



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 2020



碧生源
清源茶
BESUNYEN QINGYUAN TEA

碧生源
纤纤茶
BESUNYEN XIANXIAN TEA

碧生源
常蓉茶
BESUNYEN CHANGRONG TEA
（保健功能：减肥）

碧生源
常润茶
BESUNYEN CHANGRUN TEA
（保健功能：润肠通便）

奥利司他胶囊
Orlistat Capsule

保健食品不是药物，
不能代替药物治疗疾病。

不能代替药物治疗疾病
保健食品不是药物。

Corporate Profile

Besunyen Holdings Company Limited (the “**Company**”) together with its subsidiaries (collectively, the “**Group**”) is a leading provider of therapeutic teas in the People’s Republic of China (the “**PRC**”), mainly engaging in the research and development, production, sale and promotion of therapeutic teas and medicines. By tagging along with the concept of “herbal, healthy, quality functional tea”, the Group started to produce Besunyen Detox Tea and Besunyen Slimming Tea (previously known as “碧生源牌減肥茶”) (collectively, the “**Two Teas**”) in 2000. The Company has dedicated itself to the marketing and sales of the Two Teas for the last 20 years. As at 30 June 2020, the Two Teas recorded an accumulated sales volume of over 5.06 billion bags, with an accumulated sales amount of over RMB6.76 billion. Since April 2015, the Group commenced sale of LARLLY Orlistat slimming medicine and 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 that the product layout of the Group has expanded from the market of slimming therapeutic teas to that of slimming medicines and has comprehensively covered the whole slimming market segment. Since its launch, Besunyen Orlistat slimming medicine has 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. In national retail pharmacies, based on the retail price of the laxative and slimming products, respectively, as of the year of 2019, the market share of the Group’s Besunyen Detox Tea represented 14.85%; and that of Besunyen Slimming Tea accounted for 26.22%, ranking top in the market. In addition, in the first half of 2020, according to the statistics of Alibaba’s “Business Consultant”, the market share of Besunyen Orlistat and LARLLY Orlistat totalled 38.3% of that of Orlistat on Alibaba e-commerce platforms, ranking top one in the market segment.

The production base of the Group’s Two Teas is located in Fangshan District, Beijing. The production plant and the production process are in compliance with the requirements of the national GMP standards, and the products of the Two Teas have passed the 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 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 to research, develop, formulate and produce the Two Teas, providing safe, effective, convenient-to-use and affordable health products for those with mild or recurring health problems in the laxative and weight management.

The Group’s Orlistat production, research and development base is located in Zhongshan, Guangdong Province. Its production plant and production process conform to the national GMP standards. It has a sound quality management system and hardware facilities, equipment and instruments that meet the demand of drug research and development as well as production. It also has production conditions and research and development conditions for hard capsules, film agents, Active Pharmaceutical Ingredient (API), etc. It has passed the certification of intellectual property management system, and is certified as an intellectual property demonstration enterprise in Guangdong Province and a national intellectual property superior enterprise. The Group provides high-quality and safe drugs and medical devices to sellers in a timely manner with high and new technologies.

As at 30 June 2020, the offline sales teams of the Group spanned across 31 provinces, autonomous regions and municipalities across the country. The Group had a total of 60 distributors and 221 sub-distributors for the Two Teas and Orlistat. The whole sales team served about 100,000 over-the-counter (the “**OTC**”) pharmacies and the retail terminals in shopping malls and supermarkets. The Group constantly improved the sales network nationwide, and by means of the dynamics of brand attraction and channels’ promotion, had coverage of about 400,000 OTC pharmacies across the country. The online sales teams of the Group have established 49 shops on 9 e-commerce platforms to conduct the sales of Two Teas, Orlistat and other products and medicines. Meanwhile, new products were able to break into the market more quickly and effectively through the existing channels, thereby enabling the Group’s products to maintain the leading position in the industry.





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Corporate Information

DIRECTORS

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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

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Mr. Zhao Yihong
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Financial Highlights

THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2020 was RMB609.8 million, representing an increase of 80.3% as compared with the revenue of RMB338.2 million for the same period of 2019.

The gross profit of the Group amounted to RMB441.3 million for the first half of 2020, representing an increase of 78.8% from the gross profit of RMB246.8 million for the same period of 2019. The gross profit margin of the Group for the first half of 2020 was 72.4%, representing a slight decrease of 0.6 percentage point from the gross profit margin of 73.0% for the same period of 2019.

The total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2020 were RMB382.5 million, representing an increase of 51.2% as compared with the total operating expenses of RMB252.9 million for the same period of 2019.

The operating profit of the Group for the first half of 2020 was RMB60.1 million, while the operating profit for the same period of 2019 was RMB222.9 million (after the deduction of gain on disposal of subsidiaries of RMB225.6 million, the operating loss for the same period of 2019 was RMB2.7 million).

The Group recorded the total comprehensive income of RMB47.3 million for the first half of 2020, compared with the total comprehensive income of RMB172.7 million for the same period of 2019.

The basic and diluted earnings per share attributable to owners of the Company for the first half of 2020 were both RMB0.59 cents (for the same period of 2019: the basic and diluted earnings per share attributable to owners of the Company were both RMB10.48 cents).

Management Discussion and Analysis

BUSINESS REVIEW

Enhancing Product Competitiveness via Customer-oriented Approaches and Various Product Lines

We take people's desire for a healthy life as our goal. In the first half of 2020, the Group was committed to produce cross-field and innovative products under the big health product categories with continuous emphasis on weight loss and weight management as well as laxative and gastrointestinal health products, so as to further enrich our product lines. By way of launching new products, updating packaging and innovating marketing model, the Group expanded and consolidated the consumer base to ensure rapid growths of the sales of weight management and gastrointestinal health series products, and improve their market share steadily. In order to enhance our brand recognition and facilitate the expansion of product categories, the Group successively launched new products on e-commerce platforms, focused on young consumer groups and continued to accurately communicate with them. Presently, the Group has formed a product pattern based on functional products of weight loss and weight management as well as laxative and gastrointestinal health series, integrating into a parallel development pattern of the three product categories of "OTC medicine + health food + ordinary food".

Promoting the Refined Management for Each Station on E-Commerce Platforms, Optimising Team Operation Awareness and Enhancing Effectiveness of Our Organization

In the first half of 2020, under the guidance of the strategy of constantly promoting e-commerce brand marketing and performing the digitalization of user-oriented operation on the e-commerce platforms, the Group took further steps to promote refined management in each operation team among e-commerce stations including Beijing station, Hangzhou station, Guangzhou station, medicine station and Xi'an station on the basis of the major stores managed by each station, placed emphasis on daily operation progress of each store, and constantly improved the profit margin while ensuring the rapid development of the performance of each e-commerce station. Under the guidance of internal management system which is collaborative and efficient with a clear division of responsibilities, Besunyen's e-commerce team has gradually formed a matrix organization equipped with integrated marketing support, sales and management support, supply chain support and customer service support with business line as its core, forming an operational complex with combination of business and service support. Our teams conducted efficient cooperations and made use of reasonable allocation mechanisms, which have effectively stimulated the subjective initiative of employees at all levels, and constantly improved the operational efficiency of the e-commerce team.

Management Discussion and Analysis

Expanding the Group's Flow Entrance on E-commerce Platforms and Leveraging Customer Service Centre to Achieve Consumption Upgrading

During the first half of 2020, the e-commerce team gradually stepped up its efforts and depths in the cooperation with various major e-commerce platforms and actively participated in different large-scale promotional activities of platforms to constantly improve the performance of business by fully taking advantages of the propagation and flow resources of platforms. Meanwhile, every e-commerce station kept trying live streaming and short videos and other ways to increase the flow, so as to attract target customers and link to more targeted consumer groups. With the continuous growing of e-commerce flows and users, in the first half of 2020, the scale of our service team of the customer service centre also continuously expanded to over 230 staffs across stations in Beijing, Hangzhou, Guangzhou, Xi'an and Danyang. Our customers service team is responsible for pre-sales and after-sales customer service consultations of consumers on e-commerce platforms and carrying out customer service work in the form of one-to-one service. Our customer service team also provides personalised health solutions according to customer demands and promotes corresponding product packages while offering new and old customers various professional consultations such as fat loss, weight loss and gastrointestinal health, thereby preciously accumulating a large number of high-end customers.

Continuously Enhancing Reputation through Multi-dimensional Brand Promotion

In the first half of 2020, the Group further strengthened the reputation of the Besunyen brand in the market, and enhanced consumers' awarenesses and attentions to the brand from multiple perspectives. In the first half of the year, the Group specially sponsored the first domestic campus music variety show, New Voice (《新聲請指教》), to promote the rejuvenation of the brand and the display of the characteristics of Besunyen's products from different perspectives with the help of the campus concept and popular music program. During the broadcast period of the program, there occurred the COVID-19 Pandemic. With the help of the platform of the program, the Group specially recorded an anti-pandemic song "Fighting for Wuhan" (楚行者·武漢加油) to express its support for the people in Wuhan.

