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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 926

ANNUAL REPORT 2022

Corporate Profile

Besunyen Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") is a leading provider of therapeutic teas in the People's Republic of China (the "**PRC**"), mainly engaging in the research and development, production, sale and promotion of therapeutic teas and medicines. By tagging along with the concept of "herbal, healthy, and quality functional tea", the Group has produced Besunyen Detox Tea (碧生源牌常潤茶) and Besunyen Slimming Tea (碧生源牌常菁茶) (previously known as "碧生源牌減肥茶") (collectively, the "**Two Teas**") for twenty years. The Company has dedicated itself to further developing the Two Teas in recent years and successively launching its product series of functional teas such as Besunyen Fit Tea (碧生源牌纖纖茶) and Besunyen Relief Tea (碧生源牌清源茶) (together with the Two Teas, the "**Four Teas**"). As of 31 December 2022, the Four Teas recorded an accumulated sales volume of over 5.843 billion bags, with an accumulated sales amount of over RMB7.877 billion. Since April 2015, the Group has commenced sale of LARLLY Orlistat weight-loss capsule, and the Group acquired Zhongshan Wanhan Pharmacy Co., Ltd. ("**Zhongshan Wanhan**") and Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("**Zhongshan Wanyuan**", together "**Zhongshan Wanhan and Wanyuan**") in October 2017. The principal business activities of Zhongshan Wanhan and Wanyuan are the research and development, production and sale of over-the-counter ("**OTC**") medicines such as Besunyen Orlistat weight-loss capsule. As such, the Group has expanded from slimming therapeutic tea market to weight-loss medicine OTC market and has comprehensively covered the slimming market segment. The Group acquired Henan Xueyinghua Pharmaceutical Co., Ltd. (河南雪櫻花製藥有限公司, "**Xueyinghua**") in April 2021. Xueyinghua is principally engaged in the production and sale of medicines in different dosage forms such as soft capsules, hard capsules and tablets. The acquisition of Xueyinghua further expanded the Group's qualifications in pharmaceutical research and development and production, while laying a strong foundation for the Group's comprehensive layout and development in the pharmaceutical field, and the full industry chain of the Group, which comprises medicines, health food, medical devices and general food, is gradually established.

The production base of the Group's Four Teas is located in Fangshan District, Beijing. Its production plant and production process are in compliance with the national GMP standards, and the Four Teas have passed the certifications of ISO9001, ISO22000 and HACCP. Introduced from IMA, an Italian company, its packing equipment is C24 tea bag high-speed machine with a special design of tea bag with its tag linked with "cotton thread nautical knot", allowing inner and outer part of a bag shaped up at the same time and completing the bag production process automatically. Its production facilities undergo closed-ended management, and its pelleting facilities and inter packing facilities are class 100,000 clean areas furnished with temperature and humidity monitoring. The Group uses natural Chinese herbs and tea leaves as raw materials to research, develop, formulate and produce the Four Teas, providing safe,

effective, convenient-to-use and affordable therapeutic products for those who have needs in aspects such as laxative and weight management or who are mildly affected by such problems.

The production, research and development base of the Group's Besunyen Orlistat weight-loss capsule is located in Zhongshan City, Guangdong Province. Its production plant and production process are in compliance with the national GMP standards. It has a sound quality management system as well as software and hardware facilities that meet the demands of medicine research, development and production. Zhongshan Wanhan is also equipped with various production lines for medicines in different dosage forms, including hard capsule and film agent, and is capable of producing active pharmaceutical ingredients. Zhongshan Wanhan and Wanyuan have passed the certification of intellectual property management system, and are intellectual property demonstration enterprises in Guangdong Province, national intellectual property advantage enterprises and high-tech enterprises.

The factory of Xueyinghua of the Group is located in Zhoukou, Henan Province. It has a sound quality management system, and its production plant and production process are in compliance with the national GMP standards, and its production facilities undergo closed-ended management. Xueyinghua is mainly engaged in the research and development, production and sale of medicines in three main dosage forms, namely soft capsules, hard capsules and tablets. It currently owns a total of 53 medicine approvals, among which Xinnaoqing soft capsules, garlic oil soft capsules and compound vitamin U capsules are innovative medicines. The acquisition and production commencement of Xueyinghua lays a solid foundation for the Group's comprehensive layout and development in the pharmaceutical field.

In 2022, the Group's offline sales business covered about 400,000 OTC pharmacies and the retail terminals in shopping malls and supermarkets, spanning across 31 provinces, autonomous regions and municipalities across the country, through 67 distributors and 96 sub-distributors, and its offline sales team has been able to serve about 100,000 OTC pharmacies as well as shopping malls and supermarkets directly. The Group's online sales team has established 122 shops on 35 e-commerce platforms to conduct the sales of the Four Teas, Orlistat and other products of the Group. The above matured channels enabled the Group to launch its new products to the market more quickly, thereby maintaining the industrial leading position of the Group in terms of sales of products.

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Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Yihong
(Chairman and Chief Executive Officer)
Ms. Gao Yan *(Vice Chairman)*
Mr. Yu Hongjiang
(Executive Vice President, Chief Operating Officer and Chief Financial Officer)

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

Mr. Ren Guangming#
Mr. He Yuanping
Mr. Fu Shula
Mr. Mou Wenjun*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Fu Shula *(Chairman)*
Mr. Zhao Yihong
Mr. Yu Hongjiang^
Mr. Ren Guangming#
Mr. He Yuanping
Mr. Mou Wenjun*

NOMINATION COMMITTEE

Mr. Ren Guangming *(Chairman)*#
Mr. Zhao Yihong
Mr. Yu Hongjiang^
Mr. He Yuanping
Mr. Fu Shula
Mr. Mou Wenjun*△

* appointed on 17 March 2023
\# ceased to act on 23 April 2023
△ appointed as Chairman on 23 April 2023
^ appointed on 23 April 2023

STRATEGIC INVESTMENT COMMITTEE

Mr. Zhuo Fumin *(Chairman)*
Mr. Zhao Yihong
Mr. Yu Hongjiang*
Mr. He Yuanping
Mr. Mou Wenjun*

COMPANY SECRETARY

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

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Corporate Information

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Chairman and CEO's Report

"Since its establishment 22 years ago, the Group has been committed to the research and development, production and sales of functional products for weight management and gastrointestinal health. It continues to operate its products through offline OTC pharmacies, shopping malls and supermarkets and online channels, and benefits from the marketing efforts of the Besunyen brand, enabling the sales of the Group's products to maintain a leading position in China's big health sector. Since the acquisition of Zhongshan Wanhan in 2017, the Group has expanded its business from the slimming therapeutic tea market to the weight-loss drug market. With nearly 5 years' efforts of the research and development, production and sales team, Besunyen Orlistat has won a place in the e-commerce weight-loss drug sector. The acquisition of Xueyinghua by the Group in April 2021 enables the Group to obtain more comprehensive qualifications in the pharmaceutical production. Going forward, the Group will gradually establish the comprehensive layout in big health industry. During the reporting period, the Group has continuously adhered to 'One Focus and Two Dimensions' as the guideline for its business development. To be specific, 'One Focus' means focusing on the development of the industry of herbs and health regimen; and 'Two Dimensions' means devoting to and expanding new businesses in the areas of weight loss and weight management as well as laxative and gastrointestinal health. The management closely followed the guideline of 'One Focus and Two Dimensions', actively promoted the expansion of the businesses of Besunyen, and continued to explore new channels, new products and new business models so as to grasp the development opportunities arising from the big health industry, enhance the corporate's competitive advantages, strengthen the competitive position of Besunyen in the industry and hence bring more profits to the shareholders."

ZHAO Yihong
Chairman and CEO

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Director(s)**") of the Company, I hereby present to you the audited annual results report of the Group for the year ended 31 December 2022 (the "**Reporting Period**").

The revenue of the Group for the Reporting Period was RMB943.3 million, representing a decrease of 14.3% from RMB1,101.2 million for the same period of last year. The Group recorded a loss of RMB104.4 million, which was slightly narrowed from the loss of RMB114.0 million for the same period of last year. Loss attributable to owners of the Company amounted to RMB99.1 million, bouncing back from the loss of RMB145.7 million for the same period of last year.

The year of 2022 was an extremely important year in the history of the Community Party and the State. With the rapidly changing global situation, the impact of the COVID-19 pandemic and the domestic economic downturn in recent years, the economic recovery of China could be fragile, and the tremendous pressure from three factors including demand contraction, supply shock and weakening expectations has become the greatest uncertainty affecting the economic trend in the short run, putting the operation and management of the Group under tough challenges as a result. To this end, based on a comprehensive review of its preliminary work, the Group conducted in-depth analysis of the internal and external environment, proactively adapted to new situation and new changes, embraced new challenges, and seized new opportunities. Adhering to its operating principles of "stabilizing operation, adjusting structure, reducing costs, and improving quality and efficiency", while normalized pandemic prevention and control was under way, the Group continued to seek innovative methods and push forward the development and implementation of various tasks. During the Reporting Period, the Group set a clearer operating objective of achieving profitability and positive operating cash flow, and continuously explored the strategies, paths and methods for corporate development and achieving operating objectives. The organization and team building was strengthened while the performance appraisal method and incentive mechanism were improved to give full play to the enthusiasm of employees and empower various tasks of operation and management. The Group consolidated the management foundation, improved and optimized the marketing strategy, innovated the marketing means, adjusted the product structure, established a flexible supply chain to reduce costs and increase efficiency, and streamlined and integrated departments to enhance efficiency. Moreover, we overcame various difficulties caused by the pandemic, made every effort to optimize the Group's operation quality and asset quality, steadily facilitated efficiency enhancement, and continuously accumulated strength, thereby laying a solid foundation for the development of the Group.

Chairman and CEO's Report

Over the years, China has been keeping up the development momentum of the big health industry and it has promulgated a series of important documents and measures. It also made the decision and deployment for the implementation of the Healthy China initiative during the "13th Five-Year" period. At the national health and well-being convention held by the Central Committee of the Communist Party and the State Council, the Outline of the "Healthy China 2030" Plan was issued and the "14th Five-Year" Plan for National Health Plan was compiled. The steady advancement of the Healthy China process and action has laid a solid policy foundation for the quality and substantial development of the big health industry.

From 1978 to 2022, the per capita disposable income of Chinese residents increased year by year. According to the data released by the National Bureau of Statistics on 17 January 2023, the gross domestic product (GDP) in 2022 exceeded RMB121 trillion and the per capita disposable income of Chinese residents reached RMB36,900. With the growing consumption ability and health awareness of residents, the aging population of China and the rise of "silver economy", people pursue a healthier lifestyle upon satisfying the material needs of life. Therefore, the demand for health will be growing steadily with unlimited potential for future development. This will bring new development opportunities to all industry participants and provide an ample market space for the long-term development of the big health industry.

As always, the public demand for health products is the root of Besunyen, while consumer satisfaction is the greatest value of Besunyen brand. Against the above backdrop, in 2023, the Group will remain market-oriented and proactively serve the public demand for a better and healthier life. We will continue to adhere to the "One Focus and Two Dimensions" product strategy, focusing on the two major healthcare functional areas, namely "weight loss and weight management" and "laxative and gastrointestinal health". By keeping abreast of the changes in consumer demand, the Group can constantly optimize the product structure, make constant and rapid upgrades of products and services, and successively launch products that satisfy different groups of people in terms of age and health needs, so that users can get higher quality products and better experience.

The Group will continue to steadily advance the brand building of Besunyen, focusing on the sales of core products including the Four Teas (Besunyen Detox Tea (碧生源牌常潤茶), Besunyen Slimming Tea (碧生源牌常菁茶), Besunyen Fit Tea (碧生源牌纖纖茶) and Besunyen Relief Tea (碧生源牌清源茶)) and Orlistat which will also drive the sales of other related products. Business and chain channels will be expanded continuously while consolidating the fundamentals of the "offline business" of traditional physical pharmacies. Platform investment will be optimized continuously to increase traffic conversion and improve the performance of the "online business". The Group will continue to proactively explore and develop O2O and B2C business, as well as new e-commerce models represented by live streaming, short video and interest-based e-commerce with a view to seizing more future development opportunities. Also, we will develop a channel network with three-dimensional coverage of online, offline and e-commerce platforms and new retail, and comprehensively use various forms of modern information technology and means to reach consumers through diversified ways, so as to better communicate with and serve consumers.

Meanwhile, the Group will accumulate strengths for its development by constantly increasing the investment in research and development and developing new products. Digital upgrade will be strengthened to empower management, marketing, supply chain management and customer relationship management. The Company will further carry out the organizational streamlining and process optimization, improve the KPI assessment mechanism and internal "horse racing" mechanism, stimulate the innovation motivation and vitality of employees, and promote the cost reduction and efficiency improvement of all the employees, in a bid to achieve the Company's business objectives with high-quality and comprehensive development.

We must seize the opportunity brought by the forthcoming explosive growth of the big health industry, and gradually complete the layout by expanding into pharmaceuticals, medical devices and general food based on health food. Based on the market consumption demand, we will respond scientifically, actively seek changes and explore, and fully release the brand potential to continuously meet the health demands of the people. We never stop on the road to change, and every day is the starting point. The change and iteration are a process for an enterprise to get out of its predicament under the current market structure. Every iteration will solidify us, and we will certainly accumulate greater strength for the future.

On a new journey with the same original intention, Besunyen will continue to contribute more high-quality products to the development of the big health market and the well-being of Chinese people, and be a part to make China's health dream come true.

OVERVIEW OF THE INDUSTRY WHERE THE COMPANY OPERATED DURING THE REPORTING PERIOD — INDUSTRY POLICIES AND DEVELOPMENT

1. Overview of the industry where the Company operated

The Company was principally engaged in the production and sales of health food, pharmaceutical ingredients and preparations and food products.

In broad terms, health food refers to the food, drugs and other devices and supplies that people need in their daily life and have the protection and health benefits for human body. Health product is a colloquial term in China for health food. According to China Healthcare Association, health food is defined as food that have specific health functions or supplement vitamins and minerals intake, which is suitable for consumption by specific groups of people and regulates human body functions, but is not used for the purpose of treating diseases, and should not pose any acute, sub-acute or chronic hazard to the human body.

2. Policies of the health food industry

During the "12th Five-Year" period (2011–2015), the "nutrition and health food manufacturing industry" was included in the national development plan for the first time. In June 2017, the State Council issued the National Nutrition Plan (2017–2030), which proposed to focus on the development of new nutrition and health food such as health food, nutrient-fortified food and double protein food. The "14th Five-Year" Plan for the Development of Traditional Chinese Medicine was issued in 2022, which proposed to vigorously develop the Chinese medicine health products, and advocated to vigorously develop the Chinese medicine health products at the national level. In April 2020, seven ministries and commissions including the State Administration for Market Regulation jointly issued the Action Plan for Clean-up and Rectification of Health Food Industry (2020–2021); and on 17 January 2022, the State Administration for Market Regulation issued public solicitation documents such as the Announcement on the Publication of Non-nutrient Supplements in the Catalog of Healthcare Functions that Health Foods Are Permitted to Claim to Possess (2022 Edition) and Supporting Documents (Draft for Comments), and the Interpretations of Function Claims for Health Foods (2022 Edition) (Draft for Comments). The above policies are conducive to purifying the order of health food market and have formulated a set of clear concept claim system and standards for health food. With the gradual improvement of laws and regulations, the entire industry is developing in a more orderly and healthy direction.

3. Development of the health product industry

In October 2022, the 20th National Congress Report clearly stated that it is necessary to advance the Healthy China initiative, give strategic priority to ensuring the people's health and improve policies on promoting people's health. The big health industry was one of the important industries to advance the Healthy China initiative. China has attached great importance to people-oriented concept, and the government has proposed a feasible new medical reform proposal and the healthy development strategy of "Healthy China 2030". This policy has lifted the basic national policy of being a "healthy strong country" to a national strategic level, in which the government will further increase its investment in medical health industry. Favorable policies have also become an important driving force for the development of the big health industry.

In recent years, the scale of the global consumer health product industry has continued to grow. The United States is in a leading position in the world in terms of market size, and the market is relatively mature. Although the Chinese market has started late than the markets of the United States and other developed countries, it is now in the stage of rapid development after experiencing varies stages including slow start, rapid rise, vigorous development, disorderly expansion, trust crisis, and rectification.

According to Euromonitor, as of 2021, the size of the global consumer health product industry reached US$273.242 billion, of which the size of the US market was US$85.298 billion, accounting for 31.22% of the global market and ranking first in the world. China's market size was US$48.536 billion, accounting for 17.76% of the global market and ranking second. It is expected that, by 2025, the size of China's consumer health product industry will reach US$62.401 billion and will be growing at a rate of over 6%. Due to the COVID-19 pandemic, consumers become more aware of health that will objectively facilitate the industry development. It is expected that the industry will remain a good growth trend in the future.

4. Position of the Company in the health product industry

The Company has focused on the research and development, production, sale and promotion of therapeutic teas for more than 22 years. We insisted on the continuous improvement of product application and innovation capability, steadfastly adhered to the principle of quality first, and proactively explored the ability and content for providing customers with better services and added value. Leveraging the modern, high-standard production plants and production management system with GMP certification, as well as the persistent good experience of customers, Besunyen has built up the no. 1 brand image in the field of health teas. The Company currently owns 24 approvals for health food (12 for teas, 7 for granules and 5 for capsules) with therapeutic functions covering weight loss, laxative relief, physical fatigue relief, sleep improvement, reduction of skin age spots, immunity enhancement and assistance in lowering blood sugar level. As one of the largest therapeutic tea enterprise in China, the Company has 18 health tea production lines equipped with the state-of-the-art IMA-C24 fully automatic tea bag machine from Italy, and it also has strong production capacity. The Company has launched Besunyen Detox Tea, Besunyen Slimming Tea, Besunyen Fit Tea, Besunyen Relief Tea and Besunyen Herbsmooth Tea (碧生源牌潤元茶) and other series of therapeutic tea products successively for more than 20 years, which have passed the certifications of ISO9001, ISO22000 and HACCP.

BUSINESS OPERATION AND MANAGEMENT REVIEW

In 2022, with the strategy of in-depth development in the big health industry, the Company strived to create new growth momentum for the Group by continuously facilitating innovation, expanding multi-channel deployment, refining online and offline operation while innovating e-commerce business and exploring digital marketing and new retail business. At the same time, we divided small business units in respect of internal management and operation, deepened matrix organization and management, strengthened the operation support of professional platforms for our business, and paid more attention to the access and demand analysis of C-end consumers and daily operation analysis in a bid to improve operational efficiency and results.

During the Reporting Period, the operation and management of the Group focused on the following aspects:

1. Achieving sales growth by consolidating the fundamentals of offline business and strengthening OTC business and chain cooperation

The "offline business" of traditional physical pharmacies was the foundation of the Company's business, and the sales to OTC channels were mainly made through distributor management model. The Company managed and improved the regions, products, product display, promotion and pricing through distributors' distribution channels and terminal coverage capabilities. The Company maintained long-term cooperative relationship with every distributor with better regional coverage, thereby forming stable strategic alliances for joint development. As of this year, the Company had 163 distributors and sub-distributors. We managed and promoted our products through cascading marketing channels, covering nearly 300,000 National Key Account (NKA) and Local Key Account (LKA) terminal pharmacies across the country. In order to provide quick services to channels and distributors, the Company has set up four groups and managed 16 business regions with 64 regional offices across the country to conduct regional organization management and services for OTC business.

In response to the characteristics of traditional business and the trend of chain operation, the Company made corresponding adjustments to the organizational structure by including management personnel specifically responsible for NKA and LKA business in each group, who strengthened in-depth strategic cooperation and services with business partners, NKA and LKA, focused on the development of top 100 chain stores nationwide, and carried out various forms of marketing activities and shop assistant training, thus continuously improving the terminal distribution rate and turnover rate.

Affected by the general market environment and pandemic, the trend of offline customers shifting to online shopping has been increasingly intensified, and the marketing model transformation and upgrading of the OTC business has to be accelerated. Hence, the Company continued to strengthen cooperation with terminal business, enhance in-depth interaction with chain stores and business. Through cooperation with customers, the Company made use of its own platform and membership resources to reach consumers through O2O sales model, and increased offline customer experience through online and offline interactive communication, so as to attract customers, increase the number of new market channels, and improve the stickiness between consumers and chain pharmacies.

