



# 碧生源控股有限公司

## Besunyen Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 926

## Interim Report 2017





## Corporate Profile

Besunyen Holdings Company Limited (the “**Company**”) together with its subsidiaries (collectively, the “**Group**”) is a leading provider of therapeutic teas in the People’s Republic of China (the “**PRC**”), mainly engaging in the research and development, production, sale and promotion of therapeutic teas as well as the sale and promotion of medicines. By tagging along with the concept of “herbal, healthy, quality functional tea”, the Group started to produce Besunyen Detox Tea and Besunyen Slimming Tea (previously known as “碧生源牌減肥茶”) (collectively, the “**Two Teas**”) in 2000, and for the last 17 years, has dedicated itself to the marketing and sales of the Two Teas. The approval for the change of product name from “碧生源牌減肥茶” to “碧生源牌常菁茶” was obtained from China Food and Drug Administration of the People’s Republic of China (the “**CFDA**”) in November 2016. As at 30 June 2017, the Two Teas recorded an accumulated sales volume of over 4.35 billion bags, with an accumulated sales amount of over RMB5.7 billion. Since April 2015, the Group commenced cooperation with Zhejiang Hisun Pharmaceutical Co., Ltd. (“**Hisun Pharmaceutical**”) to sell LARLLY Orlistat slimming medicine, so the Group has expanded from the market of slimming therapeutic teas to that of slimming medicines and comprehensively covered the slimming market segment. Since its launch, LARLLY Orlistat slimming medicine has been highly praised among consumers.

According to the latest report issued by China Southern Medicine Economy Research Institute (“**SMERI**”), the market share of the Group’s core products, the Two Teas, maintained a leading position for several consecutive years. In 2016, in national retail pharmacies, based on the retail price of the laxative and slimming products respectively, the market share of the Group’s Besunyen Detox Tea represented 17.42%; and that of Besunyen Slimming Tea (previously known as “碧生源牌減肥茶”) accounted for 32.33%, with the Two Teas taking the first place in the market. Since the launch of LARLLY Orlistat slimming medicine in the spring of 2015, it has been gradually unveiled in several major markets including Shanghai, Guangdong and Beijing. In accordance with the data released by SMERI, LARLLY Orlistat has topped the list of the slimming medicines segment.

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

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

As at 30 June 2017, the sales teams of the Group spanned across 31 provinces, autonomous regions and municipals across the country. The Group had a total of 72 distributors and 366 sub-distributors for the Two Teas and LARLLY Orlistat. The whole sales team served about 128,000 over-the-counter (the “**OTC**”) pharmacies and the retail terminals in shopping malls and supermarkets. The Group constantly improved the sales network nationwide, and by means of the dynamics of brand attraction and channels’ promotion, had a coverage of about 400,000 OTC pharmacies across the country. Meanwhile, new products were enabled to break into the market more quickly and effectively through the existing channels, thereby maintaining the leading position of the Group’s products in the industry.

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## Corporate Information

### DIRECTORS

#### Executive Directors

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

#### Non-executive Directors

Mr. Zhuo Fumin  
Ms. Zhang Guimei

#### Independent Non-executive Directors

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

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

### NOMINATION COMMITTEE

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

### COMPANY SECRETARY

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

### REGISTERED OFFICE IN CAYMAN ISLANDS

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### PLACE OF BUSINESS IN HONG KONG

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### WEBSITE OF THE COMPANY

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### INVESTOR RELATIONS

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## Corporate Information

### PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR

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## Financial Highlights

### THE OPERATION RESULTS OF THE GROUP

The revenue of the Group for the first half of 2017 was RMB288.2 million, representing a decrease of 11.2% as compared with the revenue of RMB324.5 million for the same period in 2016.

Gross profit of the Group amounted to RMB234.7 million for the first half of 2017, representing a decrease of 14.4% from the gross profit of RMB274.1 million for the same period of 2016. The gross profit margin of the Group was 81.4% for the first half of 2017, representing a decrease of 3.1 percentage points from the gross profit margin of 84.5% for the same period of 2016.

Total operating expenses (including selling and marketing expenses, administrative expenses, and research and development costs) of the Group for the first half of 2017 were RMB208.0 million, representing a decrease of 25.2% as compared with the total operating expenses of RMB277.9 million for the same period of 2016.

The Group recorded a total comprehensive income attributable to owners of the Company of RMB27.4 million for the first half of 2017, representing an increase of 640.5% from a total comprehensive income attributable to owners of the Company of RMB3.7 million for the same period of 2016.

The basic and diluted earnings per share attributable to owners of the Company for the first half of 2017 were both RMB1.91 cents (for the same period of 2016: both the basic and diluted earnings per share attributable to owners of the Company were RMB0.24 cent).

# Management Discussion and Analysis

## BUSINESS REVIEW

### Revitalising Terminal Pharmacies with Innovative Marketing

During the first half of 2017, the Group sought to increase sales by implementing a sales strategy of differentiation for pharmacy chain stores and terminal pharmacies in different regions, aiming to increase the sales to pharmacies with a primary focus on meeting consumers' requirements. During the first half of 2017, the Group's marketing teams tailored precise marketing plans for selected pharmacy chain stores which had been in close cooperation with us. We successfully developed several terminals with strong sales of Two Teas and LARLLY Orlistat, which became exemplary models for other terminals. This has contributed to notable growth in sales to partner pharmacies, which has in turn increased sales of the entire pharmacy network in the surrounding regions of such pharmacies, resulting ultimately in the growth of sales to pharmacies in the market generally. The driving force provided by the exemplary pharmacies has helped to consolidate our existing consumer base while attracting new buyers, creating a spillover effect that has enhanced sales for the entire region. Such measures have not only enhanced the brand image of Besunyen, but have also been much welcomed and supported by pharmacy chain stores.

### Enhancing Competitiveness of Sales Team with Flattened Sales Management Structure

During the first half of 2017, the Group managed its sales regime by introducing a flattened structure. The previous three-tiered organisation formed by the major sales regions, provincial offices and local regions was restructured into a two-tiered organisation formed by the business departments and the regional offices, comprising 13 business departments and 49 regional offices. With a simplified management hierarchy, operating efficiency under the new organisation has been significantly enhanced. Meanwhile, the Group focused its staff training effort on the 49 regional offices, with a view to prioritising, grooming and building a pool of talents. Frontline sales representatives were formed into working teams of three. With the benefit of concerted efforts and synergies, the overall competitiveness of the sales teams has been substantially enhanced.

### "Thousand Faces" Packaging Design Underpinning Young and Energetic Brand Positioning

Market researches and observations on consumer behavior indicate that women aged 18 to 24 constitute the dominant population group of the weight losing market, accounting for approximately 54% of the target population group in this market. They have manifold expectations for slimming tea products, such as fashionable packaging, good tasting and notable efficacy. They typically trust weight-losing products and related information searched via the mobile internet, namely, their handsets, through which they would also make their purchases. A whole new idea of product packaging has emerged with expectations for light-hearted, playful and personalised designs and an increasing addiction to internet slangs. To stay in tune with young consumers, the Group introduced exclusive comic-style new packagings for the online versions of its core product lines, namely, Besunyen Detox Tea, Besunyen Slimming Tea and Besunyen Xian Xian Tea, during the first half of 2017. A gift set packaging for Besunyen Detox Tea was launched to meet the consumers' needs of long-term use. We are also working on a new "Thousand Faces" (千人千面) packaging design for the offline version of Besunyen Xian Xian Tea as part of our efforts in brand transformation towards a stronger appeal for young buyers and a more professional image in relation to weight management.

## Management Discussion and Analysis

### Strategic Cooperation with m.111.com.cn for Mutual Success in the Big Health Industry

On 27 February 2017, the Group entered into a strategic cooperation agreement in Beijing with m.111.com.cn (1藥網). As a specialised and precisely-targeted pharmacare e-commerce platform, m.111.com.cn has many years of experience in the operation of big data accumulations, online services and supply-chain operations. The strategic cooperation between the Group and m.111.com.cn would enable mutual sharing of superior resources for the joint promotion of the Group's new products. The two parties would unite their respective strengths in the areas of resource sharings, big data applications, innovative marketings and specialised services. Furthermore, the two parties would be engaged in a joint effort to promote the "Alliance for Certified Products" ("正品聯盟") and develop brand new partnerships for strategic cooperation for mutual success in the big health industry.

### Broader Approaches for Brand Promotion Through New-Media Marketing

In view of the robust development of the mobile internet and the decreasing age of consumer groups, the Group has also diversified to variety shows on the mobile internet from traditional TV media programmes in terms of the channel and form of its advertising placements. During the first half of 2017, the Group provided a title sponsorship for "We Are 17" (《我們十七歲》), a variety show of Tencent whose audiences fell mainly within the age group of 20 to 39 with a largely balanced mix of genders, resulting in a viewership in excess of 100 million for Besunyen commercials. In addition to marketing through entertainment shows, the said advertising placement has successfully communicated with the consumers that the official change of Chinese product name of Besunyen Slimming Tea from "碧生源牌減肥茶" to "碧生源牌常菁茶" is for the purpose of brand rejuvenation, while mitigating the impact of regulatory control introduced by national policies. This was also in line with the communications theory that calls for identification with consumer groups and their preferences.