In the first half of 2020, the Group also conducted brand promotion through product placements into popular TV dramas. In the first half of the year, the popular TV dramas with our product placements included "The Best Partner" (《精英律師》), "Still Not Enough" (《還沒愛夠》) and "If Time Flows Back" (《如果歲月可回頭》), etc. The above dramas were broadcasted simultaneously during the prime time of high-rating platforms such as Beijing Satellite TV, Dragon TV, Jiangsu Satellite TV, Zhejiang Satellite TV and four major network platforms (iQiyi, Tencent Video, Youku and Mango TV), continuously deepening consumers' impressions on the Besunyen brand.

In the first half of 2020, the Group put Besunyen's advertisements into the communities through the big data and the resources of elevator advertisements of Xinchao Media, making the Besunyen brand frequently exposed in consumers' daily lives. At the same time, the offline sales team conducted in-depth cooperation with pharmacies near the communities, successfully activating a number of old customers and driving a number of new customers.

Management Discussion and Analysis

Innovating Offline Marketing Models and Formulating Incentive Policies for New Products

With the advent of the era of promoting goods by the whole people, “private flow” has become a significant business channel for brands and the main front to serve consumers. In response to the impact of COVID-19 Pandemic, the Group adapted the sales strategy quickly during the period of working at home in the first half of 2020. With the help of mature brands, high-quality products, nationwide sales teams, distributors/sub-distributors, and retail terminal resources, the Group launched a full-staff marketing and social group fission project (“**CRM marketing project**”), which took employees as the point of origin to permeate into their WeChat Moments and WeChat groups, driving relatives and friends, distributors/sub-distributors, shop assistants and even consumers to promote goods. It also provided consumers with more direct and closer services through face-to-face sales. Since the launch of the CRM marketing project, more than 400,000 consumers have paid attention to our online micro-stores and the product repurchase rate has been greatly improved. The rapid growth in the number of distributors has also broken the previous situation in which the Group’s offline sales could not reach consumers directly. At the same time, the face-to-face and one-to-one interaction with consumers also provided the Group with more suggestions for product improvement and iteration, and the Group has gradually realised an omni-channel sales model of traditional channel + Internet channel through the continuous promotion of channel differentiation and diversification development.

In the first half of 2020, in line with the characteristics of offline channels, the Group has enriched the variety of products sold offline by launching the offline sales of Jianfei Orlistat Capsules (簡肥牌奧利司他膠囊), effectively expanding the category of offline weight loss products. New anti-aging products under the brand of Qingchunbao (青春寶) have been launched for sales in Beijing and Guangzhou. The sales of Besunyen Jinshutong (金舒通) products have also been steadily advancing. At the same time, the Group has continued to improve the distribution/sub-distribution system and innovated the terminal marketing model, in a bid to expedite the construction of offline channels and further explore opportunities in the market.

Strengthening the Flow Direction Management of the Products, and Building a Benign Marketing System

In the first half of 2020, in order to ensure the freshness of the products in the market, the Group strengthened the direct data connection management to distributors/sub-distributors. By utilizing its logistics code management system, the Group monitored products stored in the warehouses of distributors/sub-distributors and timely obtained the data of stock-out, stock-in and product serial numbers of distributors/sub-distributors. At the same time, the Group controlled the inventory turnover days of distributors/sub-distributors from the shipping source, effectively avoiding the overstocking of distributors/sub-distributors.

In order to make the sales team focus more on the growth of sales to end-users (“net sales”), the Group continued to improve the appraisal system by setting net sales result and net sales achievement rate as the main performance assessment indicators for the sales team, therefore encouraging sales staff to actively participate in the maintenance of sales terminals and consumer services, and built a benign marketing system.

Management Discussion and Analysis

Strengthening Internal Innovation and External Cooperation in Research and Development to Consolidate its Research and Development Strength

In the first half of 2020, the Group has continuously adhered to “One Focus and Two Dimensions” as the product strategy in terms of the research and development, firmly uphold “herbs and health regimen” as the cornerstone of its diversified industrial footprint, and adjusted the Group’s research and development system, product strategy and competitive advantages in various ways such as self-research, external introduction and co-research, enabling the Group to devote to its two major health areas of weight loss and weight management as well as laxative and gastrointestinal health.

To further promote collaborative innovation and cooperation and continuously improve its technological innovation capability, the Group participated in the key research and development plan of the Ministry of Science and Technology, “the Modernisation of Chinese Medicine”, and built a platform for cooperation in research and development with a number of well-known research institutes such as Beijing University of Chinese Medicine. Meanwhile, in response to the demands from various business divisions for new product development, the Group focused on the development of multi-faceted and full-category products, creating a multi-category product structure and layout based on health food and extended to medicines, functional food and ordinary food.

Zhongshan Wanhan has obtained the qualification as a High and New Technology Enterprise, and has obtained two certifications of Guangdong Engineering Technology Centre and Zhongshan Innovative Benchmarking Enterprise. In the first half of 2020, Zhongshan Wanhan and Zhongshan Wanyuan made breakthroughs in the research and development in the areas of endocrine metabolites, ophthalmic drugs and antiviral drugs. In April and June 2020, the levofloxacin eye drops and sodium vitreous acid eye drops of Zhongshan Wanhan were approved for production, respectively, and Zhongshan Wanhan’s pharmacological study of oseltamivir phosphate capsules was completed and its bioequivalence (BE) trial was conducted to examine the consistency of quality and efficacy. Orlistat capsule and povidone-iodine film of Zhongshan Wanhan have been certified as High and New Technology Products in Guangdong Province.

Management Discussion and Analysis

Strengthening the Development of Compliance System and Enhancing Risk Control Consciousness

In the first half of 2020, the Group attached great importance to the standard operation, and strengthened internal control and risk management by formulating and improving various rules, regulations and processes of the Group, which continuously enhanced the Group's risk resistance capacity. The Group established the internal control management centre by combining resources from the former audit, internal control, legal affairs and archives departments, comprehensively responsible for internal control and compliance management of the Group. According to the development needs and external supervision requirements, the Group set up the quality management team composed of the production management centre and R&D centre, responsible for the construction and risk control of the product quality and safety system. The brand management team composed of the public relations centre and integrated marketing centre is responsible for the construction and risk control of the brand system such as market promotion and media publicity. Meanwhile, the Group further strengthened the actual control over the performance of various businesses, promoted the coordination between different business departments, improved the risk management system and internal control structure, and enhanced employees' risk management and compliance consciousness by organizing self-inspection among different business departments. In the first half of 2020, the Group improved the compliance management of innovative business, carried out compliance review and evaluation on the business system, processes, contract proposals and legal documents during the preparation and operation of the innovative business, and gradually established a sound compliance management system for innovative business.

Social Welfare

In the first half of 2020, the Group continued to increase the investment in the fulfilment of social responsibilities. It entered into cooperation agreements with Beijing Green Sunshine Environmental Protection Public Welfare Foundation and China Green Carbon Foundation, and donated RMB450,000 for the social welfare programs such as "Tibet Ecological Construction and Protection Capability Building Program" and "Special Fund for Combating Illegal Trade in Endangered Wildlife". During the COVID-19 Pandemic period, the Group launched the "Luminosity Plan Public Welfare Undertaking" (「光明計劃公益行動」), and donated over 600,000 pieces of goods and materials to designated hospitals in Hubei and Hunan Provinces jointly with charitable enterprises and individuals. During the COVID-19 Pandemic period, the Group participated in seven public welfare donation projects, and made donations of nearly RMB1 million to social welfare undertakings.

Management Discussion and Analysis

OUTLOOK

Industry, Market and Competition

According to documents such as the Opinions on Implementing Healthy China Initiative (《關於實施健康中國行動的意見》), Healthy China Initiative (2019-2030) (《健康中國行動(2019-2030年)》) and Healthy China 2030 Planning Outline (《「健康中國2030」規劃綱要》) issued by the State, the health service industry will become the pillar industry of the national economy, and the State will continuously promote the transformation of the concept of hygiene and health work and the way of service from “treatment-centred” to “all-people health-centred” with greater support for the big health industry. At the same time, with the rise of the concept of big health and the aging of population, consumers pay more attention to healthy living, which leads to a huge demand for the healthy market, and the growth spaces of the industry prospect and sub-sectors are promising. Meanwhile, the severe external market environment, the state’s governance actions for the health products industry, the reform and standardization of the pharmaceutical retail industry and other factors have increased the pressure and challenges of market stakeholders. Under the background of flourishing development of new channels and new media, more and more overseas brands have entered the Chinese market via cross-border e-commerce platforms and new varieties and new brands have also realized rapid development, diversifying the competition in the industry. In response to the above, the Group will, on one hand, continue with the upgrading from product marketing to brand value marketing; on the other hand, it will actively lay out new channels, new products and new business formats, and take the advantages of new business to win the market.

