



碧生源控股有限公司
 Besunyen Holdings Company Limited
 (Incorporated in the Cayman Islands with limited liability)
 Stock Code: 926

2022 INTERIM REPORT



Corporate Profile

Besunyen Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is a big health enterprise group in the People’s Republic of China (the “**PRC**”), engaging in the research and development, production, sale and promotion of therapeutic teas, weight-loss medicines and other relevant products. The Group’s offline channels cover 31 provinces, autonomous regions and municipalities across the country, and products are sold through 35 online platforms.

Beijing Outsell Health Product Development Co., Ltd. (“**Outsell Health**”) under the Group is the largest therapeutic tea enterprise in the PRC, which has launched Besunyen Detox Tea (碧生源牌常潤茶), Besunyen Slimming Tea (碧生源牌常菁茶) and Besunyen Fit Tea (碧生源牌纖纖茶) (collectively, the “**Three Teas**”) and other series of therapeutic tea products successively for more than 20 years. The production base of Outsell Health is located in Fangshan District, Beijing. Its production plant and production process are in compliance with the national GMP standards, and the products of Outsell Health have passed the certifications of ISO9001, ISO22000 and HACCP. As a high-tech enterprise in Beijing, Outsell Health has the C24 tea bag high-speed machine introduced from IMA, an Italian company, allowing inner and outer part of a bag shaped up at the same time and completing the bag production process automatically. Outsell Health uses natural Chinese herbs and tea leaves as raw materials to research, develop, formulate and produce its products, providing safe, effective, convenient-to-use and affordable health products for those who have needs in aspects such as laxative and weight management or who are mildly affected by such problems.

Zhongshan Wanhan Pharmacy Co., Ltd. (“**Zhongshan Wanhan**”) and Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (“**Zhongshan Wanyuan**”, together “**Zhongshan Wanhan and Wanyuan**”), subsidiaries of the Group, are mainly engaged in the research and development, production and sale of active pharmaceutical ingredients (APIs) and preparations including Orlistat weight-loss capsules, Oseltamivir and eye drops. The production plant and production process of Zhongshan Wanhan are in compliance with the national GMP standards. It has a sound quality management system as well as software and hardware facilities that meet the demands of medicine research, development and production. Zhongshan Wanhan is also equipped with various production lines for medicines in different dosage forms, including hard capsule and film agent, and is capable of producing APIs. Zhongshan Wanhan and Wanyuan have passed the certification of intellectual property management system, and are intellectual property demonstration enterprises and high-tech enterprises in Guangdong Province.

Henan Xueyinghua Pharmaceutical Co., Ltd. (“**Xueyinghua**”), a subsidiary of the Group, is located in Zhoukou, Henan Province. Its production plant and production process are in compliance with the national GMP standards. Xueyinghua is mainly engaged in the research and development, production and sale of products in three main dosage forms, namely soft capsules, hard capsules and tablets, including Xinnaoqing soft capsules, garlic oil soft capsules and compound vitamin U capsules, all of which are innovative medicines. It currently owns a total of 53 medicine approvals.

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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

Mr. Ren Guangming
Mr. He Yuanping
Mr. Fu Shula

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGIC INVESTMENT COMMITTEE

Mr. Zhuo Fumin *(Chairman)*
Mr. Zhao Yihong
Mr. He Yuanping

COMPANY SECRETARY

Mr. Au Lap Ming, *CPA, FCG, HKFCG*

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Corporate Information

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Financial Highlights

THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2022 was RMB460.1 million, representing a decrease of 31.4% as compared with the revenue of RMB670.7 million for the same period of 2021.

The gross profit of the Group for the first half of 2022 amounted to RMB274.5 million, representing a decrease of 39.8% from the gross profit of RMB455.9 million for the same period of 2021. The gross profit margin of the Group was 59.7% for the first half of 2022, representing a decrease of 8.3 percentage points from the gross profit margin of 68.0% for the same period of 2021.

The total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2022 were RMB271.7 million, representing a decrease of 31.8% as compared with the total operating expenses of RMB398.5 million for the same period of 2021.

The Group recorded a total comprehensive loss of RMB9.1 million for the first half of 2022, compared with the total comprehensive income of RMB56.3 million for the same period of 2021.

The total comprehensive loss attributable to owners of the Company for the first half of 2022 was RMB6.6 million (for the same period of 2021: the total comprehensive income attributable to owners of the Company was RMB26.4 million). The basic and diluted losses per share attributable to owners of the Company for the first half of 2022 were both RMB16.25 cents (for the same period of 2021: the basic and diluted earnings per share attributable to owners of the Company were both RMB66.26 cents).

Management Discussion and Analysis

BUSINESS REVIEW

In the first half of 2022, given the unexpected factors such as the rapid spread of Omicron variant in the country and the complex and volatile international situation, the downward pressure on the domestic economy increased. According to the national economic operation data released by the National Bureau of Statistics on 15 July 2022, the GDP of China increased by 2.5% compared with the same period last year, showing a slower growth for the first half of the year. In the consumer market, the total retail sales of consumer goods in China in the first half of 2022 decreased by 0.7% compared with the same period last year, indicating low consumer confidence and suppressed consumption willingness.

Scattered, widely spread and frequent outbreaks characterised the epidemic of China in the first half of the year. Beijing, Shanghai, Shandong, Shaanxi, Jilin and other places adopted strict measures to contain the situation, which affected the Group's production, distribution, and sales to a considerable extent. As for production, during the period between the end of April to mid-June 2022, the Group's Fangshan production base was suspended for a long period of 53 days in accordance with the local epidemic prevention and control requirements, which caused certain pressure on the output of therapeutic teas, the key products of Besunyen, and led to a decline in revenue from related products in the short term. Zhongshan Wanhan Pharmacy Co., Ltd., Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. and Henan Xueyinghua Pharmaceutical Co., Ltd. under the Group were also affected to varying degrees. At present, the production bases of the Group above have resumed normal production and operation according to the local resumption policies. Regarding logistics, disruption to cross-regional transport caused interruption in logistics, resulting in the inability to deliver the products of the Group to terminals in a timely manner and exposing the Group to the backlog of goods and other related risks. Interruption in courier services in some regions also had a certain impact on the Group's online business. To ensure delivery, the Group closely monitored the development of the pandemic, adjusted its logistics providers in a timely manner, and selected courier services with better timeliness, which led to a higher logistics cost while digesting the backlogs. As for marketing and sales, due to the travel restrictions imposed during outbreaks, the normal operation of the Group's offline business was impacted to a certain extent. In this regard, the offline sales team of the Group actively linked up with O2O platforms to try out the "online + offline" dual sales model and carried out live streaming and other activities on distributors' platforms.

Due to market changes and price competition, the overall sales scale of Orlistat products decreased, and the sales scale and income level of the Group's Orlistat-related products all fell significantly as compared with the same period last year. As such, the Group optimised the cost of Orlistat and compressed marketing and promotion expenses on the one hand while adopting a sustainable pricing mechanism to maintain the market position of its key products on the other. However, the smaller sales scale and the offset policies of platforms led to a decline in the profit level of Orlistat-related products.

Management Discussion and Analysis

Affected by the unfavourable factors above, in the first half of 2022, revenue of the Group amounted to RMB460.1 million, representing a decrease of 31.4% compared with the same period last year, of which revenue from the “Three Teas” (Detox Tea, Slimming Tea and Fit Tea) amounted to RMB161.0 million, representing a decrease of 21.6% compared with the same period last year, and revenue from weight-loss medicines amounted to RMB134.4 million, representing a decrease of 52.9% compared with the same period last year. To this end, the Group adhered to a sound operating strategy, focused on improving corporate management, and reasonably compressed operating costs by optimising its organisational structure, adjusting the principal place of business, and reducing advertising expenses in the short term. Meanwhile, the Group continued to explore new business growth drivers and made attempts in New Retail, cross-border e-commerce, and sales of Xueyinghua products proactively. However, the projects are still in the initial stage of development and there is room for further deepening and expansion.

