addition	**—**	**—**	**174**	**—**	**—**	**—**	**174**
Amortisation charge	**—**	**(202)**	**(1,706)**	**—**	**(3,956)**	**(564)**	**(6,428)**
Closing net book amount	**56,453**	**2,192**	**1,674**	**—**	**112,325**	**3,131**	**175,775**
At 30 June 2019							
Cost	**56,453**	**13,398**	**9,179**	**7,740**	**126,000**	**4,971**	**217,741**
Accumulated amortisation	**—**	**(11,206)**	**(7,505)**	**(2,938)**	**(13,675)**	**(1,840)**	**(37,164)**
Accumulated impairment	**—**	**—**	**—**	**(4,802)**	**—**	**—**	**(4,802)**
Net book amount	**56,453**	**2,192**	**1,674**	**—**	**112,325**	**3,131**	**175,775**

Note:

Management has assessed and concluded that no provision for impairment of goodwill has to be recognised as of 30 June 2019.

17. NON-CURRENT DEPOSITS

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Prepayment for purchases of intangible assets	**4,020**	6,705
Prepayment for construction of property, plant and equipment	**2,546**	5,868
Total	**6,566**	12,573

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Associate (a)	**—**	—
Joint ventures (b)	**80,134**	94,019
	80,134	94,019

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

	Six months ended 30 June 2019 RMB'000	Six months ended 30 June 2018 RMB'000
Associate (a)	**(1,642)**	(3,861)
Joint ventures (b)	**(9,944)**	(468)
	(11,586)	(4,329)

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(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. Accordingly, the Group had written down the Group's interest in the associate to zero at 31 December 2018. During the six months ended 30 June 2019, the Group has paid RMB1,642,000 based on the shareholding percentage to Yunzhi Besunyen for its liquidation. Yunzhi Besunyen was subsequently liquidated on 23 July 2019.

Movements in the Group's interest in the associate are as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Beginning of the period	**—**	3,861
Amounts paid for the liquidation	**1,642**	—
Share of loss for the period	**(1,642)**	(3,861)
End of the period	**—**	—

(b) Movements in the Group's interest in the joint ventures are as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Beginning of the period	**94,019**	92,251
Disposals	**(3,941)**	(2,053)
Loss for the period	**(9,944)**	(468)
End of the period	**80,134**	89,730

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19. INVENTORIES

	As at 30 June 2019 RMB'000	31 December 2018 RMB'000
Raw materials and packaging materials	**17,916**	11,201
Work in progress	**3,216**	1,249
Finished goods	**21,797**	18,022
	42,929	30,472
Less: provision for impairment	**—**	—
	42,929	30,472

20. TRADE AND BILLS RECEIVABLES

	As at 30 June 2019 RMB'000	31 December 2018 RMB'000
Trade receivables	**84,895**	37,844
Less: allowance for doubtful debts	**(745)**	(790)
	84,150	37,054

(a) The Group allows a credit period of 20–90 days to its customers. The following is an ageing analysis of trade 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 2019 RMB'000	31 December 2018 RMB'000
0 to 90 days	**77,292**	35,321
91 to 180 days	**4,570**	994
181 to 365 days	**1,863**	637
Over 365 days	**425**	102
	84,150	37,054

(b) As of 30 June 2019, bills receivables amounted to RMB19,790,000 (31 December 2018: RMB13,747,000) which were all bank acceptance notes with maturity date within 6 months. Bills receivables are classified as financial assets of fair value through other comprehensive income in accordance with IFRS 9 as the Group's business model is achieved by both collecting contractual cash flows and selling of these assets.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
Prepayments for advertisement	**16,725**	17,510
Prepayments to suppliers	**11,074**	7,757
Other receivables (note)	**72,144**	9,739
Interest receivables	**2,021**	86
Others	**2,284**	5,430
	104,248	40,522

Note:

As of 30 June 2019, other receivables include consideration receivables in connection with the disposal of subsidiaries of approximately RMB61,822,000 (Note 10).

22. RIGHT-OF-USE ASSETS

	As at 30 June 2019 RMB'000
Land use rights (note (a))	**114,875**
Office premises and staff quarters	**4,305**
Sales and leaseback property (note (b))	**1,773**
Total right-of-use assets	**120,953**

Note:

(a) During the six months ended 30 June 2019, the Group has disposed of land use rights of approximately RMB860,000 (2018: Nil) which resulted in a gain on disposal of approximately RMB399,000 (2018: not applicable).