During the first half of 2017, the Group also launched three live broadcast shows — "A Visit to the Production Plant of Besunyen" ("走進碧生源工廠"), "Let Go of the Fat" ("放開那個肉肉") and "Mysterious Invitation from Besunyen — Unlocking the Secret Chamber of the Intestine" ("碧生源神秘邀請函之解鎖腸道密室") — on the Internet through www.yizhibo.com ("一直播"), a live broadcast platform on the internet. The shows have generated an aggregate of approximately 30 million views and the number of new customers has increased substantially as a result. This innovative and exploratory attempt at new media marketing has enriched our Group's brand communication, enabling us to stay in tune with young consumers through more diversified approaches. We started to implement the live broadcast model on m.111.com.cn, our strategic partner, and then moved on in gradual transition to www.yizhibo.com, a popular live broadcast platform, through which we effectively tapped the Weibo population and gained direct access to millions of fans leveraging the "Internet Star" economy to assure basic viewership. The contents were increasingly attuned to younger audience with the imparting of a younger brand tone for Besunyen.

Moreover, in order to increase exposure of our branded products and win over new users, the Group made 9 different versions of 1-minute micro-videos in June 2017 to promote the Besunyen brand, with a special emphasis on precise targeting at young consumers.

## Management Discussion and Analysis

As a result of adjustments to the Group's strategy for advertising placements, our investment in advertisements via media reduced substantially for the first half of 2017. For our investment in advertisements via new media, the Group has not yet formulated an established system. The Group will therefore continue to explore investment in advertisements via traditional media and new media and strive to devise effective marketing and advertising plans with high reaches at low costs.

### **In-Depth Development of E-Commerce Channels in an Effort to Build an E-Commerce Based Enterprise**

In connection with e-commerce, the Group has committed additional resources to B2C while sustaining its B2B business and adopted the B2C repeat purchase rate as a key indicator. During the first half of 2017, there was a notable increase in the number of users conducting repeat purchases. At the same time, stronger efforts were made to consolidate e-commerce channels as distributors with subpar e-commerce ability were terminated in an effort to optimise the portfolio of channel distributors. New B2C users were acquired to the maximum extent through new approaches in marketing and communication. In terms of channel development, classified Besunyen food stores as well as Besunyen concession counters were opened on mainstream e-commerce platforms. During the first half of 2017, the Group's e-commerce department was engaged in ongoing development of the two product categories of slimming products and laxatives, laying a solid foundation for the subsequent continuous attainment of excellent sales results.

### **"One Focus and Two Dimensions" — Product Strategy with a Special Focus on New Products for E-Commerce Sales**

Through the recruitment of high-level talents, the R&D centre of the Group has improved its organisational structure, which boasts general capabilities in the research and development of pharmaceuticals, health food and other food items on the back of 5 core technological segments, namely, pharmacological research, analytical research of Chinese medicines, pharmaceutical formulation development, pilot production process, as well as patent application and legal compliance.

Since April 2017, the Group has been launching new products on e-commerce platform, such as L-carnitine coffee powder drink, fruit and vegetable enzyme powder drink as well as brown sugar ginger tea with rose and ginseng powder drink. Coupled with the 2 flavours of nutritious meal replacement milkshakes (coconut milk/pineapple and peach) launched in 2016, nutritious meal replacement milkshakes in 3 flavours (strawberry/cranberry, walnut/almond and pumpkin/taro) have also been launched to develop a full range of meal replacement milkshake products in a variety of flavours. As of now, the Group's slimming product line features a portfolio of weight-control products, i.e. "OTC pharmaceutical product: LARLLY Orlistat" + "health food products: Slimming Tea and Xian Xian Tea" + "other food products: nutritious meal replacement milkshakes and L-carnitine coffee". As for digestive health product line, a rich portfolio of digestive health food is formed with fruit and vegetable composite enzyme powder drink, health food product Detox Tea and probiotic powder drink products.

## Management Discussion and Analysis

### **Brand Vigor and Vibrancy Enhanced by Collaboration with Academy Award of Advertising Festival for Nine Years in a Row**

The Group was the title sponsor of the 15th Academy Award of Advertising Festival of Chinese College Students (Spring Session). We also organised the “Besunyen Cup” Advertising Contest with participants from 40 colleges and universities in 30 cities, including 20 creativity seminars and 21 product exhibitions in the sidelines. More than 1,000 college departments received official posters and creative briefs with designated themes.

The “Besunyen Cup” Advertising Contest accepted submission of creative works under the theme of “Besunyen — Your Partner in Slimming” in the forms of graphic advertisement, marketing plan, advertising text and micro-film, TV/movie advertisement and HTML5 mobile interaction. On 19 May 2017, the contest was held at the plant of the Group with more than 143,300 groups of qualified work as well as over 186,402 pieces of work received.

Currently in its 15th session, the Academy Award of Advertising Festival of Chinese College Students is a creativity contest among universities organised by the China Advertising Association, the influence of which has been extended from the colleges to the advertising industry in general. This year is the ninth year of cooperation between Besunyen and the Academy Award and also the sixth time Besunyen has obtained the title sponsorship of the advertising contest. Over the past 9 years, Besunyen has become a leading brand in this industry which is deeply rooted in the mind of university students following our in-depth market development efforts targeted at universities. The record-high entries received for the contest this year have contributed to wider perspectives and new ideas in applications in the Group’s marketing activities and advertising creations.

As a veteran adjudicator for the Academy Award, the Group has developed a strong pool of talents for the future. After holding roadshow seminars on brand education for university students for 9 years, we have also established solid relationships and direct connections with industry leaders, such as famous professors in domestic vocational colleges, industry celebrities, academics specialised in communication theories, and creative directors of international 4A advertising agencies.

## OUTLOOK

### **Macro-Economy**

Macro-economic data announced by the National Bureau of Statistics has indicated a 6.9% GDP growth for the first half of 2017, suggesting stable economic development for China with growth prospects. In the medium-to-long term, China will be entering the second phase of economic transformation, characterised by a narrowed decline in economic growth with increasing factors favourable to a stable trend of moderate or strong growth. Quality improvement and efficiency enhancement will become a principal consideration in economic growth.

### **Development of Full-Service Platform for Frontline Sales with Continuous Emphasis on Sales to Pharmacies and Key Chain Stores**

In the second half of 2017, the Group will focus on building a full-service platform for frontline sales at the head office to implement integrated management of sales administration, sales personnel, sales finance and market IT. One-stop supporting services will be provided to frontline sales personnel on this unified platform. Meanwhile, the Group will continue to focus on strategic cooperation with key chain stores to achieve increase in the sales to all the pharmacy chain stores with a view to underpinning the attainment of our full-year sales target.

## Management Discussion and Analysis

### Ongoing Development of E-Commerce Platform as Functional Product Incubation Platform

The Group will continue to focus on the expansion of e-commerce platform in the strategic development of its channel. In the second half of 2017, an omnichannel model will be built, and the weight management solutions and laxative solutions of the Group will be further promoted and popularised among Internet users, as the Group strives to build its e-commerce platform into a functional product incubation platform.

### Further Implementation of New-Media Marketing to Facilitate Precise Placement of Brand Promotion Contents

In the second half of 2017, the Group will resort to new media platforms and seek to introduce a marketing model based on “We Media + Internet”, leveraging [www.yizhibo.com](http://www.yizhibo.com) and other channels for short-video marketing. The content provider will be upgraded from advertising creation and production to a planning, creativity and production team focused on micro-videos. The media agency supplier will be upgraded to the agency and planner of Internet media platforms. The advertising project, comprising content production, activity planning, rewards for consumers, debut of new products and launch of new videos, will be elaborated to match popular dates throughout the year for sales promotion, thereby enhancing the connection between advertising contents and sales. We expect the new-media marketing model to contribute to the Group’s sales growth. We Media such as Weibo and Weixin will be utilised internally for staff training and education, as well as externally to ensure maximum exposure of our brand contents through multiple channels. We will maintain effective customer management and enhance customer loyalty by enhancing our good reputation and increasing public awareness of our brand.

### Ongoing Advancement of New Product R&D

The Group will develop new-generation slimming and laxative health food, as well as new health food products for throat-clearing and hepatotoxicity in the forms of tea bag, tablet and capsule. While engaged in planned development of new products, the R&D centre and production centre will work together to procure the launch of health food products for which approvals have been obtained, so as to ensure the ongoing provision of new health food products.

In the second half of 2017, the Group will launch 2 new health food products and a number of new herbal powder drinks on e-commerce platforms. Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (“**Zhongshan Wanyuan**”), a company contemplated to be acquired by the Group, is also expediting the development of Orlistat bulk pharmaceuticals and certain new drugs.

## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Revenue

	For the six months ended 30 June			
	2017		2016	
	RMB'000	% of revenue	RMB'000	% of revenue
Revenue:				
Besunyen Detox Tea	<b>112,778</b>	<b>39.1%</b>	110,732	34.1%
Besunyen Slimming Tea*	<b>122,826</b>	<b>42.6%</b>	137,804	42.5%
Other tea products	<b>19,171</b>	<b>6.7%</b>	3,504	1.1%
Slimming medicines	<b>33,466</b>	<b>11.6%</b>	72,500	22.3%
<b>Total</b>	<b>288,241</b>	<b>100%</b>	324,540	100%

The Group's revenue decreased by 11.2% from RMB324.5 million in the first half of 2016 to RMB288.2 million in the same period of 2017. Among this, revenue of Besunyen Detox Tea increased by 1.9% from RMB110.7 million in the first half of 2016 to RMB112.8 million in the same period of 2017, while its sales volume slightly decreased by 0.4% from 73.8 million tea bags in the first half of 2016 to 73.5 million tea bags in the same period of 2017. Revenue of Besunyen Slimming Tea decreased by 10.9%, from RMB137.8 million in the first half of 2016 to RMB122.8 million in the same period of 2017 and its sales volume decreased by 17.6% from 98.5 million tea bags in the first half of 2016 to 81.2 million tea bags in the same period of 2017. The average selling prices of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.50 and RMB1.40 per bag respectively in the first half of 2016, and were RMB1.53 and RMB1.51 per bag respectively in the first half of 2017. The average selling prices of Besunyen Detox Tea and Besunyen Slimming Tea rose by 2.0% and 7.9% respectively as compared to the same period of 2016.

Note: The Chinese name of "Besunyen Slimming Tea" was renamed as "碧生源牌常菁茶" in November 2016.

#### Cost of Sales and Gross Profit

	For the six months ended 30 June			
	2017		2016	
	RMB'000	% of revenue	RMB'000	% of revenue
Cost of sales	<b>53,507</b>	<b>18.6%</b>	50,454	15.5%
Gross profit	<b>234,734</b>	<b>81.4%</b>	274,086	84.5%

Cost of sales of the Group increased by 5.9% from RMB50.5 million in the first half of 2016 to RMB53.5 million in the same period of 2017. Cost of sales as a percentage of revenue increased from 15.5% in the first half of 2016 to 18.6% in the same period of 2017. The increase in cost of sales as a percentage of revenue was mainly due to the increase in the prices of raw materials and packaging materials.

## Management Discussion and Analysis

Revenue decreased by 11.2% and cost of sales increased by 5.9% in the first half of 2017 as compared to the same period of 2016. As a result, gross profit of the Group decreased by 14.4% from RMB274.1 million in the first half of 2016 to RMB234.7 million in the same period of 2017. Gross profit margin of the Group slightly decreased from 84.5% in the first half of 2016 to 81.4% in the same period of 2017.

### Selling and Marketing Expenses

	For the six months ended 30 June			
	2017		2016	
	RMB'000	% of revenue	RMB'000	% of revenue
Advertising costs	43,552	15.1%	113,317	34.9%
Marketing and promotional expenses	45,320	15.7%	53,871	16.6%
Employee benefit expenses	44,906	15.6%	48,121	14.8%
Others	15,543	5.4%	18,748	5.8%
<b>Total</b>	<b>149,321</b>	<b>51.8%</b>	<b>234,057</b>	<b>72.1%</b>

Selling and marketing expenses of the Group decreased by 36.2% from RMB234.1 million in the first half of 2016 to RMB149.3 million in the same period of 2017. The advertising costs decreased by 61.6% in the first half of 2017 as compared to the same period of 2016, mainly due to the fact that the investment costs in advertising via traditional TV media decreased. In the first half of 2017, marketing and promotional expenses decreased by 15.9% as compared to the first half of 2016 as vigorous promotional efforts were made in 2016.

### Administrative Expenses

	For the six months ended 30 June			
	2017		2016	
	RMB'000	% of revenue	RMB'000	% of revenue
Employee benefit expenses	26,155	9.1%	14,116	4.3%
Office expenses	2,286	0.8%	1,789	0.6%
Professional service fees	12,630	4.4%	7,462	2.3%
Entertainment and travelling expenses	2,905	1.0%	3,260	1.0%
Others	10,194	3.5%	12,271	3.8%
<b>Total</b>	<b>54,170</b>	<b>18.8%</b>	<b>38,898</b>	<b>12.0%</b>

Administrative expenses of the Group increased by 39.3% from RMB38.9 million in the first half of 2016 to RMB54.2 million in the same period of 2017. Administrative expenses as a percentage of revenue increased from 12.0% in the first half of 2016 to 18.8% in the same period of 2017, mainly due to the increase in employee dismissal costs and consultancy fees in the first half of 2017.

## Management Discussion and Analysis

### Research and Development Costs

	For the six months ended 30 June			
	2017		2016	
	RMB'000	% of revenue	RMB'000	% of revenue
Research and development costs	4,538	1.6%	4,979	1.5%

The Group's research and development costs decreased by 10.0% from RMB5.0 million in the first half of 2016 to RMB4.5 million in the same period of 2017, mainly because the research and development of new products was in the project initiation phase in the first half of 2017, which required relatively less expenditure.

### Taxation

Income tax expense of the Group decreased from RMB10.6 million in the first half of 2016 to RMB4.5 million in the same period of 2017. This was mainly due to the significant increase in the recognition of deferred income tax assets on previously unrecognised tax losses/deductible temporary differences during the first half of 2017.

### Total Comprehensive Income Attributable to Owners of the Company

Due to the factors set out above, the Group recorded a total comprehensive income attributable to the owners of the Company of RMB27.4 million in the first half of 2017 (for the same period of 2016: RMB3.7 million).

### Use of Net Proceeds from IPO

Net proceeds from the IPO amounted to approximately RMB1,033.2 million, which have been applied in accordance with the uses disclosed in the prospectus and the announcement dated 16 June 2015 of the Company. As at 30 June 2017, uses of the above net proceeds were detailed as follows:

	Net Proceeds from IPO		
	Available RMB'000	Utilised RMB'000	Unutilised RMB'000
Acquisition of new production equipment and building new production facilities	275,094	275,094	—
Establishment of East China Regional Headquarters	77,518	77,518	—
Beijing new office building	123,664	123,664	—
Design, research and development of new products	62,981	62,981	—
Upgrading ERP and overall IT system	8,834	8,834	—
Loan repayment	73,000	73,000	—
Expansion of traditional and internet sales and distribution network, channels and brand building	153,092	153,092	—
Working capital	109,000	109,000	—
Investment in traditional and internet medical and pharmaceutical industries	150,000	148,015	1,985
Total	1,033,183	1,031,198	1,985

## Management Discussion and Analysis

### Liquidity and Capital Resources

In the first half of 2017, funds and capital expenditure required in the operation of the Group mainly came from the cash generated from its internal operations.

### Cash Flows

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

	For the six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Net cash from/(used in) operating activities	46,725	(4,244)
Net cash used in investing activities	(89,915)	(50,755)
Net cash from/(used in) financing activities	32,316	(144,518)
Net decrease in cash and cash equivalents (before effect of foreign exchange rate changes)	(10,874)	(199,517)
Effect of foreign exchange rate changes	891	(633)
Net decrease in cash and cash equivalents	(9,983)	(200,150)

In the first half of 2017, net cash from operating activities of the Group was RMB46.7 million (for the same period of 2016: net cash used in operating activities was RMB4.2 million). The increase as compared to the same period of 2016, was mainly due to the increase in operating profits during the current period. In the first half of 2017, the net cash used in investing activities of the Group was RMB89.9 million (for the same period of 2016: RMB50.8 million). The increase as compared to the same period of 2016, was mainly due to the payment of consideration for the acquisition of the equity interest in Zhongshan Wanhan Pharmacy Co., Ltd. ("Zhongshan Wanhan"). In the first half of 2017, the net cash from financing activities of the Group was RMB32.3 million which was mainly due to the issue of shares during the current period (for the same period of 2016: net cash used in financing activities was RMB144.5 million which was mainly due to settlement of dividends).

### Bank Balances, Cash and Bank Loans

The Group's bank balances and cash, comprising cash and cash equivalents and restricted bank deposits, amounted to RMB149.3 million as at 30 June 2017, representing a decrease of 5.4% as compared to RMB157.8 million as at 31 December 2016. In addition, the Group did not have any bank borrowings and unused bank credit lines as at 30 June 2017 (as at 31 December 2016: nil).

## Management Discussion and Analysis

### Capital Expenditure

In the first half of 2017, capital expenditure of the Group was RMB10.9 million (for the same period of 2016: RMB12.6 million), mainly on construction of plants and purchases of production equipment.

### Inventories

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Raw materials and packing materials	6,340	3,816
Work in progress	873	1,028
Finished goods	12,254	17,876
Total inventories	19,467	22,720

The turnover days of the Group's inventories in the first half of 2017 (calculated by dividing the average inventory balances at the beginning and the end of the period by the cost of sales of the period, then multiplying by the number of days during the period) was 72 days (for the year ended 31 December 2016: 59 days).

### Risks in Foreign Exchange Rate

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

For the six months ended 30 June 2017, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (for the same period of 2016: nil).