STRENGTHENING THE REFINED MANAGEMENT OF OFFLINE CHANNELS AND OPENING UP A NEW BATTLEFIELD BEING LIVE-STREAMING COMMERCE

The Group has a well-established offline sales network and maintains its advantage in terms of channels in the offline market by continuously strengthening the building of its sales team. In the first half of 2022, on the principle of “top-down, flat and efficient management approach”, the OTC Business Division optimised and adjusted the organisational structure and market segmentation, whereby the nine major battlefields were reorganised into three working groups and the development of end market was enhanced. As a result, it was able to obtain the front-line information quickly. The OTC Business Division also adjusted the sales strategy in real time, and completed the management of product batch numbers. For the channel expansion, while deepening the cooperative and symbiotic relationship with the NKA (National Key-Account) chain and the LKA (Local Key-Account) chain, the Group was attentive to regional small and medium-sized chains and single stores. Through the refined management, the Group strived to extend the offline market coverage to achieve sales goal.

DEEPENING THE E-COMMERCE ORGANISATIONAL AND MANAGEMENT STRUCTURE AND STABILISING THE PRICE MANAGEMENT MECHANISM

In the first half of 2022, the E-commerce Business Division continued to deepen its matrix organisational and management structure. Focusing on the three business lines, namely, the “Four Teas” (Detox Tea, Slimming Tea, Fit Tea and Relief Tea), medicines and new products, the E-commerce Business Division coordinated and deployed the marketing strategies for each e-commerce platform, store and business unit, devised the layout of each product line and formulated a uniform pricing mechanism. The E-commerce Business Division carried out the refined management of marketing and sales expenses, and paid attention to operating results and avoiding internal competition. Good results had been achieved in the “3 • 18”, “6 • 18” and other e-commerce festival activities held in the first half year. At the same time, the E-commerce Business Division kept on strengthening the talent training and professional development of the four general platforms: live-streaming platform, member platform, content platform and promotion platform, providing multi-dimensional support for its business operations.

Management Discussion and Analysis

CATERING TO THE MARKETING TREND AND ESTABLISHING KUAISHOU BUSINESS DIVISION

As short video and live-streaming marketing are becoming more and more popular, in order to cater to this new development trend, the Group established Kuaishou Business Division in the first half of 2022. With the historical origin and good reputation of Besunyen products, as well as the strategic partnership between the Group and Kuaishou platform, Besunyen therapeutic teas quickly gained the attention of the KOLs of such platform. The cooperation with Kuaishou platform increased the product exposure effectively. Not only the number of supporters is rising continuously, new customers has also been flowed to the store.

CONVEYING THE IDEA OF “HEALTHY LIVING AND GREEN EXERCISE” AND CONTINUOUSLY PROMOTING BRAND REJUVENATION

The Group is committed to the big health industry and the conveyance of health idea to the public. The Spring Festival coincided with the Beijing Winter Olympics in 2022. Through the video of new-year wishes by the Olympic champions, the Group conveyed the brand idea of “healthy living and green exercise”, which has brought a high social communication flow to Besunyen. On brand rejuvenation, the “Youth Campus” remains to be the focus of the Group, and the Group establishes emotional links with the younger group, builds a good reputation and cultivates long-term potential customers by penetrating into the life scenarios of the younger generation. Till the first half of 2022, Besunyen has joined hands with the “Academy Award” for 14 years and continued to meet over a million students, unceasingly absorbing fresh and young creative vitality.

ACTIVELY PROMOTING NEW PRODUCT DEVELOPMENT AND IMPROVING THE INTELLECTUAL PROPERTY MANAGEMENT SYSTEM

With a view to consolidating the position of the Group’s products in the market, in the first half of 2022, the Group continued to implement the “One Focus and Two Dimensions” product strategy in terms of research and development, focusing on the two major healthcare functional areas, namely “weight loss and weight management” and “laxative and gastrointestinal health”, and pushed forward the research and development of a variety of new products as planned. The research and development centre focused on the maintenance of the existing health food approvals. According to the latest regulations and policies, it further improved product safety and quality by strengthening experimental research, optimising process parameters, improving product technology, standardising product descriptions, etc. The Group has obtained approvals for a number of products during the first half year.

SOCIAL WELFARE

Over the years, the Group has been actively fulfilling its social responsibilities and pursuing the concept of sustainable development. It partnered with Beijing Charity Association to establish the “Besunyen Special Charity Fund” for public welfare undertakings, including carrying out social assistance activities, providing support to the underprivileged and playing a supplementary role in social security. Meanwhile, it has made several donations to China Green Carbon Foundation and Beijing Green Sunshine Environmental Protection Public Welfare Foundation, contributing to the maintenance of ecological balance and ecological security. The Group has been awarded the “China Social Responsibility Public Welfare Charity Award” and “China Corporate Social Responsibility — Best Charity Demonstration Award” for many times.

Management Discussion and Analysis

OUTLOOK

On 27 April 2022, the State Council issued the “14th Five-Year Plan for National Health”, the promulgation of which reflects the Chinese government’s emphasis on the safety and physical health of people, and also provides an important guidance for the future development of the big health industry.

At present, both challenges and opportunities exist in the big health industry, and there is still ample room for the development of the market of “weight loss and weight management”. According to the Dietary Guidelines for Chinese Residents (2022), over half (50.7%) of Chinese adult residents are overweight or obese, and the resulting problems of cardiovascular, respiratory, endocrine and other multi-system diseases have become increasingly serious. To date, a large number of new medicines related to “weight loss and weight management” have not been approved in China, and Orlistat is still the dominant product with high safety and obvious efficacy in the weight-loss medicine market. According to the statistics of Alibaba “Business Consultant”, in the first half of 2022, the aggregate market share of Besunyen Orlistat and LARLLY Orlistat was 28.0%, retaining the number one spot in the market segment of Orlistat on Alibaba’s e-commerce platforms.

In respect of therapeutic teas, the Group also maintained its leading market position. According to the latest report issued by National Medical Products Administration Southern Medicine Economic Research Institute (“**SMERI**”), in 2021, based on the retail prices of products with laxative function and weight-loss function in retail pharmacies across the country, the market share of the Group’s Besunyen Slimming Tea and Besunyen Detox Tea were 22.7% and 12.7% respectively, staying at the forefront in the market.

Looking forward to the second half of the year, in the face of various unfavourable factors such as the possible recurrence of the pandemic, the time required for consumption recovery and the increasingly fierce market competition, the Group will follow the general work principle of “making progress while maintaining stability”. While continuing to cultivate the sectors of “weight loss and weight management” as well as “laxative and gastrointestinal health”, the Group will focus on investment in research and development to grasp the market development trend and meet the consumption needs of the young generation, thereby enhancing the competitiveness of the products of Besunyen. Meanwhile, the Group will strive to create new growth momentum for the Group by expanding its multi-channel deployment, refining offline operation while innovating e-commerce business and exploring New Retail business. As a domestic brand focusing on the health industry for twenty-two years, the Group will also increase its efforts in brand building and enhance the brand awareness and social influence of Besunyen through scene-based marketing, social communication and rejuvenation. The Group will pay close attention to the ever-changing market and consumption needs, continue to carry out product development and brand building, and explore the big data resources accumulated in years of operation and customer service, in a bid to support performance growth and gradually create the big health ecosystem of Besunyen for meeting the ever-growing national needs for health.

Management Discussion and Analysis

FINANCIAL REVIEW

	For the six months ended 30 June			
	2022		2021	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Revenue:				
Besunyen Detox Tea	62,867	13.7%	78,948	11.8%
Besunyen Slimming Tea	66,503	14.4%	87,360	13.0%
Besunyen Fit Tea	31,612	6.9%	38,993	5.8%
Weight-loss medicines (Note)	134,403	29.2%	285,216	42.5%
Other products (Note)	85,327	18.5%	99,992	14.9%
Other medicines (Note)	79,387	17.3%	80,186	12.0%
Total	460,099	100%	670,695	100%

Note: Weight-loss medicines mainly consist of Besunyen Orlistat, other products mainly consist of health food and other tea products, and other medicines mainly consist of eye drops and finished medicines.

The Group's revenue in the same period of 2021 was RMB670.7 million, and the revenue in the first half of 2022 was RMB460.1 million, representing a decrease of 31.4%. In particular, revenue from the Three Teas decreased by 21.6% from RMB205.3 million in the same period of 2021 to RMB161.0 million in the first half of 2022, revenue from weight-loss medicines decreased by 52.9% from RMB285.2 million in the same period of 2021 to RMB134.4 million in the first half of 2022, revenue from other products decreased by 14.7% from RMB100.0 million in the same period of 2021 to RMB85.3 million in the first half of 2022, while revenue from other medicines decreased by 1.0% from RMB80.2 million in the same period of 2021 to RMB79.4 million in the first half of 2022.