The Group has no addition to land use rights during the current and the prior period. For the six months ended 30 June 2019, the amortisation of land use right amounted to approximately RMB1,441,000 (2018: RMB8,667,000).

As at 30 June 2019, land use rights with the carrying amounts of approximately RMB6,317,000 (31 December 2018: RMB6,392,000) have been pledged to a third party guarantee company as the securities for the guarantee of the Group's bank borrowings of RMB50,000,000 (31 December 2018: RMB100,000,000) (Note 25(a)).

As at 30 June 2019, land use rights with the carrying amounts of approximately RMB18,279,000 (31 December 2018: RMB18,468,000) have been pledged to Zhongshan Rural Commercial Bank as the security for the short-term borrowing of RMB20,000,000 (31 December 2018: RMB20,000,000) (Note 25(a)).

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22. RIGHT-OF-USE ASSETS *(Continued)*

Note: (Continued)

(b) The Group has entered into a property lease contract with the Purchaser as mentioned in Note 2 (the "Property Lease Contract") on 31 December 2018. Pursuant to the Property Lease Contract, the Group has leased back certain portion of Besunyen Building for a 34 months period. Upon the completion of the disposal on 8 March 2019, the Property Lease Contract has become effective since then.

On adoption of IFRS 16, the Group has recognised a right-of-use assets of approximately RMB2,009,000 and a lease liability of approximately RMB16,467,000 as at 8 March 2019, as well as a deferral of net gain resulted from the sales and leaseback of approximately RMB14,458,000 (Note 10).

As at 30 June 2019, the right-of-use asset and lease liability associated with the property under the sales and leaseback arrangement amounted to RMB1,773,000 and RMB13,081,000 respectively.

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

(a) On 10 March 2017, Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") entered into an equity transfer agreement (the "Initial Agreement") with Zhonghang Tuohong (Xi'an) Property Co., Ltd. ("Zhonghang Tuohong") and Beijing Outsell's wholly-owned subsidiary, Besunyen Food and Beverage, 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"); 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.

On 31 December 2018, Beijing Outsell entered into an updated supplemental agreement (the "Updated Supplemental Agreement") with Zhonghang Tuohong, pursuant to which: (i) all the rights and obligations of Beijing Outsell under the Initial Agreement shall be assumed by Tibet Besunyen Trading Company Limited ("Tibet Besunyen Trading"), a wholly-owned subsidiary of the Group; (ii) a performance deposit of RMB1,000,000 shall be paid by Zhonghang Tuohong to Tibet Besunyen Trading by 31 December 2018, which may in whole or in part be deducted from the Consideration; and (iii) the payment date for the rest of the Consideration shall be extended to 31 August 2019 after the payment of such performance deposit by Zhonghang Tuohong. On 31 December 2018, the Group received the performance deposit of RMB1,000,000 from Zhonghang Tuohong.

23. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

(a) (Continued)

On 10 July 2019, Beijing Outsell, Tenglong Shengyuan (Beijing) Data Technology Co., Ltd. ("Tenglong Shengyuan"), Zhonghang Tuohong, Besunyen Food and Beverage and Tibet Besunyen Trading entered into agreement, pursuant to which Beijing Outsell, Zhonghang Tuohong, Besunyen Food and Beverage and Tibet Besunyen Trading confirmed that Initial Agreement and the Updated Supplementary Agreements will no longer have legal binding force on Zhonghang Tuohong, and all parties confirmed that Tenglong Shengyuan will, as the purchaser, purchase 100% equity interest in Besunyen Food and Beverage from Beijing Outsell and sign an equity transfer agreement separately.

On 10 July 2019, Beijing Outsell, Tenglong Shengyuan and Besunyen Food and Beverage entered into an equity transfer agreement (the "New Equity Transfer Agreement"), pursuant to which (i) Beijing Outsell agreed to sell and Tenglong Shengyuan agreed to acquire 100% equity interest in Besunyen Food and Beverage for a consideration of RMB75,000,000; and (ii) Tenglong Shengyuan agreed to repay the debt of RMB50,000,000 to Beijing Outsell on behalf of Besunyen Food and Beverage. Upon completion of the equity transfer, Besunyen Food and Beverage will cease to be a subsidiary of the Group.

On 17 July 2019, Tenglong Shengyuan has paid RMB10,000,000 to Beijing Outsell pursuant to the New Equity Transfer Agreement. The transaction is expected to be completed on or before 31 August 2019.