## Management Discussion and Analysis

### Material Acquisitions or Disposals

On 10 March 2017 and 25 July 2017, Beijing Outsell Health Product Development Co., Ltd. ("**Beijing Outsell**") entered into an equity transfer agreement and its supplemental agreement, respectively, with Zhonghang Tuohong (Xi'an) Property Co., Ltd. (an independent third party) ("**Zhonghang Tuohong**") and Beijing Besunyen Food and Beverage Co., Ltd. ("**Besunyen Food and Beverage**"), pursuant to which (i) Beijing Outsell agreed to dispose of and Zhonghang Tuohong agreed to acquire 100% equity interest in Besunyen Food and Beverage for an aggregate consideration of RMB75,000,000; and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell. Upon completion of the equity transfer, Besunyen Food and Beverage will cease to be a subsidiary of the Company. Proceeds from the equity transfer and the debt repaid by Besunyen Food and Beverage will be used by Beijing Outsell for its operation of business and strategic investments. For details, please refer to the announcements of the Company dated 10 March 2017 and 25 July 2017.

On 10 March 2017 and 28 July 2017, Beijing Outsell, Zhongshan Wanyuan, Zhongshan Wanhan, Zhuhai Yinchen Investment Consulting Co., Ltd., Zhuhai Jiatai Chengzhang Investment Co., Ltd., Ms. LUO Dongfang, Mr. ZHAO Rui, Mr. ZOU Yong, and Ms. PENG Wei (collectively, the "**Sellers**") entered into an investment agreement (the "**Investment Agreement**") and its supplemental agreement, respectively. Pursuant to the Investment Agreement: (1) Beijing Outsell conditionally agreed to purchase and the sellers of Zhongshan Wanhan conditionally agreed to sell 39.66% equity interest in Zhongshan Wanhan for a total consideration of RMB77,100,000; and (2) Beijing Outsell conditionally agreed to make capital contribution in cash to each of Zhongshan Wanhan and Zhongshan Wanyuan in the total sum of RMB60,600,000. Pursuant to the supplemental agreement, all the rights and obligations of Beijing Outsell under the Investment Agreement shall be taken over by another subsidiary of the Group, Khorgos Besunyen Venture Investment Co., Ltd. ("**Besunyen Venture Investment**"). Upon completion of the Investment Agreement, Besunyen Venture Investment will own 51% equity interest in each of Zhongshan Wanhan and Zhongshan Wanyuan. This transaction will facilitate the Group to obtain more comprehensive qualifications in pharmaceutical research and development, manufacture and medical e-commerce, and also lay a good foundation for the Group's comprehensive layout and development in pharmaceutical industry. For details, please refer to the announcements of the Company dated 10 March 2017 and 28 July 2017.

Save as aforesaid or as otherwise disclosed herein, for the six months ended 30 June 2017, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures (for the six months ended 30 June 2016: nil).

## Management Discussion and Analysis

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

Save for those disclosed in this report, there were no other significant investments held by the Group during the first half of 2017. Apart from those disclosed in this report, there was no plan of the Group for other material investments or additions of capital assets at the date of this report.

### Issue of Shares

On 10 March 2017, the Company entered into a share subscription agreement with Ms. LI Jiaozhi, Mr. WANG Jining, Mr. LUO Xuezhi and Everyoung Investment Holdings Limited (collectively, the “**Subscribers**”), pursuant to which the Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue and allot 165,000,000 new shares of the Company (“**Subscription Shares**”) at HK\$0.5 per share subject to a lock-up period of 1 year. The Subscription Shares would be issued and allotted under the general mandate in two tranches, namely the Tranche I Subscription Shares (90,000,000 new shares of the Company) and the Tranche II Subscription Shares (75,000,000 new shares of the Company). For details, please refer to the announcements of the Company dated 10 March 2017 and 28 April 2017.

The Company has issued to the Subscribers, the Tranche I Subscription Shares and the Tranche II Subscription Shares on 22 June 2017 and 25 July 2017, respectively. For details, please refer to the announcements of the Company dated 22 June 2017 and 25 July 2017.

### Pledge of Assets

As at 30 June 2017, the Group had no pledge of assets (as at 31 December 2016: nil).

### Gearing Ratio

As at 30 June 2017, the Group’s gearing ratio (total liabilities divided by total assets, in percentage) was 17.54% (as at 31 December 2016: 13.56%).

### Contingent Liabilities and Guarantees

As at 30 June 2017, the Group had no material contingent liabilities and guarantees (as at 31 December 2016: nil)

### Capital Commitments

As at 30 June 2017, capital expenditure of property, plant and equipment contracted for but not yet incurred amounted to RMB4.9 million (as at 31 December 2016: RMB8.4 million).

As at 30 June 2017, capital investments in an associate and a joint venture contracted for but not yet incurred amounted to RMB14.7 million and RMB29.4 million, respectively (as at 31 December 2016: RMB14.7 million and RMB29.4 million).

As at 30 June 2017, capital investments in Zhongshan Wanyuan and Zhongshan Wanhan contracted for but not yet incurred amounted to RMB64.7 million.

## Management Discussion and Analysis

### Human Resources Management

The Group regards high-quality employees as its most important resource. As at 30 June 2017, the Group had 920 employees in mainland China and Hong Kong (31 December 2016: 1,156 employees), which included 22 promotional staff employed by employment agents (31 December 2016: 79). For the six months ended 30 June 2017, total labour costs (including Directors' remunerations and non-cash share-based compensation) were RMB80.7 million (for the same period of 2016: RMB71.6 million). Staff remuneration is formulated with reference to individual performance, work experience, qualification and prevailing industry practice. Apart from basic salary and statutory pension welfare, staff welfare also includes discretionary bonus and stock options.

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

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

### SUBSEQUENT EVENTS

On 25 July 2017, Beijing Outsell, Beijing Pincha Online E-Commerce Co., Ltd. ("**Pincha**"), Mr. Zhao Yihong and Ms. Gao Yan entered into a termination agreement to terminate the Structure Contracts and related confirmation and undertaking. "Structure Contracts" refers to the exclusive business cooperation agreement, the equity interest pledge agreement, the exclusive purchase agreement and the power of attorney entered into by Beijing Outsell, Pincha and Mr. Zhao Yihong, where applicable, on 28 March 2011, all of which were supplemented by a supplemental contract dated 12 July 2012 and renewed on 27 October 2014. On the same date, Beijing Outsell entered into an equity transfer agreement with Mr. Zhao Yihong, pursuant to which Mr. Zhao Yihong agreed to transfer 100% equity interest in Pincha to Beijing Outsell at nil consideration payable by Beijing Outsell. Upon the completion of the reorganization, Pincha will become a wholly-owned subsidiary of Beijing Outsell, and thus become an indirect wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company dated 25 July 2017.

On 25 July 2017, a resolution has been passed by the board of directors of the Company approving, among others, the securitisation of a property owned by the Group located at Besunyen Building of Linglong Tiandi, No. 160 West 4th Ring Road North, Beijing, the PRC (the "**Underlying Asset**") and the establishment of a quasi-reits programme (the "**Quasi-REITs Programme**") in the PRC. In the event that the Quasi-REITs Programme proceeds as planned, the net proceeds to be raised from the Quasi-REITs Programme will be amounted to approximately RMB300 million. The Quasi-REITs Programme allows optimal asset utilisation, expansion of financing channels and strengthening of liquidity of the Group, providing financial support for the development of the Group. In addition, the Group may take a share of the increased operating income from the Underlying Asset. For details, please refer to the announcement of the Company dated 25 July 2017.

## Management Discussion and Analysis

On 28 July 2017, Besunyen Venture Investment, Zhuhai Kangbaina Pharmaceutical Co., Ltd. ("**Kangbaina**"), Zhuhai Aolixin Pharmaceutical Co., Ltd. ("**Aolixin**") and their shareholders entered into an investment agreement, pursuant to which: (1) Besunyen Venture Investment agreed to purchase and the shareholders of Kangbaina agreed to sell 100% equity interest in Kangbaina for a total consideration of RMB6,000,000; and (2) Besunyen Venture Investment agreed to purchase and the shareholders of Aolixin agreed to sell 100% equity interest in Aolixin for a total consideration of RMB1,500,000. Upon completion of the transactions, Kangbaina and Aolixin will become indirect wholly-owned subsidiaries of the Company. For details, please refer to the announcement of the Company dated 28 July 2017.

# 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 20 to 40, 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 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

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

### CONCLUSION

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

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 15 August 2017

## Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Revenue	7	<b>288,241</b>	324,540
Cost of sales	8	<b>(53,507)</b>	(50,454)
<b>Gross profit</b>		<b>234,734</b>	274,086
Other income		<b>13,541</b>	18,609
Selling and marketing expenses	8	<b>(149,321)</b>	(234,057)
Administrative expenses	8	<b>(54,170)</b>	(38,898)
Research and development costs	8	<b>(4,538)</b>	(4,979)
Other expenses	8	<b>(4,525)</b>	(5,236)
Other losses, net		<b>(1,512)</b>	(327)
Share of losses of investments accounted for using the equity method	16	<b>(2,363)</b>	(298)
<b>Profit before income tax</b>		<b>31,846</b>	8,900
Income tax expense	9	<b>(4,454)</b>	(10,618)
<b>Profit/(loss) for the period</b>		<b>27,392</b>	(1,718)
<b>Profit/(loss) attributable to:</b>			
— Owners of the Company		<b>27,392</b>	3,682
— Non-controlling interests		—	(5,400)
		<b>27,392</b>	(1,718)
<b>Other comprehensive income</b>		—	—
<b>Total comprehensive income/(loss) for the period</b>		<b>27,392</b>	(1,718)
<b>Total comprehensive income/(loss) attributable to:</b>			
— Owners of the Company		<b>27,392</b>	3,682
— Non-controlling interests		—	(5,400)
		<b>27,392</b>	(1,718)
<b>Earnings per share attributable to owners of the Company (RMB cents)</b>			
— Basic earnings per share	10	<b>1.91</b>	0.24
— Diluted earnings per share	10	<b>1.91</b>	0.24

The notes on pages 25 to 40 form an integral part of this interim condensed consolidated financial information.

## Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	377,585	381,640
Land use rights	13	359,852	364,358
Investment properties	14	54,602	55,632
Intangible assets		8,487	8,397
Non-current deposits	15	82,073	8,402
Investments accounted for using the equity method	16	64,570	66,933
Deferred income tax assets	20	41,662	34,237
		<b>988,831</b>	919,599
<b>Current assets</b>			
Inventories		19,467	22,720
Trade and bills receivables	17	67,885	31,504
Deposits, prepayments and other receivables	18	47,348	13,175
Pledged bank deposits		5,355	3,911
Cash and cash equivalents		143,901	153,884
		<b>283,956</b>	225,194
<b>Total assets</b>		<b>1,272,787</b>	1,144,793
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	19	90	86
Share premium		1,088,273	1,055,961
Other reserves		319,345	319,050
Accumulated losses		(358,173)	(385,565)
<b>Total equity</b>		<b>1,049,535</b>	989,532

## Interim Condensed Consolidated Balance Sheet (Continued)

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred government grants		8,211	8,639
Deferred income tax liabilities	20	6,966	7,066
Other non-current liabilities		1,598	1,396
		<b>16,775</b>	17,101
<b>Current liabilities</b>			
Trade and bills payables	21	12,071	14,780
Other payables and accrued expenses	22	182,201	121,175
Current income tax liabilities		12,205	2,205
		<b>206,477</b>	138,160
<b>Total liabilities</b>		<b>223,252</b>	155,261
<b>Total equity and liabilities</b>		<b>1,272,787</b>	1,144,793

The notes on pages 25 to 40 form an integral part of this interim condensed consolidated financial information.

## 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	RMB'000	
<b>Balance at 1 January 2016</b>	89	1,229,764	326,773	(316,851)	1,239,775	5,960	1,245,735	
<b>Total comprehensive income/(loss) for the period</b>	—	—	—	3,682	3,682	(5,400)	(1,718)	
<b>Total transactions with owners, recognised directly in equity:</b>								
Share-based payments under share option scheme and restricted share award scheme	—	—	457	—	457	—	457	
Repurchase and cancellation of shares	(5)	(16,544)	—	—	(16,549)	—	(16,549)	
Dividends	—	(127,969)	—	—	(127,969)	—	(127,969)	
<b>Balance at 30 June 2016</b>	84	1,085,251	327,230	(313,169)	1,099,396	560	1,099,956	
<b>Balance at 1 January 2017</b>	<b>86</b>	<b>1,055,961</b>	<b>319,050</b>	<b>(385,565)</b>	<b>989,532</b>	<b>—</b>	<b>989,532</b>	
<b>Total comprehensive income for the period</b>	—	—	—	27,392	27,392	—	27,392	
<b>Total transactions with owners, recognised directly in equity:</b>								
Share-based payments under share option scheme and restricted share award scheme	—	—	295	—	295	—	295	
Repurchase and cancellation of shares	(1)	(7,026)	—	—	(7,027)	—	(7,027)	
Issue of shares (Note 2(ii))	5	39,338	—	—	39,343	—	39,343	
<b>Balance at 30 June 2017</b>	<b>90</b>	<b>1,088,273</b>	<b>319,345</b>	<b>(358,173)</b>	<b>1,049,535</b>	<b>—</b>	<b>1,049,535</b>	

The notes on pages 25 to 40 form an integral part of this interim condensed consolidated financial information.

## Interim Condensed Consolidated Statement of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
<b>Cash flow from operating activities</b>		
Cash from/(used in) operations	48,205	(3,828)
Income taxes paid	(1,979)	(5,253)
Interest received	499	4,837
<b>Net cash from/(used in) operating activities</b>	<b>46,725</b>	<b>(4,244)</b>
<b>Cash flows from investing activities</b>		
Purchases of short-term investments	(25,000)	(116,000)
Proceeds from maturity of short-term investments	25,503	86,295
Withdrawal of term deposits with initial term of over three months	—	51,201
Placement of pledged bank deposits	(8,313)	(14,472)
Withdrawal of pledged bank deposits	6,869	—
Purchases of property, plant and equipment	(14,387)	(10,408)
Purchases of intangible assets	(1,633)	(193)
Investment in joint ventures	—	(55,680)
Prepayment for acquisition of a subsidiary (Note 2(ii))	(73,035)	—
Proceeds from disposals for land use rights	—	5,296
Proceeds from disposals of property, plant and equipment	81	3,206
<b>Net cash used in investing activities</b>	<b>(89,915)</b>	<b>(50,755)</b>
<b>Cash flows from financing activities</b>		
Dividends paid to owners of the Company	—	(127,969)
Repurchase of shares	(7,027)	(16,549)
Proceeds from issue of shares	39,343	—
<b>Net cash from/(used in) financing activities</b>	<b>32,316</b>	<b>(144,518)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(10,874)</b>	<b>(199,517)</b>
Cash and cash equivalents at the beginning of period	153,884	425,858
Exchange gain/(losses)	891	(633)
<b>Cash and cash equivalents at end of period</b>	<b>143,901</b>	<b>225,708</b>

Major non-cash transactions:

During the six-month ended 30 June 2017, bills receivables of RMB5,831,000 (2016: RMB 12,143,000) have been endorsed to certain suppliers as the Group's settlement for certain purchases of raw materials and advertisement costs.

The notes on pages 25 to 40 form an integral part of this interim condensed consolidated financial information.

# Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 1. GENERAL INFORMATION

Besunyen Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. The principle activities of the Company and its subsidiaries (collectively the “Group”) are the manufacturing and sales of therapeutic tea products and slimming 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 2017 (the “current period”) has been reviewed, not audited.

This unaudited interim condensed consolidated financial information was approved for issue by the board of directors of the Company on 15 August 2017.

## 2. SIGNIFICANT EVENTS AND TRANSACTIONS

- (i) On 10 March 2017, Beijing Outsell Health Product Development Co., Ltd. (“Beijing Outsell”), a wholly-owned subsidiary of the Group, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. (“Zhongshan Wanyuan”), Zhongshan Wanhan Pharmacy Co., Ltd. (“Zhongshan Wanhan”), and the respective shareholders of Zhongshan Wanyuan and Zhongshan Wanhan (collectively the “Sellers”) entered into an investment agreement (the “Investment Agreement”), pursuant to which: (1) Beijing Outsell conditionally agreed to purchase 39.66% equity interest in Zhongshan Wanhan from the Sellers at a total consideration of RMB77,100,000 (the “Equity Transfer”); and (2) Beijing Outsell conditionally agreed to make capital contribution in cash to each of Zhongshan Wanyuan and Zhongshan Wanhan in the total sum of RMB60,600,000. Upon completion the Investment Agreement, Beijing Outsell will own 51% equity interest in each of Zhongshan Wanyuan and Zhongshan Wanhan.

As of 30 June 2017, the Company has already paid consideration of RMB73,035,000 to the Sellers for the Equity Transfer and the remaining consideration for the Equity Transfer of RMB4,065,000 was paid to the Sellers on 3 July 2017. Up to the date of this interim condensed consolidated financial information, the Group has not yet made any capital contribution in cash to Zhongshan Wanhan and Zhongshan Wanyuan.

On 28 July 2017, the Group decided to arrange another wholly-owned subsidiary of the Group, Khorgos Besunyen Venture Investment Co., Ltd. (“Besunyen Venture Investment”) to take over all the rights and obligations of Beijing Outsell under the Investment Agreement.

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

### 2. SIGNIFICANT EVENTS AND TRANSACTIONS *(Continued)*

- (ii) On 10 March 2017, the Company has entered into a share subscription agreement with certain individuals and a company (collectively the "Subscribers"), pursuant to which the Subscribers conditionally agree to subscribe for, and the Company conditionally agreed to issue and allot 165,000,000 shares (the "Shares") at HK\$0.5 per share subject to a lock-up period of one year.

On 22 June 2017, the Company has issued 90,000,000 ordinary shares to the Subscribers at HK\$0.5 per share totaling HK\$45,000,000 (equivalent to approximately RMB39,343,000).

On 25 July 2017, the Company has further issued remaining 75,000,000 ordinary shares to the Subscribers at HK\$0.5 per share totaling HK\$37,500,000 (equivalent to approximately RMB32,415,000).