Continuously Enhancing Brand Competitiveness, Optimizing Product Structure, and Promoting the Brand Rejuvenation Process

Brand equity is one of the core assets of the enterprise, and to increase the investment in brand equity is to increase the investment in future development. The Group will continue to develop the traditional herbal health products based on the “One Focus and Two Dimensions” product strategy, and promote the development and launch of new products such as relevant medicines and functional food. Meanwhile, the Group will make use of its R&D advantages and product storage, and promote the sales of the whole categories through occupying and making breakthroughs in different categories, so as to improve the overall layout of the big health industry. In the second half of 2020, the Group will make continuous innovation in the promotion mode, launch new products for young consumer groups, continuously promote the brand vitality through ways of channel expansion, packaging image upgrade and media strategy optimization, thereby promoting the brand rejuvenation process and making it gain new vigor and vitality to contribute to the Group’s new revenue increment.

Management Discussion and Analysis

Strengthening the Business Capability of the Group on E-commerce Platforms, Accelerating the Personalised and Younger Development of E-commerce Platform Sales

The Group will continuously focus on the strategic development of sales on e-commerce platforms, and promote the upgrading of sales on e-commerce platforms in line with the industrial development tendency. In the second half of 2020, the Group will continue to focus on the development of customer service system, improve the member management mode, and achieve precise marketing promotion, which will effectively boost the growth of e-commerce channel sales. The Group will rapidly expand the market share of the existing LARLLY Orlistat and Besunyen Orlistat, continuously enrich product categories through measures such as self-research and development and entrusted processing. Meanwhile, the Group will create the e-commerce sales pattern with several marketing modes by making full use of resources of various e-commerce platforms.

FINANCIAL REVIEW

Revenue

	For the six months ended 30 June		2019	
	2020	Percentage of	RMB'000	Percentage of
	RMB'000	revenue	RMB'000	revenue
Revenue:				
Besunyen Detox Tea	92,912	15.2%	84,865	25.1%
Besunyen Slimming Tea	105,201	17.3%	92,922	27.5%
Besunyen Xian Xian Tea	45,207	7.4%	24,167	7.1%
Slimming medicines	305,274	50.1%	108,911	32.2%
Other products and medicines	61,181	10.0%	27,357	8.1%
Total	609,775	100.0%	338,222	100.0%

The revenue of the Group in the first half of 2019 was RMB338.2 million and the revenue in the same period of 2020 increased by 80.3% to RMB609.8 million.

The revenue of Besunyen Detox Tea increased by 9.4% from RMB84.9 million in the first half of 2019 to RMB92.9 million in the same period of 2020, the sales volume decreased by 16.3% from 59.4 million tea bags in the first half of 2019 to 49.7 million tea bags in the same period of 2020, while the average selling price increased from RMB1.43 per bag in the first half of 2019 to RMB1.87 per bag in the same period of 2020.

Management Discussion and Analysis

The revenue of Besunyen Slimming Tea increased by 13.2% from RMB92.9 million in the first half of 2019 to RMB105.2 million in the same period of 2020, the sales volume decreased by 12.8% from 67.0 million tea bags in the first half of 2019 to 58.4 million tea bags in the same period of 2020, while the average selling price increased from RMB1.39 per bag in the first half of 2019 to RMB1.80 per bag in the same period of 2020.

The sales volume of Besunyen Detox Tea and Besunyen Slimming Tea in the first half of 2020 recorded a decrease as compared to the same period of 2019, mainly attributable to the impact of COVID-19 Pandemic on logistics delivery from February to March in 2020; while the revenue of Besunyen Detox Tea and Besunyen Slimming Tea in the first half of 2020 recorded an increase as compared to the same period of 2019, mainly attributable to the increase in unit selling price.

The revenue of Besunyen Xian Xian Tea increased by 86.8% from RMB24.2 million in the first half of 2019 to RMB45.2 million in the same period of 2020, mainly due to increased sales on e-commerce platform and increased unit selling price.

Slimming medicines mainly consist of Besunyen Orlistat and LARLLY Orlistat. The revenue increased by 180.3% from RMB108.9 million in the first half of 2019 to RMB305.3 million in the same period of 2020, mainly due to the enhanced promotion of Besunyen Orlistat on e-commerce platform, seizing the market share of Orlistat, so as to achieve sales growth in the promotion activities on the platforms.

Other products and medicines mainly consist of Besunyen Qingyuan Tea, Besunyen meal replacement products, dietary supplements products and other medicines. The revenue increased by 123.4% from RMB27.4 million in the first half of 2019 to RMB61.2 million in the same period of 2020.

Cost of Sales and Gross Profit

	For the six months ended 30 June			
	2020		2019	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Cost of sales	168,467	27.6%	91,434	27.0%
Gross profit	441,308	72.4%	246,788	73.0%

The Group's cost of sales increased by 84.4% from RMB91.4 million in the first half of 2019 to RMB168.5 million in the same period of 2020, which was in line with the increase in sales. Cost of sales as a percentage of revenue slightly increased from 27.0% in the first half of 2019 to 27.6% in the same period of 2020.

Revenue increased by 80.3% and cost of sales increased by 84.4% in the first half of 2020 as compared to the same period of 2019. As a result, gross profit of the Group increased by 78.8% from RMB246.8 million in the first half of 2019 to RMB441.3 million in the same period of 2020. Gross profit margin of the Group slightly decreased from 73.0% in the first half of 2019 to 72.4% in the same period of 2020.

Management Discussion and Analysis

Selling and Marketing Expenses

	For the six months ended 30 June			
	2020		2019	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Advertising costs	59,992	9.9%	52,968	15.7%
Marketing and promotional expenses	142,019	23.3%	63,110	18.6%
Employee benefit expenses	74,388	12.2%	48,854	14.4%
Others	17,900	2.9%	22,505	6.7%
Total	294,299	48.3%	187,437	55.4%

Selling and marketing expenses of the Group increased from RMB187.4 million in the first half of 2019 to RMB294.3 million in the same period of 2020.

The advertising costs in the first half of 2020 increased by RMB7.0 million as compared to the same period of 2019, mainly due to the addition of advertising via new media such as LED screens, Audio pre-rolls and WavPub apart from advertising via previous multimedia, resulting in the increase in the cost.

The marketing and promotional expenses increased by RMB78.9 million in the first half of 2020 as compared to the same period of 2019, mainly due to the increase in the expenditure of marketing and promotion via e-commerce platform.

In the first half of 2020, employee benefit expenses increased by RMB25.5 million as compared to the same period of 2019, mainly due to the increase in performance salary of sales personnel as a result of the increase in revenue.

Administrative Expenses

	For the six months ended 30 June			
	2020		2019	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Employee benefit expenses	17,039	2.8%	20,030	5.9%
Office expenses	2,600	0.4%	3,294	1.0%
Professional and consulting service fees	20,648	3.4%	12,729	3.8%
Entertainment and travelling expenses	2,054	0.3%	3,007	0.9%
Others	10,084	1.7%	10,574	3.1%
Total	52,425	8.6%	49,634	14.7%

Administrative expenses of the Group increased by 5.6% from RMB49.6 million in the first half of 2019 to RMB52.4 million in the same period of 2020, mainly due to the increase in professional and consulting service fees.

Management Discussion and Analysis

Research and Development Costs

	For the six months ended 30 June		2019	
	2020	Percentage of	RMB'000	Percentage of
	RMB'000	revenue	RMB'000	revenue
Research and development costs	35,741	5.9%	15,856	4.7%

The Group's research and development costs increased by 124.5% from RMB15.9 million in the first half of 2019 to RMB35.7 million in the same period of 2020, mainly due to the increased self-research and development as well as outsourced research and development.

Taxation

Income tax expense of the Group in the first half of 2020 was RMB11.2 million, while such amount was RMB34.8 million in the same period of 2019. The decrease of income tax expense is due to the decrease of profit before income tax.

Total Comprehensive Income for the Period

Due to the factors set out above, the Group recorded a total comprehensive income of RMB47.3 million in the first half of 2020 (for the same period of 2019: total comprehensive income of RMB172.7 million, including the gain on disposal of subsidiaries of RMB225.6 million).

Liquidity and Capital Resources

In the first half of 2020, funds and capital expenditure required in the operation of the Group mainly came from the cash flows from operating activities and proceeds from bank borrowings.