2. Being profit-oriented, optimizing business and product structure, and improving operation quality of e-commerce business

In recent years, the government has stepped up its efforts in the governance of the internet industry and successively issued a series of policies and regulations to regulate the development of internet. On the other hand, while the overall traffic growth of the internet industry slowed down, the e-commerce traffic pattern also changed significantly as the competition between emerging platforms, such as Douyin, Kuaishou, Xiaohongshu and Bilibili, and traditional internet giants intensified. The ways to effectively acquire accurate traffic while strengthening compliant operation has become the most important issue for e-commerce business. In a broader context of increasing compliance costs, customer acquisition costs, traffic costs and marketing costs in the entire e-commerce industry, the Company's e-commerce business should be profit-oriented and not pursue unproductive scale. We continued to optimize business, marketing and traffic investment, pay close attention to traffic conversion efficiency, and also improve product structure, procurement and logistics.

The E-commerce Business Division optimized and adjusted OEM products and trading products by adhering to the product strategy of creating high-quality and hot-selling products, deeply developing major products, and ceasing and reducing investment in low-yield products. We reduced product specifications significantly, which were decreased by more than 40% in 2022, and we optimized the supply chain and focused on producing single major product. We also optimized the physical location of warehouses and the combination of logistics service providers, and located warehouses in regions with advantages in logistics costs or operated cloud warehouses to reduce logistics costs. The operating results of the e-commerce business improved significantly through a series of improvements.

The Company integrated the large pharmacy, new retail and other business modules, reviewed and improved the ROI in a timely manner, accurately controlled the input-output ratio of various expenses, so as to continuously optimize the in-site promotion expenses of each e-commerce platform, and explore ways to reduce the investment costs and improve the investment efficiency and effectiveness. At the same time, we grasped the traffic trends such as short-video platforms and word-of-mouth platforms, carried out short-video content marketing and promotion through platforms such as Douyin and Xiaohongshu, and attracted traffic to each e-commerce platform through multiple channels. While expanding market influence and brand communication channels, we obtained high-quality traffic more efficiently.

3. Exploring emerging platforms represented by Douyin and Kuaishou to seek new growth drivers

With the more diversified consumption demand, the consumption level has been further subdivided and the personalized characteristics of consumption are becoming more and more obvious. The new e-commerce model represented by live streaming, short video and interest-based e-commerce is characterized by new scenarios of content production and product marketing. These e-commerce models have comprehensively used various forms of modern information technology and means to reach consumer demands through diversified contents. Product supply and demand were highly matched through diversified new consumption scenarios, such that consumer demands were satisfied in a more vivid, intuitive and efficient manner.

In 2022, the Company continued to invest in emerging e-commerce marketing platforms represented by Douyin and Kuaishou, and achieved the expansion of user base of brands in operation and increase in brand assets through various marketing methods such as short videos, content recommendation, in-store broadcast and cooperation with KOLs. As of 31 December 2022, the Company operated a total of 16 stores on Douyin and Kuaishou, which were 12 stores on Douyin and 4 stores on Kuaishou, respectively.

In 2022, we established a brand strategic cooperation with Kuaishou platform, and built a Kuaishou brand matrix system by promoting Besunyen's business model of short video and live-streaming commerce. On the one hand, we continued to accumulate fans, assist brand in guiding traffic towards private domain and improve user stickiness. On the other hand, we kept on building a mature and stable brand KOL distribution network to offer new scenarios and new gameplays for brand marketing and enhance brand influence.

The private domain marketing team deeply explored customer value, and provided quality and professional services to customers through the social customer management system and AI customer services tools introduced. Campus activities such as the College Students Advertising Festival were linked up to use more novel gameplays and communication methods with a product tone that fits the young people. As of 31 December 2022, the community micro-mall has attracted millions of fans to enter the store, achieving the goal of repeated purchase and referral by members of continuous operation through the community operation model of direct access to the C-end.

4. Enhancing brand image continuously and facilitating in-depth cooperation and win-win cooperation with marketing channels and platforms

Through the transformation of sales model and product packaging upgrading, the Company reshaped the image of product channels from the inside out, and adopted differentiated marketing strategies of "one product, one strategy" and "one product, multiple specifications" (meaning that the same variety of products is made based on different channels, specifications and sales strategies for traditional distributor channels, e-commerce channels and Douyin and Kuaishou channels), so as to improve market position and expand market share of products. In addition to the traditional OTC channels, we put our focus on e-commerce channels and new platforms to exert efforts in various aspects and achieve comprehensive coverage. Meanwhile, the Company continued to vigorously push sales down to the terminals, and work closely and share resources with top 100 chain pharmacies to build a sound sales ecological environment. Besides, the Company continued to integrate and optimize resources from various aspects such as products, channels and marketing teams, and continued to help upgrade the value of brand industry and brand business cooperation in nine dimensions: "strategic cooperation, brand co-building, resource sharing, promotional activities, training and enhancement, counter construction, advertising support, after-sales consultation and variety customization", empowering each other and constantly promoting the transformation towards a more swift, more flexible and more efficient marketing model.

5. Advancing management reform, merging institutions to improve efficiency, and improving incentive system to enhance organizational vitality

The Company proactively advanced an organizational management reform to adapt to the business development and situation. The headquarters of the Company advanced a large-scale system reform, which significantly merged and streamlined the management departments of the Company, thus the numbers of management departments and personnel of the Company were greatly reduced. The vice president of the Company directly managed the functional departments, as a result, communication costs were greatly reduced and communication efficiency was improved. The main responsibility for contract and business approval process was determined based on the principles that applicant and approver shall be held responsible for application and approval, and the approval process was streamlined. The Company continued to improve the incentive system. The OTC Business Division proactively launched the track reward and performance ranking mechanism, implemented performance PK, "horse racing" mechanism and elimination mechanism, encouraging the business personnel in the team to improve their enthusiasm and initiative, and facilitating the younger workforce; whereas the E-commerce Department focused on the assessment of efficiency and output of staff to continuously improve per capita output and operating contribution. As for the newly established Douyin, Kuaishou, private domain and data marketing operations, the Company constantly attempted and explored new incentive models, and stimulated innovation capabilities through product mix and incentive mechanism that our staff should actively try without being rash. Regarding the improvement of incentive mechanism, the Company adopted non-material incentive measures that we commended and recognized employees with good work attitude and outstanding performance by granting corresponding honorary titles to enhance their sense of honor and belonging, bonding and cohesion.

6. **Ensuring the safety of health food consumption, and performing quality management from production and sales links based on a two-wheel-driven strategy**

Food safety is related to the health and safety of the general public. Besunyen has been adhering to the principle of quality first, and strengthened the food safety on-site management in accordance with the laws and regulations including the Food Safety Law, the National Food Safety Standards — Good Manufacturing Practices for Health Food (GB17405), the Rules for the Examination of Production Permits for Health Food, the National Food Safety Standards — Health Food (GB16740), the Regulations on the Labeling of Health Food (Wei Jian Fa [1996] No. 38), the Guidelines for Warning Words on the Labeling of Health Food, and the National Food Safety Standards — General Standards for the Labeling of Prepackaged Foods (GB7718), as well as the requirements of the Company. We strictly controlled the entire production process of products from such aspects as plant layout, facilities and equipment, production management, raw and auxiliary material management, warehouse management, inspection management, type inspection and labeling. Meanwhile, as required by the Regulations on the Supervision and Administration of the Enterprise's Implementation of the Main Responsibility of Food Safety (SAMR Order No. 60), the Company has appointed the chief food safety officer and the food safety administrator, achieving the three-level management by the main responsible person, the chief food safety officer and the food safety officer, and effectively preventing the safety hazards in the production process. Lastly, through continuously strengthening the "red line" awareness and product safety supervision, and proactively carrying out "3.15", "Food Safety Publicity Week" and other activities, we improved quality management and ensured product safety.

ANALYSIS OF COMPETITIVENESS DURING THE REPORTING PERIOD

1. Continuously enhancing the corporate brand competitiveness

After years of brand building, the Company has been rated as a health product credible enterprise by China Healthcare Association for ten consecutive years, and Besunyen trademark has been recognized as a "National Well-known Trademark". During the Reporting Period, the Company preserved and maintained the brand position of the "Besunyen" well-known trademark in various aspects such as marketing and promotion and product quality, and continued to increase investment in market, promotion efforts and marketing activities. As such, Besunyen has built up the no. 1 brand image of therapeutic teas, mainly Besunyen Slimming Tea and Besunyen Detox Tea, and such products of Besunyen core brand would drive the sales of products of other brands and types and consolidate the brand position. The Company was successfully awarded the most cooperative value brand in Chinese chain pharmacies in 2022, and Besunyen Fit Tea was selected into the young brand list in the 29th China International Advertising Festival.

(1) Deeply cultivating the big health sector with the Olympic champions empowering the new ecology of national health to enhance the healthy image of the brand

Besunyen has been committing to the national big health industry. Besunyen conveyed the idea of "healthy living and green exercise" and always insisted on brand rejuvenation. At the beginning of 2022, through the creation of a communication event combining the themes of Olympic Games and Spring Festival, the promotion by way of the champions' blessing videos, and the attraction of advertisements related to Olympic Games and athletes to the platform through hot spots, strong traffic was brought to the brand, the Company's products and brands were empowered, and the brand's popularity was enhanced with the use of national trend.

(2) Upgrading the packaging of the Four Teas to get close to the public taste for consumption

In order to better adapt to the market demand, the Group upgraded its existing packaging. The new packaging adopts the Hanfu version with a brand-new design, which integrates the traditional Hanfu culture and the concept of Besunyen's health teas, and adds the elements of two-dimensional and traditional clothing on the packaging image, which organically combines traditional clothing with herbal health, and enhance consumers' attention by getting closer to the taste of mass consumers.

(3) Joining hands with national events to expand the communication power of the brand

We joined hands with the organizing committee of the "Creation of Youth" China Youth Creative Competition to collect creative works on the theme of "Healthy Life Comes from Self-discipline" from young people across the country. At the same time, through financial support, skill training, information service, policy coordination and social advocacy, we help young people start their own business and employment and promote youth development.

In 2022, we joined hands with the national event of the "Academy Award of China College Students Advertising and Art Festival", and collected a total of 45,093 creative works of 37,431 groups, giving Besunyen the fresh and real creative vitality from the generation born in the 2000s. With the theme of "Three-dimensional Skills and Three-measurement Butlers (三維功法•三圍管家)", students were asked to empower the creative library of Besunyen, enrich the core spirit of Besunyen Fit Tea and create popular products. Together with the Academy Award, Besunyen covered 2,500 colleges and universities in more than 30 provinces and cities, injecting new vitality of generation Z into Besunyen brand and establishing a deep link with young people.

(4) Keeping on creating scenario-based marketing channels to care users' mind

On media placement, the Group adopted multi-scenario and multi-dimensional implantation strategies in 2022 to push forward the accumulation of private domain traffic and create a real-scene marketing channel, while making investment in different formats such as advertisements in elevators and high-speed rail. Elevator advertisement was placed in new first-tier cities such as Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou and Chengdu, with four products, namely Besunyen Orlistat, Besunyen Fit Tea, Besunyen Detox Tea and Weight-loss Orlistat, placed in advertisement. Relying on the cooperation with the traffic entry points and cooperative stores of Huatie Media, which owns more than 90% of high-speed rail resources, the Company principally focused on the Yangtze River Delta Economic Zone and the western region, North China and Southwest China, and simultaneously followed up the replacement of advertising resources with e-commerce and offline OTC chain business. The investment in media resources of elevator and high-speed rail has increased the effective reach of Besunyen brand, activated new and old customers, and exerted a greater influence on Besunyen brand. Targeted marketing accurately communicated with consumers about Besunyen's media placement, and has a huge driving force for brand empowerment and rejuvenation. Regional accurate reach and strong coverage played an important role in enhancing brand value.

Meanwhile, the Company continued to put effort on content marketing. We conveyed the product concept through the soft implantation of films and television dramas, strengthened the use of scenarios, and met users' needs to purchase products while watching videos, which was in line with the consumption habits of young consumer groups. Such approach diluted the commercial characteristics of traditional advertisements, making it easier for audiences to accept information about products or brands unconsciously, making their memory more durable. The Group's efforts in content marketing will continue to empower the brand through scenario-based marketing for long-term and continuous communication.

2. Continuously increasing investment in research and development, participating in special projects of a key research and development plan of the Ministry of Science and Technology, and improving the intellectual property management system

(1) Continuously enhancing product value and strengthening the secondary development of existing products

On product research and development, the work conducted by the Group in 2022 was mainly the secondary development of existing products, which combined with the efficacy characteristics of products, deeply explored the product efficacy, and further upgraded the process technology and product efficacy. In the first half of 2022, the Company successfully completed the trial production of new weight-loss and health products, and determined product formula, product production process and quality standards. We completed the human body test re-evaluation of Besunyen Detox Tea launched, and officially launched the large-scale sample tests of 1,000 human clinical cases. Adhering to the user-centric principle, we continued to improve the scientific value, clinical value and market value of our products by means of technological innovation.

(2) Participating in the key special project of "Modernization of Chinese Medicine", a key research and development plan of the Ministry of Science and Technology

In 2022, the Company participated in the key special project of "Modernization of Chinese Medicine", a key research and development plan of the Ministry of Science and Technology. This plan identified key special projects according to the major needs of national economy and social development and the priority fields of scientific and technological development, and coordinated the advantages and strengths of the industry, universities, and research institutes for conducting collaborative research. It was a national scientific and technological project that played a leading role in the industry. The Company undertook two tasks, namely "integrated research on the dialectical health theory and the research and development platform of TCM compound health products" and "efficacy verification and comprehensive evaluation of the large human body samples of TCM compound health products for sale".

(3) Improving the intellectual property management system, and facilitating the development and deepening of intellectual property rights

The Group proactively facilitated the development and deepening of intellectual property rights, and carried out the exploration and application of invention patents, utility model patents and software copyrights. The intellectual property management system was improved that comprehensively protected the intellectual property achievements of the Company. In 2022, a total of 2 invention patent applications, 6 utility model patent applications and 4 software copyright applications were submitted; and 4 invention patents, 4 utility model patents and 4 software copyright licenses were obtained.

3. Stabilizing supply chain management, ensuring product quality and improving product profitability

With the continuous expansion of the Company's products, the increase of OEM products, and the rising trend of raw material costs and freight rates, the Company's centralized procurement department carried out various work based on the principle of "strict quality control, timely supply and cost reduction", optimized the supplier structure to improve the concentration of procurement, signed bulk contracts, and strengthened communication with large raw and auxiliary material suppliers. Moreover, we stocked reasonable inventory, optimized warehouse layout and logistics and transportation plans to stabilize supply chain management. Various measures were taken to control procurement costs, satisfy production and sales demands and improve product profitability.

(1) Starting with the demand-side management by utilizing supplier resources to build a complete and efficient supply system

Starting from the demand side, the centralized procurement department continuously optimized the product requirements, order size, inventory level and supply cycle put forward by the demand department based on market conditions, and grasped the production dynamics, sales dynamics, inventory dynamics and logistics dynamics in real time through informationized means, so as to create a complete and efficient supply system, realize sales-based procurement, small batch production, pre-sale and production, and avoid the occupation of funds caused by product inventory backlog and possible inventory scrapping losses.

In order to reduce procurement costs, reduce the occupation of the Company's funds, realize cost reduction and efficiency improvement, we integrated the existing supply chain, made full use of supplier research and development capabilities, customer resources and effective information, and accelerated the launch of products. We also integrated the procurement, warehousing and logistics systems, jointly operated the large pharmacy project and Zhuhai warehousing and logistics business, unified vertical management, centralized dispatch and coordinated multiple warehouses to improve work efficiency.

(2) Constructing a highly automated workshop with GMP certification

The Company continued to improve the production process of the intelligent manufacturing workshop for tea bags. The workshop adopted a digital system for production and scheduling, and realized comprehensive automation of process design, equipment management, production scheduling, operation control, warehousing and logistics, quality control, safety management, energy management, environmental protection control, etc. according to the production process requirements of products and regulatory requirements.

(3) *Pursuing "zero defect" of products with lean production and quality and quantity increment*

With a view to offering green, healthy and high-quality products to consumers, the Company has fully absorbed the advanced technological achievements from abroad, and introduced an intelligent automatic container packaging technology, which was successfully applied in the factory in Fangshan, Beijing to replace manual packaging. Besunyen has continued to upgrade the product production process and built an environmental-friendly and high-tech intelligent factory. In the production and manufacturing process, each process, action and determination of process parameter were strictly abided by the highest standards to strictly control product quality.

(4) *Adjusting supply chain model to quickly respond to market demand and reduce the costs of production*

With the rapid changes in user demand and market environment, the Group's supply chain model has been transformed from traditional procurement model to various forms of cooperation model. While ensuring core technical capabilities, we optimized resource allocation, reduced production and operating costs, rapidly increased product categories based on market demand, and better fulfilled the inventory and delivery needs of individual products. As a result, our core competitiveness was enhanced, and the added value of the supply chain was ensured.

Through the integration and interconnection of big data, the order demand has been organically integrated with material supply, production and manufacturing, warehousing and logistics, and market distribution, forming a supply chain management data ecosystem and improving rapid response capabilities.

4. Conducting management informatization and digital upgrade and transformation of marketing system

(1) *Empowering service support with automatic and digital functional work*

The RPA automation tool was used to replace the daily repetitive and tedious work of the financial department, thereby reducing the low-value, simple and repetitive work, and improving the work efficiency of functional departments. Feedback of financial data and information was provided to front-end departments in a timely manner to provide support for business development. We upgraded the direct connection and automatic cleaning of OTC customer flow data, improved the accuracy and timeliness of channel and terminal data, and achieved automatic calculation of business performance and automatic display of terminal coverage.

(2) Enhancing the application level of digital management by digitalizing the BI operation analysis

The upgrading and deployment of digital operation analysis tools was pushed forward to improve the decision-making level. In 2022, the Company comprehensively promoted the upgrading and use of data BI, and improved the data warehouse and statement development based on the data generated by the Company's core systems. Centering on the main themes including the operating results of business units, centralized procurement supply chain, employee efficiency and customer analysis, we developed numerous indicators such as revenue, cost, expense, product, inventory turnover and investment-to-production ratio for real-time analysis and decision-making, which improved the overall level of digital management and application, and provided data support for the rapid and accurate decision-making of our operation and management.

(3) Supporting and empowering marketing business with digital marketing and business automation

The digital operation capability of the business department was further empowered. Based on the WeChat ecosystem, we managed the whole lifecycle of customers through AI outbound calls, SCRM, Besunyen Select Mall and other tools. We continuously improved the marketing material database and multi-dimensional user profile, setting up and executing the SOP relating to marketing plans and strategies, automatic access, intelligent group operation and customers; and we also classified users with refined labels and offered automated services for providing one-on-one high-quality services to high-end customers. Through continuous optimization of the configuration of automated marketing and operation, the Company cultivated sustainable brand digital assets and leveraged the advantages of private domain to expand the space for profit conversion.

FULFILMENT OF SOCIAL RESPONSIBILITIES DURING THE REPORTING PERIOD

Since our establishment, the Group has been firmly fulfilling our social responsibilities and focusing on the win-win situation between economic benefits and social benefits while advancing production and operation. We carried out several special public welfare activities in environmental protection, poverty alleviation, education, youth entrepreneurship and other aspects.

1. Social welfare activities

In 2014, the Company partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund". Such fund was connected to the platform of the Beijing Municipal Government and actively carried out social assistance activities to provide services to the underprivileged. In 2022, the "Besunyen Special Charity Fund" carried out various social assistance activities, provide various charity assistance to the underprivileged, and optimize the path for the Group to participate in public welfare activities. It was an effective platform for Besunyen to participate in public welfare and charity undertakings in recent years.

Since 2015, the Company has cooperated with environmental protection and public welfare organizations such as China Green Carbon Foundation and Beijing Green Sunshine Environmental Protection Public Welfare Foundation, and has donated more than RMB3.5 million in total to initiate the establishment of the "Special Fund for Combating Illegal Trade in Endangered Wildlife", which has raised public awareness of and participation in the protection of wildlife.

In 2022, we partnered with China Foundation for Youth Entrepreneurship and Employment and donated RMB800,000 to carry out public welfare activities such as youth entrepreneurship and creative competition, skill training, social practice, exhibition and forum, discover and cultivate professional talents and improve the entrepreneurial and employment ability of young people, especially college students.