The assets and liabilities attributable to Besunyen Food and Beverage, which were expected to be sold before 31 August 2019, were classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 30 June 2019 and 31 December 2018.

(b) The assets and liabilities attributable to Beijing Chang Sheng and its subsidiary, Besunyen Property, of RMB298,704,000 and RMB7,595,000 respectively were also classified as a disposal group held for sale and were presented separately in the consolidated balance sheet as at 31 December 2018. As mentioned in Note 2 to the interim condensed consolidated financial information, the related disposals were completed on 8 March 2019.

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24. SHARE CAPITAL

	Number of shares	Amount US$	Share capital RMB'000
Ordinary shares of US$0.00000833333 each			
Authorised:			
At 30 June 2019 and 31 December 2018	6,000,000,000	50,000	341
Issued and fully paid:			
At 30 June 2019 and 31 December 2018	1,630,207,820	13,585	94

Note:

As at 30 June 2019, 35,201,567 shares (As at 31 December 2018: 35,201,567 shares) were held by the Company's Restricted Share Award Scheme with par value of USD0.00000833333 each (Note 30).

25. BORROWINGS

As at 30 June 2019, the Group's borrowings were as follows:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	**70,000**	120,000
Bank borrowing, unsecured (b)	**11,000**	30,000
	81,000	150,000

(a) Zhongshan Wanyuan has pledged its land use rights of approximately RMB18,279,000 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 5.55% per annum. Interest is payable monthly and the principal is due for repayment on 26 July 2019.

Beijing Outsell has pledged its land use rights and buildings with carrying amounts of approximately RMB6,317,000 and RMB86,359,000 respectively to third party guarantee company as the securities for being the guarantor of the Group's short-term bank borrowings of RMB50,000,000. These borrowings bear interests at fixed rate of 4.80% per annum. Interest is payable quarterly and the principals are all repayable in June 2020.

(b) The unsecured bank borrowings of RMB5,000,000, RMB3,000,000, and RMB3,000,000 bear 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 principals are due for repayment on 27 May 2020, 11 June 2020 and 5 March 2020 respectively.

26. DEFERRED INCOME TAX

Deferred income tax assets

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Beginning of the period	**64,353**	49,645
(Charged)/credited to profit or loss	**(33,976)**	13,249
End of the period	**30,377**	62,894

Deferred income tax liabilities

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Beginning of period	**36,867**	39,570
Charged/(credited) to profit or loss	**217**	(899)
End of period	**37,084**	38,671

27. TRADE AND BILLS PAYABLES

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

	As at	
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
0 to 90 days	**7,462**	7,256
91 to 180 days	**11,210**	1,036
Over 180 days	**373**	460
	19,045	8,752

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28. OTHER PAYABLES AND ACCRUED EXPENSES

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Accrued expenses	**18,675**	12,696
Taxes and surcharge payable	**3,522**	3,517
Payroll and welfare payable	**17,556**	17,495
Accrued sales rebate	**31,549**	25,745
Payable to suppliers for:		
— purchases of property, plant and equipment	**677**	1,461
— advertisement	**11,321**	4,704
Advance payment received for a subsidiary to be disposed	**6,000**	6,000
Advance rental payment from a third party	**8,030**	5,353
Others	**13,965**	15,086
	111,295	92,057

29. LEASE LIABILITIES

	As at 30 June 2019 RMB'000
Total lease liabilities	**17,421**
Less: current lease liabilities	**(6,804)**
Non-current lease liabilities	**10,617**

The weighted average lessee's incremental borrowing rate applied to the recognition of lease liabilities was 5.59%.

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30. 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		Post-IPO Share Option Scheme		
	Average exercise price (RMB)	Number of options	Average exercise price (HK$)	Number of options	Total number of options
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
At 1 January 2019	**1.23**	**73,170,000**	**1.01**	**21,620,000**	**94,790,000**
Granted	—	—	—	—	—
Lapsed	**1.23**	**(700,000)**	**1.00**	**(900,000)**	**(1,600,000)**
At 30 June 2019	**1.23**	**72,470,000**	**1.01**	**20,720,000**	**93,190,000**
Exercisable as at 30 June 2019	**1.23**	**72,470,000**	**1.01**	**20,609,583**	**93,079,583**

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 2019, 35,201,567 (As at 31 December 2018: 35,201,567) shares were held by the Trust and not yet granted to the Selected Participants.