Cash Flows

The following table summarises the net cash flows of the Group for the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	58,700	(40,107)
Net cash (outflow)/inflow from investing activities	(148,174)	264,209
Net cash inflow/(outflow) from financing activities	52,467	(77,534)
	(37,007)	146,568
Effect of foreign exchange rate changes on cash and cash equivalents	(1,338)	785
Net (decrease)/increase in cash and cash equivalents	(38,345)	147,353

Management Discussion and Analysis

In the first half of 2020, the net cash inflow from operating activities of the Group was RMB58.7 million, which was mainly attributable to the cash received from the operating profit (the same period in 2019: net cash outflow from operating activities of RMB40.1 million, mainly due to the cash outflow from the Group's operating losses after the operating profit deducting the gain on disposal of subsidiaries). In the first half of 2020, the net cash outflow from investing activities of the Group was RMB148.2 million, which was mainly attributable to the infrastructure construction expenditure, purchase of financial assets measured at fair value through profit or loss and the cash balance payment received from the disposal of 100% equity interest of Beijing Chang Sheng and its wholly-owned subsidiary Besunyen Property (the same period in 2019: net cash inflow of RMB264.2 million, mainly due to the net cash received from the disposal of 100% equity interest of Beijing Chang Sheng and its wholly-owned subsidiary Besunyen Property, which was partly offset by the increase of term deposits of RMB170.0 million). In the first half of 2020, the net cash inflow from financing activities of the Group was RMB52.5 million, which was mainly due to proceeds from the bank borrowings (the same period in 2019: net cash outflow from financing activities of RMB77.5 million, mainly due to repayment of bank borrowings).

Financial Assets Measured at Fair Value through Profit or Loss

As at 30 June 2020, the Group's financial assets measured at fair value through profit or loss amounted to RMB185.2 million, including structured deposits and wealth management products from various banks of RMB155.2 million and RMB30.0 million respectively (31 December 2019: RMB83.0 million, including structured deposits and wealth management products from various banks of RMB20.0 million and RMB63.0 million respectively). The expected yield rate of these structured deposits and wealth management products was 2%-3.8%, and the total gains recognised in profit or loss under "other losses, net" for the six months ended 30 June 2020 were approximately RMB0.9 million. The Group adopted a strategy of stable value preservation for such assets.

Bank Balances, Cash and Bank Borrowings

The Group's bank balances and cash, comprising cash and cash equivalents, term deposits with initial term of over three months and restricted bank deposits, decreased by 0.2% from RMB308.8 million as at 31 December 2019 to RMB308.3 million as at 30 June 2020. Meanwhile, the Group has bank borrowings of RMB156.5 million as at 30 June 2020, including the fixed-rate bank borrowings of RMB94.8 million (31 December 2019: RMB94.8 million, including the fixed-rate bank borrowings of RMB61.0 million).

Capital Expenditure

In the first half of 2020, the capital expenditure of the Group amounted to RMB50.0 million (the same period in 2019: RMB31.4 million), mainly represented plant construction expenditure.

Management Discussion and Analysis

Inventories

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

	As at	
	30 June 2020	31 December 2019
	RMB'000	RMB'000
Raw materials and packaging materials	36,864	15,550
Work in progress	4,545	2,443
Finished goods	53,732	42,191
Total inventories	95,141	60,184

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 and liabilities denominated in Hong Kong dollar and US dollar.

For the six months ended 30 June 2020, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (for the same period of 2019: Nil).

Material Acquisitions or Disposals

During the first half of 2020, the Group had no material acquisitions or disposal of subsidiaries, associates and joint ventures.

Yuanyuan Liuchang Fund

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 2020, Yuanyuan Liuchang Fund did not invest in new projects.

Pledge of Assets

As of 30 June 2020, the Group has pledged properties with net book value of RMB107.2 million and land use rights with net book value of RMB43.0 million to banks and guarantee companies as securities of certain bank borrowings of RMB136.7 million (as of 31 December 2019: the Group had pledged properties with net book value of RMB109.5 million and land use rights with net book value of RMB43.5 million to banks and guarantee companies as securities of certain bank borrowings of RMB86.8 million).

Management Discussion and Analysis

Gearing Ratio

As of 30 June 2020, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 36.3% (31 December 2019: 35.3%).

Contingent Liabilities and Guarantees

As of 30 June 2020, the Group had no material contingent liabilities and guarantees (31 December 2019: Nil).

Capital Commitments

As of 30 June 2020, capital expenditure of property, plant and equipment expected to be incurred amounted to RMB11.6 million (31 December 2019: RMB117.0 million).

As of 30 June 2020, capital investments expected to be incurred amounted to RMB22.3 million (31 December 2019: RMB9.8 million).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2020, the Group had 1,455 employees in mainland China and Hong Kong (31 December 2019: 1,187 employees, including 12 promotional staff employed by employment agents). For the six months ended 30 June 2020, total labour costs (including Directors' remunerations and non-cash share-based payment) were RMB109.8 million (for the same period of 2019: RMB84.4 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 scheme, staff welfare also includes discretionary bonus and share 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 share option scheme (the "**Share Option Scheme**") adopted by the Company on 8 September 2010, which are to motivate staffs, 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 considerable efforts in continuous education and training for its staff members, so as to keep enhancing the knowledge, skill and team spirit of staff. 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 48, 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 2020 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, 31 August 2020

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited	
		Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
Revenue	7	609,775	338,222
Cost of sales	8	(168,467)	(91,434)
Gross profit		441,308	246,788
Other income		7,659	8,295
Selling and marketing expenses	8	(294,299)	(187,437)
Administrative expenses	8	(52,425)	(49,634)
Research and development costs	8	(35,741)	(15,856)
Other expenses	8	(1,609)	(2,281)
Other losses, net	9	(4,839)	(2,594)
Gain on disposal of subsidiaries	10	–	225,571
Operating profit		60,054	222,852
Finance income	11	1,298	–
Finance costs	11	(2,764)	(3,758)
Finance costs, net	11	(1,466)	(3,758)
Share of losses of investments accounted for using the equity method	19	(124)	(11,586)
Profit before income tax		58,464	207,508
Income tax expense	12	(11,172)	(34,760)
Profit for the period		47,292	172,748
Profit attributable to:			
— Owners of the Company		9,384	167,173
— Non-controlling interests		37,908	5,575
		47,292	172,748
Other comprehensive income		–	–
Total comprehensive income for the period		47,292	172,748
Total comprehensive income for the period attributable to:			
— Owners of the Company		9,384	167,173
— Non-controlling interests	18	37,908	5,575
		47,292	172,748
Earnings per share for the profit attributable to owners of the Company (RMB cents)			
— Basic earnings per share	13	0.59	10.48
— Diluted earnings per share	13	0.59	10.48

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 2020 RMB'000	Audited As at 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	237,005	219,823
Investment properties	15	9,186	9,424
Intangible assets	16	164,976	170,086
Right-of-use assets	23	114,058	114,810
Other non-current assets	17	14,129	14,175
Investments accounted for using the equity method	19	79,152	79,276
Deferred income tax assets	27	75,361	65,242
Total non-current assets		693,867	672,836
Current assets			
Inventories	20	95,141	60,184
Trade receivables	21(a)	81,769	139,673
Bills receivable	21(b)	4,095	5,187
Deposits, prepayments and other receivables	22	75,641	111,409
Restricted bank deposits		10,418	27,968
Financial assets measured at fair value through profit or loss		185,227	83,000
Term deposits with initial term of over three months		65,442	10,000
Cash and cash equivalents		232,458	270,803
		750,191	708,224
Assets classified as held for sale	24	326,163	286,500
Total current assets		1,076,354	994,724
Total assets		1,770,221	1,667,560

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited As at 30 June 2020 RMB'000	Audited As at 31 December 2019 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	25	94	94
Share premium		962,777	962,777
Other reserves		327,089	327,065
Accumulated losses		(311,877)	(321,261)
		978,083	968,675
Non-controlling interests	18	148,679	110,771
Total equity		1,126,762	1,079,446
LIABILITIES			
Non-current liabilities			
Deferred government grants		34,088	34,381
Lease liabilities	30	6,415	8,327
Deferred income tax liabilities	27	30,835	32,117
Long-term borrowings	26	55,108	28,000
Total non-current liabilities		126,446	102,825
Current liabilities			
Trade and bills payables	28	69,957	49,105
Other payables and accrued expenses	29	295,905	328,813
Contract liabilities		18,082	27,209
Borrowings	26	101,400	66,800
Lease liabilities	30	8,738	9,241
Current income tax liabilities		22,931	4,121
Total current liabilities		517,013	485,289
Total liabilities		643,459	588,114
Total equity and liabilities		1,770,221	1,667,560

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					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Accumulated losses	Total		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2020	94	962,777	327,065	(321,261)	968,675	110,771	1,079,446
Total comprehensive income for the period	-	-	-	9,384	9,384	37,908	47,292
Total transactions with owners, recognised directly in equity:							
Share-based payments under share option scheme and restricted share award scheme	-	-	24	-	24	-	24
Balance at 30 June 2020	94	962,777	327,089	(311,877)	978,083	148,679	1,126,762
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	-	-	-	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