2. Revitalization of rural economy and support of poverty alleviation

The Company thoroughly implemented the spirit of the important speech of General Secretary Xi Jinping and implemented the "Opinions on Consolidating and Expanding the Achievements of Poverty Alleviation and Effectively Connecting with Rural Revitalization" issued by the Central Committee of the Communist Party of China and the State Council. Industrial chain was integrated into local economic development so as to revitalize rural vitality and achieve common prosperity. We actively participated in the special poverty alleviation work of "Ten Thousand Enterprises Help Ten Thousand Villages" and "Ten Thousand Enterprises Revitalize Ten Thousand Villages". We supported the sustainable development of industries in poverty-stricken areas and provided important support for promoting rural revitalization. Through economic support and industrial support, we assisted in pairing with Putaokou Village, Fanjiazhuang Town, Quyang County, Baoding City, Hebei Province, to help expand sales channels for agricultural products and provide assistance funds to families in need. We also helped Yangchanggou Village, Ulanhayesumu Town, Chayouzhongqi County, Inner Mongolia to solve the difficulties of medical treatment and continuously improve the life of low-income people.

FUTURE DEVELOPMENT OUTLOOK

The 20th National Congress Report of the Communist Party of China pointed out that it is necessary to adhere to the theme of promoting high-quality development, and organically combine the implementation of the strategy of expanding domestic demand with deepening the supply-side structural reform. The Outline of the "Healthy China 2030" Plan also emphasizes the establishment of a complete and optimized-structure health industry system.

With the optimization of pandemic prevention and control policies in various places, the country has entered a new stage of pandemic prevention after the release of the "10 New Measures". China's consumer market is about to recover, and the benefits of fast consumption is coming soon. In the process of fighting against the pandemic, consumers' health awareness has continued to increase, and the demand for health products has been rapidly magnified. High-quality development and establishment of industrial system are the exploration directions for the big health industry given by the society today.

Against this background, Besunyen will take consumers' health needs as the driving force of innovation, adhere to the concept of "herbal, healthy, and quality functional tea", deepen the fields of "weight loss and weight management" and "laxative and gastrointestinal health", continue to build a parallel development pattern of multiple categories of "OTC drugs + health food + general food + medical devices", and realize the promotion of marketing strategy from selling products to building brand value.

The Company believes that it will seize the opportunities of the development of the big health industry. For the Group, it will continue to adhere to the goal of profit and positive cash flow in 2023, and achieve high-quality development with the operating policy of "stabilizing operation, adjusting structure, reducing costs, improving quality and efficiency", consolidate the foundation and capability, and create a new pattern of high-quality development.

Profit and positive cash flow are the foundation of the quality of operation and the existence of the Company. Stabilization of operation is the idea of establishing long-term operation. Facing the current complex economic situation, the Company will not make any urgent progress, and will not make any sharp turn. The Company will make steady progress in its operation direction and business. The principle of "stability" is not to be rest on one's laurels, action-free, but to be pragmatic and proactive, not to be courageous and eager to succeed, but to be law-abiding and progressive. Structural adjustment is to optimize and adjust the product structure, channel structure and organizational structure according to market needs and effectiveness, so as to improve operating results, optimize internal operation process and improve efficiency. Cost reduction is to take measures for reducing production costs and procurement costs, and to streamline and refine expenses. Improvement of quality and efficiency is to attain quality development, requiring all businesses to have profits and positive cash flow, and closing non-strategic projects that cannot generate benefits as soon as possible.

We will implement the following tasks in order to achieve the Group's business objectives for 2023.

Firstly, actively expanding sales channels and strengthening marketing efforts

1. Continuously deepening offline sales reform

In 2023, the Company will continue to promote business cooperation, carry out offline sales reform with a focus on bringing incremental benefits, improve the terminal and distributor service system, create innovation and upgrade including brand communication, in-depth interaction with consumers and optimization of product experience, and bring incremental growth to the dietary nutritional supplements market in offline pharmacies channels.

2. Rapidly upgrading traditional online e-commerce

The Company will further deepen the merge of online and offline integration, and drive the refined operation of the entire chain with digitalization; increase the layout of new e-commerce channels such as interest-based e-commerce and build an appropriate live streaming e-commerce model through rapid testing; implement greater online segmentation strategies for products and promote the launch of more online exclusive products; continue to optimize the entire supply chain that is more suitable for e-commerce operations.

3. Steadily promoting new retail business

We will continue to increase investment in exploring emerging marketing platforms represented by Douyin and Kuaishou, and expand our market share on Douyin and Kuaishou through various means, including leasing new venues, expanding recruitment, increasing channel cooperation and expanding marketing activities.

Secondly, strengthening cooperation with manufacturers and continuously improving operational quality

In 2023, the Company will continue to formulate production and marketing plans by product type, region and channel based on the marketing concept of "one product, one strategy". Focusing on the Company's core products, the Four Teas and the Orlistat series products, the Company will further promote the communication with distributors and top 100 chain pharmacies, expand cooperation space, focus on empowering terminals, and concentrate on the development of e-commerce channels, Douyin and Kuaishou. The Company will implement the differentiated sales strategy of "one product with multiple specifications", make full use of the promotion advantages of new media, continue to improve the marketing service capabilities and the core competitiveness of variety, and promote the steady increase in the sales of large varieties. At the same time, the Company will comprehensively analyze large varieties with long-term operational value, introduce high-quality variety resources through listing authorization holders, joint venture cooperation and other methods, and carry on expanding the Company's product portfolio development. In addition, the Company will also comprehensively promote the improvement of the operation quality of each business unit, and regularly review relevant indicators such as financial and operation that affect the operation quality, especially the front-end analysis of abnormal data and risks, so as to lay a solid foundation for the long-term development of the Company.

Thirdly, adhering to technological innovation and strengthening research and development of new products

In 2023, the Company will persist in promoting process improvement, technological innovation, development and research of new products, and construction and investment arrangements to improve the Company's economic benefits. Meanwhile, the Company will pay close attention to the development of the big health industry, actively expand new products and new channels according to market demand, technological research and development, company strategies, etc., and develop and explore single major product to provide subsequent products and operation capabilities for the Company's future development.

Fourthly, further improving and optimizing the assessment and incentive mechanism, accelerating the development of talent team and strengthening the development of corporate culture

The Company will strengthen and refine the assessment and incentive mechanism at all levels, comprehensively carry out the reform of the remuneration system, clarify the career development channel, the level of the remuneration system and the corresponding incentive policies, comprehensively improve the management efficiency of the Company, stimulate the new momentum of the organization in innovation and change, and promote the efficiency and rejuvenation of the organization and operation.

The Company will fulfill its social responsibilities proactively, strengthen the promotion of employer brand, and enhance brand value. The Company will actively create a healthy and positive sunshine working culture and atmosphere, improve the enthusiasm and subjective initiative of employees, improve the happiness index in work and life and sense of belonging of employees, and enable employees to grow together with the Company.

Besunyen will continue to adhere to the brand concept and the spirit of craftsmanship to provide consumers with more diversified products and services, provide Besunyen wisdom for the development of the big health industry, and contribute to the great health cause of China!

Management Discussion and Analysis

FINANCIAL REVIEW

The following table sets forth the operating results of the Group for the indicated years ended 31 December:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Revenue	**943,283**	1,101,150
Cost of sales	**(376,995)**	(402,600)
Gross profit	**566,288**	698,550
Other income	**21,287**	19,473
Selling and marketing expenses	**(389,540)**	(521,774)
Administrative expenses	**(169,143)**	(174,365)
Research and development costs	**(101,486)**	(93,099)
Credit impairment losses	**72**	257
Fair value changes on financial assets measured at fair value through profit or loss	**627**	1,979
Other expenses	**(1,491)**	(8,033)
Other losses, net	**(1,384)**	(11,089)
Operating loss	**(74,770)**	(88,101)
Finance income	**2,026**	3,829
Finance costs	**(8,148)**	(6,692)
Finance costs, net	**(6,122)**	(2,863)
Share of (losses)/profits of investments accounted for using the equity method	**(10,450)**	240
Loss before income tax	**(91,342)**	(90,724)
Income tax expense	**(13,047)**	(23,267)
Loss for the year	**(104,389)**	(113,991)
Attributable to:		
— Owners of the Company	**(99,089)**	(145,713)
— Non-controlling interests	**(5,300)**	31,722
	(104,389)	(113,991)
Other comprehensive income	**—**	—
Total comprehensive loss for the year attributable to:	**(104,389)**	(113,991)
— Owners of the Company	**(99,089)**	(145,713)
— Non-controlling interests	**(5,300)**	31,722
	(104,389)	(113,991)
Losses per share attributable to owners of the Company for the year		
— Basic losses per share	**(1.74)**	(3.65)
— Diluted losses per share	**(1.74)**	(3.65)

REVENUE

	For the year ended 31 December			
	2022		2021	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Revenue:				
Besunyen Detox Tea	**137,512**	**14.6%**	128,915	11.7%
Besunyen Slimming Tea	**135,783**	**14.4%**	135,902	12.3%
Besunyen Fit Tea	**66,691**	**7.1%**	79,073	7.2%
Weight-loss medicines	**267,578**	**28.4%**	381,469	34.7%
Other products and medicines	**335,719**	**35.5%**	375,791	34.1%
Total	**943,283**	**100%**	1,101,150	100%

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

The revenue of the Group was RMB943.3 million in 2022, representing a decrease of 14.3% from that of RMB1,101.2 million in 2021.

In particular, revenue from Besunyen Detox Tea, Besunyen Slimming Tea and Besunyen Fit Tea decreased by 1.1% to RMB340.0 million in 2022 from that of RMB343.9 million in 2021, revenue from weight-loss medicines decreased by 29.9% to RMB267.6 million in 2022 from that of RMB381.5 million in 2021, while revenue from other products and medicines decreased by 10.7% to RMB335.7 million in 2022 from that of RMB375.8 million in 2021.

The amount and percentage of the revenue of weight-loss medicines in 2022 decreased as compared with 2021, which was mainly due to the facts that: (i) affected by market changes and price competition, the shipment volume of the Group's weight-loss medicines decreased by approximately 26% as compared with the same period last year; and (ii) affected by the COVID-19 pandemic, some cities of the PRC have adopted strict pandemic prevention and control measures, which had a certain impact on the Group's product production, logistics distribution and sales.

The revenue from other products and medicines in 2022 decreased as compared with 2021, which was mainly due to the adjustment of the Group's strategy by optimizing OEM products and trading products with small size and no profit prospects.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Cost of sales	**376,995**	402,600
Gross profit	**566,288**	698,550
Gross profit margin	**60.0%**	63.4%

The Group's cost of sales decreased by 6.4% from RMB402.6 million in 2021 to RMB377.0 million in 2022, while gross profit margin decreased by 3.4 percentage points from 63.4% in 2021 to 60.0% in 2022, mainly due to the decrease in the percentage of sales of the weight-loss medicines with higher gross profit as affected by market changes and price competition.

OTHER INCOME

In 2022, the Group's other income was RMB21.3 million, which mainly comprised interest income of RMB4.8 million (2021: RMB7.4 million) and government grants of RMB11.7 million (2021: RMB6.4 million) provided by the PRC government to support the Group's operation of business.

SELLING AND MARKETING EXPENSES

	For the year ended 31 December			
	2022		2021	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising costs	**46,660**	**4.9%**	85,699	7.8%
Marketing and promotional expenses	**160,709**	**17.0%**	210,839	19.1%
Employee benefit expenses	**130,767**	**13.9%**	161,682	14.7%
Impairment losses on non-current assets	**4,116**	**0.4%**	—	—
Others	**47,288**	**5.1%**	63,554	5.8%
Total	**389,540**	**41.3%**	521,774	47.4%

The selling and marketing expenses of the Group was RMB389.5 million in 2022, representing a decrease of 25.3% from that of RMB521.8 million in 2021.

The marketing and promotional expenses in 2022 decreased by RMB50.1 million as compared to 2021, mainly due to the decrease in the expenditure of marketing and promotion via e-commerce platforms.

The advertising costs in 2022 decreased by RMB39.0 million as compared to 2021, mainly due to the decrease in expenditure on advertising activities.

The employee benefit expenses in 2022 decreased by RMB30.9 million as compared to 2021, mainly due to the decrease in the number of sales personnel.

Impairment losses on non-current assets were RMB4.1 million in 2022, representing the impairment losses on goodwill of cash generating unit containing the Group's wholly-owned subsidiaries, namely, Zhuhai Kangbaina Pharmaceutical Co., Ltd. and Zhuhai Aolixin Pharmaceutical Co., Ltd.

ADMINISTRATIVE EXPENSES

	For the year ended 31 December			
	2022		2021	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Employee benefit expenses	**67,113**	**7.1%**	78,418	7.1%
Office expenses	**5,094**	**0.5%**	10,035	0.9%
Professional and consultation service fees	**25,264**	**2.7%**	34,930	3.2%
Entertainment and travelling expenses	**6,561**	**0.7%**	10,059	0.9%
Impairment losses on non-current assets	**8,653**	**0.9%**	—	—
Others	**56,458**	**6.0%**	40,923	3.7%
Total	**169,143**	**17.9%**	174,365	15.8%

The administrative expenses of the Group were RMB169.1 million in 2022, representing a decrease of 3.0% from that of RMB174.4 million in 2021, mainly due to the Group's overall strategic planning for reducing costs, increasing efficiency and optimizing organizational structure, which resulted in a decrease in employee benefit expenses and a decrease in daily office expenses. Impairment losses on non-current assets were RMB8.7 million in 2022, mainly representing the impairment losses on goodwill of cash generating units containing the Group's wholly-owned subsidiary, Henan Xueyinghua Pharmaceutical Co., Ltd., and impairment losses on other long-term assets.

RESEARCH AND DEVELOPMENT COSTS

	For the year ended 31 December			
	2022		2021	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**101,486**	**10.8%**	93,099	8.5%

Research and development costs amounted to RMB101.5 million in 2022 and RMB93.1 million in 2021.

OTHER LOSSES, NET

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Other losses, net	**1,384**	11,089

In 2022, other losses, net amounted to RMB1.4 million, mainly include donation of RMB2.0 million (2021: RMB3.1 million).

TAXATION

The income tax expense of the Group in 2022 was RMB13.0 million, which was mainly attributable to the utilisation of deductible losses recognised in the previous years. The income tax expense of the Group in 2021 was RMB23.3 million, which was mainly attributable to the reversal of deductible losses recognised in the previous years.

TOTAL COMPREHENSIVE LOSS FOR THE YEAR OF THE GROUP

Due to the factors set out above, the Group recorded a total comprehensive loss of RMB104.4 million in 2022 (2021: total comprehensive loss of RMB114.0 million).

LIQUIDITY AND CAPITAL RESOURCES

In 2022, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities, bank borrowings and proceeds from rights issue.

CASH FLOWS

The following table summarizes the net cash flows of the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	**38,111**	(145,518)
Net cash outflow from investing activities	**(35,492)**	(188,354)
Net cash inflow from financing activities	**12,492**	6,316
Net increase/(decrease) in cash and cash equivalents	**15,111**	(327,556)
Cash and cash equivalents at beginning of year	**216,042**	543,822
Exchange losses on cash and cash equivalents	**(833)**	(224)
Cash and cash equivalents at end of year	**230,320**	216,042

In 2022, the Group's net cash inflow from operating activities was RMB38.1 million (2021: net cash outflow of RMB145.5 million), which was mainly attributable to the operating activities during the year.

In 2022, the Group's net cash outflow from investing activities was RMB35.5 million, which was mainly attributable to infrastructure construction expenditures and purchases of term deposits (2021: net cash outflow of RMB188.4 million, which was mainly attributable to infrastructure construction expenditures and purchases of financial assets measured at fair value through profit or loss).

In 2022, the net cash inflow from financing activities was RMB12.5 million, which was mainly due to the proceeds from rights issue and partial repayment of borrowings (2021: net cash inflow from financing activities of RMB6.3 million, which was mainly due to the proceeds from borrowings).

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2022, the Group's financial assets measured at fair value through profit or loss amounted to RMB47.3 million (31 December 2021: RMB38.7 million), which mainly include:

(i) Hainan Besunyen Healthcare Investment Limited ("**Besunyen Healthcare Investment**"), an indirect wholly-owned subsidiary of the Company, as the limited partner has made a capital commitment of US$2.3505 million to Vstar Investment Fund Limited Partnership (the "**Fund**") and injected US$2.0609 million in cash on 17 May 2021. The Fund aims at investing in a Singaporean company which engages in the research and development of infection-related immunotherapy and antiviral and anti-bacterial medications and vaccines. As at 31 December 2022, the Group's investment in the Fund amounted to approximately RMB15.3 million.

(ii) Smooth Raise Limited, an indirect wholly-owned subsidiary of the Company, invested in ERX Pharmaceuticals Inc. with a total consideration of US$3 million, and the transaction was completed on 30 April 2021. As at 31 December 2022, the Group's investment in ERX Pharmaceuticals Inc. amounted to approximately RMB19.4 million.

(iii) The Group's investment in Nanjing Jinbi Venture Capital Partnership (Limited Partnership) amounted to approximately RMB12.6 million.

BANK BALANCES, CASH AND BANK BORROWINGS

The Group's bank balances and cash, comprising cash and cash equivalents, term deposits and restricted bank deposits, increased by 13.8% from RMB425.0 million as at 31 December 2021 to RMB483.8 million as at 31 December 2022. Meanwhile, the Group had bank borrowings of RMB177.6 million, which bear interest rate ranging from 2.03% to 6.00%, as at 31 December 2022 (31 December 2021: RMB243.7 million, bearing interest rate ranging from 3.85% to 6.80%).

USE OF PROCEEDS FROM RIGHTS ISSUE

The net proceeds from the rights issue of the Company (after deducting the expenses in relation to the rights issue) amounted to approximately RMB125.9 million. As at 31 December 2022, the remaining balance of the proceeds from the rights issue was RMB33.2 million.

The following table sets forth the use of proceeds of the Group as at 31 December 2022:

	Net proceeds from rights issue	**Amount utilized during the 12 months ended 31 December 2022**	**Remaining balance as at 31 December 2022**
	RMB million	RMB million	RMB million
For settlement of the outstanding indebtedness	61.4	44.1	17.3
For advertising and marketing expenses	29.7	23.9	5.8
For development of the new retail business division	20.3	10.2	10.1
As working capital and for other general corporate purposes (including research and development expenses)	14.5	14.5	0.0
Total	125.9	92.7	33.2

Note: The Group expects that the remaining balance will be used as intended in 2023. As at 31 December 2022, the unutilized net proceeds have been placed in short-term deposits.

CAPITAL EXPENDITURE

In 2022, the capital expenditure of the Group amounted to RMB56.9 million (2021: RMB133.7 million). The following table sets forth the capital expenditure paid by the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Property, plant and equipment	**54,612**	132,675
Intangible assets	**2,250**	1,066
Total	**56,862**	133,741

INVENTORIES

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

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Raw materials and packaging materials	**41,297**	38,759
Work in progress	**8,919**	2,279
Finished goods	**59,762**	95,303
	109,978	136,341
Less: provision for impairment	**(739)**	—
	109,239	136,341

The turnover of the Group's inventories in 2022 (calculated by dividing the average inventories balances at the beginning and the end of the period by the cost of sales of the period, then multiplying the number of days during the year) was 119 days (2021: 125 days).

RISK OF FOREIGN EXCHANGE RATE

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

As at 31 December 2022, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (2021: Nil).

SHARE CONSOLIDATION

On 18 March 2022, the Board proposed to implement the share consolidation on the basis that every 40 ordinary shares of US$0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of US$0.0003333332 each (the "**Share Consolidation**").

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

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

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisition or disposal in 2022.

YUANYUAN LIUCHANG FUND

Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) ("**Yuanyuan Liuchang Fund**"), whose total committed capital contribution is RMB100.0 million, is owned by the Group with 89% of its shares. It mainly focuses on investment projects in the healthcare industry, TMT industry and consumer industry, as well as investment in several early stage partnership enterprises. As at 31 December 2022, Yuanyuan Liuchang Fund did not invest in new projects. Loss of fair value changes in shares of Chaoju Eye Care Holdings Limited held by Yuanyuan Liuchang Fund in 2022 was RMB9.0 million.

PLEDGE OF ASSETS

As at 31 December 2022, the Group received certain bank borrowings of RMB133.6 million through pledging properties with total book value of RMB120.9 million and land use rights with total book value of RMB33.6 million to banks and guarantee companies (as at 31 December 2021, the Group received certain bank borrowings of RMB191.1 million through pledging properties with total book value of RMB149.9 million and land use rights with total book value of RMB51.7 million to banks and guarantee companies).

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

GEARING RATIO

As at 31 December 2022, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 31.5% (31 December 2021: 35.7%).

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2022, the Group had no material contingent liability and guarantee (31 December 2021: Nil).

CAPITAL COMMITMENTS

As at 31 December 2022, capital commitments for property, plant and equipment as contracted for but not yet incurred amounted to RMB12.6 million (31 December 2021: RMB24.9 million).