For the six months ended 30 June 2019

30. SHARE-BASED PAYMENTS *(Continued)*

Restricted share award scheme *(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 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
At 1 January 2019	**35,201,567**	**200,000**	**35,401,567**
Granted	**—**	**—**	**—**
Vested and transferred	**—**	**(200,000)**	**(200,000)**
At 30 June 2019	**35,201,567**	**—**	**35,201,567**

31. DIVIDENDS

On 23 August 2019, the Board has resolved to declare a dividend of HK$0.11 (equivalent to approximately RMB0.10) per share, amounting to a total dividend of HK$179,323,000 (equivalent to approximately RMB161,624,000). No liability has been recognised in this interim condensed consolidated financial information in respect of this proposed dividend.

32. COMMITMENTS

(a) Capital commitments

As at 30 June 2019, capital expenditure for property, plant and equipment as contracted for but not yet incurred amounted to approximately RMB108,716,000 (as at 31 December 2018: RMB78,611,000).

As at 10 July 2019, Beijing Outsell has entered into a construction general contracting agreement with Beijing Hengtong Innovation Whole House Assembly Co.,Ltd (the "Contractor") (the "Construction General Contracting Agreement"), pursuant to which the Contractor agreed to undertake the construction and installation of the No.2 Production Workshop. The total consideration payable to the Contractor under the Construction General Contracting Agreement is approximately RMB113,784,000.

As at 30 June 2019, capital investments in a joint venture contracted for but not yet incurred amounted to RMB9,790,000 (as at 31 December 2018: RMB9,790,000).

For the six months ended 30 June 2019

32. COMMITMENTS *(Continued)*

(b) Operating lease commitments

The Group as leasee

The Group leases various office premises and staff quarters under non-cancellable operating leases agreements. The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet dates but not recognised as liabilities, are as follows:

	As at	
	30 June 2019 RMB'000	31 December 2018 RMB'000
No later than 1 year	**1,670**	1,819
Later than 1 year and no later than 5 years	**480**	821
	2,150	2,640

From 1 January 2019, the Group has recognised right-of-use assets and lease liabilities for non-cancellable operating leases, except for short-term leases and low-value lease (see Note 4 for further information). The operating leases commitments as of 30 June 2019 as disclosed above are all related to short-term leases and low-value leases which are exempted from recognising the related right-of-use assets and lease liabilities under IFRS 16.

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 2019 RMB'000	31 December 2018 RMB'000
No later than 1 year	**8,030**	2,213
Later than 1 year and no later than 20 years	**313,157**	318,974
	321,187	321,187

For the six months ended 30 June 2019

33. 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	
	2019	2018
	RMB'000	RMB'000
Salaries, bonus and other allowances	**3,406**	4,172
Share-based compensation	**59**	135
Pension cost — defined contribution plan	**170**	174
	3,635	4,481

34. EVENTS OCCURRING AFTER THE REPORTING PERIOD

(a) On 10 July 2019, the Group has agreed with Zhonghang Tuohong that the Initial Agreement and the Updated Supplemental Agreement for the disposal of the Group's 100% equity interest in Besunyen Food and Beverage to Zhonghang Tuohong will no longer having legal binding force on Zhonghang Tuohong. Pursuant to the New Equity Transfer Agreement dated 10 July 2019, Tenglong Shengyuan will acquire the Group's 100% equity interest in Besunyen Food and Beverage at a consideration of RMB75,000,000 (the "Disposal"). As at 17 July 2019, Tenglong Shengyuan has paid first payment of RMB10,000,000 to the Group. The Disposal is expected to be completed on or before 31 August 2019 and will result in a gain of approximately RMB31,117,000 to the Group. Details of these events have been set out in Note 23(a).

(b) On 23 August 2019, the Board has resolved to declare a dividend of HK$0.11 (equivalent to approximately RMB0.10) per share, amounting to a total dividend of HK$179,323,000 (equivalent to approximately RMB161,624,000) (Note 31).

Other Information

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

As at 30 June 2019, 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%
Mr. HUANG Jingsheng (resigned on 1 June 2019)	Beneficial owner	—	—	—	—
Mr. REN Guangming	Beneficial owner	970,000(5)(L)	—	600,000(5)(L)	0.06%
Mr. HE Yuanping	—	—	—	—	—
Mr. FU Shula (appointed on 1 April 2019)	Beneficial owner	200,000(6)(L)	—	—	0.01%

Other Information

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

(6) Mr. Fu Shula, independent non-executive Director, beneficially owns 200,000 Shares.