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

	Note	Unaudited Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations		60,981	(40,677)
Income taxes paid		(3,763)	(615)
Interest received		1,482	1,185
Net cash generated from/(used in) operating activities		58,700	(40,107)
Cash flows from investing activities			
Purchases of financial assets measured at fair value through profit or loss		(364,000)	(107,000)
Proceeds from disposal of financial assets measured at fair value through profit or loss		262,633	103,200
Placement of term deposits with initial term of over three months		(100,000)	(170,000)
Withdrawal of term deposits with initial term of over three months		45,557	–
Decrease/(increase) of restricted bank deposits		17,734	(4,802)
Purchases of property, plant and equipment		(31,587)	(14,871)
Addition to investment properties		–	(16,205)
Purchases of intangible assets		(52)	(320)
Investments in associate and joint ventures		–	3,941
Distribution from a joint venture		–	(1,642)
Proceeds from disposal of subsidiaries, net	10	55,500	469,919
Proceeds from disposals of land use rights		–	1,259
Proceeds from disposals of property, plant and equipment		–	730
Addition to assets classified as held for sale		(18,378)	–
Acquisition of a subsidiary	17(a)	(4,000)	–
Payment of transaction cost in connection with disposal of a subsidiary to be disposed		(11,581)	–
Net cash (used in)/generated from investing activities		(148,174)	264,209
Cash flows from financing activities			
Proceeds from borrowings		130,108	61,000
Repayment of borrowings		(68,400)	(130,000)
Principal elements of lease payments		(6,873)	(4,481)
Bank loan interest and other finance costs paid		(2,368)	(4,053)
Net cash generated from/(used in) financing activities		52,467	(77,534)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalent at the beginning of the period		270,803	61,759
Exchange (losses)/gains		(1,338)	785
Cash and cash equivalents at end of period			
Representing:			
– Cash at bank and financial institute and on hand		232,458	209,110
– Bank balances and cash classified as held for sale		–	2
		232,458	209,112

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

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 principal activities of the Company and its subsidiaries (collectively referred to as the “**Group**”) are the manufacturing and sales of therapeutic tea products and slimming and other medicines.

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

This 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 2020 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 31 August 2020.

2. SIGNIFICANT EVENT

The financial position and performance of the Group was particularly affected by the following event during the six months ended 30 June 2020:

An outbreak of the widespread of the Novel Coronavirus (the “**COVID-19 Pandemic**”) has been emerged since mid of January 2020 and has been subsequently declared as a Public Health Emergency of International Concern by the World Health Organisation on 30 January 2020.

The Group’s business activities in Hubei Province remained at a low level in February 2020 and March 2020, resulting from COVID-19 Pandemic crush to the Group’s office and distributors located in Hubei Province. Since April 2020, the Group’s business activities have become resumed and the revenue from Hubei Province has been keeping a normal level.

The Group’s online business was affected by the logistics environment in February 2020. With the recovery of the logistics in March 2020, the online business was back to normal.

As discussed above, the Group’s financial position and performance for the six months ended 30 June 2020 were not significantly impacted, which stayed the same as the Directors of the Company’s assessment disclosed in the annual financial statements of the Company for the year ended 31 December 2019 (the “**2019 Annual Financial Statements**”).

Notes to the Interim Condensed Consolidated Financial Information

3. BASIS OF PREPARATION

The Group's interim condensed consolidated financial information for the six months ended 30 June 2020 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 2019 Annual Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), and any public announcement made by the Company during the current period.

4. SIGNIFICANT ACCOUNTING POLICIES

Amended standards and revised conceptual framework adopted by the Group

The Group has applied the following amended standards and revised conceptual framework in the interim condensed consolidated financial information:

- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 3 – Definition of a Business
- Amendment to IFRS 7, IAS 39 and IFRS 9 – Interest Rate Benchmark Reform
- Revised Conceptual Framework for Financial Reporting

The adoption of these amended standards and revised conceptual framework did not have any material impact on the significant accounting policies of the Group and the presentation of the interim condensed consolidated financial information.

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 2020 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 2019 Annual Financial Statements.

Notes to the Interim Condensed Consolidated Financial Information

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 does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2019 Annual Financial Statements.

There have been no changes in the risk management policies since 31 December 2019.

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.

6.3 Fair value risk

The Group has two types of financial assets that are measured at fair value as at 30 June, which are the financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. The financial assets measured at fair value through other comprehensive income represent the Group's bill receivables, while the financial assets measured at fair value through profit or loss represent the Group's wealth management products purchased from bank and structured bank deposits. 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 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 30 June 2020				
Assets				
Financial assets measured at fair value through other comprehensive income	–	–	4,095	4,095
Financial assets measured at fair value through profit or loss	–	–	185,227	185,227

Notes to the Interim Condensed Consolidated Financial Information

6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

6.3 Fair value risk (Continued)

The following table presents the changes in Level 3 instruments for the six months ended 30 June 2020:

	Financial assets measured at fair value through other comprehensive income RMB'000	Financial assets measured at fair value through profit or loss RMB'000
Opening balance	5,187	83,000
Additions	52,448	364,860
Disposals	(53,540)	(262,633)
Closing balance	4,095	185,227
Total gains during the period recognised in profit or loss under "other losses, net"	–	860

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 slimming and other medicines as separate reportable segments, namely the tea products segment and the slimming and other medicines segment.

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

Notes to the Interim Condensed Consolidated Financial Information

7. REVENUE AND SEGMENT INFORMATION (Continued)

The segment results for the six months ended 30 June 2020 are as follows:

	Tea products segment RMB'000	Slimming and other medicines segment RMB'000	Total RMB'000
Total revenue	288,179	321,596	609,775
Inter-segment revenue	–	–	–
Revenue from external customers	288,179	321,596	609,775
Timing of revenue recognition			
At a point in time	288,179	321,596	609,775
Cost of sales	(45,854)	(122,613)	(168,467)
Gross profit	242,325	198,983	441,308
Selling and marketing expenses	(173,276)	(121,023)	(294,299)
Research and development costs	(20,559)	(15,182)	(35,741)
Segment results	48,490	62,778	111,268
Other income			7,659
Other losses, net			(4,839)
Administrative expenses			(52,425)
Other expenses			(1,609)
Operating profit			60,054
Finance income			1,298
Finance costs			(2,764)
Finance costs, net			(1,466)
Share of losses of investments accounted for using the equity method			(124)
Profit before income tax			58,464
Income tax expense			(11,172)
Profit for the period			47,292
Other segment information:			
Impairment	(2,264)	–	(2,264)
Depreciation	(15,648)	(6,065)	(21,713)
Amortisation	(484)	(4,679)	(5,163)

Notes to the Interim Condensed Consolidated Financial Information

7. REVENUE AND SEGMENT INFORMATION (Continued)

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

	Tea products segment RMB'000	Slimming and other medicines 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 income			–
Finance costs			(3,758)
Finance costs, net			(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:			
Impairment	(2,831)	–	(2,831)
Depreciation	(14,682)	(4,012)	(18,694)
Amortisation	(2,804)	(5,065)	(7,869)

Note:

Non-current assets are all located in the PRC.

For the six months ended 30 June 2020, the revenue of approximately RMB164,204,000 (six months ended 30 June 2019: RMB64,482,000) was derived from an e-commerce platform (“**Customer A**”), which was taking 26.9% (six months ended 30 June 2019: 19.1%) of the Group’s total revenue and was primarily attributable to the slimming and other medicines segment. Other than Customer A, the revenues derived from any of the remaining external customers were less than 10% of the Group’s total revenue.

Notes to the Interim Condensed Consolidated Financial Information

8. EXPENSES BY NATURE

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Changes in inventories of finished goods and work in progress	(13,643)	(5,742)
Raw materials and consumables used	154,083	71,321
(Reversal)/impairment of trade receivables	(379)	24
Advertising costs	59,992	52,968
Employee benefit expense	109,830	84,419
Marketing and promotional expenses	142,019	63,110
Depreciation and amortisation	26,876	26,563
Professional and consulting service fees	20,648	12,729
Entertainment and travelling expenses	4,685	7,687
Stamp duties, property and other taxes	2,025	2,872
Rental expense (Note)	1,354	2,825
Logistics expenses	6,951	7,629
Office expenses	2,600	3,294
Maintenance and testing costs	3,916	2,657
Researching and development outsource expenses	17,475	1,766
Others	14,109	12,520
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	552,541	346,642

Note:

Rental expenses derived from short-term leases and leases of low-value assets which were recognised on a straight-line basis as an expense in profit or loss.