COMPLIANCE WITH LAWS AND REGULATIONS

The Group shall conduct business in compliance with the requirements of various laws and regulations, mainly including the Food Safety Law of the PRC, the Drug Administration Law of the PRC, the Regulations for Implementation of the Drug Administration Law of the PRC, the Environmental Protection Law of the PRC, the Labour Law of the PRC, the Labour Contract Law of the PRC as well as other applicable regulations, policies and normative legal documents issued based on or related to such laws and regulations. The Group's prevailing quality and safety control systems of product production are comprehensive and impose effective control over design and execution. The Group has passed the certifications of quality management systems such as ISO9001, ISO22000 and HACCP, ensuring its products quality and safety in an all-round and in-depth manner. In case of any changes in applicable laws, regulations and normative legal documents related to our principal businesses, the Group would inform relevant staff and operation teams in time. In addition, the Group ensured its compliance with such requirements via numerous measures, such as internal control and approval procedures as well as training and supervision on different business departments.

During the year, so far as known to the Directors, there was no non-compliance with any relevant laws and regulations which would have a material impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group endeavored to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understood that employees are its valuable assets, and the realization and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2022, the Group provided generous social insurance benefits to its employees to motivate their proactivity at work and heighten their sense of belonging. The Group also understood the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group placed emphasis on supplier selection and encouraged fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and products, the Group abided by the principles of honesty and trustworthiness and committed itself to consistently providing quality products to establish a reliable service environment for its customers. For the year ended 31 December 2022, there was no significant or material dispute between the Group and its suppliers and/or customers.

HUMAN RESOURCES MANAGEMENT

The Group regards high-quality employees as its most important resource. As at 31 December 2022, the Group had 1,318 employees in mainland China and Hong Kong (31 December 2021: 1,626 employees). The staff costs of the Group (including remunerations of the Directors) were RMB248.7 million as at 31 December 2022 (2021: RMB291.9 million). Employee remuneration was determined with reference to individual performance, work experience, qualification and current industry practice. Apart from basic remuneration and statutory pension benefit scheme, employee benefits also included discretionary bonus and share options.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options under the share option scheme adopted by the Company on 8 September 2010, the purpose of which is to motivate staffs, and to encourage them to work hard to enhance the value and foster better long-term development of the Group.

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

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. ZHAO Yihong, aged 56, is our co-founder, Chairman and Chief Executive Officer and was appointed as an executive Director of our Company in August 2009. Mr. Zhao is also a member of the remuneration committee, the nomination committee and the strategic investment committee of our Company and a director of several subsidiaries of our Group. Mr. Zhao is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Mr. Zhao established Beijing Outsell in 2000 and embarked on the business of production and sale of therapeutic tea products, and has played a vital role in the development of our Group. Mr. Zhao has 33 years of experience in food and beverage industry in the PRC. Between 1988 and 1991, Mr. Zhao has served as an officer at the Jinan Municipal Bureau of Grain of the Shandong Province. Between 1991 and 2000, Mr. Zhao served in various positions, including a sales and a vice manager, responsible for the beverage business in the Northern China region, at Ting Hsin International Group, a food conglomerate in the PRC. Mr. Zhao graduated from China Coal Economic College, now known as Shandong Technology and Business University, in 1988 with a bachelor's degree in economics. He completed the China New Entrepreneur Development Program, a joint program organised by the Enterprise Research Institution, DRC-ERI and the Stanford Center for Professional Development, in 2006 and obtained an executive master of business administration degree from The Hong Kong University of Science and Technology in 2012. Mr. Zhao is currently a council member and an adjunct professor of Shandong University of Science and Technology. Mr. Zhao is the spouse of Ms. Gao Yan, our Vice Chairman and executive Director.

Ms. GAO Yan, aged 54, is our co-founder, Vice Chairman and Vice President and was appointed as an executive Director of our Company in October 2009. Ms. Gao is also a director of several subsidiaries of our Group. Ms. Gao has served as the vice chairman of Beijing Outsell since 2000. Between 1997 and 2000, Ms. Gao worked as a director at Beijing Ruipule Commerce and Trade Co., Ltd., a private trading company. Ms. Gao is the spouse of Mr. Zhao Yihong, our Chairman, Chief Executive Officer and executive Director.

Mr. YU Hongjiang, aged 58, is our Executive Vice President, Chief Operating Officer and Chief Financial Officer and was appointed as an executive Director of our Company in November 2022. Mr. Yu is also a member of the remuneration committee, the nomination committee and the strategic investment committee of our Company and a director, a supervisor and the legal representative of several subsidiaries of our Group. Mr. Yu joined our Group in July 2000 and has more than 32 years of experience in the field of finance. Between 1987 and 1989, Mr. Yu served as a manager of the finance department at Tianjin Binhai Company Limited (now known as Tianjing Zhongxin Pharm. Binhai Corp., Ltd.). Between 1997 and 2000, Mr. Yu worked at Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as the chief financial officer. Mr. Yu graduated from Shanxi University of Finance and Economics in 1987 and obtained a bachelor's degree in economics with a major focus in accounting. He obtained an Executive MBA degree from the National School of Development at Peking University in 2013.

Non-executive Director

Mr. ZHUO Fumin, aged 71, was appointed as a non-executive Director of our Company in October 2009. Mr. Zhuo is also the chairman of the strategic investment committee of our Company and a director of several subsidiaries of our Group. Mr. Zhuo has more than 47 years of experience in the field of enterprise management and capital markets. Mr. Zhuo is the chairman and a managing partner of Vstar Capital. Mr. Zhuo has served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Mr. Zhuo has also held in turn various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer of Shanghai Industrial Holdings Limited (a company listed on the Stock Exchange, stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited. Since 2002, Mr. Zhuo fully devotes to venture capital business and has in turn served as the chairman and the chief executive officer of Vertex China Investment Co., Ltd. (a wholly owned subsidiary of Vertex Management Group, a global venture capital management company), the founder and the chairman of Shanghai Kexing Venture Capital Fund and a management partner of GGV Capital. Mr. Zhuo is an independent director of Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ) and Dazhong Transportation (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600611) and an independent non-executive director of Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange, stock code: 1099) and SRE Group Limited (a company listed on the Stock Exchange, stock code: 1207). He has served as an independent director of Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648), Arcplus Group Plc (a company listed on the Shanghai Stock Exchange, stock code: 600629) and Focus Media Information Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002027). Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science (now known as Shanghai University of Engineering Science) in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997.

Independent Non-executive Directors

Mr. REN Guangming, aged 58, was appointed as an independent non-executive Director of our Company in April 2014. He is the chairman of the nomination committee and a member of the audit committee and the remuneration committee of our Company up to 22 April 2023. Mr. Ren has over 34 years of experience in regulatory authorities and enterprise management. Since May 2012, Mr. Ren is the chairman of 北京星軌科技有限公司 (Beijing Xinggui Technology Co. Ltd.*). From August 2001 to April 2012, Mr. Ren worked for Hong Kong Exchanges and Clearing Limited Beijing Representative Office and served as the chief representative for a long time. From February 2000 to July 2001, he served as a manager of PCCW Beijing. From 1987 to January 2000, Mr. Ren served in Hong Kong and Macao Affairs Office of the State Council of the PRC, including working in the research institute, the economy department and Sino-British Joint Liaison Group Chinese Representative Office. Mr. Ren graduated from Nankai University with a bachelor's double-degree in world history and economics in 1987. He obtained a master's degree in business administration from China Center for Economic Research of the Peking University in 2001.

Mr. HE Yuanping, aged 56, was appointed as an independent non-executive Director of our Company in October 2016. He is the chairman of the audit committee and a member of the remuneration committee, the nomination committee and the strategic investment committee of our Company. Mr. He has years of experience in senior operation and management, with rich theoretical knowledge and practical experience in investment and financing, business management, industrial operations, finance and other fields. Since August 2018, Mr. He is the chairman of 碧興物聯科技 (深圳) 股份有限公司 (Bescient Technologies (Shenzhen) Co. Ltd.*). Mr. He served as a director, deputy general manager, chief financial officer and board secretary of Beijing OriginWater Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300070) ("**Beijing OriginWater**") from June 2007 to March 2018. He worked as a director, deputy general manager and chief financial officer of Beijing OriginWater Science and Technology Development Co., Ltd. (predecessor of Beijing OriginWater) from September 2005 to June 2007. Mr. He worked as a deputy general manager and the chief investment officer of Beijing Allianz Investment Co. Ltd. from April 2003 to August 2005. Mr. He has served as a director of Wuhan Sanzhen Industry Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600168) and a non-executive director of Yunnan Water Investment Co., Limited (a company listed on the Stock Exchange, stock code: 6839). Mr. He assumes several social positions, including a member of the Fixed Income Committee of the Securities Association of China, an expert in the Public-Private Partnership (PPP) Expert Database of the National Development and Reform Commission, a vice president of Western Returned Scholars Association ANZ branch and a guest teacher of the School of Accountancy of Central University of Finance and Economics. He has won several prizes and social recognitions, including China CFO of the Year 2015 by New Fortune Magazine, The Most Popular CFO among Investors of the Year 2012 by the Chartered Institute of Management Accountants and Golden Shield Award for Excellent Board Secretary of China's Listed Companies of the Year 2014. Mr. He received a bachelor's degree in engineering from Nanjing University of Science and Technology in July 1987, a master's degree in engineering from University of Science and Technology Beijing in March 1992 and a master's degree in financial mathematics from Victoria University of Wellington in New Zealand in June 2000.

Mr. FU Shula, aged 67, was appointed as an independent non-executive Director of our Company in April 2019. He is the chairman of the remuneration committee and a member of the audit committee and the nomination committee of our Company. From 1984 to 2015, he held various senior positions in Aviation Industry Corporation of China, Ltd. ("**AVIC**"), including President of China National Aero-Technology Import and Export Corporation, Deputy Chief Economist of AVIC, Chairman and President of AVIC International Holding Corporation, Chairman of AVIC Aero-Engine Holding Corporation and Chairman of AVIC Economics & Technology Research Establishment. Currently, he is an independent non-executive director of BOC Aviation Limited (a company listed on the Stock Exchange, stock code: 2588). Mr. Fu graduated from Northwestern Polytechnical University with a master's degree in aero engine design in 1984.

Mr. MOU Wenjun, aged 49, was appointed as an independent non-executive Director of our Company in March 2023. Mr. Mou is the chairman of the nomination committee and a member of the audit committee, the remuneration committee and the strategic investment committee of our Company. Mr. Mou has more than 23 years of experience in the field of sales and marketing. Since January 2012, Mr. Mou is an executive director and general manager of 廣東均紅行泰投資有限公司 (Guangdong Junhong Xingtai Investment Co., Ltd.*). Since July 2017, Mr. Mou is an executive director of 廣州均峰藥業有限公司 (Guangzhou Junfeng Pharmaceutical Co., Ltd.*). Between 1998 and 1999, Mr. Mou served as a marketing manager at 海南養生堂藥業有限公司 (Hainan Yangshengtang Medical Co., Ltd.*). Between 1999 and 2001, Mr. Mou worked at Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as a sales director responsible for the southern China region. Mr. Mou joined our Group in July 2001 till January 2012 and held various senior positions in our Group, including a vice president and sales director. Mr. Mou graduated from North China Institute of Technology (now known as North University of China) in 1995 with a diploma in polymer chemistry.

SENIOR MANAGEMENT

Mr. ZHAO Yihong is our Chief Executive Officer. His profile is shown in the directors' profile above.

Ms. GAO Yan is our Vice President. Her profile is shown in the directors' profile above.

Mr. YU Hongjiang is our Executive Vice President, Chief Operating Officer and Chief Financial Officer. His profile is shown in the directors' profile above.

Ms. PENG Wei, aged 60, is our Vice President principally in charge of our research and development, production and operation of medicines. Ms. Peng is also a director and the legal representative of several subsidiaries of our Group. Ms. Peng joined our Group in October 2017 and has more than 34 years of experience in the pharmaceutical industry. Between 1995 and October 2012, she held various senior positions in The United Laboratories International Holdings Limited (a company listed on the Stock Exchange, stock code: 3933), including vice chairman, executive director and general manager. Ms. Peng founded Zhongshan Wanhan and Wanyuan, which were acquired by our Group in October 2017. She graduated from the Department of Medicine of Xi'an Medical University in 1983 and obtained an Executive MBA degree from Lingnan College of Sun Yat-Sen University in 2006.

Mr. LIN Ruhai, aged 54, is our Vice President principally in charge of our public relationships. Mr. Lin joined our Group in September 2012 and has over 33 years of experience in the media and health industry. He has served as a manager of China Optoelectro Industries Co., Ltd. and a TV program producer in Hunan TV & Broadcast Intermediary since 1998. Between 2002 and 2005, Mr. Lin served as the Deputy Managing Director of Beijing Orient Power Advertising Co., Ltd. Between 2006 and 2012, he served as a vice secretary-general of the Healthcare Consultancy Services Working Committee under the China Health Care Association. Mr. Lin has been serving as a part-time vice secretary-general of the China Health Care Association after joining our Group. Since December 2018, Mr. Lin was appointed as the Vice Chairman of the Big Health Committee under the Pharmaceutical Division of All-China Federation of Industry and Commerce.

Mr. ZHAO Yiyin, aged 39, is our Vice President principally in charge of our sales and marketing. Mr. Zhao joined our Group in July 2007 till September 2013, re-joined our Group in June 2015 and has more than 15 years of experience in the field of sales and marketing. Between October 2013 and May 2015, Mr. Zhao served as the national OTC director at Zhejiang Senyu Holding Group. Mr. Zhao graduated from the Department of Information Engineering of Beijing Institute of Graphic Communication in 2007 and obtained a bachelor's degree in engineering with a major focus in automation.

Mr. LIU Jian, aged 55, is our Vice President principally in charge of our supply chain and CEO office. Mr. Liu joined our Group in August 2018 and has more than 30 years of experience in pharmaceutical production and corporate management. Between September 1986 and July 1990, Mr. Liu worked in China Otsuka Pharmaceutical Co., Ltd. for pharmaceutical production and management. Between August 1990 and December 2009, he served as a production manager in 中美天津史克製藥有限公司 (Tianjin Smith Kline & French Laboratories Ltd.*). Between January 2010 and September 2013, Mr. Liu served as the operation director of Yabao Pharmaceutical Co., Ltd. Beijing. Between October 2013 and July 2018, he served as the director of the pharmaceutical factories (Beijing and Cangzhou) of Beijing Beilu Pharmaceutical Co., Ltd.

* *for identification purpose only*

Environmental, Social and Governance Report

ABOUT THIS REPORT

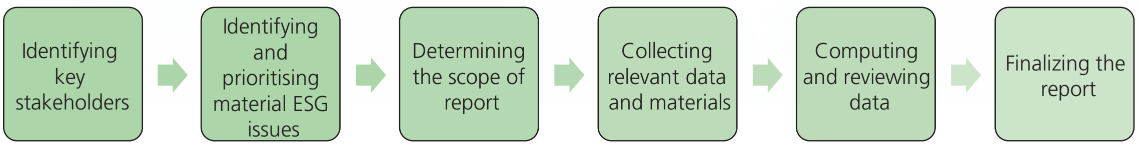
This report aims to summarise the performance of the Group in environmental, social and governance aspects during the reporting period (the "**ESG Report**"). This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") set out in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (the "**Listing Rules**") and the mandatory disclosure requirements and the "comply or explain" provisions contained therein, and has complied with all "comply or explain" provisions in the ESG Reporting Guide.

Scope of report

The scope of this report includes Besunyen Holdings Company Limited (the "**Company**") and its subsidiaries (the "**Group**").

Procedures for preparation of report

This report has been prepared in accordance with the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The procedures are as follows:



Reporting principles

In the preparation of this report, the Group has complied with the reporting principles in the ESG Reporting Guide:

Materiality: Stakeholder engagement and materiality assessment have been conducted regularly to identify and determine material ESG issues, and to ensure that these issues are addressed in this report.

Quantitative: Data presented in this report have been collected prudently and quantitative disclosures on the environmental and social indicators have been made wherever possible. Please refer to the environmental and social performance data for standards and methodologies used for calculation of key performance indicators.

Balance: This report has been prepared in an objective manner to ensure that the information disclosed give a full and unbiased picture of the overall performance of the Group in environmental, social and governance aspects.

Consistency: The disclosures, data collection and calculation methods have remained consistent throughout the years to facilitate comparability over time. We will explain in notes for any changes in the methodologies and reporting scope adopted.

Data collection and assurance

The data and other information in this report are derived from the relevant documents, reports and statistical results of the Group. The Board and all the Directors of the Group commit that there is no false statement, misleading statement or material omission in the content of this ESG Report, and shall assume individual and joint liability for the truthfulness, accuracy and completeness of such content.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MANAGEMENT APPROACH AND STRATEGY OF THE BOARD

The Group implements a top-down management approach for its environmental, social and governance management, and has established suitable and effective environmental, social and governance management system and process. Environmental, social and governance issues are managed in a systematic manner based on the three ranks of "decision-making", "coordination" and "execution".

The Board is the "decision-making" rank of the Group's ESG management work, which is responsible for deciding the environmental, social and governance strategy of the Group, assessing the risk and opportunity in environmental, social and governance aspects, and monitoring the overall environmental, social and governance performance of the Group, which includes environmental management issues, staff relationship, community involvement, corporate governance and others. The ESG leading group is mainly responsible for the "coordination" of the ESG management work, with the Group's chief executive officer as the group leader and the chief operating officer, heads of tier-one departments at the headquarter level and other persons with ESG risk identification and management capabilities as members. The leading group strictly abides by the relevant guidelines, identifies the ESG risks, regularly reviews the effectiveness of the Group's ESG-related management system, regularly reports to the Board on the current status of the ESG management, and prepares the environmental, social and governance reports. The management departments and subsidiaries are responsible for "executing" the environmental, social and governance management, implementing the ESG management policies, achieving the ESG management objectives, collecting the relevant environmental, social and governance data, and reporting the relevant work results to the ESG leading group on a regular basis.

The Group maintains effective communication with its stakeholders in its daily operation to understand and identify their needs, anticipation and concern on the environmental, social and governance factors of the Group, thereby assessing the importance of the environmental, social and governance aspects and formulating a long-term development approach and strategy. The Board reviews and approves the environmental, social and governance report annually, so as to ensure that the environmental, social and governance report presents all the material environmental, social and governance issues of the Group and their impacts on sustainable development in a fair manner.

STAKEHOLDER ENGAGEMENT

The Group fully understands that keeping a close communication with stakeholders is an integral part of the sustainable development of an enterprise. As such, the Group continues to adopt proactive measures to facilitate the close communication with stakeholders. Opinions and anticipation from different stakeholders are collected through different channels for the purpose of assisting the Group in formulating strategy for sustainable development. The diversified methods of participation below are applied by the Group for understanding the anticipation of stakeholders:

Key stakeholders	Areas of concern	Communication methods
Shareholders and investors	• Returns on investment • Information disclosure • Protection of shareholders' interest and equal treatment • Corporate governance system • Business strategy and performance	• Annual general meetings and other shareholders' meetings • Annual reports, announcements and corporate communications • Disclosures on the websites of the Company and the Stock Exchange • E-mails • Meetings with senior management
Clients and suppliers	• Product and service quality • Condition on contract compliance • Genuine cooperation	• Satisfaction surveys • Phone and e-mail communications • Business visits
Employees	• Salary and welfare • Training and development • Health and safety • Protection of employees' interest • Working environment	• Regular meetings • Employee trainings and regular employee activities • Suggestion boxes for employees • Employee representative meetings
Consumers	• Product quality • Pre-sales services • After-sales services • Protection of consumers' interest	• Company website • Customer service center • Client satisfaction surveys • Phone and e-mail communications
Government	• Compliance with laws and regulations • Implementation of policies • Social welfare	• Consultations and visits • Meetings • Annual and interim reports
Media	• Corporate governance system • Community investment	• Company website • Meetings with media • Forums

MATERIALITY ASSESSMENT

The ESG leading group and staff from key functions of the execution rank of the Group participate in the preparation of the environmental, social and governance report. They assist the Group in reviewing business, identifying key environmental, social and governance issues, and assessing the materiality of such issues to the business and stakeholders of the Group. Through understanding the key environmental, social and governance issues that are material to the business of the Group, the Group has adopted the principle of materiality in the ESG Report. All the key environmental, social and governance issues and the key performance indicators (the "**KPIs**") have been reported in this report as suggested in the ESG Reporting Guide.