The decrease in revenue for the first half of 2022 as compared to the same period of 2021 was mainly due to: (i) affected by the new wave of the COVID-19 pandemic, some cities have adopted strict pandemic prevention and control measures, which have a certain impact on the Group's marketing business and logistics distribution; and (ii) affected by market changes and price competition, the shipment volume of weight-loss medicines, the major products of the Group, in the first half of the year decreased by over 50% compared with the same period last year, while the average settlement unit price also decreased.

Management Discussion and Analysis

Cost of Sales, Gross Profit and Gross Profit Margin

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Cost of sales	185,563	214,838
Gross profit	274,536	455,857
Gross profit margin	59.7%	68.0%

The Group's cost of sales decreased by 13.6% from RMB214.8 million in the same period of 2021 to RMB185.6 million in the first half of 2022, and the gross profit margin decreased from 68.0% in the same period of 2021 to 59.7% in the first half of 2022, mainly due to the decrease in costs caused by the decrease in revenue and the decrease in the percentages of revenue of the products with higher gross profit margin, resulting from the product diversification.

Selling and Marketing Expenses

	For the six months ended 30 June		2021	
	2022 RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Advertising costs	3,075	0.7%	53,796	8.0%
Marketing and promotion expenses	77,009	16.7%	107,599	16.0%
Employee benefit expenses	63,104	13.7%	79,166	11.8%
Others	22,594	4.9%	29,239	4.4%
Total	165,782	36.0%	269,800	40.2%

Selling and marketing expenses of the Group decreased from RMB269.8 million in the same period of 2021 to RMB165.8 million in the first half of 2022.

The advertising costs in the first half of 2022 decreased by RMB50.7 million as compared to the same period of 2021, mainly due to the decrease in the advertising activities.

The marketing and promotion expenses in the first half of 2022 decreased by RMB30.6 million as compared to the same period of 2021, mainly due to the decrease in the expenses of marketing and promotion via e-commerce platform.

In the first half of 2022, employee benefit expenses decreased by RMB16.1 million as compared to the same period of 2021, mainly due to the decrease in number of employees in sales department and the decrease in performance-based wages of employees in 2022.

Management Discussion and Analysis

Administrative Expenses

	For the six months ended 30 June			
	2022		2021	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Employee benefit expenses	31,772	6.9%	32,972	4.9%
Office expenses	2,041	0.4%	3,672	0.6%
Professional and consultation service fees	9,159	2.0%	17,719	2.6%
Entertainment and travelling expenses	3,089	0.7%	4,878	0.7%
Others	32,112	7.0%	15,234	2.3%
Total	78,173	17.0%	74,475	11.1%

Administrative expenses of the Group increased by 5.0% from RMB74.5 million in the same period of 2021 to RMB78.2 million in the first half of 2022, which was mainly due to that the fixed overhead cost was converted to administrative expenses during the suspension of operation of the Group's main production bases as affected by the pandemic.

Research and Development Costs

	For the six months ended 30 June			
	2022		2021	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Research and development costs	27,711	6.0%	54,206	8.1%

The research and development costs in the first half of 2022 decreased by RMB26.5 million as compared to the same period of 2021, mainly due to the decrease in the Group's outsourced research and development expenses and the investment in research and development materials.

Share of Losses of Investments Accounted for Using the Equity Method

The Group's share of losses of investments accounted for using the equity method for the first half of 2022 was RMB4.3 million, which is mainly comprised of the loss of RMB7.3 million from the change in fair value of shares held by the Group's joint venture Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) ("Yuanyuan Liuchang Fund") in Chaoju Eye Care Holdings Limited.

Taxation

Income tax expenses of the Group in the first half of 2022 was RMB14.0 million, as compared to the income tax expenses of RMB9.7 million in the same period of 2021, and the increase in the income tax expenses was due to the utilisation of deductible losses recognised in the previous year.

Management Discussion and Analysis

Total Comprehensive Loss for the Period

Due to the factors set out above, the Group recorded a total comprehensive loss of RMB9.1 million in the first half of 2022 (for the same period of 2021: total comprehensive income of RMB56.3 million).

Liquidity and Capital Resources

In the first half of 2022, 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 2022 and 2021:

	For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Net cash inflow/(outflow) from operating activities	9,505	(67,558)
Net cash inflow/(outflow) from investing activities	85,016	(121,952)
Net cash outflow from financing activities	(49,463)	(66,676)
	45,058	(256,186)
Effect of foreign exchange rate changes on cash and cash equivalents	559	(380)
Net increase/(decrease) in cash and cash equivalents	45,617	(256,566)

In the first half of 2022, the Group's net cash inflow from operating activities amounted to RMB9.5 million, which was mainly attributable to the operating activities during the year (for the same period of 2021: net cash outflow from operating activities amounted to RMB67.6 million). In the first half of 2022, the Group's net cash inflow from investing activities was RMB85.0 million, which was mainly due to the disposal of land use rights and buildings held by Shanghai Bisheng Property Management Co., Ltd. ("**Bisheng Property**"), an indirect wholly-owned subsidiary of the Company (for the same period of 2021: net cash outflow from investing activities was RMB122.0 million). In the first half of 2022, the Group's net cash outflow from financing activities amounted to RMB49.5 million, which was mainly due to the repayment of borrowings and distribution of dividends (for the same period of 2021: net cash outflow from financing activities amounted to RMB66.7 million).

Management Discussion and Analysis

Financial Assets Measured at Fair Value through Profit or Loss

As at 30 June 2022, the Group's financial assets measured at fair value through profit or loss amounted to RMB47.1 million (31 December 2021: financial assets measured at fair value through profit or loss amounted to RMB38.7 million), which mainly included:

(i) The Group's investment to Vstar Investment Fund Limited Partnership amounted to approximately RMB15.3 million; (ii) the Group's investment in ERX Pharmaceuticals Inc. amounted to approximately RMB19.4 million; and (iii) the Group's investment to Nanjing Jinbi Venture Investment Management Partnership (Limited Partnership) amounted to approximately RMB12.4 million.

Bank Balances and Cash

The Group's bank balances and cash, comprising cash and cash equivalents, term deposits and restricted bank deposits, amounted to RMB382.2 million as at 30 June 2022 (31 December 2021: RMB425.0 million).

Borrowings and Pledge of Assets

As at 30 June 2022, the Group has bank borrowings and other borrowings of RMB231.7 million, of which the bank borrowings bear interest rate ranging from 3.70% to 6.80% (31 December 2021: RMB243.7 million, bearing interest rate ranging from 3.85% to 6.80%).

As at 30 June 2022, the Group has bank borrowings of RMB181.1 million pledged by properties with total book value of RMB152.2 million and land use rights with total book value of RMB51.1 million to banks and guarantee companies (as at 31 December 2021: the Group had bank borrowings of RMB191.1 million pledged by properties with total book value of RMB149.9 million and land use rights with total book value of RMB51.7 million to banks and guarantee companies).

On 14 January 2022, the Group signed a financial leasing contract with a third-party financial leasing company, pursuant to which the Group received approximately RMB4.79 million through the sale and leaseback arrangement of a machine. Such money is equivalent to borrowing pledged by the aforementioned machine under the accounting policy.

Capital Expenditure

In the first half of 2022, the capital expenditure of the Group amounted to RMB28.3 million (for the same period of 2021: RMB99.2 million), mainly including plant construction expenditure.

Management Discussion and Analysis

Inventories

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

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Raw materials and packaging materials	39,441	38,759
Work in progress	5,100	2,279
Finished goods	89,206	95,303
Total inventories	133,747	136,341

Risks in Foreign Exchange Rate

Almost all of the revenue, costs of sales and 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 also denominated in Renminbi. Since Renminbi is the functional currency of the Group, risks in foreign exchange rate mainly come from the assets and liabilities denominated in Hong Kong dollar and US dollar.

For the six months ended 30 June 2022, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (for the same period of 2021: Nil).

Share Consolidation

On 18 March 2022, the Board proposed to implement the share consolidation on the basis that every 40 ordinary shares of USD0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of USD0.0003333332 each (the "**Share Consolidation**").

The Share Consolidation was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 13 April 2022 and became effective on 19 April 2022. Upon the completion of the Share Consolidation, the number of issued shares of the Company was changed from 1,630,207,820 to 40,755,195, and the shares will continue to be traded in board lot size of 1,000 Shares.