Notes to the Interim Condensed Consolidated Financial Information

9. OTHER LOSSES, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Impairment loss on other non-current assets	(2,264)	(2,831)
Donation	(1,186)	(756)
Change in fair value of financial assets measured at fair value through profit or loss (Note 6.3)	860	–
Net (losses)/gains on disposals of land use rights and property, plant and equipment	(4)	590
Net foreign exchange (losses)/gains	(2,673)	681
Gain on liquidation of a subsidiary	–	31
Others	428	(309)
	(4,839)	(2,594)

10. GAIN ON DISPOSAL OF SUBSIDIARIES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Gain on disposal of Beijing Chang Sheng Business Consulting Co., Ltd. (“ Beijing Chang Sheng ”) and Beijing Besunyen Property Management Co., Ltd. (“ Besunyen Property ”)	–	225,571

A Li Yun Shan (Beijing) Business Consulting Co., Ltd. (“**A Li Yun Shan**”), an indirect wholly-owned subsidiary of the Company has disposed of 100% equity interests in Beijing Chang Sheng and Besunyen Property to a third party at a cash consideration of approximately RMB555,000,000. The disposal was completed on 8 March 2019.

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

	Disposal of Beijing Chang Sheng RMB'000
Cash received in 2019, net of cash disposed	490,836
Transaction costs paid in 2019	(16,679)
Proceeds from disposals of subsidiaries in 2019, net	474,157
Remaining cash received in 2020	55,500
Total proceeds from disposals of subsidiaries	529,657

Notes to the Interim Condensed Consolidated Financial Information

11. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest income from financial assets held for cash management purpose	(1,298)	–
Finance income	(1,298)	–
Interest expenses:		
– for borrowings	3,543	3,295
– for lease liabilities	594	359
Guarantee fee for bank borrowings	609	604
	4,746	4,258
Less: amount capitalised (Note)	(1,982)	(500)
Finance costs	2,764	3,758
Finance costs, net	1,466	3,758

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 2020, which was 5.37%.

12. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current income tax		
– Current income tax on profit for the period	21,966	516
– Under provision of PRC income tax in prior year	607	51
	22,573	567
Deferred income tax		
– Origination and reversal of temporary differences	(11,401)	34,193
	11,172	34,760

The Company was incorporated in the 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.

Hong Kong profits tax is subject to the two-tiered profits tax regime, under which the tax rate is 8.25% for assessable profits in the first HK\$2 million and 16.5% for any assessable profits in excess. 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.

Notes to the Interim Condensed Consolidated Financial Information

12. INCOME TAX EXPENSE *(Continued)*

Certain PRC subsidiaries have obtained the High and New Technology Enterprise (“HANTE”) qualifications and hence are eligible to the preferential corporate income tax rate of 15% for a three-year period.

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 2020 is approximately 19% (2019: 17%). The major reason for the effective tax rate is that a substantial part of the Group’s profit before income tax for the current period is attributable to the subsidiary with HANTE qualification which is entitled preferential corporate income tax rate of 15%.

13. EARNINGS PER SHARE**(a) Basic**

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

	Six months ended 30 June	
	2020	2019
Profit attributable to owners of the Company (RMB'000)	9,384	167,173
Weighted-average number of ordinary shares in issue	1,595,189,678	1,595,004,031
Basic earnings per share (RMB cent per share)	0.59	10.48

(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 per share). The share options had an anti-diluted effect to the Group for the six months ended 30 June 2020 and 2019. In addition, there were no unvested restricted shares which would result in a dilutive effect to the Group as at 30 June 2020 and 2019. 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 2020 and 2019.

Notes to the Interim Condensed Consolidated Financial Information

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
As at 31 December 2019					
Cost	200,639	224,682	44,774	19,809	489,904
Accumulated depreciation	(58,312)	(163,735)	(34,797)	–	(256,844)
Accumulated impairment	(1,630)	(11,607)	–	–	(13,237)
Net book value	140,697	49,340	9,977	19,809	219,823
Six months ended 30 June 2020					
Opening net book amount	140,697	49,340	9,977	19,809	219,823
Additions	191	3,675	2,590	27,454	33,910
Transfers	160	399	2,151	(2,710)	–
Disposals/write-off	–	–	(4)	–	(4)
Depreciation charge	(5,030)	(8,784)	(2,910)	–	(16,724)
Closing net book amount	136,018	44,630	11,804	44,553	237,005
As at 30 June 2020					
Cost	200,990	228,752	48,985	44,553	523,280
Accumulated depreciation	(63,342)	(172,515)	(37,181)	–	(273,038)
Accumulated impairment	(1,630)	(11,607)	–	–	(13,237)
Net book value	136,018	44,630	11,804	44,553	237,005

As at 30 June 2020, buildings with the carrying amounts of approximately RMB82,530,000 (31 December 2019: RMB84,444,000) and RMB24,677,000 (31 December 2019: RMB25,107,000) were pledged as the securities for the guarantee of the Group's bank borrowing of RMB70,000,000 (31 December 2019: RMB50,000,000) and RMB20,000,000 (31 December 2019: RMB 20,000,000) (Note 26(a)) respectively.

Notes to the Interim Condensed Consolidated Financial Information

15. INVESTMENT PROPERTIES

	RMB'000
As at 31 December 2019	
Cost	15,294
Accumulated depreciation	(5,870)
Net book amount	9,424
Six months ended 30 June 2020	
Opening net book amount	9,424
Depreciation charge	(238)
Closing net book amount	9,186
Cost	15,294
Accumulated depreciation	(6,108)
Net book amount	9,186

16. INTANGIBLE ASSETS

	Goodwill RMB'000	Trade- marks and brand name RMB'000	Computer software RMB'000	Exclusive medicine distribution right RMB'000	Medicine production licenses RMB'000	Patents and others RMB'000	Total RMB'000
As at 31 December 2019							
Cost	56,453	13,398	9,223	7,740	126,000	4,971	217,785
Accumulated amortisation	-	(11,401)	(8,496)	(2,938)	(17,631)	(2,431)	(42,897)
Accumulated impairment	-	-	-	(4,802)	-	-	(4,802)
Net book amount	56,453	1,997	727	-	108,369	2,540	170,086
Six months ended 30 June 2020							
Opening net book amount	56,453	1,997	727	-	108,369	2,540	170,086
Addition	-	-	53	-	-	-	53
Amortisation charge	-	(195)	(256)	-	(3,956)	(756)	(5,163)
Closing net book amount	56,453	1,802	524	-	104,413	1,784	164,976
As at 30 June 2020							
Cost	56,453	13,398	9,276	7,740	126,000	4,971	217,838
Accumulated amortisation	-	(11,596)	(8,752)	(2,938)	(21,587)	(3,187)	(48,060)
Accumulated impairment	-	-	-	(4,802)	-	-	(4,802)
Net book amount	56,453	1,802	524	-	104,413	1,784	164,976

Note:

Management has assessed and concluded that no provision for impairment of goodwill has to be recognised as of 30 June 2020 (30 June 2019: Nil).

Notes to the Interim Condensed Consolidated Financial Information

17. OTHER NON-CURRENT ASSETS

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Prepayment for purchases of intangible assets	6,557	6,827
Prepayment for construction of property, plant and equipment	8,666	10,179
Payment for acquisition of a subsidiary (note)	4,000	–
	19,223	17,006
Impairment on prepayment for purchases of intangible assets	(5,094)	(2,831)
Total other non-current assets	14,129	14,175

Note:

On 8 April 2020, Beijing Outsell Health Product Development Co., Ltd. (“**Beijing Outsell**”) entered into an equity transfer agreement with the owner of Weihai Shitongyuan Biological Technology Co., Ltd. (“**Weihai Shitongyuan**”), pursuant to which Beijing Outsell has conditionally agreed to purchase and the owner of Weihai Shitongyuan has conditionally agreed to transfer 51% of Weihai Shitongyuan’s equity interest through cash injection of RMB16,500,000 (the “**Proposed Equity Transfer**”).

As at 30 June 2020, RMB4,000,000 has been paid by Beijing Outsell as a part of cash consideration. The Proposed Equity Transfer is not yet completed as of the issuance date of this interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

18. NON-CONTROLLING INTERESTS (“NCI”)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are post inter-company eliminations.