The Group has assessed the significance and materiality of the environmental, social and governance aspects through the following steps:

Step 1: Identification — Identifying material issues

- Through reviewing the Sustainable Development Goals: 17 Goals to Transform our World (SDGs) duly approved by the United Nations in September 2015, the Group identifies the relevant environmental, social and governance aspects.

- Through internal discussion among the management and by referencing the suggestion contained in the ESG Reporting Guide, environmental, social and governance issues are determined based on the significance of each environmental, social and governance aspect to the Group.

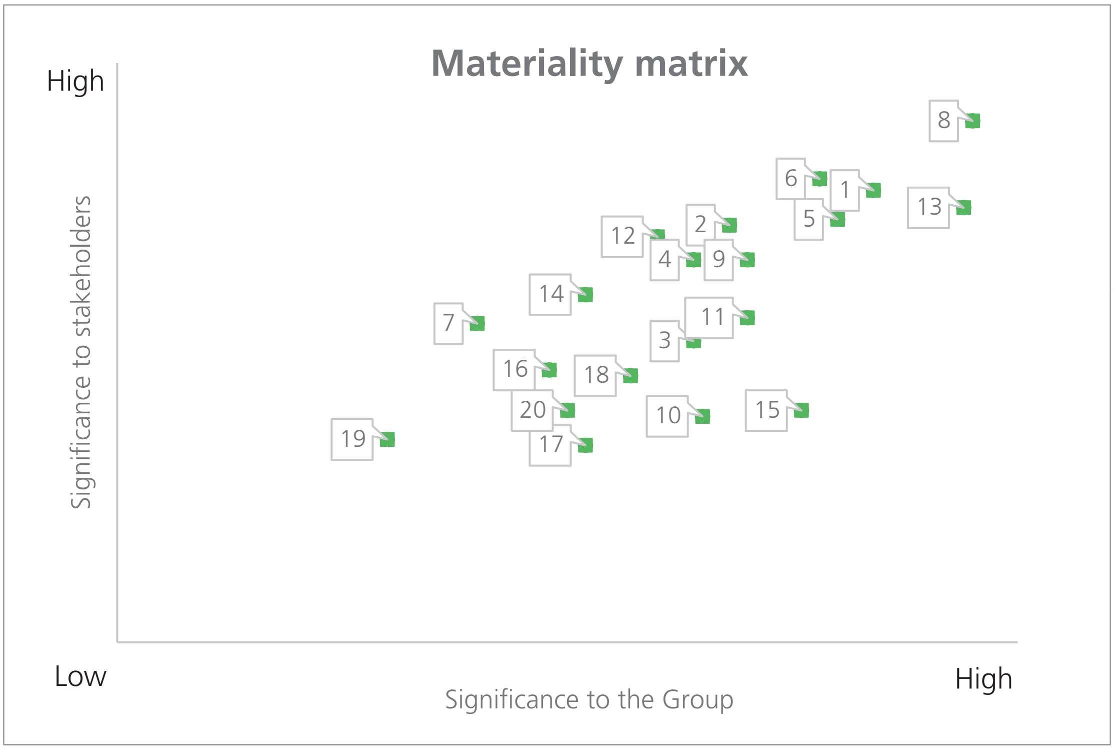
Step 2: Sorting — Stakeholder engagement

- The Group invites internal and external stakeholders to rate and comment on each environmental, social and governance issue through questionnaire.

Step 3: Confirmation — Determining issues with significance

- Based on the discussion with key stakeholders and the internal discussion among the management, the management of the Group ensures that every environmental, social and governance aspect that is critical and significant to the business development is reported and complied with the ESG Reporting Guide.

Significant environmental, social and governance issues of the Group are summarized in the following matrix:



The following five significant issues are identified in accordance with the scoring results from the stakeholder survey:

Number	Issue
1	Air pollutants and greenhouse gas emission management
5	Supply chain management
6	Business strategy and performance
8	Quality inspection on products
13	Employee benefit

TABLE OF ISSUES

Environmental protection and green operation	Operation management	Products and services	Quality on working environment	Social contribution
1. Air pollutants and greenhouse gas emission management 2. Water discharge and waste management 3. Management on water consumption 4. Other energy management (including packaging materials, paper consumption)	5. Supply chain management 6. Business strategy and performance 7. Anti-corruption system	8. Quality inspection on products 9. Protection of intellectual property rights 10. After-sales services of products 11. Protection of privacy of clients	12. Employment practices (including procedures on recruitment, promotion and dismissal) 13. Employee benefit (including remuneration, number of working hours, holiday and welfare) 14. Occupational safety and health 15. Development and training 16. Prevention of child and forced labour 17. Diversification and equal opportunities with anti-discrimination 18. Green working environment	19. Participation in volunteer activity 20. Charity donation

The Group implemented the above procedures during the reporting period, and significant areas of environmental, social and governance have been discussed in this report.

A. ENVIRONMENTAL

A1. Emissions

Policies relating to exhaust gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste

Environmental protection has become one of the important standards for measuring the operation and management level of the Group. The Group continued to push forward its plans such as "lean production" and "clean production", and through optimising its production process, upgrading its machinery and equipment and eliminating its obsolete production capacity, the Group continued to improve its efficiency of energy use and reduce emissions, so as to facilitate the sustainable development and enhance the environmental performance of the business.

During the reporting period, the Group continued to push forward its "lean production" plan, including: (i) continuously carrying out the joint coordination system of production and sales, and efficiently coordinating the sales forecast and production plan; (ii) achieving centralised production, formulating production cycle and production plan through the production scheduling system, arranging small orders for centralised production, directly reducing single or small-process production arrangements in multiple periods, and improving production efficiency to reduce emissions; and (iii) efficiently coordinating with each department and workshop by the production department to centralise the use of water, electricity and gas to improve energy efficiency. The other functional departments effectively ensured the materials used in production by facilitating the material procurement plan, timely inspection and acceptance, and arranging materials preparation in advance, and ensured that the production plan was carried out efficiently through the normal operation of equipment in a timely manner by adopting the procurement plan of spare parts and the equipment maintenance plan. The Group was also committed to educating its employees to enhance their awareness of environmental protection and to comply with the relevant environmental laws and regulations.

During the reporting period, the Group was not aware of any serious violations of environment-related laws and regulations that have a significant impact on the Group. The environment-related laws and regulations include but are not limited to the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Cleaner Production Promotion Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, and the Integrated Emission Standard of Air Pollutants.

Key performance indicator

1. Exhaust gas emission

The industrial exhaust gas produced during the production process of products, the heating boiler and the oily fumes from staff canteen are the main sources of exhaust gas produced by the Group. The Group has adopted various measures to reduce its exhaust gas emission, including but not limited to:

1) exhaust gas produced during the production process are filtered by using dust removal equipment in production workshops;

2) low nitrogen combustion is maintained for the heating boiler, the inlet water temperature for normal heating is controlled stably at around 40 degrees celsius during daytime, while during the period without production arrangement, the boiler is operated in low temperature, and the inlet water temperature is controlled at around 25 degrees celsius; and

3) oily fumes from staff canteen are emitted through the professional purification device after treatment.

Types of exhaust gas	Units	For the year ended 31 December 2022	For the year ended 31 December 2021
Nitrogen oxides	kg	625.16	829.24
Sulfur oxides	kg	3.80	4.68
Industrial exhaust gas	m^3	9,778,697	10,000,945
Intensity of industrial exhaust gas[Note 1]	m^3/million revenue	10,366.48	9,001.30

Note 1: Calculated based on the revenue of the Group of RMB1,101.2 million in 2021 and RMB943.3 million in 2022. Same below.

Compared to 2021, the Group's exhaust gas emissions decreased in 2022, mainly due to the decrease in production volume, which reduced the use of natural gas and, in turn, reduced the exhaust gas emissions.

2. *Greenhouse gas emission*

The Group emits greenhouse gas mainly during its daily activities, such as fuel consumed by vehicles, natural gas consumed during the operation of staff canteen (scope one) and electricity bought from external sources (scope two), etc. The Group has adopted the following measures during its daily operation to reduce greenhouse gas emission, including but not limited to:

1) regularly inspecting and maintaining the purification device for oily fumes in canteen to ensure its efficient operation;

2) flexibly controlling the outlet water temperature of the heating boiler; and

3) strictly controlling the use of vehicles to minimize the unnecessary usage and wastage.

Indicators		Units	For the year ended 31 December 2022	For the year ended 31 December 2021
Scope one: direct emission	Amount of emission of greenhouse gas	tCO_2e	1,478.42	822.15
	Greenhouse gas emission intensity	tCO_2e/million revenue	1.58	0.74
Scope two: indirect emission	Amount of emission of greenhouse gas	tCO_2e	4,875.98	6,721.27
	Greenhouse gas emission intensity	tCO_2e/million revenue	5.17	6.10

Compared to 2021, the Group's direct greenhouse gas emissions increased in 2022 due to the commencement of production of Oseltamivir API, resulting in an increase in direct greenhouse gas emissions.

3. *Hazardous and non-hazardous waste*

The Group's wastes are mainly generated from its production workshops, offices, staff canteens and laboratories, which are mainly scrapped raw materials and non-hazardous wastes such as damaged packaging materials, office wastes and after-meal wastes, as well as a small amount of hazardous wastes such as laboratory testing reagents and those substances generated during the pharmaceutical production.

The Group has adopted the following measures to reduce the emission of wastes and hazardous substances:

1) counting the number of people for meal accurately that meals are prepared by staff canteen in accordance with the actual meal consumption, and staff are encouraged to take food for a number of turns, with less quantity of food in each turn, to eliminate wastage;

2) encouraging staff to work paperless, use both sides of paper, recycle double-sided printed paper and use reusable cups and tableware to reduce the amount of waste generated in office operation;

3) promoting waste classification by setting up various recycling bins with different waste classification labels in its offices and production areas;

4) strengthening the reuse of packaging materials such as cartons in order to advocate resource conservation;

5) separating hazardous waste for collection and storage, strengthening daily management and maintenance for equipment and facility at storage to avoid the leakage of hazardous waste; and

6) entering into waste transportation and disposal contracts with qualified third party companies for the unified collection and disposal of waste, and strictly implementing waste transferal procedure.

Indicators		Units	For the year ended 31 December 2022	For the year ended 31 December 2021
Hazardous waste	Total emissions	T	91.72	28.53
	Emission intensity	T/million revenue	0.10	0.03
Non-hazardous waste	Total emissions	T	218.21	381.2
	Emission intensity	T/million revenue	0.23	0.34

4. *Sewage management*

The Group's sewage is mainly generated from product production and daily office operation. The sewage is discharged to special sewage treatment companies through municipal pipeline network for centralised sewage treatment, ensuring the compliant treatment of sewage.

The Group has adopted various measures to reduce sewage discharge and ensure that the sewage treatment meets the requirement:

1) conducting regular inspections on the sewage discharge equipment to avoid leakage of sewage;

2) promoting the "multi-use of water" plan by improving the recycling and reuse of water resources; and

3) organising environmental protection and energy conservation production trainings regularly to improve its employees' operational skills and environmental awareness.

A2. Use of Resources

Policies on efficient use of resources

The Group fully understands the importance of efficient use of resources, energy saving and emission reduction management to sustainable development. The Group has formulated the policies and procedures relating to the use of resources, in order to enhance the efficiency on use of energy and water resources and reduce unnecessary use of resources. The Group implements "4R" strategy on use of resources, which focuses on "replace, reuse, reduce and recycle". The Group also reminds its staff to implement 4R strategy throughout the entire operational process of the Group, make every effort in resource conservation, and minimise the ecological footprint related to our consumption of resources.

Key performance indicator

1. Energy consumption and management

The energy consumed by the Group is mainly electricity, natural gas and fuel. The Group has minimised the effect of the operation on the environment through identifying and applying suitable measures. The Group has formulated energy policy, measures and practices to further minimise the energy consumption:

1) purchasing equipment and machinery with high energy efficiency when replacing equipment;

2) encouraging staff to use public transportation when travelling, and the capacity of vehicles shall be fully leveraged to its greatest extent;

3) posting notice near the switches and electrical appliances, in order to remind employees to reduce electricity consumption; and

4) expressly requiring staff to switch off all electrical appliances in idle and unnecessary lighting when leaving office, and executives will carry out inspection everyday to ensure that the electrical appliances in idle are switched off.

Indicators		Units	For the year ended 31 December 2022	For the year ended 31 December 2021
Electricity	Total consumption	kWh	9,309,976.48	11,568,453.44
	Total consumption intensity	kWh/million revenue	9,869.58	10,412.12
Natural Gas	Total consumption	m^3	582,772.00	539,373.95
	Total consumption intensity	m^3/million revenue	617.80	485.46
Fuel	Total consumption	L	28,198.61	247,139.97
	Total consumption intensity	L/million revenue	29.89	222.44

Compared to 2021, the Group's electricity consumption decreased in 2022 due to the decrease in the production volume of products as a result of the lower-than-expected sales revenue, resulting in a decrease in energy consumption.

2. *Water consumption and management*

Apart from energy conservation, the Group makes every effort to cultivate a culture of water conservation with staff together. Unnecessary water resources consumption is reduced by adopting the relevant measures, including: (i) adopting the "multi-use of water" plan; (ii) fixing the bathing time for staff, and measuring the amount of bathing water consumed by tapping card; and (iii) installing separate water meter in each water consumption unit for separate measurement. The Group will also conduct regular inspections on the water consumption equipment to avoid leakage and wastage.

Through the implementation of strict policy, each department of the Group formulates water conversation measures by integrating the actual operational condition, which include upgrading and retrofitting water consumption equipment, placing emphasis on the daily repair and maintenance of water consumption equipment, in order to strengthen the conservation and management on water resources. The Group relies on water supply from the government, and has no and does not expect to encounter problems in sourcing water in its operation.

Indicators	Units	For the year ended 31 December 2022	For the year ended 31 December 2021
Water consumption	T	99,145.00	112,416.06
Water consumption intensity	T/million revenue	105.10	101.18

Compared to 2021, the Group's water consumption decreased in 2022 due to the decrease in water consumption caused by the decrease in production volume of products.

3. *Packaging materials*

The packaging materials consumed by the Group during its production are mainly cartons, packaging boxes, iron boxes, and PE films. The Group continuously regulates the management of packaging material procurement, warehousing after inspection and acceptance, production material collection and usage and recycling so as to reduce consumption of packaging materials. Through measures such as upgrading and transforming production line equipment, repairing and maintaining packaging equipment regularly, promoting machine automation and recycling of outer packaging boxes, the Group has achieved its dual management goals of improving production efficiency and reducing the damage rate of packaging materials. The Group also holds regular operational training for staff in order to minimise the consumption of packaging materials caused by abnormal or unfamiliar operation. It no longer provides the manual inside the packaging boxes of therapeutic teas in order to minimise the consumption of paper packaging materials.

Indicators	Units	For the year ended 31 December 2022	For the year ended 31 December 2021
Packaging materials	T	2,668	3,422
Packaging material intensity	T/million revenue	2.83	3.08

Environmental goals

Through the measures for minimising impacts on the environment described in section A1. Emissions and A2. Use of Resources, the Group controls the emission of exhaust gas and greenhouse gas, and minimises the production of hazardous and non-hazardous wastes, thus achieving the continuous commitment on environmental protection.

The Group has set certain goals for the financial year ending 31 December 2024 ("**Year 2024**"), which constitute a target plan that lasts for three years.

The table below summarizes the sustainable development goals that are planning to be achieved by the Group by Year 2024. The Group will continue to review the progress of the goals set in every reporting period before Year 2024, and will strive for achieving the goals set continuously.

Key performance indicators for environment	Goals on emission reduction	Benchmark year	Status
Exhaust gas emission intensity	A 3% decrease in exhaust gas emission intensity for 2024 as compared to 2021	2021	In progress
Greenhouse gas emission intensity	A 3% decrease in greenhouse gas emission intensity for 2024 as compared to 2021	2021	In progress
Intensity of hazardous wastes produced	A 3% decrease in intensity of hazardous wastes produced for 2024 as compared to 2021	2021	In progress
Intensity of non-hazardous wastes produced	A 2% decrease in intensity of non-hazardous wastes produced for 2024 as compared to 2021	2021	In progress
Energy consumption (electricity) intensity	A 2% decrease in electricity consumption intensity for 2024 as compared to 2021	2021	In progress
Energy consumption (natural gas) intensity	A 2% decrease in natural gas consumption intensity for 2024 as compared to 2021	2021	In progress
Energy consumption (fuel) intensity	A 3% decrease in fuel consumption intensity for 2024 as compared to 2021	2021	In progress
Water resource consumption intensity	A 1% decrease in water consumption intensity for 2024 as compared to 2021	2021	In progress

A3. The Environment and Natural Resources

Policies on minimising the Group's significant impacts on the environment and natural resources

The Group devotes itself to contributing to environmental protection, and minimising the impact of its business activity on environment. The Group assesses the environmental risk of its business model regularly, and minimises the direct or indirect impacts on environment and natural resources through policy management, which includes (i) ensuring its business operation complying with the environmental laws and regulations of the PRC; (ii) monitoring and minimising the emission of air pollutants and greenhouse gas, and the production of hazardous and non-hazardous wastes; and (iii) making every effort in its daily business operation to conserve energy, water and other raw materials.

The Group continues to carry out a number of promotional activities to strengthen the awareness on environmental protection of its employees, including (i) a comprehensive promotion on environmental protection and waste management is being carried out in workplace; (ii) sufficient and suitable labels of environmental protection management are being posted and staff are being encouraged to participate in environmental protection activities; and (iii) the operational management rationale of "Green office and low-carbon lifestyle" is being advocated, and the smart office is vigorously promoted by adopting various systems, including OA system, cloud home system, and video conference system to reduce energy consumption.

Key performance indicator

Due to the continuous production and operation activities, the indirect emission of greenhouse gases resulting from significant consumption of electricity and natural gas may have an impact on the environment and natural resources. The Group is committed to adopting and implementing policies on minimising the significant impacts on the environment and natural resources in the environmental, social and governance report, so as to ensure the protection of environment and natural resources.

A4. Climate Change

Policies on identification and mitigation of significant climate-related issues

Climate change is a global issue faced by mankind. In September 2020, China announced to the world the long-term goal of achieving carbon peak by 2030 and carbon neutrality by 2060 at the United Nations General Assembly. It will also actively respond to climate change as an important direction in the national "14th Five-Year Plan". The Group believes that energy conservation, emission reduction, consumption reduction and carbon reduction will inevitably become a new development direction for enterprises, bringing new challenges and opportunities.

The Group will review its environmental protection policies from time to time, hold discussion on new environmental, social and governance issues and climate-related risks, and carry out effective governance over the integration of and solution to environmental, social and governance issues (including climate change) within our business scope. The Group pays close attention to changes in relevant laws and regulations, which have significant impact on our operational and environmental protection policies, identifies the risk and opportunity related to climate change, and explores new knowledge and technology that can provide assistance to measures in addressing climate change and our measures on environmental protection. The Group prioritises identified risks based on their potential impact or relevance to business development, and accordingly adjusts and updates business contingence plans to improve business stability.

Key performance indicator

Physical risks

Extreme weather like flooding and storm is very common in recent years, and it can cause gridlock and severe disruption to road system, shortage of water or other resources, and ultimately results in disruption or even halt to business, or cause the Group to face risks relating to non-performance and delay in performance. In order to minimise the potential risks and damages, the Group has flexible working arrangement and preventive measures in place under bad or extreme weather conditions.

The following measures are adopted by the Group to minimise the climate-related risks of its business operation: (i) keeping close communication with suppliers to formulate contingency plan together, in order to prevent the disruption of supply chain or other problems; (ii) continuously expanding the supplier base so that the Group could procure from alternative suppliers if a supplier is being affected by extreme weather conditions; and (iii) since electricity consumption may increase under prolonged high temperature, leading to an increase in operational cost, the Group has implemented zonal lighting control and used energy-saving lightings in the office, and posted notices on energy conservation to remind employees to switch off electrical appliances in idle. Extreme weather conditions and earthquake may affect our properties and operation, thus the Group has formulated internal safety guidelines for employees to address major disasters and emergencies correctly, and such guidelines are being reviewed and improved regularly.

Transitional risks

More stringent laws and regulations on environment may expose enterprises to greater risks on claim and litigation. The reputation of an enterprise may also be downgraded if it fails to fulfil the compliance requirement related to climate change. To address policy, legal and reputational risks, the Group regularly monitors the existing and newly emerged trends, policies and regulations related to climate, and is well-prepared to remind the management when necessary, in order to avoid the increase in cost, paying the penalty for violating regulation, or the reputational risk arising from our delay in response.