Please refer to the announcements of the Company dated 18 March 2022 and 13 April 2022, and the circular of the Company dated 29 March 2022 for details.

Management Discussion and Analysis

Material Acquisitions or Disposals

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the first half of 2022.

Gearing Ratio

As at 30 June 2022, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 33.7% (31 December 2021: 35.7%).

Contingent Liabilities and Guarantees

As at 30 June 2022, the Group had no material contingent liabilities and guarantees (31 December 2021: Nil).

Capital Commitments

As at 30 June 2022, capital expenditure for property, plant and equipment as contracted for but not yet incurred amounted to RMB17.9 million (31 December 2021: RMB24.9 million).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2022, the Group had 1,431 employees in mainland China and Hong Kong (31 December 2021: 1,626 employees). As at 30 June 2022, the labour costs (including Directors' remunerations) of the Group were RMB118.8 million (for the same period of 2021: RMB135.1 million). Employee remuneration is determined with reference to individual performance, work experience, qualification and prevailing industry practice. Apart from basic remuneration and statutory pension welfare scheme, employee 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, the purpose of which is intended to motivate staffs, and to encourage them to work hard to enhance the value and foster better long-term development of the Group.

The Group invests considerable efforts in continuous education and training for its employees, so as to keep enhancing the knowledge, skill and team spirit of employees. The Group often provides internal and external training courses to relevant staff members 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 17 to 46, 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 2022 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 notes, comprising significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 August 2022

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue	7	460,099	670,695
Cost of sales	8	(185,563)	(214,838)
Gross profit		274,536	455,857
Other income		11,259	10,727
Selling and marketing expenses	8	(165,782)	(269,800)
Administrative expenses	8	(78,173)	(74,475)
Research and development costs	8	(27,711)	(54,206)
Credit impairment losses		(549)	(1,040)
Fair value changes on investments measured at fair value through profit or loss	6	403	—
Other expenses	8	(813)	(5,538)
Other losses, net	9	(1,017)	(7,917)
Operating profit		12,153	53,608
Finance income	10	1,557	1,697
Finance costs	10	(4,441)	(3,156)
Finance costs, net	10	(2,884)	(1,459)
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	17	(4,329)	13,773
Profit before income tax		4,940	65,922
Income tax expenses	11	(14,050)	(9,666)
(Loss)/profit for the period		(9,110)	56,256
(Loss)/profit attributable to:			
— Owners of the Company		(6,621)	26,429
— Non-controlling interests		(2,489)	29,827
		(9,110)	56,256
Other comprehensive income		—	—
Total comprehensive (loss)/income for the period		(9,110)	56,256
Attributable to:			
— Owners of the Company		(6,621)	26,429
— Non-controlling interests	16	(2,489)	29,827
		(9,110)	56,256
(Losses)/earnings per share for the profit from continuing operations attributable to the ordinary equity holders of the Company (RMB cents)			
— Basic (losses)/earnings per share	12	(16.25)	66.26
— Diluted (losses)/earnings per share	12	(16.25)	66.26

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 2022 RMB'000	Audited As at 31 December 2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	395,767	401,486
Intangible assets	14	164,577	168,670
Right-of-use assets	23	80,223	103,675
Other non-current assets	15	18,397	12,191
Investments accounted for using the equity method	17	35,852	44,971
Financial assets measured at fair value through profit or loss	6, 18	47,059	38,656
Long-term bank deposits	22	120,000	170,000
Deferred income tax assets	26	63,568	77,905
Total non-current assets		925,443	1,017,554
Current assets			
Inventories	19	133,747	136,341
Trade receivables	20(a)	119,525	94,057
Bills receivable	6, 20(b)	11,426	2,974
Deposits, prepayments and other receivables	21	88,281	87,320
Restricted bank deposits		—	28,400
Short-term bank deposits	22	563	10,563
Cash and cash equivalents		261,659	216,042
		615,201	575,697
Assets classified as held for sale	27	—	48,881
Total current assets		615,201	624,578
Total assets		1,540,644	1,642,132
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	24	94	94
Share premium		913,393	913,393
Other reserves		340,274	340,274
Accumulated losses		(432,865)	(426,244)
		820,896	827,517
Non-controlling interests	16	200,884	227,873
Total equity		1,021,780	1,055,390

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited As at 30 June 2022 RMB'000	Audited As at 31 December 2021 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred government grants		41,830	33,348
Lease liabilities	30	10,026	21,877
Deferred income tax liabilities	26	38,110	42,274
Long-term borrowings	25	64,174	92,930
Other non-current liabilities		—	497
Total non-current liabilities		154,140	190,926
Current liabilities			
Trade and bills payables	28	13,776	40,727
Other payables and accrued expenses	29	148,786	151,813
Contract liabilities		21,041	31,469
Borrowings	25	167,492	150,750
Lease liabilities	30	9,756	21,057
Current income tax liabilities		3,873	—
Total current liabilities		364,724	395,816
Total liabilities		518,864	586,742
Total equity and liabilities		1,540,644	1,642,132

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					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Accumulated losses				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2022	94	913,393	340,274	(426,244)	827,517	227,873	1,055,390	
Total comprehensive loss for the period	—	—	—	(6,621)	(6,621)	(2,489)	(9,110)	
Total transactions with owners, recognised directly in equity:								
Dividends declared to Non-controlling interests (Note 16)	—	—	—	—	—	(24,500)	(24,500)	
Balance at 30 June 2022	94	913,393	340,274	(432,865)	820,896	200,884	1,021,780	
Balance at 1 January 2021	94	962,777	331,762	(280,402)	1,014,231	196,151	1,210,382	
Total comprehensive income for the period	—	—	—	26,429	26,429	29,827	56,256	
Total transactions with owners, recognised directly in equity:								
Dividends	—	(49,384)	—	—	(49,384)	—	(49,384)	
Balance at 30 June 2021	94	913,393	331,762	(253,973)	991,276	225,978	1,217,254	

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	
		2022	2021
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from/(used in) from operations		7,952	(61,326)
Income taxes paid		(4)	(8,556)
Interest received		1,557	2,324
Net cash inflow/(outflow) from operating activities		9,505	(67,558)
Cash flows from investing activities			
Payments for financial assets measured at fair value through profit or loss		(592,300)	(483,297)
Proceeds from disposals of financial assets measured at fair value through profit or loss		594,222	472,448
Payments for financial assets at amortised cost		—	(80,000)
Proceeds from disposals of financial assets at amortised cost		—	80,566
Placement of term deposits with initial term of over three months		—	(140,000)
Withdrawal of term deposits with initial term of over three months		60,701	143,750
Decrease in restricted bank deposits		—	5,658
Payments for investments measured at fair value through profit or loss		(8,000)	—
Distribution from a joint venture		4,790	4,018
Acquisition of a subsidiary		—	(26,990)
Payments for property, plant and equipment		(24,196)	(98,339)
Payments for intangible assets		(4,076)	(866)
Receipt of asset-related government grants		9,476	—
Proceeds from disposals of land use rights, property, plant and equipment		62	1,100
Proceeds from disposal of assets classified held for sale		44,337	—
Net cash inflow/(outflow) from investing activities		85,016	(121,952)
Cash flows from financing activities			
Proceeds from borrowings	25	100,040	82,000
Repayment of borrowings	25	(112,054)	(82,770)
Principal elements of lease payments		(9,404)	(15,461)
Bank loan interest and other finance costs paid		(4,525)	(4,892)
Dividends paid to shareholders of the Company	32	—	(45,553)
Dividends paid to non-controlling interests	16	(23,520)	—
Net cash outflow from financing activities		(49,463)	(66,676)

Interim Condensed Consolidated Statement of Cash Flows

	Note	Unaudited	
		Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
Net increase/(decrease) in cash and cash equivalents		45,058	(256,186)
Cash and cash equivalent at beginning of period		216,042	543,822
Exchange gain/(loss)		559	(380)
Cash and cash equivalents at end of period		261,659	287,256
Representing:			
— Cash at bank and financial institute and on hand		261,659	287,256

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 Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) 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 weight-loss 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 2022 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 17 August 2022.