Summarised balance sheet

	Zhongshan Wanhan Pharmacy Co., Ltd. ("Zhongshan Wanhan")		Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("Zhongshan Wanyuan")	
	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Current assets	250,941	148,750	8,230	36,891
Current liabilities	(99,343)	(74,737)	(3,847)	(37,722)
Net current assets/(liabilities)	151,598	74,013	4,383	(831)
Non-current assets	208,823	187,721	54,656	55,597
Non-current liabilities	(90,370)	(68,494)	(25,663)	(21,943)
Net non-current assets	118,453	119,227	28,993	33,654
Net assets	270,051	193,240	33,376	32,823
NCI	132,325	94,688	16,354	16,083

Summarised statement of comprehensive income

	Zhongshan Wanhan six months ended 30 June		Zhongshan Wanyuan six months ended 30 June	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	218,509	66,000	–	–
Profit for the year	76,811	10,427	553	501
Other comprehensive income	–	–	–	–
Total comprehensive income	76,811	10,427	553	501
Profit allocated to NCI	37,637	5,329	271	246
Dividends paid to NCI	–	–	–	–

Notes to the Interim Condensed Consolidated Financial Information

19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Associate	–	–
Joint ventures	79,152	79,276
	79,152	79,276

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Associate	–	(1,642)
Joint ventures (Note)	(124)	(9,944)
	(124)	(11,586)

Note:

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Beginning of the period	79,276	94,019
Disposals	–	(3,941)
Loss for the period	(124)	(9,944)
End of the period	79,152	80,134

Notes to the Interim Condensed Consolidated Financial Information

20. INVENTORIES

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Raw materials and packaging materials	36,864	15,550
Work in progress	4,545	2,443
Finished goods	53,732	42,191
	95,141	60,184
Less: provision for impairment	–	–
	95,141	60,184

21. TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables	81,785	140,182
Less: Allowance for doubtful debts	(16)	(509)
	81,769	139,673

- (a) The Group allows a credit period of 15 – 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 2020 RMB'000	31 December 2019 RMB'000
0 to 90 days	80,576	137,321
91 to 180 days	605	795
181 to 365 days	492	1,075
Over 365 days	96	482
	81,769	139,673

Notes to the Interim Condensed Consolidated Financial Information

21. TRADE AND BILLS RECEIVABLES (Continued)

- (b) As at 30 June 2020, bills receivable amounted to RMB4,095,000 (31 December 2019: RMB5,187,000) were all bank acceptance notes with maturity date within 6 months and were classified as financial assets measured at fair value through other comprehensive income (Note 6.3).

During the six months ended 30 June 2020, bills receivables of RMB13,934,000 (2019: RMB23,994,000) have been endorsed to certain suppliers as the Group's settlement for certain purchases of raw materials and advertisement costs.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Prepayments for advertisement	5,991	12,347
Prepayments for promotional fee	44,475	2,991
Prepayments to suppliers	7,962	24,452
Other receivables	15,633	68,824
Interest receivables	33	725
Others	1,547	2,070
	75,641	111,409

23. RIGHT-OF-USE ASSETS

	As at	As at
	30 June 2020 RMB'000	31 December 2019 RMB'000
Land use rights (note (a))	104,094	105,425
Sales and leaseback property (note (b))	1,064	1,418
Office premises and staff quarters	8,661	7,714
Leased vehicles	239	253
	114,058	114,810

Notes to the Interim Condensed Consolidated Financial Information

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

- (a) For the six months ended 30 June 2020, the Group has no addition and disposal of land use rights.

For the six months ended 30 June 2019, the Group has disposed of land use rights of approximately RMB860,000.

For the six months ended 30 June 2020, the depreciation of land use rights amounted to approximately RMB1,331,000 (2019: RMB1,441,000).

As at 30 June 2020, land use rights with the carrying amounts of approximately RMB6,140,000 (31 December 2019: RMB6,224,000), RMB18,935,000 (31 December 2019: RMB19,690,000) and RMB17,882,000 (31 December 2019: RMB 18,101,000) have been pledged as the securities for the guarantee of the Group's bank borrowing of RMB70,000,000 (2019: RMB50,000,000), RMB46,728,190 (2019: RMB13,800,000) and RMB20,000,000 (2019: RMB20,000,000) (Note 26(a)).

- (b) As at 30 June 2020, the right-of-use assets and lease liabilities associated with the property under the sales and leaseback arrangement amounted to approximately RMB1,064,000 (31 December 2019: RMB1,418,000) and RMB7,510,000 (31 December 2019: RMB10,374,000) respectively.

24. ASSETS CLASSIFIED AS HELD FOR SALE

On 8 December 2019, Beijing Outsell and a third party (the "**Purchaser**") entered into a framework agreement (the "**Framework Agreement**"), pursuant to which Beijing Outsell agreed to dispose of and the Purchaser agreed to purchase all equity interests of Beijing Shenhuibiyuan Cloud Computing Technology Co., Ltd. (the "**Target Company**"), which will own buildings and facilities located in Fangshan District, Beijing.

According to the execution of the Framework Agreement, Beijing Outsell and the Purchaser has entered into the Equity Transfer Agreement on 14 August 2020, pursuant to which all parties agreed to proceed with the transaction on the basis of a consideration of RMB463 million plus the amount equivalent to the cash minus the total liabilities of the Target Company as indicated in its financial statements on the closing date (the "**Proposed Disposal**").

Notes to the Interim Condensed Consolidated Financial Information

24. ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

The Directors of the Group estimated that the Proposed Disposal would be completed in September 2020 and would result in a net gain amounting to approximately RMB66 million. Therefore, the buildings and facilities aforementioned were classified as assets held for sale and were presented separately in the consolidated balance sheet as at 30 June 2020 and 31 December 2019.

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Right-of-use assets	8,012	8,012
Investment properties	318,151	278,488
Total assets	326,163	286,500

25. SHARE CAPITAL

	Number of shares	Amount US\$	Share capital RMB'000
Ordinary shares of US\$0.00000833333 each			
<i>Authorised:</i>			
As at 30 June 2020 and 31 December 2019	6,000,000,000	50,000	341
Issued and fully paid:			
As at 30 June 2020 and 31 December 2019	1,630,207,820	13,585	94

Note:

As at 30 June 2020, 35,001,607 ordinary shares (31 December 2019: 35,201,567) of par value of USD0.00000833333 each were held by the Company for its restricted share award scheme (Note 31).

Notes to the Interim Condensed Consolidated Financial Information

26. BORROWINGS

As at 30 June 2020, the Group's borrowings were as follows:

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	98,400	63,800
Bank borrowing, unsecured (b)	3,000	3,000
	101,400	66,800
Included in non-current liabilities		
Bank borrowing, secured (a)	55,108	28,000
	55,108	28,000

- (a) Land use rights and buildings with carrying amounts of approximately RMB6,140,000 and RMB82,530,000 respectively have been pledged as the securities for the Group's bank borrowings of RMB70,000,000. This borrowing bear at fixed interest rates ranged from 4.35% – 4.78% per annum and the principals are due for repayment in May 2021.

Zhongshan Wanhan and Zhongshan Wanyuan's non-controlling shareholder, Ms. Peng Wei has been the guarantor of the Group's bank borrowings of RMB16,780,000. RMB6,780,000 of these borrowings bears fixed interest rate of 4.57% per annum and should be repaid in 2021, while remaining bank borrowings totalling RMB10,000,000 bear floating rate ranged from loan prime rate ("LPR") plus 0.2% to LPR plus 0.9% per annum and the principals are due for repayment in 2023.

In April 2020, the Group entered into a new loan facility under which total available amount was RMB50,000,000. As at 30 June 2020, RMB24,128,190 of the facility were drawn down. The bank borrowings bear floating rate ranged from LPR plus 0.15% to LPR plus 0.25% per annum, and are repayable in 10 annual instalment commencing in March 2021. Land use rights of approximately RMB18,935,000 have been pledged as the securities for the aforementioned bank borrowings. The land use rights also have been pledged as the securities for the Group's borrowings of RMB22,600,000. RMB7,500,000 and RMB7,500,000 bear fixed interest rate of 5.05% per annum and should be repaid in December 2020 and January 2021 respectively, and RMB7,600,000 bears floating rate of LPR plus 1.2025% per annum, and should be repaid in September 2022.

Land use rights and buildings of approximately RMB17,882,000 and RMB24,677,000 respectively have been pledged as the securities for borrowing of RMB20,000,000. The borrowing bears floating rate of LPR plus 1.2025% and the principal is due for repayment in October 2024.

- (b) The unsecured bank borrowings of RMB3,000,000 bear interests at fixed rate of 4.50% per annum and the principal is due for repayment in March 2021.

Notes to the Interim Condensed Consolidated Financial Information

27. DEFERRED INCOME TAX

Deferred income tax assets

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Beginning of the period	69,844	64,353
Credited/(charged) to profit or loss	10,430	(33,976)
End of the period	80,274	30,377

Deferred income tax liabilities

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Beginning of period	36,719	36,867
(Credited)/charged to profit or loss	(971)	217
End of period	35,748	37,084

Note:

The amount of offsetting deferred income tax assets and liabilities is RMB4,913,000 as at 30 June 2020 (31 December 2019: RMB4,602,000).

28. 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
	2020	2019
	RMB'000	RMB'000
0 to 90 days	69,706	46,978
91 to 180 days	179	2
Over 180 days	72	2,125
	69,957	49,105

Notes to the Interim Condensed Consolidated Financial Information

29. OTHER PAYABLES AND ACCRUED EXPENSES

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Accrued expenses	14,010	62,914
Taxes and surcharge payable	19,622	8,814
Payroll and welfare payable	40,385	25,533
Accrued sales rebate	17,801	34,128
Payable to suppliers for:		
– purchases of property, plant and equipment	64,579	52,701
– advertisement	14,405	2,658
Deposits received for a subsidiary to be disposed (Note 24)	93,766	92,397
Transaction cost payable in connection to disposal of a subsidiary	13,297	13,297
Advance rental payment to be paid back to a third party (Note)	–	20,000
Others	18,040	16,371
	295,905	328,813

Note:

The advance rental payment was paid back to the third party on 2 January 2020.