B. SOCIAL

B1. Employment

Recruitment, promotion and dismissal

The Group devotes to providing a working environment that staff are being respected and satisfied with. The Group complies with the Employment Ordinance and the Mandatory Provident Fund Schemes Ordinance of Hong Kong, the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Employment Promotion Law of the People's Republic of China, and other relevant labour laws and regulations. Recruitment, probation, promotion, award, penalty and welfare are being carried out according to the principles of fairness and justice. All staff are provided with the Staff Manual on entry which sets out the policies of our employment terms, remuneration package, number of working hours, rest period and holiday, termination of employment, confidentiality, etc.

A recruitment management system is set up by the Group, and the principle of openness and fairness is adhered to during the recruitment process. Staff are recruited by the Group through professional headhunting companies, recruitment websites, job fairs, etc. Assessment on candidates has been carried out based on the candidate's suitability to the post, working experience, working skills and ability, but not their ethnics, gender, religion and marital status, etc.

The Group has formulated the Staff Promotion Management System to offer promotion and development opportunities to outstanding employees through an open and fair system of assessment, in order to explore the potentials of employees. Annual review on employee's performance is held by the Group and employees are provided with an opportunity to discuss their performance and career development with their supervisors. Results on performance review are used to review the remuneration of employees and for considering their promotion.

The Group does not tolerate any unreasonable dismissal, and the termination of any employment contract should be made on a reasonable and legal basis. The Group handles dismissal in accordance with the standard procedure under the relevant labour laws, and will provide reasonable compensation to staff being dismissed. The provisions related to the termination of employment relationship are contained in the employment contracts with each staff.

Work-life balance

The Group has always been committed to creating a balanced environment between work and life, and has formulated policies in compliance with the relevant regulations to manage the working hours and holiday of employees. The Group has developed standardised working hour system (7.5 working hours per day) and flexible working system for its employees in different positions, and has ensured that its employees have adequate entitlements to annual leave, compensatory leave, personal leave, sick leave, marriage leave, maternity leave, compassionate leave, nursing leave, breastfeeding leave and various national statutory holidays.

Policies on remuneration and welfare

The Group provides competitive remuneration to employees, including but not limited to basic salary, performance-based bonus, piece-rated salary, incentive package and profit sharing, while the remuneration and promotion are being linked to the competence in working and performance. Each department grants "white list" incentives and provides reasonable promotion opportunities and bonuses in accordance with the contribution to business from staff.

The Group strictly complies with the national social insurance policy to contribute to social insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance, housing provident fund, pension, etc. In addition, meal subsidy, travel subsidy, high temperature subsidy, festival welfare fund, team building, body check, birthday party and other welfare are provided to employees in order to enhance their cohesion.

Equal opportunity, policies on diversification and anti-discrimination

The Group regards staff as its most valuable and core asset, and high-calibre talents are recruited in accordance with the fair employment principles with fairness, justice and openness, so as to develop a talent pool for the business operation of the Group. Discrimination by nationality, age, gender, religion, disability, marital status or any other forms is prohibited by the Group, and the Group has zero tolerance for any discriminatory behaviour. The Group ensures that its employees can succeed and grow in a working environment that promotes diversity and inclusion.

Key performance indicator

1. *Total number of workers*

For the year ended 31 December 2022, the total number of workers by gender, employment type, age group and region are as follows:

		For the year ended 31 December 2022 (Number of people)
Gender	— Male	698
	— Female	620
Employment type	— Full-time	1,317
	— Part-time	1
Age group	— Below 30	462
	— 30 to 50	733
	— Above 50	123
Region	— Hong Kong	3
	— Mainland	1,315

2. *Employee turnover rate*[Note 2]

For the year ended 31 December 2022, the employee turnover rates by gender, age group and region are as follows:

		For the year ended 31 December 2022 (%)
Gender	— Male	47.96%
	— Female	47.07%
Age group	— Below 30	75.09%
	— 30 to 50	34.42%
	— Above 50	21.05%
Region	— Hong Kong	0.00%
	— Mainland	47.62%

Note 2: Employee turnover rate = Number of resigned employees in a category/monthly average number of employees in that category for the 12 months ended 31 December 2022 × 100%.

B2. Health and Safety

The Group devotes to providing a safe, happy and healthy working environment to its employees. The Group strictly complies with the laws and regulations including the Production Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases. The Group has formulated and issued the Occupational Safety and Health Guideline to create a safe working environment and to protect employees from occupational hazards.

The Group has formulated safety measures such as the Management Measures for Production Safety and the Accountability System for Production Safety for the daily production activity and addressing emergency. Safety supervisor monitors each stage of production process to ensure such measures are being complied with. The Group regularly inspects the production machinery and equipment to identify the potential safety hazards. In the meantime, through regular internal safety training, the Group actively enhances the occupational safety awareness of its employees. The Group plans its office layout in accordance with the relevant safety requirements to ensure no blockage to fire escape route and the office being kept clean regularly.

Key performance indicator

1. *Number and rate of work-related fatalities and lost days due to work injury*

	For the year ended 31 December 2022	For the year ended 31 December 2021	For the year ended 31 December 2020
Number of work-related fatalities	0	0	0
Rate of work-related fatalities	0%	0%	0%
Lost days due to work injury	0	0	0

2. *Occupational health and safety measures*

The Group advocates the idea of "work-life balance" and provides care to staff on health, welfare and continuous education. The Group has also appointed an environment, health and safety officer (the "**EHS Officer**") who is responsible for maintaining a clear communication between senior management and employees. In addition, the EHS Officer is responsible for overseeing the Group's environment, health and safety goals and employee safety and for identifying any potential hazard that may emerge during the daily operating procedures. During the reporting period, the EHS officer was not aware of any adverse issues that would affect the Group's EHS and employee safety. The Group also provides a medical insurance plan to its employees to protect their health and safety.

In order to address the pandemic of novel coronavirus pneumonia ("**COVID-19**"), the Group has implemented a number of pandemic prevention measures at office and production area, such as (i) disinfecting and cleaning the office premises regularly; (ii) arranging regular nucleic acid tests for employees; and (iii) distributing face masks, sterilizing materials, etc. to employees on a regular basis. In addition, all the employees are required to have their temperature checked and wear masks before entering the office premises.

B3. Development and Training

Skills and knowledge of employees are essential to the continuous growth and success of the business of the Group. By encouraging employees to participate in training courses, the Group pays effort to enhance the working performance, individual development and promotion opportunity of employees. The Group provides induction training to all new employees, as well as regular on-the-job training to all the employees of the Group. The induction training covers the corporate culture, code of conduct for all staff, corporate management policy, etc. The on-the-job training includes the business knowledge and skills required for the designated position, and aims to enhance the working performance of employees. The Group also encourages its employees to join suitable external training courses or seminars that relate to their working responsibility during office hours. If employees are taking an external examination related to their working responsibility, they may be granted a day off on the examination day. The Group makes every effort to ensure that all employees comply with the relevant job requirement in terms of education, training, skills and working experience.

Key performance indicator

1. *Percentage of employees trained*[Note 3]

		For the year ended 31 December 2022 (%)
Gender	— Male	53.27%
	— Female	46.73%
Employee category	— Senior management	5.40%
	— Middle management	13.20%
	— Junior employees	81.40%

Note 3: Percentage of employees trained = Number of employees trained in a category ÷ total number of employees trained × 100%.

2. *Average training hours completed per employee*

		For the year ended 31 December 2022 (hours)
Gender	— Male	155
	— Female	143
Employee category	— Senior management	74
	— Middle management	116
	— Junior employees	142

B4. Labour Standards

The Group strictly complies with the Employment Ordinance (Cap. 57 of the laws of Hong Kong), the Regulations on Labour Security Supervision issued by the State Council of the PRC and the relevant laws and regulations in order to eliminate child and forced labour. It is the rule of the Group that the age of employee must meet the minimum statutory working age requirement, and the candidate must provide academic certification and documentation of working experience for verification. Candidate who is suspected of providing false academic certification and working experience will not be recruited.

Key performance indicator

Avoid child and forced labour

The recruitment procedures of the Group must comply with the strict internal verification procedures, which include verifying the identity documentation of candidate, in order to ensure that the age of candidate meets the legal requirement. The Group prohibits the employment of child and forced labour, and during the reporting period, all the employees attained 18 years of age. If any non-compliance is found, the Group will immediately make rectifications to ensure compliance operations. During the reporting period, the Group was not aware of any non-compliance of laws and regulations related to recruitment of child and forced labour.

B5. Supply Chain Management

Suppliers' ability to fulfill the contract and the safety of materials supplied have a significant impact on the sustainable development of the Group. The Group has formulated its management guidance including the Supplier Management Procedures, the Procurement Management Measures, the List of Qualified Suppliers and the Supplier File Management Procedures, and has established a mature mechanism on procurement and bidding. The Group carries out strict appraisal and control over different aspects of suppliers, including their production capability, product quality and stability in product supply. The Group also carries out random quality inspection and performs tracking and recording on products supplied, in order to maintain a high-level supply chain management.

In order to promote the sustainable development of supply chain, the Group attaches great importance to the environmental risks and integrity operation of suppliers, assists suppliers in fulfilling their responsibilities and promotes the common progress of suppliers with the Group, including: (i) conducting environmental assessment during the supplier review process, requiring suppliers to make improvement commitments in areas such as reduction of packaging materials, energy conservation and emission reduction, chemical management, and product transportation; and (ii) putting forward integrity requirements and conducting disciplinary management on the integrity operation of suppliers, requiring suppliers to sign integrity clauses, including integrity and self-discipline and integrity operation, and strictly prohibiting any bribery in the procurement process.

Key performance indicator

1. *Suppliers by geographical region*

   For the year ended 31 December 2022, the Group made procurement from a total of 31 suppliers located in 10 provinces and municipalities in China, of which three are located in Guangdong Province, four from Zhejiang Province, three from Anhui Province, four from Jiangsu Province, one from Fujian Province, one from Henan Province, seven from Hebei Province, one from Shandong Province, six from Beijing and one from Yunnan Province.

2. *Practices relating to supplier engagement*

   The Group implements supplier management in strict accordance with the Supplier Management Procedures. It strictly examines each license and qualification of all suppliers before engaging, which includes production license, business license, qualification standard and quality control system. The Group regards the sustainability commitment of all suppliers as an important factor for consideration, and strongly emphasises their ability to adopt effective measures in reducing the adverse impacts of operation on the society and environment. The Group closely monitors the performance of all existing suppliers, and strict assessment is done on their performance in performing the liabilities under procurement contract, including cost, quality of product and service, delivery time, and stability in product supply. The Group also carries out irregular supervision and random inspection on the production or service process of all existing suppliers. Suppliers who are failed to meet the standard will be disqualified, and claims will be made to any loss arising from failing in performing the contract.

3. *Practices used to identify environmental and social risks along the supply chain*

   The Group assesses the environmental and social risk of its suppliers on an annual basis. Qualifications of suppliers like environment impact assessment report and pollutant discharge permit are rigid qualifications for the Group in selecting suppliers, whereas industry-related requirements such as environmental system certification, safety production license are considered as supporting qualifications. The Group regularly monitors the environmental conditions of suppliers, including the sanitary condition of the production zone, the transfer and disposal of garbage produced, the maintenance and usage conditions of dangerous chemical goods, the recycle and disposal of waste, while their social conditions, including the award and penalty from industry and commerce administrative department, taxation and indebtedness condition and litigation, are also being regularly reviewed.

4. *Practices used to promote environmentally preferable products and services when selecting suppliers*

   The Group supports the purchase of environmental protection products in order to minimise the impact caused by business operation on the environment. The Group keeps close communication with suppliers through teleconferencing, site visit and e-mail, to ensure that they meet the Group's environmental standards in all aspects. The Group also concerns about the environmental protection awareness of its suppliers, and promotes good environmental protection performance and governance measures among its suppliers. For products that fulfil the relevant condition, the Group will suggest suppliers to use packaging materials that are environmentally friendly, degradable and recyclable.

B6. Product Responsibility

Maintaining product safety and service quality is crucial to the sustainable development of the Group. The Group strictly complies with the requirements of relevant laws and regulations such as the Food Safety Law of the People's Republic of China and the Drug Administration Law of the People's Republic of China, and has formulated different standards, mechanisms for quality inspection and management for products, in order to ensure that its products fulfil the quality requirement. The Group also implements the Service Quality Management Mechanism to enhance the service quality by providing training to its employees, monitoring the progress and formulating action plan.

The Group strictly complies with the relevant policies and regulations such as the Advertising Law of the People's Republic of China and the Interim Measures for the Administration of Internet Advertisements, to ensure all relevant marketing and promotion complying with all relevant laws and regulations formulated by government and the industry. The Group forms a designated department and its personnels are responsible for reviewing the information to be disseminated in advertisement, and eliminating any exaggerated and untrue promotional information. The Group regulates the choice of words in advertisement and prohibits any information that is deceptive or misleading to consumers in the advertisement. If there is any complaint from client, the Group will address and investigate in time, thus ensuring the continuous enhancement in satisfaction from client to our service and product quality. During the reporting period, the Group was not aware of any violation of laws and regulations on advertisement, label and privacy that is related to product and service provided, which have significant impact on the Group.

Key performance indicator

1. *Products sold or shipped subject to recalls for safety and health reasons*

During the reporting period, the sales amount for products shipped subject to recalls for safety and health reasons was RMB326,400, representing approximately 0.0296% of the total sales amount of the Group. Products recalled were the OEM products produced by Zhongshan Wanhan, and such recall has no impact on the production and sales of Zhongshan Wanhan.

2. *Products and service related complaints*

The Group has established a professional customer services centre and set up a consumer consultation hotline, as well as formulated and strictly implemented the Consumer Complaint Management System to ensure that consumers can enjoy the rights under the Law of the People's Republic of China on the Protection of Consumer Rights and Interests and other applicable laws.

The Consumer Complaint Management System explicitly sets out procedures and measures on handling complaint, in order to ensure that complaints can be accepted, communicated, handled and tracked in a timely manner, and to prevent such issues to occur again. If it is confirmed that complaint related to product quality is caused by supplier, the Group will terminate the relevant agreement with such supplier, and may take suitable legal action if necessary.

During the reporting period, no material complaint and litigation on product quality and service against the Group arose. A total of 15 complaints from consumers were received by the 400 consumer consultation hotlines, and such complaints were mainly due to logistics express delivery time and packaging damage. For complaints related to express delivery time, the customer service team proactively communicated with consumers through WeChat, and a certain amount of compensation was provided. For complaints related to packaging damage, the customer service team replaced well-packaged products in a timely manner.

3. *Practices relating to observing and protecting intellectual property rights*

The Group sets up and protects intellectual property rights, and has registered a number of brands and trademarks. The Group strictly complies with the relevant laws and regulations, including the Trademark Law of the People's Republic of China, the Copyright Law of the People's Republic of China and the Patent Law of the People's Republic of China, and has formulated and implemented systems like the Intellectual Property Rights Management Approach, the Measures for Trademark Management and the Measures for Patent Management. The Group has formulated clear management procedures on the application, renewal, licensing management and use of licensing of trademark, and the use of trademark must pass a prescribed process for review and a written agreement must be signed. Licensees are required to use the trademark only in the scope authorised in the agreement. If any intellectual property right infringement is found, the Group will take legal action in a timely manner. In addition, the Group holds the promotion for publicity and training in relation to intellectual property rights, such that the legal knowledge on using and protecting intellectual property rights of staff is enhanced.

4. *Quality assurance processes and recall procedures*

The Group insists on providing quality products, and devotes to reducing or preventing product quality problem. The Group has formulated systems and regulations on management and control related to quality standard and inspection for raw and other materials, packaging materials, semi-finished products and finished products, while the quality inspection process is strictly implemented so as to reduce the risk of unqualified products. The Group inspects and examines laboratory equipment every year, and organises inspection training for laboratory personnel, so as to ensure the accuracy of results on inspection and examination. In the meantime, the Group implements a strict product inspection system, inspection record and delivery inspection report, and samples from each batch of products delivered are kept for tracking and inspection in the future.

The Group establishes and implements the Return and Replacement Management System, which uniformly recalls the sub-standard products, unqualifiedly packaged products, near-expiration (including expired) and unsaleable products. Each business division submits the application for products that fulfil recall requirement, and the sales management department is responsible for reviewing and approving the documentation for product recall. After the recall procedures are approved, the products shall be returned to the factory for centralised scrap disposal, so as to prevent the circulation and sale of defective products in the market.

5. *Consumer data protection and privacy policies*

The Group strictly complies with the relevant laws and regulations including the Cybersecurity Law of the People's Republic of China and the Provisions on the Protection of Personal Information of Telecommunication and Internet Users, and has formulated the Administrative Measures for Protection of User Information Security to set up strict management process on personal information of consumer collected, in order to ensure that such personal information will not be disclosed. The Group explains to consumers on how personal information is collected and used, how technologies like Cookie, Beacon, Proxy are used, in order to provide a transparent privacy policy and way of protection, paving a way for the implementation and monitoring of privacy protection policy.

B7. Anti-corruption

The Group emphasises incorruptible and honest corporate environment, and devotes to preventing the occurrence of any forms of corruptive behaviours, as well as holds a zero tolerance stand towards such behaviours. The Group strictly complies with the laws and regulations related to corruption, bribery, extortion and money laundering, including the Criminal Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China and the Interim Provisions on Banning Commercial Bribery. The Group continuously improves its management policies and controlling measures related to anti-bribery, extortion, deception, and money laundering in accordance with the latest related laws and regulations, and formulated the anti-corruption system. Such systems summarise principles of ethic and compliance, and the relevant rules-breaking behaviour, the management responsibility and penalty of relevant departments are listed to regulate principles that should be abided by during daily operation. The Group also sets out in detail the terms of integrity, anti-fraud and anti-corruption and the corresponding punishment measures for violating the provisions in the Staff Manual. Each employee is given the Staff Manual and is required to strictly accept the relevant integrity provisions.

Employees are not allowed to directly or indirectly receive any commission, rebate, monitoring fee, gift, money or other forms of benefits from person, company or organization who is a party in the transaction with the Group. For employee who receives or seeks for any improper benefits without permission, the Group will take disciplinary action against them or report to related judiciary or regulatory authority. The Group also implements a whistle-blowing policy to encourage staff to report any money laundering, bribery and rules-breaking behaviour to Chairman.

Key performance indicator

1. *Integrity-related system*

   In order to convey strict anti-corruption and anti-fraud requirements to employees, the Group has implemented a series of measures to achieve the goal of integrity, including formulating anti-fraud related integrity systems, clearly setting out anti-fraud and anti-corruption clauses in the Staff Manual, and regularly implementing anti-fraud system training and other measures. The Group advocates a corporate culture of integrity, and requires employees to abide by the legal supervision of regulatory authorities, strictly abide by the laws and regulations on anti-commercial bribery, and consciously safeguard the legitimate interests of the Company. The Group advocates employees to consciously resist fraud, enhances their awareness of fraud prevention, encourages and protects employees to report illegal, non-compliance and dishonest behaviours within the Company, so as to effectively prevent fraud. During the reporting period, no concluded case of corruption against the Group or its employee is discovered or reported.

2. *Whistle-blowing procedures*

   The Group has formulated the Whistle-blowing Management System, and has established the reporting hotlines and reporting mailboxes to encourage employees to report any suspected corruption and fraudulent behaviours in an anonymous manner. The Group will make every effort in adopting every feasible measure to protect the identity of the whistle blower. During the reporting period, the Group strengthened the safety management measures for the reporting hotlines and reporting mailboxes, strictly separated the responsibilities of reporting information management and reporting investigation, and performed strict approval procedures for the use of information and files. The Group will investigate the issue in a prudent manner and the management will take appropriate action immediately once any fraudulent case is identified.

3. *Anti-corruption training*

   To ensure a good corporate governance environment, the Group has established the audit committee and has engaged external legal advisers and auditors to review the financial report and statutory disclosure of the Group and to provide their opinions. During the reporting period, the Group provided two training sessions to middle and senior management and one training session on the latest laws and regulations on anti-bribery and corruption to all staff.

B8. Community Investment

The Group devotes to performing its corporate citizenship, and is committed to contributing to the society actively. The Group focuses on stimulating the social responsibility of staff, and encouraging them to participate in any activity that is beneficial to the local community. The Group supports activities that satisfy the demand on community charity, culture, medical, education and other aspects through donation, sponsorship and charity works.