2. SIGNIFICANT EVENT

The financial position and performance of the Group was particularly affected by the following events and transactions during the six months period ended 30 June 2022:

- (i) The revenue of the Group for the six months ended 30 June 2022 has been decreased significantly as compared to the same period last year, which is mainly due to: 1) affected by the new wave of the Coronavirus Disease 2019 (“**COVID-19**”) pandemic, some cities have adopted strict pandemic prevention and control measure, which have a certain impact on the Group’s marketing business and logistics distribution, and 2) affected by market changes and price competitions, the shipment volume of weight-loss medicines, the major products of the Group, decreased significantly while the average settlement unit price also decreased.
- (ii) On 18 March 2022, the Company’s Board of Directors proposed a share consolidation on the basis that every 40 ordinary shares of USD0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of USD0.0003333332 each (the “**Share Consolidation**”). The Share Consolidation was subsequently approved by the shareholders of the Company on 13 April 2022, and was completed on 19 April 2022.

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 2022 has been prepared in accordance with International Accounting Standard 34 ("**IAS 34**") "Interim Financial Reporting". The interim condensed consolidated financial information should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2021 (the "**2021 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 and up to date of approval of this unaudited interim condensed consolidated financial information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group has applied the following amended standards in the interim condensed consolidated financial information:

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to IAS 16
- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020
- Reference to the Conceptual Framework — Amendments to IFRS 3

The adoption of these amended standards 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 2022 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 2021 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 2021 Annual Financial Statements.

There have been no significant changes in the risk management policies since 31 December 2021.

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 2022, 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 bills receivable, while the financial assets measured at fair value through profit or loss represent Group's equity investments in funds and in a private company (Note 18). 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 2022:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2022				
Assets				
Financial assets measured at fair value through other comprehensive income	—	—	11,426	11,426
Financial assets measured at fair value through profit or loss	—	—	47,059	47,059

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 Group's financial assets that are measured at fair values for the six months ended 30 June 2022:

	Financial assets measured at fair value through profit or loss RMB'000	Financial assets measured at fair value through other comprehensive income RMB'000
Opening balance	38,656	2,974
Additions	600,300	45,364
Change in fair value	403	—
Disposals	(594,222)	(36,912)
Gains recognised in 'other losses, net' (Note 9)	1,922	—
Closing balance	47,059	11,426
Includes unrealised gains during the period recognised in profit or loss under 'other losses, net'	—	—

7. REVENUE AND SEGMENT INFORMATION

The executive directors of the Company, identified as the chief decision makers ("CODM") review the Group's internal reporting in order to assess performance and allocate resources.

The CODM has determined the operating segments based on these reports and assessed the manufacturing and sales of tea products and weight-loss and other medicines as separate reportable segments, namely the tea products segment and the weight-loss 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 2022 are as follows:

	Tea products segment RMB'000	Weight-loss and other medicines segment RMB'000	Total RMB'000
Total revenue	246,309	213,790	460,099
Inter-segment revenue	—	—	—
Revenue from external customers	246,309	213,790	460,099
Timing of revenue recognition			
At a point in time	246,309	213,790	460,099
Cost of sales	(65,872)	(119,691)	(185,563)
Gross profit	180,437	94,099	274,536
Selling and marketing expenses	(105,872)	(59,910)	(165,782)
Research and development costs	(4,177)	(23,534)	(27,711)
Segment results	70,388	10,655	81,043
Other income			11,259
Other losses, net			(1,017)
Administrative expenses			(78,173)
Credit impairment losses			(549)
Fair value changes on investments measured at fair value through profit or loss			403
Other expenses			(813)
Operating profit			12,153
Finance income			1,557
Finance costs			(4,441)
Finance costs, net			(2,884)
Share of losses of investments accounted for using the equity method			(4,329)
Profit before income tax			4,940
Income tax expenses			(14,050)
Loss for the period			(9,110)
Other segment information:			
Depreciation	(17,067)	(19,367)	(36,434)
Amortisation	(987)	(5,151)	(6,138)

Notes to the Interim Condensed Consolidated Financial Information

7. REVENUE AND SEGMENT INFORMATION (Continued)

The segment results for the six months ended 30 June 2021 are as follows:

	Tea products segment RMB'000	Weight-loss and other medicines segment RMB'000	Total RMB'000
Total revenue	305,293	365,402	670,695
Inter-segment revenue	—	—	—
Revenue from external customers	305,293	365,402	670,695
Timing of revenue recognition			
At a point in time	305,293	365,402	670,695
Cost of sales	(79,986)	(134,852)	(214,838)
Gross profit	225,307	230,550	455,857
Selling and marketing expenses	(178,428)	(91,372)	(269,800)
Research and development costs	(5,131)	(49,075)	(54,206)
Segment results	41,748	90,103	131,851
Other income			10,727
Other losses, net			(7,917)
Administrative expenses			(74,475)
Credit impairment losses			(1,040)
Other expenses			(5,538)
Operating profit			53,608
Finance income			1,697
Finance costs			(3,156)
Finance costs, net			(1,459)
Share of profits of investments accounted for using the equity method			13,773
Profit before income tax			65,922
Income tax expenses			(9,666)
Profit for the period			56,256
Other segment information:			
Depreciation	(16,035)	(14,589)	(30,624)
Amortisation	(390)	(4,468)	(4,858)

Notes to the Interim Condensed Consolidated Financial Information

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2022, the revenue of approximately RMB85,846,000 (six months ended 30 June 2021: RMB129,429,000) was derived from an e-commerce platform (“**Customer A**”), which took 18.7% (six months ended 30 June 2021: 19.3%) of the Group’s total revenues and was primarily attributable to the weight-loss 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 revenues.

8. EXPENSES BY NATURE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	3,276	(17,477)
Raw materials and consumables used	155,742	202,783
Employee benefit expenses	118,836	135,087
Marketing and promotion expenses	77,009	107,599
Advertising costs	3,075	53,796
Depreciation and amortisation	42,572	35,482
Researching and development outsource expenses	7,658	17,545
Professional and consulting service fees	9,159	17,719
Logistics expenses	10,586	11,528
Entertainment and travelling expenses	6,504	10,870
Rental expenses (Note)	895	3,604
Maintenance and testing costs	9,301	7,682
Office expenses	2,041	3,672
Stamp duties, property and other taxes	2,240	2,823
Others	9,148	26,144
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	458,042	618,857

Note:

Rental expenses derived from short-term leases and leases of low-value assets which are charged on a straight-line basis to profit or loss.

Notes to the Interim Condensed Consolidated Financial Information

9. OTHER LOSSES, NET

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Impairment loss on prepayment for an equity transaction (Note)	—	(4,000)
Donation	(1,231)	(2,451)
Change in fair value of financial assets measured at fair value through profit or loss (Note 6.3)	1,922	1,784
Net gain/(loss) on disposals of land use rights and property, plant and equipment	57	(423)
Net foreign exchange gain/(loss)	563	(730)
Others	(2,328)	(2,097)
	(1,017)	(7,917)

Note:

On 8 April 2020, Beijing Outsell Health Product Development Co., Ltd. (“**Beijing Outsell**”), a wholly owned subsidiary of the Group, entered into an equity transfer agreement (the “**Equity Transfer Agreement**”) with the independent third party, 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**”), and an advance payment of RMB4,000,000 has been made by Beijing Outsell as a part of cash consideration.

On 16 March 2021, Beijing Outsell terminated the Equity Transfer Agreement, and made the full provision for the prepayment of RMB4,000,000 considering the risk of recoverability.

Notes to the Interim Condensed Consolidated Financial Information

10. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Interest income from financial assets held for cash management purpose	(1,557)	(1,697)
Finance income	(1,557)	(1,697)
Interest expenses:		
— for borrowings	5,147	3,700
— for lease liabilities	672	691
Guarantee fee for bank borrowings	719	651
	6,538	5,042
Less: Amount capitalised (Note)	(2,097)	(1,886)
Finance costs	4,441	3,156
Finance costs, net	2,884	1,459

Note:

The rate used to determine the capitalisation of borrowing costs was the weighted-average interest rate applicable to the Group's general borrowings during the six months ended 30 June 2022, which was 4.14% (2021: 4.94%).

11. INCOME TAX EXPENSES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current income tax		
— Current income tax for the period	3,877	4,111
— Adjustments of prior year's PRC income tax	—	(2,211)
	3,877	1,900
Deferred income tax	10,173	7,766
	14,050	9,666

The Company is incorporated in the Cayman Islands and the Company's subsidiary, Besunyen Investment (BVI) Co., Ltd. is incorporated in the British Virgin Islands ("BVI") which are tax exempted according to the laws of the Cayman Islands and the BVI, respectively.