- (iii) On 10 March 2017, Beijing Outsell has entered into an equity transfer agreement (the "Initial Agreement") with Zhonghang Tuohong (Xi'an) Property Co., Ltd. ("Zhonghang Tuohong") and Beijing Outsell's wholly-owned subsidiary, Beijing Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage"), pursuant to which (i) Beijing Outsell agreed to dispose of its entire 100% equity interest in Besunyen Food and Beverage to Zhonghang Tuohong at an aggregate consideration of RMB75,000,000 (the "Consideration"), as appraised by DTZ Cushman & Wakefield Limited (an independent appraiser) using asset-based approach, (the "Disposal"); and (ii) Besunyen Food and Beverage agreed to repay the debt of RMB50,000,000 to Beijing Outsell within 45 days upon the completion of the registration of the related equity transfer. The Disposal was originally expected be completed on or before 9 May 2017 according to the Initial Agreement.

On 25 July 2017, Beijing Outsell entered into a supplemental agreement (the "Supplemental Agreement") with Zhonghang Tuohong and Beijing Besunyen Food and Beverage, pursuant to which the parties agreed to adjust the payment arrangement of the consideration as follows: (i) a deposit of RMB5,000,000 (the "Deposit") shall be paid by Zhonghang Tuohong to Beijing Outsell within 60 days from the execution date of the Supplemental Agreement; (ii) the remaining portion of the Consideration shall be fully paid by Zhonghang Tuohong on or before 31 December 2018. In the event that Zhonghang Tuohong fails to pay the consideration in full on or before 31 December 2018, the Deposit as advanced by Zhonghang Tuohong will be forfeited by Beijing Outsell. As of the date of this interim condensed consolidated financial information, the Group has not yet received the Deposit.

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

### 3. BASIS OF PREPARATION AND PRESENTATION

This interim condensed consolidated financial information for the six months ended 30 June 2017 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 for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (the "2016 Annual Financial Statements").

### 4. ACCOUNTING POLICIES

The accounting policies applied are consistent with those as set out in the 2016 Annual Financial Statements of the Company.

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

Amendments to IFRSs which are effective for the financial year beginning on or after 1 January 2017 do not have any material impact on the Group.

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 2017 in this interim condensed consolidated financial information, but has already commenced an assessment of the related impact to the Group. The implication or potential impact on the Group upon the adoption of these new standards and amendments to IFRSs have already been disclosed in the 2016 Annual Financial Statements of the Company.

### 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 2016 Annual Financial statements of the Company.

### 6. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

#### 6.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2016 Annual Financial Statements of the Company.

There have been no changes in the risk management policies since year end.

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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

### 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.

## 7. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**7. REVENUE AND SEGMENT INFORMATION** (Continued)

The segment results for the six months ended 30 June 2016 are as follows:

	Tea products segment RMB'000	Slimming medicine segment RMB'000	Total RMB'000
Total revenue	252,040	72,500	324,540
Inter-segment revenue	—	—	—
<b>Revenue from external customers</b>	252,040	72,500	324,540
Cost of sales	(35,532)	(14,922)	(50,454)
Gross profit	216,508	57,578	274,086
Selling and marketing expenses	(164,745)	(69,312)	(234,057)
Research and development costs	(4,979)	—	(4,979)
<b>Segment results</b>	46,784	(11,734)	35,050
Other income			18,609
Other losses, net			(327)
Administrative expenses			(38,898)
Other expenses			(5,236)
Share of losses of investments accounted for using the equity method			(298)
Profit before income tax			8,900
Income tax expense			(10,618)
Loss for the period			(1,718)
Other segment information:			
Depreciation	17,654	18	17,672
Amortisation	4,876	408	5,284

Non-current assets are all located in the PRC.

All the revenue derived from any single external customer were less than 10% of the Group's total revenue for the six months ended 30 June 2017 and 2016.

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**8. EXPENSES BY NATURE**

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Changes in inventories of finished goods and work in progress	5,777	(11,914)
Raw materials and consumables used	21,082	40,594
Advertising costs	43,552	113,317
Employee benefit expense	80,681	71,605
Marketing and promotional expenses	45,320	53,871
Depreciation and amortisation	21,306	22,956
Entertainment and travelling expenses	6,969	7,841
Professional service fees	12,630	7,462
Stamp duties, property and other taxes	5,972	6,040
Office expenses	2,286	1,789
Maintenance and testing costs	3,130	2,441
Others	17,356	17,622
<b>Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses</b>	<b>266,061</b>	<b>333,624</b>

**9. INCOME TAX EXPENSE**

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Current income tax		
— Current income tax on profit for the period	11,979	6,634
— Over provision of PRC corporate income tax in the prior year	—	(1,160)
	11,979	5,474
Deferred income tax		
— Origination and reversal of temporary differences	(7,525)	5,144
	4,454	10,618

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

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

In November 2015, Besunyen Food and Beverage, a subsidiary of the Group, has obtained the High and New Technology Enterprise qualification for three years from 2015 to 2017, in which the applicable income tax rate during the approved period is 15%.

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

### 9. INCOME TAX EXPENSE (Continued)

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

The effective tax rate for the six months ended 30 June 2017 is approximately 14% (2016: 119%). The lower effective rate for the current period was primarily attributable to the significant increase in the recognition of deferred income tax assets on previously unrecognised tax losses/deductible temporary differences during the current period.

### 10. EARNINGS PER SHARE

#### (a) Basic

Basic earnings per share ("EPS") 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 ordinary shares purchased by the Company and held as treasury shares under the Restricted Share Award Scheme (Note 23).

	Six months ended 30 June	
	2017	2016
Profit attributable to owners of the Company (in RMB'000)	<b>27,392</b>	3,682
Weighted average number of ordinary shares in issue	<b>1,434,372,745</b>	1,523,389,319
Basic EPS (RMB cent per share)	<b>1.91</b>	0.24

#### (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 EPS). The share options had anti-diluted effect to the Group for the six months ended 30 June 2017 and 2016. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 30 June 2017 and 2016. No adjustment is made to earnings (numerator). Accordingly, the diluted earning per share is the same as the basic earnings per share for the six months ended 30 June 2017 and 2016.

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**11. DIVIDENDS****(a) Dividends attributable to the current period**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (2016: nil).

**(b) Dividends attributable to the previous financial year, approved and paid during the current period**

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Ordinary final dividend in respect of the previous financial year, approved and paid during the current period, of nil (2016: HK\$0.05 (equivalent to approximately RMB0.04)) per share	—	64,378
Special dividend in respect of the previous financial year, approved and paid during the current period, of nil (2016: HK\$0.05 (equivalent to approximately RMB0.04)) per share	—	63,591

**12. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2017, the Group has additions to and disposals of property, plant and equipment of approximately RMB10,851,000 and RMB36,000 (2016: RMB12,592,000 and RMB2,288,000) respectively.

**13. LAND USE RIGHTS**

The Group has no addition to land use rights during the current and the prior period.

During the six months ended 30 June 2017, the Group has no disposals of land use right. During the six months ended 30 June 2016, the Group had disposal of land use rights with carrying amount of approximately RMB3,678,000 which resulted in a net gain on disposals of approximately RMB1,618,000.

**14. INVESTMENT PROPERTIES**

The Group has no addition to and disposal of investment properties during the six months ended 30 June 2017 (2016: nil).

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**15. NON-CURRENT DEPOSITS**

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Prepayment for acquisition of a subsidiary (Note 2(ii))	<b>73,035</b>	—
Deposit for purchase of intangible assets	<b>9,038</b>	8,402
	<b>82,073</b>	8,402

**16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Associate	<b>6,272</b>	8,256
Joint ventures	<b>58,298</b>	58,677
	<b>64,570</b>	66,933

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Associate	<b>(1,984)</b>	—
Joint ventures	<b>(379)</b>	(298)
	<b>(2,363)</b>	(298)

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**17. TRADE AND BILLS RECEIVABLES**

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables	<b>9,807</b>	5,756
Bills receivables	<b>58,191</b>	26,150
	<b>67,998</b>	31,906
Less: allowance for doubtful debts	<b>(113)</b>	(402)
	<b>67,885</b>	31,504

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
0 to 90 days	<b>56,067</b>	24,417
91 to 180 days	<b>11,784</b>	6,914
181 to 365 days	<b>33</b>	158
Over 365 days	<b>1</b>	15
	<b>67,885</b>	31,504

**18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Prepayment for advertisement	<b>23,989</b>	2,436
Prepayments to suppliers	<b>14,606</b>	4,703
Other receivables	<b>6,486</b>	3,575
Interest receivables	<b>1</b>	95
Others	<b>2,266</b>	2,366
	<b>47,348</b>	13,175

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**19. SHARE CAPITAL**

	Number of shares	Amount US\$	Share capital RMB'000
Ordinary shares of USD0.00000833333 each			
Authorised:			
At 30 June 2017 and 31 December 2016	6,000,000,000	50,000	341
Issued and fully paid:			
At 31 December 2016	1,481,474,820	12,346	86
Repurchase and cancellation of shares	(16,267,000)	(136)	(1)
Issue of shares (Note 2 (ii))	90,000,000	750	5
At 30 June 2017	1,555,207,820	12,960	90

Note:

As at 30 June 2017, 35,601,567 (As at 31 December 2016: 36,601,567) ordinary shares with par value of USD0.00000833333 each were held by the Company for its restricted share award scheme (Note 23).