Key performance indicator

Focus areas of contribution and resources contributed

In order to thoroughly implement the spirit of the important speech of General Secretary Xi Jinping and implement the "Opinions on Consolidating and Expanding the Achievements of Poverty Alleviation and Effectively Connecting with Rural Revitalization" issued by the Central Committee of the Communist Party of China and the State Council, the Group continued to actively participate in the special poverty alleviation work of "Ten Thousand Enterprises Help Ten Thousand Villages" and "Ten Thousand Enterprises Revitalize Ten Thousand Villages". Through economic support and industrial support, the Group assisted in pairing with Putaokou Village, Fanjiazhuang Town, Quyang County, Baoding City, Hebei Province, and Yangchanggou Village, Ulanhayesumu Town, Chayouzhongqi County, Inner Mongolia, to help them expand sales channels for agricultural products. At the same time, the Group issued assistance funds to poor families to help the sustainable development of industries in poverty-stricken areas, thereby revitalizing rural vitality and achieving common prosperity.

Corporate Governance Report

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in order to safeguard the interests of shareholders and to enhance corporate value and accountability.

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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the year ended 31 December 2022, except for code provision C.2.1 of the CG Code.

The Directors are committed to uphold the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 enquiry of all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code during the year ended 31 December 2022.

As designated staff, including the senior management, may be aware of inside information from time to time, the Company has further extended the scope of the securities code to those staff.

BOARD OF DIRECTORS

Composition

As at 31 December 2022, the Board comprises seven Directors, including three executive Directors, namely Mr. Zhao Yihong (Chairman and Chief Executive Officer), Ms. Gao Yan (Vice Chairman) and Mr. Yu Hongjiang (Executive Vice President, Chief Operating Officer and Chief Financial Officer); one non-executive Director, namely Mr. Zhuo Fumin; and three independent non-executive Directors, namely Mr. Ren Guangming, Mr. He Yuanping and Mr. Fu Shula. Mr. Mou Wenjun joined the Board on 17 March 2023, serving as an independent non-executive Director. Mr. Ren Guangming ceased as an independent non-executive Director on 23 April 2023 upon completion of his term of appointment. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 41 to 45.

Under code provision C.2.1 of the CG Code, 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 33 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.

Mr. Zhao Yihong is the spouse of Ms. Gao Yan. Save as disclosed in this annual report, to the knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board.

Roles and Responsibilities

The executive Directors are responsible for formulating the business strategies and development plans of the Group, and the senior management are responsible for supervising and executing the plans of the Group. The Company's executive committee is a permanent institution of the Company, which is the highest operation management institution established by the Company to implement the directives and decisions determined by the Board consistently. It is responsible for the planning and implementation of the Company's development strategies and directions. It also reports the corporate and business strategies of the Group to the Board, and formulates detailed implementation plans according to the approval by the Board.

The primary responsibilities of the Chairman are to provide leadership to the Board in setting corporate goals for the Company, to oversee the performance and effectiveness of the Board and to take a lead to ensure that the Board acts in the best interest of the Company and shareholders as a whole.

The primary responsibilities of the executive Directors are to provide leadership for the management of the Company, to take a lead to implement the Company's strategies and to oversee the performance of the management in achieving corporate goals.

The Board plays an important role in corporate governance and is responsible for performing the corporate governance duties set out in the CG Code. All Directors contribute to the Group by sharing their valuable expertise, in-depth knowledge and substantial management experience as well as making impartial judgment on issues discussed at the Board and committee meetings effectively.

Each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for a term of 3 years and is subject to retirement by rotation and eligible for re-election at least once every 3 years at the annual general meeting of the Company in accordance with article 16.18 of the articles of association of the Company.

The Company has received an annual written confirmation of independence from each of the independent non-executive Directors. The Board considers that all the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

All Directors have full and timely access to all relevant information and briefings on significant legal, regulatory or accounting issues affecting the Group. The Directors are able to seek independent professional advice at the Company's expense under appropriate circumstances and to have separate and independent access to the senior management.

Training

A kit of corporate information and an induction regarding the management, operations and governance practices of the Group and general compliance regulations under the Listing Rules have been provided to all Directors shortly upon their appointments as Directors of the Company. Updates on the amendments of applicable rules and regulations have been given to the Directors from time to time. During the year, Mr. Zhao Yihong, Ms. Gao Yan, Mr. Yu Hongjiang, Mr. Zhuo Fumin, Mr. Ren Guangming, Mr. He Yuanping and Mr. Fu Shula participated in comprehensive trainings on topics including Listing Rules compliance, director's duties, capital raisings, corporate governance and environment, social and governance, etc. by attending training courses conducted by qualified professionals and reading relevant updated materials. Each of the above-mentioned Directors received more than 15 hours of training in 2022.

Procedures

At least four regular Board meetings have been held by the Company during the year, with additional meetings held as and when required. In respect of each regular meeting, unless less number of days has been consented by all Directors, a notice has been given to all Directors at least 14 days prior to such meeting so as to allow them an opportunity to include matters in the agenda and the Board papers have been sent to all Directors at least 3 days before the meeting. For all other meetings, reasonable notices have been given.

Corporate Governance Responsibilities

The Board is responsible for fulfilling the following corporate governance responsibilities:

- developing and reviewing the Company's corporate governance policies and practices and putting forward recommendations;
- reviewing and monitoring the training and continuing professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices regarding compliance with laws and regulatory provisions;
- developing, reviewing and monitoring code of conduct and compliance manual for staff and Directors (if any);
- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report; and
- developing shareholders communication policy and regularly reviewing the policy to ensure its effectiveness.

Regarding the performance of the aforementioned functions, during the year, the following works, inter alia, were performed by the Board:

(i) reviewed the Corporate Governance Report of the Company for 2021; and

(ii) reviewed the trainings and continuous professional development undertaken by the Directors and senior management.

Board Independence

The Group has multiple mechanisms in place to ensure independent views and input are available to the Board. The Board currently comprises three independent non-executive Directors, all of whom are independent in accordance with Rule 3.13 of the Listing Rules. The independent non-executive Directors contribute to the Group by sharing their valuable expertise, in-depth knowledge and substantial management experience as well as making independent judgment on issues discussed at the Board and committee meetings effectively. Besides, the Directors are able to seek independent professional advice at the Company's expense under appropriate circumstances and to have separate and independent access to the senior management. The Board considers that the implementation of above mechanisms is effective.

COMMITTEES UNDER THE BOARD

Audit Committee

In 2022, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Ren Guangming and Mr. Fu Shula. Mr. Mou Wenjun, independent non-executive Director, was appointed as a member of the Audit Committee on 17 March 2023. Mr. Ren Guangming ceased as a member of the Audit Committee on 23 April 2023. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2022, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters.

The primary responsibilities of the Audit Committee include:

- monitoring the integrity of the financial statements;
- reviewing the annual report and the interim report;
- monitoring and assessing the internal control system and the risk management system (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit, financial reporting and ESG reporting functions);
- reviewing and monitoring the responsibilities of risk management and internal control systems and the effectiveness of the internal audit function;
- monitoring the independence of the external auditor; and
- proposing to the Board the appointment, reappointment or removal of external auditor, and facilitating the communication between the external auditor and the internal audit function.

In the Audit Committee meetings held in 2022, the following works, inter alia, were performed by the Audit Committee:

(i) reviewed and discussed with PricewaterhouseCoopers, the Group's external auditor, on the audit scope, audit approach and audit areas of focus for the financial years ended 31 December 2021 and 2022;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2021 auditors' report issued by PricewaterhouseCoopers;

(iv) reviewed and approved the 2021 annual report and audited financial statements, the 2021 annual results announcement, the 2022 interim report and the 2022 interim results announcement; and

(v) reviewed various aspects of risk management including the effectiveness of the internal control system of the Group.

For the year ended 31 December 2022, the fee payment by the Group to PricewaterhouseCoopers and its member firm for audit services and non-audit services amounted to RMB2.89 million and RMB0.9 million, respectively. Among the non-audit services, the services fee for share consolidation and rights issue were RMB0.1 million and RMB0.8 million, respectively.

Remuneration Committee

In 2022, the remuneration committee of the Company (the "**Remuneration Committee**") comprises three independent non-executive Directors, namely Mr. Fu Shula, who serves as the chairman of the Remuneration Committee, Mr. Ren Guangming and Mr. He Yuanping and one executive Director, Mr. Zhao Yihong. Mr. Mou Wenjun, independent non-executive Director, and Mr. Yu Hongjiang, executive Director, were appointed as members of the Remuneration Committee on 17 March 2023 and 23 April 2023 respectively. Mr. Ren Guangming ceased as a member of the Remuneration Committee on 23 April 2023.

The primary responsibilities of the Remuneration Committee include:

- reviewing and approving the management's remuneration proposals;

- determining, with delegated responsibility by the Board, the remuneration package of individual executive Director and senior management; and

- reviewing, approving and advising the Directors and senior management on the compensation arrangement.

In the Remuneration Committee meetings held in 2022, the following works, inter alia, were performed by the Remuneration Committee:

(i) reviewed share-based remuneration arrangements;

(ii) reviewed the performance of the executive Directors; and

(iii) reviewed and determined the remuneration package of the Directors and senior management.

For details of directors' remuneration policy, details of directors' remuneration and details of remuneration payable to other members of senior management by band, please refer to the Directors' Report in this annual report.

Nomination Committee

In 2022, the nomination committee of the Company (the "**Nomination Committee**") comprises three independent non-executive Directors, namely Mr. Ren Guangming, who serves as the chairman of the Nomination Committee, Mr. He Yuanping and Mr. Fu Shula and one executive Director, Mr. Zhao Yihong. Mr. Mou Wenjun, independent non-executive Director, was appointed as a member of the Nomination Committee on 17 March 2023 and the chairman of the Nomination Committee on 23 April 2023. Mr. Yu Hongjiang, executive Director, was appointed as a member of the Nomination Committee on 23 April 2023. Mr. Ren Guangming ceased as a member and the chairman of the Nomination Committee on 23 April 2023.

The primary responsibilities of the Nomination Committee are to identify suitable individuals to become members of the Board and to advise on the selection of individuals nominated for Directors. The procedures on nomination of Directors are: 1. the Board shall, in accordance with the actual situation of the Company and the Board, decide whether it is necessary to appoint Directors and submit the requirements of the appointment to the Nomination Committee; 2. the Nomination Committee shall, in accordance with the requirements of the Board, seek qualified candidates for Directors through various channels, including recommendations from Directors, shareholders, management, consultants of the Company and external hunting firms; 3. upon preparing a list of prospective candidates and conducting communication or interviews, the Nomination Committee shall, in accordance with the selection criteria, the board diversity policy and other factors considered important, select the appropriate candidates from the shortlisted candidates, convene a Nomination Committee meeting for approval and making recommendations to the Board; 4. the Board considers the motion concerning the appointment of Directors and makes formal appointment.

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company has adopted a Board diversity policy, which aims to set out the approach to achieve diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the merits and contributions that the selected candidates can bring to the Board. The Board of the Company will comprise at least one female Director (currently, Ms. Gao Yan serves as the executive Director and Vice Chairman of the Company). The Group has implemented fair employment practices and the recruitment is merit-based and non-discriminatory. As at 31 December 2022, the gender ratio of the Group's workforce (including the senior management) was 52.96% (male) to 47.04% (female). The Group will strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to the shareholders' expectation and recommended best practices.

In the Nomination Committee meetings held in 2022, the following works, inter alia, were performed by the Nomination Committee:

(i) reviewed the structure, size and composition of the Board;

(ii) recommended to the Board on the appointment and re-appointment of Directors;

(iii) reviewed the Board diversity policy adopted by the Company; and

(iv) assessed the independence of the independent non-executive Directors.

Strategic Investment Committee

In 2022, the strategic investment committee of the Company (the "**Strategic Investment Committee**") comprises Mr. Zhuo Fumin, non-executive Director, who serves as the chairman of the Strategic Investment Committee, Mr. Zhao Yihong, executive Director, and Mr. He Yuanping, independent non-executive Director. Mr. Yu Hongjiang, executive Director, and Mr. Mou Wenjun, independent non-executive Director, were appointed as members of the Strategic Investment Committee on 17 March 2023.

The primary responsibilities of the Strategic Investment Committee include:

- researching and reviewing for the long-term strategic development plans and major investment decisions of the Group; and

- managing and supervising the legal and compliance aspects of the Group's investment activities.

In the Strategic Investment Committee meetings held in 2022, the following works, inter alia, were performed by the Strategic Investment Committee:

(i) reviewed the long-term strategic development plans of the Group; and

(ii) reviewed and approved the investment projects of the Group.

Details of the attendance of the Directors at the meetings of the Board, its respective committees and the general meeting during the year are as follows:

	Number of Attending/Convening Meetings					
DIRECTORS	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nomination Committee Meetings**	**Strategic Investment Committee Meetings**	**General Meetings**
Executive Directors						
Mr. Zhao Yihong	8/8	—	2/2	4/4	1/1	3/3
Ms. Gao Yan	8/8	—	—	—	—	3/3
Mr. Yu Hongjiang (appointed on 11 November 2022)	2/2	—	—	—	—	—
Non-executive Director						
Mr. Zhuo Fumin	8/8	—	—	—	1/1	3/3
Independent Non-executive Directors						
Mr. Ren Guangming	8/8	4/4	2/2	4/4	—	3/3
Mr. He Yuanping	8/8	4/4	2/2	4/4	1/1	3/3
Mr. Fu Shula	8/8	4/4	2/2	4/4	—	3/3

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for each financial year, which gives a true and fair view of the state of affairs of the Group and of the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2022, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates which are reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy the financial position, results of operations, cash flows and changes in equity of the Group.

The Directors' and auditor's responsibilities for the financial statements of the Company are set out in the independent auditor's report on pages 104 to 105 of this annual report.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group sets up and maintains appropriate and effective risk management and internal control systems to achieve the Group's strategic objectives.

Therefore, the management continues to optimise, implement and monitor the risk management and internal control systems, reports to the Audit Committee and confirms the effectiveness of such systems. The systems aim at providing reasonable, though not absolute, assurance against material misstatement or loss and managing rather than eliminating the risk of failure to achieve business objectives.

The Group and the operational environment are continually evolving together with the risks it faces. The Group continues to review the adequacy of its risk management and internal control framework and looks for opportunities to make improvements and add appropriate resources when necessary to cope with risks in an effort to achieve the Group's strategic objectives.

Risk Governance Structure

The Board is responsible for ensuring the establishment of risk management and internal control system by the Group, and reviewing its effectiveness every year through the Audit Committee. The Audit Committee assists the Board in monitoring the risk level sustained by the Group, the design, implementation and control of the relevant risk management and internal control systems. The Audit Committee supervises the following procedures on behalf of the Board:

(i) assessing the major business risks and control measures in response to such risks on a regular basis, assessing the effectiveness of internal control system as a whole, as well as the action plans in response to control deficiency or improvement;

(ii) reviewing the internal control assessment report submitted by the internal audit department on a regular basis, including the action plans in response to identified control deficiencies as well as the latest status and follow-up results of the implementation of the proposition; and

(iii) communicating with the external auditor on control issues identified during its works on a regular basis, and discussing the review scope and results of various issues with the Audit Committee.

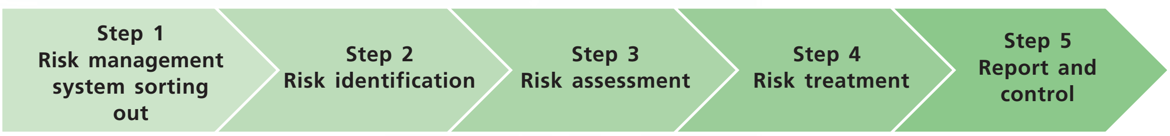
The Audit Committee shall report to the Board after the review of the effectiveness of the risk management and internal control systems of the Group. The Board will give opinion on the effectiveness of the risk management and internal control systems after considering the works and review results of the Audit Committee.

The internal control department collects information on the Group's risks and internal control, summarizes and analyzes risks, identifies risk countermeasures, issues reports and recommendations and reports to the president and the management for review. The internal control department and the internal audit department carry out risk assessment and internal control system assessment, independently review the effectiveness of risk management and internal control measures and communicate and report the results to the Audit Committee. The Audit Committee listens to a work report from the internal control department and internal audit department every half year, and regularly reviews the effectiveness of risk management and internal control. The Audit Committee supervises and reviews the work procedures and responsibility fulfillment of the internal control department and the internal audit department, including the effectiveness of internal audit functions. Such review has covered all material respects such as financial control, operation control and compliance control.

1. Risk Management Procedures

The Group has adopted the following risk management procedures to prudently manage the risks associated with the Group's business and operations:

Major contents of risk management procedures



Step 1: sorting out the structure of the risk management system of the Group, and determining the functions and responsibilities of the risk management department;

Step 2: organizing internal research to identify risks with potential impacts on important procedures of business and identifying risk events and potential impacts;

Step 3: analyzing and evaluating risk events through risk identification, including risk characteristics, risk causes, triggers, possibilities and degrees of impacts;

Step 4: evaluating existing risk counter-measures, including the effectiveness of implementing the control measures;

Step 5: preparing risk assessment reports, and reporting the same to and communicating with management at appropriate level.

2. Reviewing the effectiveness of risk management and internal control systems in 2022

For the year ended 31 December 2022, the Board reviewed the effectiveness of the risk management and internal control systems and considered that the Group's risk management and internal control systems were effective and sufficient, and was not aware of any material matters which might affect the financial control, operation control, compliance control and risk management functions of the Group.

During the review process, the Board considered that the Group's resources, staff qualifications and experience, training programmes and budget in respect of the accounting, financial reporting, internal audit functions and those relating to the Group's ESG performance and reporting were adequate.

3. Significant Risks and Response Plans

In 2022, the Group reviewed each of the identified risks of the Group and assessed the potential risks arising from the existing and new businesses in accordance with the aforesaid risk management structure and risk management procedures.

The significant risks identified by the Group in 2022 are as follows:

Risk	Risk Description	Change in 2022	Risk Counter-measures and Plans
Risk relating to external disasters	The pandemic in the PRC had been gradually under control in 2022, however it had not yet stabilized, with sporadic cases occurring in the PRC. In addition, there are still uncertainties amid the global economic recession.	↑	We have entered the post-pandemic era since 2022. The domestic economy is growing slowly and travel for offline sales staff is limited as there are still small outbreaks in various locations from time to time, while the personnel flow for brick-and-mortar pharmacies is also being affected, which results in a decrease in the sales amount on offline front. The Group reforms its offline sales and operation models and commences community fission project. By utilizing all employees as well as upstream and downstream customer resources, the Group makes use of WeChat and community platforms to realise consumer attraction and sales. At the same time, the Group actively develops new online sales channels and strengthens cooperation with emerging e-commerce platforms such as Douyin, Kuaishou and Pinduoduo, so as to cope with the impact of offline sales disruption.

Risk	Risk Description	Change in 2022	Risk Counter-measures and Plans
Social and economic risks	The adjustments to relevant policies and the changes in market layout bring uncertainties to the development of health care products and drug industries. The PRC will continue to strengthen the respective supervision on health care products and drugs. Business GSP and GMP certifications will be more stringent, while the frequency of relevant unannounced inspection, random inspection and various specific inspections will also increase. With the improvement of people's living standard, the demand for big health products becomes increasingly urgent. In the meantime, as we are moving towards a deeply aging society, the demands for health and elder-care increase steadily, there are greater opportunities and challenges in the big health sector in the long run.	↔	The Group tends to position its products as youthful, and on the basis of existing products, the Group continues to research and develop new products to cater for the demands from the young generation. Meanwhile, China is gradually entering the aging society, the continuous increase in demand for drugs and health care products from the elderly provides new opportunities for the drugs and health care products of the Group, which are being researched and developed to cater for the needs of the elderly.

Risk	Risk Description	Change in 2022	Risk Counter-measures and Plans
Risks relating to competition	In the prevailing market environment, the influence of the Internet business model on the traditional business model is increasingly prominent. The Group needs to pay close attention to the competitors on e-commerce platform as well as their over-aggressive competitive strategies such as low pricing, while taking active countermeasures. Currently there are more and more homogeneous products and alternative products in the market, which provide more options to consumers. In the meantime, the overall market demand and retail price for Orlistat show a downward trend, which in turn adversely affect the Group.	↓	The Group keeps an eye on changes in the market environment and business model. Apart from continuous enhancement of the management, the Group also keeps abreast of the status of its competitors in different channels and sectors. The Group is expanding into the drug e-commerce sector. While focusing on the depth and cohesiveness of the cooperation with Ali Health and JD Health, the Group commences its marketing cooperation with experienced external teams in order to attract new consumer groups. Going forward, the Group will improve its terminal coverage and penetration in existing markets and geographical regions, and ultimately achieve the comprehensive coverage for all drugs from the Group. In addition, the Group will actively explore new channels such as the cross-border drug e-commerce platform and new retail model, thus enabling every consumer to buy our quality products and providing quality health services to consumers.
Risks relating to precise advertising	The Group advertised on different major online media for the purpose of enhancing brand image and increasing market share of the brand, however according to the analysis on advertisement, the advertising effect of the current year cannot match with that of the last year.	↑	In response to the low advertisement conversion rate, on the one hand, the Group increases its effort in the marketing and promotion on e-commerce channels, including the establishment of e-commerce channels on Xiaohongshu, TikTok and Kuaishou, to organize and establish live-streaming system by utilizing the popular live-streaming trend, and it also enters the social e-commerce sector by operating accounts for its brands and cooperating with KOLs in the pursuit of formulating a relatively complete online advertising matrix. On the other hand, the Group continues to deepen its development in new retail business, and to serve all C-end customers of the Company and enlarge the repurchase rate of its products.