30. LEASE LIABILITIES

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Current lease liabilities	8,738	9,241
Non-current lease liabilities	6,415	8,327
Total lease liabilities	15,153	17,568

During six months ended 30 June 2020, the weighted average lessee's incremental borrowing rate applied to the recognition of lease liabilities was 5.59% (2019: 5.59%).

Notes to the Interim Condensed Consolidated Financial Information

31. 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 (the “**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		Total number of options
	Average exercise price (RMB)	Number of options	Average exercise price (HK\$)	Number of options	
As 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)
As 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
As at 1 January 2020	1.23	72,290,000	1.01	19,820,000	92,110,000
Granted	–	–	–	–	–
Lapsed	1.23	(72,290,000)	1.00	(1,200,000)	(73,490,000)
As at 30 June 2020	1.23	–	1.01	18,620,000	18,620,000
Exercisable as at 30 June 2020	1.23	–	1.01	18,620,000	18,620,000

Notes to the Interim Condensed Consolidated Financial Information

31. SHARE-BASED PAYMENTS (Continued)

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 2020, 35,001,567 (31 December 2019: 35,001,567) shares were held by the Trust and not yet granted to the Selected Participants.

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
As at 1 January 2019	35,201,567	200,000	35,401,567
Granted	–	–	–
Vested and transferred	–	(200,000)	(200,000)
As at 30 June 2019	35,201,567	–	35,201,567
As at 1 January 2020	35,001,567	200,000	35,201,567
Granted	–	–	–
Vested and transferred	–	(200,000)	(200,000)
As at 30 June 2020	35,001,567	–	35,001,567

32. DIVIDEND

The Board has resolved not to declare any dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Notes to the Interim Condensed Consolidated Financial Information

33. COMMITMENTS**(a) Capital commitments**

As at 30 June 2020, capital expenditure for property, plant and equipment as contracted for but not yet incurred amounted to approximately RMB11,635,000 (31 December 2019: RMB117,015,000).

As at 30 June 2020, capital investments contracted for but not yet incurred amounted to RMB22,290,000 (31 December 2019: RMB9,790,000).

(b) Operating lease commitments*The Group as lessee*

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 2020 RMB'000	31 December 2019 RMB'000
No later than 1 year	691	872
Later than 1 year and no later than 5 years	7	–
	698	872

The operating leases commitments 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.

34. 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 as below:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Salaries, bonus and other allowances	5,893	3,406
Share-based compensation	–	59
Pension cost – defined contribution plan	18	170
	5,911	3,635

35. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Other than the event as disclosed in Note 24, there is no other significant event occurred after the balance sheet date..

Other Information

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

As at 30 June 2020, 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 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⁾	837,255,216 ^{(1)(L)}	5,000,000 ^{(1)(L)}	51.36%
Ms. GAO Yan	Beneficial owner and interest of her spouse ⁽²⁾⁽³⁾	837,255,216 ^{(2)(L)}	5,000,000 ^{(2)(L)}	51.36%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	736,000 ^{(4)(L)}	600,000 ^{(4)(L)}	0.05%
Mr. REN Guangming	Beneficial owner	970,000 ^{(5)(L)}	600,000 ^{(5)(L)}	0.06%
Mr. HE Yuanping	—	—	—	—
Mr. FU Shula	Beneficial owner	200,000 ^{(6)(L)}	—	0.01%

Other Information

- (1) Mr. Zhao Yihong, executive Director, beneficially owns 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) 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 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) 4,000,000 options granted under the Share Option Scheme, which are beneficially owned by Mr. Zhao.
 - (3) The entire 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.
 - (4) Mr. Zhuo Fumin, non-executive Director, beneficially owns 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 2020. The percentage of interest in the columns includes the options granted under the Share Option Scheme.
- * The letter "L" denotes the person's long position in such Shares.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, so far as known to the Directors, persons (other than the Directors or chief executive of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Substantial Shareholders	Number of Shares	Approximate percentage of total issued Shares (%) ⁽³⁾
Foreshore Holding Group Limited ⁽¹⁾	816,259,176 ^(L)	50.07%
Sea Network Holdings Limited ⁽¹⁾	816,259,176 ^(L)	50.07%
TMF Trust (HK) Limited ⁽¹⁾	816,259,176 ^(L)	50.07%
Ms. PENG Wei ⁽²⁾	128,115,000 ^(L)	7.86%
Everyyoung Investment Holdings Limited ⁽²⁾	123,750,000 ^(L)	7.59%

- (1) The entire issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by TMF Trust (HK) Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.
- (2) The entire issued share capital of Everyyoung Investment Holdings Limited is directly owned by Ms. Peng Wei. Ms. Peng beneficially owns 4,365,000 Shares.
- (3) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 30 June 2020.

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

Save as disclosed above, as at 30 June 2020, 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.

Other Information

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 nil because the scheme ended upon all options lapsed during the six months ended 30 June 2020.

Details of specific category of options are as follows:

Options type	Date of grant	Share options granted	Vesting period	Exercise period	Exercise Price RMB	Fair value of option at grant date 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

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the six months ended 30 June 2020.

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.

Other Information

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 2020 (for the six months ended 30 June 2019: nil) in relation to share options granted under the Pre-IPO Share Option Scheme by the Company.

Other Information

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 shall not 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 HK\$	Fair value of option at grant date 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 2020:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2020	Granted during the period	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30/6/2020
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									
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
Fu Shula	—	—	—	—	—	—	—	—	—
				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	6,320,000	—	—	(700,000)	—	5,620,000
	27.10.2014	3rd	4 Years	—	—	—	—	—	—
	10.8.2015	4th	4 Years	—	—	—	—	—	—
	10.8.2015	5th	4 Years	—	—	—	—	—	—
	15.3.2016	6th	4 Years	500,000	—	—	(500,000)	—	—
	20.12.2016	7th	4 Years	—	—	—	—	—	—
				13,620,000	—	—	(1,200,000)	—	12,420,000
Total				19,820,000	—	—	(1,200,000)	—	18,620,000
Weighted average exercise price (HK\$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the period									18,620,000

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 2020. 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.

Other Information

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 credit of RMB42,000 for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB21,000) 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, with the opportunities 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 at nil consideration, and vested on 13 May 2013. On 28 June 2013, 2,546,715 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 2 September 2013.

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.

Other Information

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.

On 17 December 2019, 200,000 Shares were granted by the Company to a Selected participant at nil consideration, and vested on 17 January 2020.

As at 30 June 2020, 35,001,567 shares (31 December 2019: 35,201,567 shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized a total expense of RMB66,000 for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB59,000) 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.

Other Information

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the six months ended 30 June 2020 and outstanding at 30 June 2020:

Employees	Number of awarded shares
Outstanding as at 1 January 2020	200,000
Granted during the period	—
Vested during the period	(200,000)
Outstanding as at 30 June 2020	—

The closing price of the Company's shares immediately before 17 December 2019, the date of grant of the restricted shares, was HK\$0.360.

Save as disclosed above, during the six months ended 30 June 2020, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors had any right to subscribe for the securities of the Company, or had exercised any such right during the aforesaid period.

CORPORATE GOVERNANCE

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2020, 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 30 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 2020 and this interim report, the accounting principles and practices adopted by the Group and discussed the Group's internal controls and financial reporting matters.

Other Information

REVIEW OF INTERIM RESULTS

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2020 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 2020.

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 2020.

CHANGES IN THE INFORMATION OF DIRECTORS

Mr. REN Guangming ceased to be an independent director of NavInfo Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002405). Save as disclosed above, there has been no change in the information of the Directors from the date of the 2019 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 not to declare and pay any interim dividend for the six months ended 30 June 2020.

SUBSEQUENT EVENT

On 14 August 2020 (after trading hours), Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**"), BASIC VENTURE LIMITED ("**Basic Venture**"), the Company and Besunyen (Hong Kong) Co., Limited entered into the Equity Transfer Agreement, pursuant to which Beijing Outsell has conditionally agreed to sell and Basic Venture has conditionally agreed to purchase 100% equity interests in Beijing Shenhuibiyuan Cloud Computing Technology Company Limited (the "**Target Company**") for an estimated consideration of RMB463 million. The final consideration will be the amount of the estimated consideration plus the amount equivalent to the cash minus the total liabilities of the Target Company as indicated in the closing statements, which will be paid by Basic Venture entirely in cash. Upon the completion of the disposal, the Target Company will cease to be a subsidiary of the Company. For details, please refer to the announcement of the Company dated 14 August 2020 and the circular of the Company dated 28 August 2020.

On behalf of the Board

ZHAO Yihong

Chairman

Hong Kong, 31 August 2020