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Beginning of period	<b>34,237</b>	38,723
Credited/(charged) to profit or loss	<b>7,425</b>	(5,449)
End of period	<b>41,662</b>	33,274

**Deferred income tax liabilities**

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Beginning of period	<b>7,066</b>	8,429
Credited to profit or loss	<b>(100)</b>	(305)
End of period	<b>6,966</b>	8,124

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**21. TRADE AND BILLS PAYABLES**

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
0 to 90 days	<b>8,295</b>	10,772
91 to 180 days	<b>3,776</b>	4,008
	<b>12,071</b>	14,780

**22. OTHER PAYABLES AND ACCRUED EXPENSES**

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
Advances from customers	<b>74,807</b>	18,851
Accrued expenses	<b>32,751</b>	26,294
Taxes and surcharge payable	<b>9,672</b>	13,441
Accrued sales rebates	<b>19,156</b>	30,349
Payroll and welfare payable	<b>12,992</b>	24,576
Payable to suppliers for:		
— purchases of property, plant and equipment	<b>12</b>	316
— advertisement	<b>20,227</b>	1,908
Others	<b>12,584</b>	5,440
	<b>182,201</b>	121,175

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**23. SHARE-BASED PAYMENTS****Share option scheme**

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

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

	Pre-IPO Share Option Scheme Average		Post-IPO Share Option Scheme Average		Total number of options
	exercise price (RMB)	Number of options	exercise price (HK\$)	Number of options	
<b>At 1 January 2016</b>	1.23	76,980,000	1.01	38,260,000	115,240,000
Granted	—	—	1.00	1,500,000	1,500,000
Lapsed	1.23	(1,060,000)	1.04	(8,700,000)	(9,760,000)
<b>At 30 June 2016</b>	1.23	75,920,000	1.00	31,060,000	106,980,000
Exercisable as at 30 June 2016	1.23	75,920,000	1.00	7,215,000	83,135,000
<b>At 1 January 2017</b>	1.23	75,020,000	1.01	27,060,000	102,080,000
Granted	—	—	—	—	—
Lapsed	1.23	(500,000)	1.00	(1,820,000)	(2,320,000)
<b>At 30 June 2017</b>	1.23	74,520,000	1.01	25,240,000	99,760,000
Exercisable as at 30 June 2017	1.23	74,520,000	1.00	12,845,000	87,365,000

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

**23. SHARE-BASED PAYMENTS** (Continued)**Restricted share award scheme**

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

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

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

As at 30 June 2017, 35,601,567 (As at 31 December 2016: 36,601,567) shares were held by the Trust and not yet granted to the Selected Participants.

Movements in the number of restricted shares are as follows:

	Number of shares held for the Restricted Share Award Scheme	Number of awarded shares	Total
<b>At 1 January 2016 and 30 June 2016</b>	36,801,567	—	36,801,567
<b>At 1 January 2017</b>	36,601,567	200,000	36,801,567
Granted	(1,000,000)	1,000,000	—
Vested and transferred	—	(1,200,000)	(1,200,000)
<b>At 30 June 2017</b>	35,601,567	—	35,601,567

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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

As at 30 June 2017, capital expenditure of property, plant and equipment contracted for but not yet incurred amounted to approximately RMB4,913,000 (as at 31 December 2016: RMB8,442,000).

As at 30 June 2017, capital investments in an associate and a joint venture contracted for but not yet incurred amounted to RMB14,700,000 and RMB29,370,000, respectively (as at 31 December 2016: RMB14,700,000 and RMB29,370,000).

As at 30 June 2017, capital investments in Zhongshan Wanyuan and Zhongshan Wanhan contracted for but not yet incurred amounted to RMB64,665,000.

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

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
No later than 1 year	1,924	1,105
Later than 1 year and no later than 5 years	272	353
	<b>2,196</b>	1,458

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

*The Group as lessor*

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

	As at	
	30 June 2017 RMB'000	31 December 2016 RMB'000
No later than 1 year	25,878	20,057
Later than 1 year and no later than 5 years	41,279	27,112
	<b>67,157</b>	47,169

## Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2017

### 25. RELATED PARTY TRANSACTIONS

#### Key management compensation

Key management includes Chief Executive Officer, Chief Operating 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	
	2017 RMB'000	2016 RMB'000
Salaries, bonus and other allowances	4,243	4,789
Share-based compensation	430	572
Pension cost — defined contribution plan	166	116
	<b>4,839</b>	5,477

### 26. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

- (i) On 25 July 2017, the Company entered into an agreement for the securitisation of a property owned by the Group located in Beijing, the PRC and the establishment of a quasi-reits programme (the “Quasi-REITs Programme”) in the PRC. As such, Beijing Outsell will participate into a fund (the “Fund”) established by GSUM Capital Management Co., Ltd., and subscribe all subordinate tranche of the Fund. In the event that the Quasi-REITs Programme proceeds as planned, the net proceeds to be raised from the Quasi-REITs Programme will be amounted to approximately RMB300 million.
- (ii) On 28 July 2017, Besunyen Venture Investment entered into an investment agreement (the “Investment Agreement”) with Zhuhai Kangbaina Pharmaceutical Co., Ltd. (“Kangbaina”), Zhuhai Aolixin Pharmaceutical Co., Ltd. (“Aolixin”), and the respective shareholders of Kangbaina and Aolixin (collectively the “Sellers”), pursuant to which Besunyen Venture Investment agreed to purchase and the Sellers agreed to sell 100% equity interest in Kangbaina and Aolixin at considerations of RMB6,000,000 and RMB1,500,000 respectively. Upon completion of the aforesaid transactions, Kangbaina and Aolixin will become indirect wholly-owned subsidiaries of the Group.

## Other Information

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

As at 30 June 2017, so far as known to the Directors, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered into in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Name of Director/ Chief Executive	Nature of interest	Number of Shares/options	Number of options granted under the Pre-IPO Share Option Scheme	Number of options granted under the Share Option Scheme	Approximate percentage of total issued Shares (%) <sup>(7)</sup>
Mr. ZHAO Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director <sup>(1)(3)</sup>	873,255,216 <sup>(1)(4)</sup>	36,000,000 <sup>(1)(4)</sup>	5,000,000 <sup>(1)(4)</sup>	56.15%
Ms. GAO Yan	Beneficial owner and interest of her spouse <sup>(2)(3)</sup>	873,255,216 <sup>(2)(4)</sup>	36,000,000 <sup>(2)(4)</sup>	5,000,000 <sup>(2)(4)</sup>	56.15%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	1,136,000 <sup>(4)(4)</sup>	400,000 <sup>(4)(4)</sup>	600,000 <sup>(4)(4)</sup>	0.07%
Ms. ZHANG Guimei	—	—	—	—	—
Mr. HUANG Jingsheng	Beneficial owner	1,100,000 <sup>(5)(4)</sup>	500,000 <sup>(5)(4)</sup>	600,000 <sup>(5)(4)</sup>	0.07%
Mr. REN Guangming	Beneficial owner	970,000 <sup>(6)(4)</sup>	—	600,000 <sup>(6)(4)</sup>	0.06%
Mr. HE Yuanping	—	—	—	—	—

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

- (i) 816,259,176 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;
- (ii) 14,255,040 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and
- (iii) 12,000,000 options granted under the Pre-IPO Share Option Scheme and 1,000,000 options granted under the Share Option Scheme, which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse.

## Other Information

- (2) Ms. Gao Yan, executive Director, beneficially owns 12,000,000 options granted under the Pre-IPO Share Option Scheme and 1,000,000 options granted under the Share Option Scheme. Ms. Gao is also deemed or taken to be interested in the following Shares/options for the purposes of the SFO:
- (i) 1,741,000 Shares beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;
  - (ii) 816,259,176 Shares which are deemed to be beneficially owned by Mr. Zhao, as controlling shareholder of Foreshore Holding Group Limited;
  - (iii) 14,255,040 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Better Day Holdings Limited; and
  - (iv) 24,000,000 options granted under the Pre-IPO Share Option Scheme and 4,000,000 options granted under the Share Option Scheme, which are beneficially owned by Mr. Zhao.
- (3) 84.15% of the issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.
- (4) Mr. Zhuo Fumin, non-executive Director, beneficially owns 400,000 options granted under the Pre-IPO Share Option Scheme and 600,000 options granted under the Share Option Scheme. Mr. Zhuo is also deemed or taken to be interested in the 136,000 Shares beneficially owned by his wife for the purposes of the SFO.
- (5) Mr. Huang Jingsheng, independent non-executive Director, beneficially owns 500,000 options granted under the Pre-IPO Share Option Scheme and 600,000 options granted under the Share Option Scheme.
- (6) Mr. Ren Guangming, independent non-executive Director, beneficially owns 600,000 options granted under the Share Option Scheme and 370,000 Shares.
- (7) This is calculated based on 1,555,207,820 Shares, being the number of Shares in issue as at 30 June 2017. The percentage of interest in the columns includes the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, 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 (%) <sup>(3)</sup>
Foreshore Holding Group Limited <sup>(1)</sup>	816,259,176 <sup>(L)</sup>	52.49%
KCS Trust Limited <sup>(1)</sup>	816,259,176 <sup>(L)</sup>	52.49%
Sea Network Holdings Limited <sup>(1)</sup>	816,259,176 <sup>(L)</sup>	52.49%
China Hui Yuan Juice Holdings Co., Ltd. <sup>(2)</sup>	167,143,424 <sup>(L)</sup>	10.75%
Huiyuan International Holdings Limited <sup>(2)</sup>	167,143,424 <sup>(L)</sup>	10.75%
Mr. ZHU Xinli <sup>(2)</sup>	167,143,424 <sup>(L)</sup>	10.75%

## Other Information

- (1) 84.15% of the issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.
  - (2) The entire issued share capital of China Hui Yuan Juice Holdings Co., Ltd. is directly owned by Huiyuan International Holdings Limited. The entire issued share capital of Huiyuan International Holdings Limited is directly owned by Mr. Zhu Xinli.
  - (3) This is calculated based on 1,555,207,820 Shares, being the number of Shares in issue as at 30 June 2017.
- \* The letter "L" denotes the person's long position in such Shares.