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.

Notes to the Interim Condensed Consolidated Financial Information

11. INCOME TAX EXPENSES (Continued)

In July 2020, Beijing Outsell obtained the High and New Technology Enterprise (“**HNTE**”) qualification for the three years from 2020 to 2022, the applicable income tax rate for the approved period is 15%.

In November 2020, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (“**Zhongshan Wanyuan**”) obtained the HNTE qualification for the three years from 2020 to 2022, the applicable income tax rate for the approved period is 15%.

In June 2022, Zhongshan Wanhan Pharmacy Co., Ltd. (“**Zhongshan Wanhan**”) obtained the HNTE qualification for the three years from 2022 to 2024, the applicable income tax rate for the approved period is 15%.

Tibet Besunyen Trading Co., Ltd. and Tibet Qianruiwanfu Venture Investment Co., Ltd. (“**Qianruiwanfu**”), two subsidiaries established by the Group in February 2017, are entitled to the preferential policy of Encouraged Industries in the West Regions in Tibet from establishment date to 31 December 2030, for which the applicable income tax during the approved period is 15%.

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

12. EARNINGS PER SHARE

As described in Note 2(ii), the Share Consolidation has completed and become effective on 19 April 2022, every 40 ordinary shares of USD0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of USD0.0003333332 each. Following the share consolidation, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the six months ended 30 June 2022 and 2021 has been retrospectively adjusted.

(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	
	2022	2021
(Losses)/profits attributable to owners of the Company (RMB'000)	(6,621)	26,429
Weighted-average number of ordinary shares in issue	40,755,195	39,885,156
Basic (losses)/earnings per share (RMB cent per share)	(16.25)	66.26

Notes to the Interim Condensed Consolidated Financial Information

12. EARNINGS PER SHARE (Continued)**(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 anti-diluted effect to the Group for the six months ended 30 June 2022 and 2021. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 30 June 2022 and 2021. Accordingly, the diluted (losses)/earnings per share is same as the basic (losses)/earnings per share for the six months ended 30 June 2022 and 2021.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Plant and machinery RMB'000	Furniture and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2021					
Cost	319,314	309,236	81,854	32,853	743,257
Accumulated depreciation	(82,570)	(195,146)	(50,818)	—	(328,534)
Accumulated impairment	(1,630)	(11,607)	—	—	(13,237)
Net Book Value	235,114	102,483	31,036	32,853	401,486
Six months ended 30 June 2022					
Opening net book amount	235,114	102,483	31,036	32,853	401,486
Additions	—	1,599	170	19,615	21,384
Transfers	9,429	8,639	466	(19,064)	(530)
Disposals/write-off	—	—	(5)	—	(5)
Depreciation charges	(10,975)	(9,199)	(6,394)	—	(26,568)
Closing net book amount	233,568	103,522	25,273	33,404	395,767
At 30 June 2022					
Cost	328,743	319,474	82,485	33,404	764,106
Accumulated depreciation	(93,545)	(204,345)	(57,212)	—	(355,102)
Accumulated impairment	(1,630)	(11,607)	—	—	(13,237)
Net Book Value	233,568	103,522	25,273	33,404	395,767

Notes to the Interim Condensed Consolidated Financial Information

14. INTANGIBLE ASSETS

	Goodwill	Trade- marks and brand name	Computer software	Exclusive medicine distribution right	Medicine production licenses	Patents and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2021							
Cost	60,253	13,398	11,994	7,740	126,000	17,971	237,356
Accumulated amortisation	—	(12,512)	(9,724)	(2,938)	(33,455)	(5,255)	(63,884)
Accumulated impairment	—	—	—	(4,802)	—	—	(4,802)
Net book amount	60,253	886	2,270	—	92,545	12,716	168,670
Six months ended 30 June 2022							
Opening net book amount	60,253	886	2,270	—	92,545	12,716	168,670
Additions	—	2,045	—	—	—	—	2,045
Amortisation charges	—	(336)	(630)	—	(3,956)	(1,216)	(6,138)
Closing net book amount	60,253	2,595	1,640	—	88,589	11,500	164,577
At 30 June 2022							
Cost	60,253	15,443	11,994	7,740	126,000	17,971	239,401
Accumulated amortisation	—	(12,848)	(10,354)	(2,938)	(37,411)	(6,471)	(70,022)
Accumulated impairment	—	—	—	(4,802)	—	—	(4,802)
Net book amount	60,253	2,595	1,640	—	88,589	11,500	164,577

Note:

Management has assessed and concluded that no provision for impairment of goodwill has to be recognised as of 30 June 2022 (2021: Nil).

15. OTHER NON-CURRENT ASSETS

	As at	
	30 June 2022	31 December 2021
	RMB'000	RMB'000
Prepayment for purchases of intangible assets	6,805	6,274
Prepayment for construction of property, plant and equipment	17,866	12,191
	24,671	18,465
Impairment on prepayment for purchases of intangible assets	(6,274)	(6,274)
Total other non-current assets	18,397	12,191

Notes to the Interim Condensed Consolidated Financial Information

16. 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		Zhongshan Wanyuan	
	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Current assets	305,750	312,919	7,412	3,633
Current liabilities	(122,873)	(89,234)	(30,693)	(24,555)
Net current assets/ (liabilities)	182,877	223,685	(23,281)	(20,922)
Non-current assets	317,944	319,783	61,867	63,796
Non-current liabilities	(113,289)	(105,952)	(16,151)	(15,343)
Net non-current assets	204,655	213,831	45,716	48,453
Net assets	387,532	437,516	22,435	27,531
NCI	189,891	214,383	10,993	13,490

Summarised statement of comprehensive income

	Zhongshan Wanhan		Zhongshan Wanyuan	
	For the six months ended 30 June		For the six months ended 30 June	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Revenue	85,006	227,586	403	—
Profit/(loss) for the period	16	64,658	(5,096)	(3,787)
Other comprehensive income	—	—	—	—
Total comprehensive income/(loss)	16	64,658	(5,096)	(3,787)
Dividends declared	(50,000)	—	—	—
Profit/(loss) allocated to NCI	8	31,682	(2,497)	(1,855)
Dividends declared to NCI	(24,500)	—	—	—

Notes to the Interim Condensed Consolidated Financial Information

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Joint ventures	35,852	44,971

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Joint ventures	(4,329)	13,773

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Beginning of the period	44,971	55,890
Disposals	(4,790)	(4,805)
(Loss)/profit for the period	(4,329)	13,773
End of the period	35,852	64,858

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Financial assets measured at fair value through profit or loss		
— wealth management products and structured deposits (a)	—	—
— equity investment in a private company (b)	19,380	19,380
— investment in funds (c)	27,679	19,276
Financial assets measured at fair value through profit or loss	47,059	38,656

Notes to the Interim Condensed Consolidated Financial Information

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(Continued)

Note:

- (a) The Group's wealth management products and structured deposits purchased from commercial financial institutes are denominated in RMB. The principals and returns of the wealth management products are not guaranteed, while the principals of the structured deposits are protected with the returns not guaranteed. The contractual cash flows of wealth management products and structured deposits do not qualify for solely payments of principal and interest, accordingly, they are measured at fair value through profit or loss, and there were no balance amount as at 30 June 2021 and 2022.

The fair values are based on discounted cash flow using the expected return based on management estimation and are within level 3 of the fair value hierarchy (Note 6.3).

- (b) The Group acquired 3.1523% equity interests of ERX Pharmaceuticals Inc. (the "ERX") at a cash consideration of USD3.0 million (equivalent to RMB19,380,000) on 30 April 2021. Considering that the Group can neither control nor exercise significant influence on ERX, the management recognised this investment as financial assets measured at fair value through profit or loss.
- (c) Out of USD2.3505 million total investment commitment based on the agreement signed by the Group and Vstar Partners Limited on 26 February 2021, the Group invested USD2.0609 million (equivalent to approximately RMB13,297,000) to Vstar Investment Fund Limited Partnership (the "Vstar") on 17 May 2021. Considering that the Group can neither control nor exercise significant influence on Vstar, the management recognised this investment as financial assets measured at fair value through profit or loss.