(7) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 30 June 2019. 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 2019, 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 (%)(4)
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%
Alliedray Holdings Limited(2)	816,259,176(L)	50.07%
Ms. Yin Qiuping(2)	816,259,176(L)	50.07%
Ms. PENG Wei(3)	128,115,000(L)	7.86%
Everyoung Investment Holdings Limited(3)	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) Alliedray Holdings Limited acquired a security interest in the 816,259,176 Shares on 10 December 2018. 90% of the issued share capital of Alliedray Holdings Limited is directly owned by Ms. Yin Qiuping.

(3) 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.

(4) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 30 June 2019.

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

Save as disclosed above, as at 30 June 2019, 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 72,470,000, representing approximately 4.45% 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 2019:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2019	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30/6/2019
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 (resigned on 1 June 2019)	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	32,780,000	—	—	—	32,780,000
	6.5.2010	2nd	4 Years	3,190,000	—	(200,000)	—	2,990,000
	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
				36,270,000	—	(200,000)	—	36,070,000
	Total			73,170,000	—	(700,000)	—	72,470,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the period								72,470,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the six months ended 30 June 2019.

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;

(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 2019 (for the six months ended 30 June 2018: 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 2019:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2019	Granted during the period	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30/6/2019
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 director									
Zhuo Fumin	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
				600,000	—	—	—	—	600,000
Independent non-executive directors									
Huang Jingsheng (resigned on 1 June 2019)	27.10.2014	1st	4 Years	600,000	—	—	(600,000)	—	—
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
Fu Shula (appointed on 1 April 2019)	—	—	—	—	—	—	—	—	—
				1,200,000	—	—	(600,000)	—	600,000
Employees and consultants in aggregate	27.10.2014	1st	4 Years	6,800,000	—	—	–	–	6,800,000
	27.10.2014	2nd	4 Years	7,120,000	—	—	(300,000)	–	6,820,000
	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	—	—	—	—	—	—
				14,820,000	—	—	(300,000)	—	14,520,000
	Total			21,620,000	—	—	(900,000)	—	20,720,000
Weighted average exercise price (HK$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the period									20,609,583

Other Information

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 2019. 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 RMB21,000 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: deductible of RMB47,000) 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.

On 4 December 2018, 200,000 Shares were granted by the Company to a Selected Participant at nil consideration, and vested on 4 January 2019.

As at 30 June 2019, 35,201,567 shares (31 December 2018: 35,401,567 shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized a total expense of RMB59,000 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: RMB88,000) 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 2019 and outstanding at 30 June 2019:

Employees	**Number of awarded shares**
Outstanding as at 1 January 2019	200,000
Granted during the period	—
Vested during the period	(200,000)
Outstanding as at 30 June 2019	—

The closing price of the Company's shares immediately before 4 December 2018, the date of grant of the restricted shares, was HK$0.335.

Save as disclosed above, during the six months ended 30 June 2019, 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 2019, 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 29 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. Ren Guangming and Mr. Fu Shula. The Audit Committee has reviewed the unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 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 2019 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 2019.

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 2019.

CHANGES IN THE INFORMATION OF DIRECTORS

There has been no change in the information of the Directors from the date of the 2018 annual report to the date of this interim report that is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Board has resolved to declare and pay an interim dividend of HK$0.11 per share (approximately HK$179,323,000 in aggregate) out of the share premium account for the six months ended 30 June 2019. The interim dividend will be paid on or around 31 October 2019 to the shareholders whose names appear on the register of members of the Company on 16 October 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 16 October 2019. On such day, no transfer of Shares will be registered. The record date for determining the eligibility to receive the interim dividend will be 16 October 2019. In order to be eligible for receiving the interim dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 15 October 2019.

SUBSEQUENT EVENTS

In order to revitalize idle assets, on 10 July 2019, Beijing Outsell Health Product Development Co., Ltd., an indirect wholly-owned subsidiary of the Group, entered into a construction general contracting agreement with Beijing Hengtong Innovation Whole House Assembly Co., Ltd. (the "**Contractor**"), pursuant to which the Contractor agreed to undertake the construction and installation of the No. 2 Production Workshop. The total consideration payable to the Contractor under the construction general contracting agreement is RMB113,783,798.65. For details, please refer to the announcement of the Company dated 10 July 2019.

On behalf of the Board
ZHAO Yihong
Chairman

Hong Kong, 23 August 2019