Save as disclosed above, as at 30 June 2017, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## PRE-IPO SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all options granted under the Pre-IPO Share Option Scheme is 74,520,000, representing approximately 4.57% of the issued shares as at the date of this interim report.

Details of specific category of options are as follows:

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

## Other Information

The following table discloses the movement of the Company's share options held by the Directors, employees and consultants under the Pre-IPO Share Option Scheme for the six months ended 30 June 2017:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2017	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30/6/2017
Executive directors								
Zhao Yihong	6.5.2010	1st	3.5 Years	24,000,000	—	—	—	24,000,000
Gao Yan	6.5.2010	1st	3.5 Years	12,000,000	—	—	—	12,000,000
				36,000,000	—	—	—	36,000,000
Non-executive directors								
Zhuo Fumin	6.5.2010	2nd	4 Years	400,000	—	—	—	400,000
				400,000	—	—	—	400,000
Independent non-executive directors								
Arthur Wong Lap Tat (resigned on 23 April 2014)	28.6.2010	7th	3.9 Years	500,000	—	(500,000)	—	—
Huang Jingsheng	6.5.2010	2nd	4 Years	500,000	—	—	—	500,000
				1,000,000	—	—	—	500,000
Employees and consultants in aggregate								
	6.5.2010	1st	3.5 Years	33,830,000	—	—	—	33,830,000
	6.5.2010	2nd	4 Years	3,490,000	—	—	—	3,490,000
	31.5.2010	5th	3.9 Years	—	—	—	—	—
	21.6.2010	6th	3.9 Years	100,000	—	—	—	100,000
	28.6.2010	7th	3.9 Years	200,000	—	—	—	200,000
				37,620,000	—	—	—	37,620,000
				75,020,000	—	(500,000)	—	74,520,000
Weighted average exercise price (RMB)				1.23	—	1.23	—	1.23
Exercisable at the end of the period								74,520,000

There were no share options granted or exercised under the Pre-IPO Share Option Scheme during the six months ended 30 June 2017.

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

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

## Other Information

- (ii) up to 50% of the option was exercisable during the period from the first anniversary of the first semi-anniversary and ending on the expiry of the option period;
- (iii) up to 75% of the option was exercisable during the period from the second anniversary of the first semi-anniversary and ending on the expiry of the option period; and
- (iv) up to 100% of the option was exercisable during the period from the third anniversary of the first semi-anniversary and ending on the expiry of the option period.

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

- (i) up to 30% of the option was exercisable during the period from 6 May 2011 and ending on the expiry of the option period;
- (ii) up to 60% of the option was exercisable during the period from 6 May 2012 and ending on the expiry of the option period; and
- (iii) up to 100% of the option was exercisable during the period from 6 May 2013 and ending on the expiry of the option period.

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

- (i) up to 25% of the option was exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period;
- (ii) up to 50% of the option was exercisable during the period from the second anniversary of the commencement date and ending on the expiry of the option period;
- (iii) up to 75% of the option was exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and
- (iv) up to 100% of the option will be exercisable during the period from the fourth anniversary of the commencement date and ending on the expiry of the option period.

The Group recognised no expense for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil) in relation to share options granted under the Pre-IPO Share Option Scheme by the Company.

## Other Information

### SHARE OPTION SCHEME

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

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

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

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

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

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

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

## Other Information

The following table discloses the movement of the Company's share options held by the Directors, employees and consultants under the Share Option Scheme for the six months ended 30 June 2017:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2017	Granted during the period	Cancelled during the period	Lapsed during the period	Exercised during the period	Outstanding at 30/6/2017
Executive directors									
Zhao Yihong	27.10.2014	1st	4 Years	4,000,000	—	—	—	—	4,000,000
Gao Yan	27.10.2014	1st	4 Years	1,000,000	—	—	—	—	1,000,000
				5,000,000	—	—	—	—	5,000,000
Non-executive directors									
Zhuo Fumin	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
Zhang Guimei	—	—	—	—	—	—	—	—	—
				600,000	—	—	—	—	600,000
Independent non-executive directors									
Huang Jingsheng	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
				1,200,000	—	—	—	—	1,200,000
Employees and consultants in aggregate									
	27.10.2014	1st	4 Years	7,800,000	—	—	—	—	7,800,000
	27.10.2014	2nd	4 Years	10,560,000	—	—	(820,000)	—	9,740,000
	27.10.2014	3rd	4 Years	600,000	—	—	(600,000)	—	—
	10.8.2015	4th	4 Years	400,000	—	—	—	—	400,000
	10.8.2015	5th	4 Years	—	—	—	—	—	—
	15.3.2016	6th	4 Years	500,000	—	—	—	—	500,000
	20.12.2016	7th	4 Years	400,000	—	—	(400,000)	—	—
				20,260,000	—	—	1,820,000	—	18,440,000
	Total			27,060,000	—	—	1,820,000	—	25,240,000
Weighted average exercise price (HK\$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the period									12,845,000

Pursuant to the Share Option Scheme, the share options granted on 27 October 2014, 10 August 2015 and 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;

## Other Information

- (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 2017. The inputs into the model were as follows:

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

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

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

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

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

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

The Group recognized a total deductible of RMB255,000 for the six months ended 30 June 2017 (for the six months ended 30 June 2016: expense of RMB457,000) in relation to share options granted under the Share Option Scheme by the Company.

## Other Information

### RESTRICTED SHARE AWARD SCHEME

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

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

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

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

On 28 May 2014, 2,195,000 shares were granted by the Company to Selected Participants at nil consideration, and vested on 28 June 2014. On 21 November 2014, 200,000 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 22 December 2014.

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

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

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

As at 30 June 2017, 35,601,567 shares (31 December 2016: 36,801,567 shares) were held by the Trust and not yet vested to Selected Participants.

The Group recognized a total expense of RMB550,000 for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil) in relation to the restricted shares granted under the Restricted Share Award Scheme by reference to the share price of the Company on the grant dates.

## Other Information

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the six months ended 30 June 2017 and outstanding at 30 June 2017:

<b>Employees</b>	<b>Number of awarded shares</b>
Outstanding as at 1 January 2017	200,000
Granted during the period	1,000,000
Vested during the period	(1,200,000)
Outstanding as at 30 June 2017	—

The closing price of the Company's shares immediately before 2 December 2016, the date of grant of the restricted shares, was HK\$0.56.

The closing price of the Company's shares immediately before 14 February 2017, the date of grant of the restricted shares, was HK\$0.50.

Save as disclosed above, during the six months ended 30 June 2017, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors had any right to subscribe for the securities of the Company, or had exercised any such right during the aforesaid period.

## CORPORATE GOVERNANCE

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the six months ended 30 June 2017, except for code provision A.2.1 of the CG Code.

### CODE PROVISION A.2.1

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 27 years of experience in food and beverage industry in the PRC. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

## AUDIT COMMITTEE

As at the date of this interim report, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Huang Jingsheng and Mr. Ren Guangming. The Audit Committee has reviewed the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2017 and this interim report, the accounting principles and practices adopted by the Group and discussed the Group's internal controls and financial reporting matters.

## Other Information

### REVIEW OF INTERIM RESULTS

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2017 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 2017.

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

The Shares repurchased by the Company on the Stock Exchange during the six months ended 30 June 2017 are as follows:

Month	Number of Shares repurchased	Price per Share		Total consideration HK\$'000
		Highest HK\$	Lowest HK\$	
January	15,267,000	0.50	0.47	7,378
Total	15,267,000	0.50	0.47	7,378

The above repurchase was made to increase the net assets and earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the six months ended 30 June 2017.

### CHANGES IN THE INFORMATION OF DIRECTORS

The changes in the information of the Directors from the date of the 2016 annual report to the date of this interim report that is required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

Name of Director	Details of Changes
Zhuo Fumin	Ceased to be a management partner of GGV Capital.  Acting as the chairman and a managing partner of V Star Capital.

## Other Information

### INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017.

On behalf of the Board

**ZHAO Yihong**

*Chairman*

Hong Kong, 15 August 2017