Out of RMB20.0 million total investment commitment based on the agreement signed by the Group and Nanjing Jinming venture capital management partnership (Limited Partnership) on 19 July 2021, the Group's capital injection to Nanjing Jinbi Venture Capital Partnership (the "Jinbi") was RMB12.0 million as of 30 June 2022. Considering that the Group can neither control nor exercise significant influence on Jinbi, the management recognised this investment as financial assets measured at fair value through profit or loss.

The fair value change of the investment in Jinbi was RMB403,000 for the six months ended 30 June 2022 while the fair value changes of the investments in Vstar and ERX were insignificant for the six months ended 30 June 2022.

Notes to the Interim Condensed Consolidated Financial Information

19. INVENTORIES

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Raw materials and packaging materials	39,441	38,759
Work in progress	5,100	2,279
Finished goods	89,206	95,303
	133,747	136,341
Less: Provision for impairment	—	—
	133,747	136,341

20. TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Trade receivables	119,637	94,256
Less: Loss allowance	(112)	(199)
	119,525	94,057

- (a) The Group normally grants a credit period of 30–90 days to its customers. The following is an ageing analysis of trade receivables (net of loss allowance) based on the goods delivery dates, which approximated to their invoice dates:

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
0 to 90 days	119,179	93,965
91 to 180 days	284	31
181 to 365 days	27	—
Over 365 days	35	61
	119,525	94,057

- (b) As of 30 June 2022, bills receivable amounted to RMB11,426,000 (31 December 2021: RMB2,974,000) were all bank acceptance notes with maturity date within 6 months and are classified as financial assets measured at fair value through other comprehensive income, included in "Trade and bills receivables".

Notes to the Interim Condensed Consolidated Financial Information

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Prepayments for advertisement expenses	14,956	10,130
Prepayment to suppliers	25,841	34,353
Other receivables	36,276	29,613
Interest receivables	7,513	5,726
Others	3,695	7,498
	88,281	87,320

22. TERM BANK DEPOSITS

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Long-term bank deposits	120,000	170,000
Short-term bank deposits	563	10,563
	120,563	180,563

23. RIGHT-OF-USE ASSETS

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Land use rights	61,309	62,058
Office premises and staff quarters	18,914	41,457
Leased vehicles	—	160
	80,223	103,675

Notes to the Interim Condensed Consolidated Financial Information

24. SHARE CAPITAL

	Number of shares	Amount US \$	Share capital RMB'000
Ordinary shares of US\$0.0003333332 each (Note 2(ii) and 12)			
Authorised:			
At 30 June 2022 and 31 December 2021	150,000,000	50,000	341
Issued and fully paid:			
At 30 June 2022 and 31 December 2021	40,755,195	13,585	94

Note:

No ordinary shares of par value of USD0.0003333332 each were held by the Company for its restricted share award scheme at 30 June 2022 and 31 December 2021.

25. BORROWINGS

As at 30 June 2022, the Group's borrowings were as follows:

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	153,132	138,750
Bank borrowing, unsecured	12,000	12,000
Other borrowing (b)	2,360	—
	167,492	150,750
Included in non-current liabilities		
Bank borrowing, secured (a)	62,668	92,930
Other borrowing (b)	1,506	—
	64,174	92,930

Notes to the Interim Condensed Consolidated Financial Information

25. BORROWINGS (Continued)

- (a) The details of secured bank borrowings are as follows:

Bank borrowings	Land use rights with buildings built on as collateral		Guarantor
	Buildings	Land use rights	
RMB'000	RMB'000	RMB'000	
65,000	74,871	5,805	A third-party guarantee company
31,040	5,122	10,109	Related party
48,520	43,700	18,084	Ms. Peng Wei*
36,500	28,516	17,099	Ms. Peng Wei
34,740	Not applicable	Not applicable	Ms. Peng Wei

* Ms. Peng Wei is a non-controlling shareholder of Zhongshan Wanhan and Zhongshan Wanyuan.

- (b) On 14 January 2022, Beijing Outsell signed a financial leasing contract with a third-party financial leasing company, pursuant to which Beijing Outsell agreed to transfer a machine with carrying amount of RMB483,000 to an independent financial leasing company at a consideration of approximately RMB4,790,000 and lease the machine back at approximately RMB224,000 per month for 24 months from January 2022 to January 2024. As the transfer of the machine does not satisfy the requirement to be accounted for as a sale of the asset, the Group continues to recognise the transferred machine and recognise a financial liability equal to the transfer proceeds. This financial liability was recognised as a borrowing mortgaged by Beijing Outsell with the machine and guaranteed by Zhao Yizhen (the legal representative of Beijing Outsell) and Zhao Lixia (one of the management personnel of Beijing Outsell).
- (c) The fair values of the borrowings are not materially different from their carrying amounts, considering the short remaining maturity period and also all of these borrowings bear fixed interest rates which are closed to the market interest rates.

Notes to the Interim Condensed Consolidated Financial Information

26. DEFERRED INCOME TAX**Deferred income tax assets**

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
At beginning of period	98,266	119,822
Charged to profit or loss	(13,796)	(3,736)
At end of period	84,470	116,086

Deferred income tax liabilities

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
At beginning of period	62,635	50,636
Acquisition of a subsidiary	—	7,790
(Charged)/credited to profit or loss	(3,623)	4,030
At end of period	59,012	62,456

Note:

The net balance of deferred income tax assets and liabilities is RMB20,902,000 as at 30 June 2022 (31 December 2021: RMB13,088,000).

27. ASSETS CLASSIFIED AS HELD FOR SALE

Movement in the assets classified as held for sale is as follows:

	As at	
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
At beginning of period	48,881	—
Additions	—	48,881
Disposal (Note)	(48,881)	—
At end of period	—	48,881

Note :

On 29 November 2021, Shanghai Bisheng Property Management Co., Ltd. ("**Bisheng Property**"), an indirect wholly-owned subsidiary of the Company and two third parties entered into an agreement, pursuant to which Bisheng Property has agreed to dispose buildings including the underlying land use rights located in Shanghai at a total cash consideration of RMB56.0 million.

As at 31 December 2021, the land use rights of approximately RMB40,664,000 and investment properties of approximately RMB8,217,000 to be disposed have been presented as "Assets classified as held for sale". The transaction was completed in January 2022 and the loss resulting from this transaction was insignificant.

Notes to the Interim Condensed Consolidated Financial Information

28. TRADE AND BILLS PAYABLES

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

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
0 to 90 days	12,599	10,768
91 to 180 days	522	80
Over 180 days	655	29,879
	13,776	40,727

29. OTHER PAYABLES AND ACCRUED EXPENSES

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Accrued expenses	19,237	22,695
Indirect taxes and surcharge payable	21,991	2,114
Payroll and welfare payable	16,444	21,077
Accrued sales rebate	20,951	19,376
Payables to suppliers for:		
— purchases of property, plant and equipment	16,961	16,130
— advertisement	292	15,205
— marketing and promotion expenses	11,994	4,663
Payables to fund management fees	7,120	6,230
Deposit received in connection with disposal of investment properties	—	10,000
Other guarantee deposits received	10,825	10,081
Dividend payable to NCI (Note 16)	980	—
Others	21,991	24,242
	148,786	151,813

30. LEASE LIABILITIES

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
Current lease liabilities	9,756	21,057
Non-current lease liabilities	10,026	21,877
Total lease liabilities	19,782	42,934

For the six months ended 30 June 2022, the weighted-average lessee's incremental borrowing rate applied to the recognition of lease liabilities was 5.59% (2021: 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	
At 1 January 2021	—	—	1.01	18,620,000	18,620,000
Granted	—	—	—	—	—
Lapsed	—	—	1.00	(100,000)	(100,000)
At 30 June 2021	—	—	1.01	18,520,000	18,520,000
Exercisable as at 30 June 2021	—	—	1.01	18,520,000	18,520,000
At 1 January 2022	—	—	1.01	18,520,000	18,520,000
Granted	—	—	—	—	—
Lapsed	—	—	—	—	—
Effect of Share Consolidation (Note)	—	—	1.01	(18,057,000)	(18,057,000)
At 30 June 2022	—	—	40.00	463,000	463,000
Exercisable as at 30 June 2022	—	—	40.00	463,000	463,000

Note:

It represented the effects of adjustments made to the number of shares as a result of Share Consolidation (Note 2(ii)).

Restricted share award scheme

The Company adopted a restricted share award scheme (“**Restricted Share Award Scheme**”) on 11 November 2011 with duration of 10 years for the granting of restricted shares to eligible participants who shall receive offers of restricted shares as designated by the administration committee (the “**Selected Participants**”).

Notes to the Interim Condensed Consolidated Financial Information

31. SHARE-BASED PAYMENTS *(Continued)*

Restricted share award scheme *(Continued)*

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 through the Hong Kong Stock Exchange at a total consideration of HK\$48,291,000 (equivalent to approximately RMB39,312,000) for the Restricted Share Award Scheme.

There were no shares held by the Trust and not yet granted to the Selected Participants at 30 June 2022 and 31 December 2021.

32. DIVIDEND

	2022 RMB'000	2021 RMB'000
Dividend paid for the current period	—	49,384

The Board has resolved not to declare and pay any interim dividend for the six months ended 30 June 2022.

On 25 May 2021, the shareholders of the Company had approved the declaration of a final dividend of HK\$3.75 cents per share, amounting to a total dividend of HK\$61,133,000 (equivalent to RMB49,384,000).

33. COMMITMENTS

(a) Capital commitments

As at 30 June 2022, capital expenditure for property, plant and equipment as contracted for but not yet incurred amounted to RMB17,871,000 (31 December 2021: RMB24,943,000).

(b) Operating lease commitments

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

	As at	
	30 June 2022 RMB'000	31 December 2021 RMB'000
No later than 1 year	517	513
1–5 years	134	1
	651	514

Notes to the Interim Condensed Consolidated Financial Information

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 below:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Salaries, bonus and other allowances	5,407	5,404
Pension cost — defined contribution plan	150	139
	5,557	5,543

35. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 12 July 2022, the Company proposes to implement the rights issue on the basis of two (2) rights shares for every one (1) share held on the record date at the subscription price of HK\$1.75 per rights share, to raise up to (i) approximately HK\$142.6 million before deducting the costs and expenses by way of issuing up to 81,510,390 rights shares (assuming no change in the number of shares in issue on or before the record date, the estimated net proceeds after deducting the related costs and expenses will be approximately RMB118.7 million); or (ii) approximately HK\$144.0 million before deducting the costs and expenses by way of issuing up to 82,276,390 rights Shares (assuming no change in the number of shares in issue on or before the record date other than the full exercise of outstanding share options), to the qualifying shareholders, the estimated net proceeds after deducting the related costs and expenses will be approximately RMB132.9 million. As the date of the issue of this interim financial information, the proposed rights issue has not yet been completed.

Other than the event disclosed above, there was 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 2022, 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 recorded 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⁾	21,050,219 ^{(1)(L)}	125,000 ^{(1)(L)}	51.65%
Ms. GAO Yan	Beneficial owner and interest of her spouse ⁽²⁾⁽³⁾	21,050,219 ^{(2)(L)}	125,000 ^{(2)(L)}	51.65%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	18,400 ^{(4)(L)}	15,000 ^{(4)(L)}	0.05%
Mr. REN Guangming	Beneficial owner	24,250 ^{(5)(L)}	15,000 ^{(5)(L)}	0.06%
Mr. HE Yuanping	—	—	—	—
Mr. FU Shula	Beneficial owner	5,000 ^{(6)(L)}	—	0.01%

Other Information

- (1) Mr. Zhao Yihong, executive Director, beneficially owns 100,000 options granted under the Share Option Scheme and 104,339 Shares directly. Mr. Zhao is also deemed or taken to be interested in the following Shares/options for the purposes of the SFO:
 - (i) 20,406,479 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;
 - (ii) 356,376 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and
 - (iii) 25,000 options granted under the Share Option Scheme and 58,025 Shares, which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse.
 - (2) Ms. Gao Yan, executive Director, beneficially owns 25,000 options granted under the Share Option Scheme and 58,025 Shares directly. Ms. Gao is also deemed or taken to be interested in the following Shares/options for the purposes of the SFO:
 - (i) 100,000 options granted under the Share Option Scheme and 104,339 Shares, which are beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;
 - (ii) 20,406,479 Shares which are deemed to be beneficially owned by Mr. Zhao, as controlling shareholder of Foreshore Holding Group Limited; and
 - (iii) 356,376 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Better Day Holdings Limited.
 - (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 15,000 options granted under the Share Option Scheme. Mr. Zhuo is also deemed or taken to be interested in the 3,400 Shares beneficially owned by his wife for the purposes of the SFO.
 - (5) Mr. Ren Guangming, independent non-executive Director, beneficially owns 15,000 options granted under the Share Option Scheme and 9,250 Shares.
 - (6) Mr. Fu Shula, independent non-executive Director, beneficially owns 5,000 Shares.
 - (7) This is calculated based on 40,755,195 Shares, being the number of Shares in issue as at 30 June 2022. 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 2022, 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⁾	20,406,479 ^(L)	50.07%
Sea Network Holdings Limited ⁽¹⁾	20,406,479 ^(L)	50.07%
TMF Trust (HK) Limited ⁽¹⁾	20,406,479 ^(L)	50.07%
Ms. PENG Wei ⁽²⁾	3,257,550 ^(L)	7.99%
Everyyoung Investment Holdings Limited ⁽²⁾	3,093,750 ^(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 163,800 Shares.

(3) This is calculated based on 40,755,195 Shares, being the number of Shares in issue as at 30 June 2022.

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

Save as disclosed above, as at 30 June 2022, 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

SHARE OPTION SCHEME

The Company's Share Option Scheme was adopted pursuant to a resolution passed on 8 September 2010 for the purpose of motivating 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 which is the effective date of such schemes and representing approximately 10.31% of the issued shares as at the date of this interim report (assuming no Share Consolidation had been proceeded). The maximum number of shares which can be granted under the Share Option Scheme to each eligible person in any 12-month period up to the offer date of share options shall not exceed 1% of the issued shares of the Company on the offer date. The scheme period of the Share Option Scheme ended at the end of 29 September 2020, after which no further share options shall be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any outstanding share options.

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.

The consideration for accepting a share option is HK\$1.00. The exercise price for the share option granted under Share Option Scheme shall be such price as the Board in its absolute discretion shall determine. Please see the table below with specific amounts.

Options type	Date of grant	Share options		Exercise period	Exercise Price	Fair value of
		granted	Vesting period			option at
					HK\$	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

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 2022. The inputs into the model were as follows:

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

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

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

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

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

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

Other Information

The Group did not recognize expense for the six months ended 30 June 2022 (for the six months ended 30 June 2021: nil) in relation to the Share Option Scheme of the Company.

CORPORATE GOVERNANCE

For the six months ended 30 June 2022, 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 to the Listing Rules, except for code provision C.2.1 of the CG Code.

CODE PROVISION C.2.1

Under code provision C.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 32-year 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 2022 and this interim report, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

REVIEW OF INTERIM RESULTS

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2022 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 2022.

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 2022.

CHANGES IN THE INFORMATION OF DIRECTORS

There has been no change in the information of the Directors from the date of the 2021 annual report to the date of this interim report that is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

Other Information

INTERIM DIVIDEND

The Board has resolved not to declare and pay any interim dividend for the six months ended 30 June 2022.

SUBSEQUENT EVENTS

In order to reserve sufficient available cash to fulfill the repayment obligations and improve the gearing ratio while maintaining the size of the Group's operation, on 12 July 2022, the Company proposed to implement the rights issue on the basis of two (2) rights shares for every one (1) Share held on the record date at the subscription price of HK\$1.75 per rights share, to raise up to (i) approximately HK\$142.6 million before deducting the costs and expenses by way of issuing up to 81,510,390 rights shares (assuming no change in the number of Shares in issue on or before the record date); or (ii) approximately HK\$144.0 million before deducting the costs and expenses by way of issuing up to 82,276,390 rights shares (assuming no change in the number of Shares in issue on or before the record date other than the full exercise of outstanding share options), to the qualifying Shareholders.

The Company intends to use the net proceeds from the rights issue for the settlement of the outstanding indebtedness of the Group, the expenses of advertising and marketing, the development of the new retail business division, and the replenishment of general working capital of the Group. For details of the rights issue, please refer to the announcement of the Company dated 12 July 2022 and the circular of the Company dated 23 August 2022.

Save as disclosed above, there was not any other significant event occurred after 30 June 2022 up to the date of this interim condensed consolidated financial information which requires disclosure.

On behalf of the Board

ZHAO Yihong

Chairman

Hong Kong, 17 August 2022