Risk	Risk Description	Change in 2022	Risk Counter-measures and Plans
Risks relating to price and channel management	Selling price of a product is a key factor affecting the results of the Group. In case of insufficient supervision on online and offline selling price and product flow, it may cause market price difference and affect sales. Positive inventory at channels and terminals is also a key factor affecting the sales results. In case any channel intentionally overstocking, certain effects may be achieved in a short term, but in the long run, such act will significantly hinder positive growth of sales.	↑	The Group formulates and enhances the implementation of requirements on selling price and unregulated transregional sale management. For customers with malicious low pricing and unregulated transregional sale, the Group may undertake measures such as warning and deduction of rebates. For serious violations, the qualification of sales agency would be revoked. The Group has set up an effective pricing and product flow supervision mechanism to constantly enhance the supervision on aspects such as selling price and channel inventory. Meanwhile, the Group strengthens its management on sales orders and delivery management. Through setting safe inventory level and safe turnover days (e.g. 60 days) for its channel customers, the Group prevents the risks of overstocking and product return by channels to ensure positive growth of sales.
Risks relating to product structure	In case that a new product is not marketable because its design is old-fashioned or overly-advanced and does not cater for the needs of the market and customers, it will significantly hamper the Company's performance results. New products should meet customers' demands, otherwise such products will become unsalable, and bring significant risk to the Company.	↓	The Group continues to invest in research and development, and commences the production and the launch and sales of products such as Xinnaoqing Capsules and Benproperine Hydrochloride Tablets through acquisitions, which further enrich the product matrix of the drug series. Apart from health care products, drugs have been one of the important driving forces for the future growth of the results of the Company. At the same time, the Group introduces new products, including cosmeceutical, food and medical devices, via OEM method to further enrich and optimise its product structure.

Notes:

↑ "Internal Risk" increased (before taking into account the risk mitigation measures)

↓ "Internal Risk" decreased

↔ "Internal Risk" remained unchanged

MANAGEMENT OF INSIDE INFORMATION

The Company is fully aware of its relevant responsibilities required to be fulfilled under the Securities and Futures Ordinance and the Listing Rules. The Company has formulated the Management Rules for Inside Information to monitor the issues which may constitute inside information in any time and make timely judgement. When the Board or the inside information management team of the Company considers any information to be inside information, the Company will timely disclose the information to the public to a reasonable and practicable extent, unless such inside information is applicable under the "Safe Harbour Provision" of the Securities and Futures Ordinance. The Company also requires registration and filing of those who are aware of inside information, or requires them to sign confidentiality agreement, and timely reports the conditions of those who are aware of inside information to internal control department to conduct control over them. The Company reviews the effectiveness of such inside information management system from time to time to ensure the inside information to be addressed properly.

INDEPENDENCE OF EXTERNAL AUDITOR

The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements. All services provided by the external auditor are required to be approved by the Audit Committee. To ensure that the policy of restricting the non-audit work provided by the external auditor is strictly implemented by all entities within the Group, appropriate policies and procedures have been established for approval of engagement of the Group's independent external auditor, PricewaterhouseCoopers, to provide services to the Group.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Group believes accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with our shareholders, including institutional investors, is crucial. The Group manages investor relations systematically as an important part of our operations.

The Group maintains a website to keep our shareholders and the public investors informed of our latest business developments and to disseminate shareholder information.

During the year, the Group followed a policy of maintaining an open and regular dialogue with institutional and minority shareholders, fund managers, analysts and the media through different means, including meetings, presentations, telephone conferences, correspondence, media briefings and press releases to distribute information of the Group's latest developments and strategies. The Group is also proactive in responding to general enquiries raised by the public investors, individual and institutional investors and analysts. The Company reviewed the implementation and effectiveness of the shareholders' communication policy and considered it to be effective.

The Company recognises and embraces the benefits of allowing the shareholders of the Company to participate in the Group's distributable profits and reserves and retaining adequate reserves for the Group's future development. The Company has adopted a dividend policy, according to which, the Board shall consider the following factors before approving declaration and payment, or recommendation for declaration and payment, of a dividend:

- the actual and expected financial performance of the Group;
- the distributable profits and reserves of the Group;
- the working capital requirements, capital expenditure requirements and future expansion plans of the Group;
- the liquidity position of the Group;
- macroeconomic conditions, the Group's business cycle and other internal or external factors that may have an impact on the business, financial performance and position of the Group; and
- other factors that the Board deems relevant.

The declaration and payment, or recommendation for declaration and payment, of a dividend is also subject to the applicable laws and regulations, including the laws of Cayman Islands and the memorandum and articles of association of the Company. The Company has no assurance for the amount, ratio and timing of payment of dividend, unless otherwise specified.

SHAREHOLDERS' RIGHTS

Shareholders may request for convening an extraordinary general meeting and putting forward proposals at a general meeting pursuant to article 12.3 of the articles of association of the Company.

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company's place of business in Hong Kong.

MEMORANDUM AND ARTICLES OF ASSOCIATION

There was no change in the Company's memorandum and articles of association during the year.

Directors' Report

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and sales of therapeutic tea products and pharmaceuticals. The particulars of the Company's principal subsidiaries are set out in note 12 to the consolidated financial statements.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a fair review of the Group's business, a discussion of the principal risks, uncertainties facing the Group, relationships with employees, customers and suppliers, an indication of likely future developments in the Group's business and the compliance with the relevant laws and regulations, can be found in the Chairman and CEO's Report, the Management Discussion and Analysis, and the Significant Risks and Response Plans (under the Corporate Governance Report) sections of this annual report. The above sections form part of this Directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 are set out in the Consolidated Statement of Comprehensive Income on page 106 of this annual report.

The Board has resolved not to recommend for declaration and payment of a final dividend for the year ended 31 December 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 May 2023 to 23 May 2023, both days inclusive. During such period, no transfer of shares of the Company (the "**Shares**") will be registered. The record date for determining the eligibility to attend the forthcoming annual general meeting (the"**AGM**") to be held on 23 May 2023 will be 23 May 2023. In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 17 May 2023.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 204 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2022 amounted to RMB1,050 million.

Under the Companies Act of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 109 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022:

(a) the revenue attributable to the five largest customers of the Group as a percentage of the goods sold or services rendered by the Group was 31.2%;

(b) the revenue attributable to the largest customer of the Group as a percentage of the goods sold or services rendered by the Group was 11.5%;

(c) the purchases attributable to the five largest suppliers of the Group accounted for 31.6% of the purchases of the Group;

(d) the purchases attributable to the largest supplier of the Group accounted for 11.9% of the purchases of the Group; and

(e) none of the Directors, their close associates or any shareholders of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in any of the five largest customers or the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Zhao Yihong *(Chairman and Chief Executive Officer)*
Ms. Gao Yan *(Vice Chairman)*
Mr. Yu Hongjiang *(Executive Vice President, Chief Operating Officer and Chief Financial Officer)*

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

Mr. Ren Guangming *(ceased to act on 23 April 2023)*
Mr. He Yuanping
Mr. Fu Shula
Mr. Mou Wenjun *(appointed on 17 March 2023)*

In accordance with article 16.2 of the articles of association of the Company, Mr. Yu Hongjiang and Mr. Mou Wenjun will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhao Yihong and Ms. Gao Yan will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors have a service contract with the Group which is not determinable by the Group within one year without the payment of compensation other than statutory compensation.

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is determined with reference to his/her qualifications, duties and responsibilities with the Group and prevailing market conditions. Details of the remuneration of the Directors are set out in note 42 to the consolidated financial statements of this annual report. The emoluments of other members of senior management of the Company fell within the following bands:

Emolument bands (in HK$)	**Number of individuals in 2022**	Number of individuals in 2021
Under HK$1,000,000	**1**	—
HK$1,000,001—HK$1,500,000	**2**	—
HK$1,500,001—HK$2,000,000	**1**	2
HK$2,000,001—HK$2,500,000	—	1
HK$2,500,001—HK$3,000,000	—	1
HK$3,000,001—HK$3,500,000	—	1

EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the Mainland China, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contributions to the Group. The Group has adopted a share option scheme for its employees.

DIRECTORS' INTEREST IN CONTRACTS

No Director or his/her related entities had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and which subsisted during the year or at the end of the year.

RETIREMENT BENEFIT PLANS

The retirement benefit plans are set out in note 10 to the consolidated financial statements of this annual report.

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

As at 31 December 2022, so far as known to the Directors, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required (a) to be notified to the Company and the Stock Exchange 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:

Name of Director/Chief Executive	Nature of interest	Number of Shares	Approximate percentage of total issued Shares (%)[5]
Mr. Zhao Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director[1][3]	62,775,657[1][L]	51.34%
Ms. Gao Yan	Beneficial owner and interest of her spouse[2][3]	62,775,657[2][L]	51.34%
Mr. Yu Hongjiang	Beneficial owner	58,025[L]	0.05%
Mr. Zhuo Fumin	Interest of his spouse	3,400[4][L]	0.00%
Mr. Ren Guangming	Beneficial owner	9,250[L]	0.01%
Mr. He Yuanping	—	—	—
Mr. Fu Shula	Beneficial owner	15,000[L]	0.01%

(1) Mr. Zhao Yihong, executive Director, beneficially owns 313,017 Shares directly. Mr. Zhao is the sole director of Foreshore Holding Group Limited and Better Day Holdings Limited. Mr. Zhao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 61,219,437 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;

(ii) 1,069,128 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and

(iii) 174,075 Shares, which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse.

(2) Ms. Gao Yan, executive Director, beneficially owns 174,075 Shares directly. Ms. Gao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 313,017 Shares, which are beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;

(ii) 61,219,437 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Foreshore Holding Group Limited; and

(iii) 1,069,128 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Better Day Holdings Limited.

(3) The entire issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by TMF Trust (HK) Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(4) Mr. Zhuo Fumin, non-executive Director, is deemed or taken to be interested in the 3,400 Shares beneficially owned by his wife for the purposes of the SFO.

(5) This is calculated based on 122,265,585 Shares, being the number of Shares in issue as at 31 December 2022.

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

SHARE OPTION SCHEME

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

The maximum number of shares which can be granted under the Share Option Scheme shall not exceed 168,109,132, being 10% of the shares of the Company in issue immediately after the initial public offering on the listing date which is the effective date of such schemes and representing approximately 10.31% of the issued shares as at the date of this annual report. The maximum number of shares which can be granted under the Share Option Scheme to each eligible person in any 12-month period up to the offer date of share options shall not exceed 1% of the issued shares of the Company on the offer date. The scheme period of the Share Option Scheme ended at the end of 29 September 2020, after which no further share options shall be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any outstanding share options. The Share Option Scheme ended upon all outstanding share options lapsed during the year ended 31 December 2022.

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

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

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

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

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

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

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 year ended 31 December 2022:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2022	Outstanding at 19/4/2022 after Share Consolidation	Lapsed after Share Consolidation	Outstanding at 24/10/2022 after Rights Issue	Granted after Rights Issue	Cancelled after Rights Issue	Lapsed after Rights Issue	Exercised after Rights Issue	Outstanding at 31/12/2022
Executive directors												
Zhao Yihong	27.10.2014	1st	4 Years	4,000,000	100,000	—	148,000	—	—	(148,000)	—	—
Gao Yan	27.10.2014	1st	4 Years	1,000,000	25,000	—	37,000	—	—	(37,000)	—	—
Yu Hongjiang	27.10.2014	1st	4 Years	2,400,000	60,000	—	88,800	—	—	(88,800)	—	—
				7,400,000	185,000	—	273,800	—	—	(273,800)	—	—
Non-executive director												
Zhuo Fumin	27.10.2014	1st	4 Years	600,000	15,000	—	22,200	—	—	(22,200)	—	—
				600,000	15,000	—	22,200	—	—	(22,200)	—	—
Independent non-executive directors												
Ren Guangming	27.10.2014	1st	4 Years	600,000	15,000	—	22,200	—	—	(22,200)	—	—
He Yuanping	—	—	—	—	—	—	—	—	—	—	—	—
Fu Shula	—	—	—	—	—	—	—	—	—	—	—	—
				600,000	15,000	—	22,200	—	—	(22,200)	—	—
Employees	27.10.2014	1st	4 Years	4,300,000	107,500	(80,000)	40,700	—	—	(40,700)	—	—
	27.10.2014	2nd	4 Years	5,620,000	140,500	—	207,940	—	—	(207,940)	—	—
	27.10.2014	3rd	4 Years	—	—	—	—	—	—	—	—	—
	10.8.2015	4th	4 Years	—	—	—	—	—	—	—	—	—
	10.8.2015	5th	4 Years	—	—	—	—	—	—	—	—	—
	15.3.2016	6th	4 Years	—	—	—	—	—	—	—	—	—
	20.12.2016	7th	4 Years	—	—	—	—	—	—	—	—	—
				9,920,000	248,000	(80,000)	248,640	—	—	(248,640)	—	—
	Total			18,520,000	463,000	(80,000)	566,840	—	—	(566,840)	—	—
Weighted average exercise price (HK$)				1.00	40.00	40.00	27.03	—	—	27.03	—	—
Exercisable at the end of the year												—

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

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

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

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

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

The binomial option pricing model has been used to determine the fair value of share options granted during the year ended 31 December 2022. The inputs into the model were as follows:

	Options 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 options 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 recognised no expense for the year ended 31 December 2022 in relation to share options granted under the Share Option Scheme by the Company (2021: Nil).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, so far as known to the Directors, persons (other than the Directors or chief executive of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Substantial Shareholders	Number of Shares	Approximate percentage of total issued Shares (%)[3]
Foreshore Holding Group Limited[1]	61,219,437[L]	50.07%
Sea Network Holdings Limited[1]	61,219,437[L]	50.07%
TMF Trust (HK) Limited[1]	61,219,437[L]	50.07%
Ms. PENG Wei[2]	10,279,150[L]	8.41%
Everyoung Investment Holdings Limited[2]	9,281,250[L]	7.59%

(1) The entire issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by TMF Trust (HK) Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(2) The entire issued share capital of Everyoung Investment Holdings Limited is directly owned by Ms. Peng Wei. Ms. Peng beneficially owns 997,900 Shares.

(3) This is calculated based on 122,265,585 Shares, being the number of Shares in issue as at 31 December 2022.

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

Save as disclosed above, as at 31 December 2022, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position 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.

CONNECTED TRANSACTIONS

Pursuant to the requirements of the Listing Rules, the transactions between the Company and the connected person (as defined in the Listing Rules) constitute a connected transaction of the Company. The Company monitors and manages these transactions in accordance with the Listing Rules. There were no non-exempt connected transactions carried out by the Group for the year ended 31 December 2022.

For the year ended 31 December 2022, there is no related party transaction or continuing related party transaction as set out in note 41 to the consolidated financial statements that constitutes discloseable "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. During the reporting period, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business and administration of the Company during the year.

CONTRACTS OF SIGNIFICANCE

No contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries subsisted during the year or at the end of the year, and no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted during the year or at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group during the year.

PERMITTED INDEMNITY PROVISION

The Company maintained Directors' liability insurance to protect them from any loss to which the Directors might be liable arising from their actual or alleged misconduct. The Directors' liability insurance were in force during the year ended 31 December 2022 and as of the date of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Act of the Cayman Islands where the Company is incorporated.

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2022.

DONATION

The Group made charitable donations of RMB2.0 million in aggregate during the year ended 31 December 2022.

ISSUE OF SHARES

In order to reserve sufficient available cash to fulfill the repayment obligations and improve the gearing ratio while maintaining the size of the Group's operation, on 12 July 2022, the Company proposed to implement the rights issue on the basis of two (2) rights shares for every one (1) share held by the qualifying shareholders on the record date at the subscription price of HK$1.75 per rights share. The closing price of the shares on 11 July 2022 (being the last trading day prior to the date of the proposed rights issue) was HK$2.04 per share. The rights issue became unconditional at 4:30 p.m. on 12 October 2022 and a total of 81,510,390 ordinary shares of US$0.0003333332 each were issued under the rights issue. The date of which the fully-paid rights shares allotted and issued is 24 October 2022. The gross proceeds raised from the rights issue are approximately HK$142.6 million and the net proceeds from the rights issue after expenses are approximately HK$138.8 million, representing the net price of approximately HK$1.70 per rights share.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group considers building a resource-saving, environment-friendly and green enterprise as an important strategic goal for its sustainable and healthy development. The Group strictly abides by related laws, regulations and standards, highly values enterprises' responsibility to the environment and adheres to the philosophy of scientific and green development. The Group is dedicated to use clean energy, actively promotes "cleaner production", continues to optimise production processes, improves environmental protection facilities, practises energy conservation and emission reduction, and enhances recycling. At the same time, the Group also advocates "green office and low-carbon life", improves energy saving and environmental protection awareness of staff, and encourages employees to take part in charity events for environmental protection. The Group has continuously reduced the adverse impacts on environment by the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the Directors' knowledge, as at the date of this annual report, the Company has maintained sufficient public float during the year and up to the date of this annual report.

SUBSEQUENT EVENTS

For details of subsequent events, please refer to note 44 to the consolidated financial statements.

AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2022. The Company has engaged PricewaterhouseCoopers to act as the auditor of the Company since 2015.

On behalf of the Board
ZHAO Yihong
Chairman

Hong Kong, 17 March 2023

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Besunyen Holdings Company Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Besunyen Holdings Company Limited (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 106 to 203, comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill
- Impairment assessment of intangible assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill	
Refer to Note 4.1(b) "Critical accounting estimates and assumptions" and Note 18 "Intangible assets" to the consolidated financial statements. As at 31 December 2022, the Group's carrying amounts of goodwill before impairment were approximately RMB60,253,000 and management has performed an annual impairment assessment on the goodwill. Impairment of RMB7,916,000 had been provided for against the carrying amounts of goodwill as at 31 December 2022. To assess the impairment, the goodwill was allocated to the respective relevant cash generating units ("**CGUs**") and management has assessed the recoverable amounts of the goodwill by reference to the valuation reports issued by an independent valuer. The recoverable amounts of the goodwill of the respective CGUs were determined based on the higher of their fair value less costs of disposal and their "value-in-use" amounts by using the discounted cash flow model. And these "value-in-use" calculations required management to forecast the future cash flows of related CGUs.	In response to this key audit matter, we have performed the following procedures: • We obtained an understanding of management's assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We evaluated management's identification of CGUs and allocation of goodwill based on the Group's accounting policy, business activities and operating results review process; • We evaluated management's control processes for preparing the budget and future cash flow forecast of relevant CGUs (which were used as the source input data for the impairment assessment) and reconciled the input data for the impairment assessment to supporting evidence, such as approved budgets; • We assessed the competence, capabilities and objectivity of the independent valuer;

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill *(Continued)*	
We focused on this matter due to the significance of the goodwill and given that significant judgement and estimates were involved in determining the key assumptions (in particular the revenue growth rate, sales margin, terminal growth rate and discount rate applicable to the respective CGUs) for the impairment assessment.	• We assessed the appropriateness of the valuation model with the assistance of our internal valuation expert; • We evaluated the management's future cash flow forecast of the relevant CGUs including the reasonableness of the forecast in the context of historical results of the Group's business, and assessed the reasonableness of the key assumptions adopted by management (primarily with respect to the revenue growth rate, sales margin, terminal growth rate and discount rate applicable to the respective CGUs) by reference to external industry data, the Group's historical and subsequent sales and margin information and the cost of equity of comparable companies in the industry; • We tested the mathematical accuracy of the calculations of the discounted cash flow model and the recoverable amounts of the respective CGUs; • We evaluated the sensitivity analysis prepared by management around the key assumptions and estimates applicable to respective CGUs to assess the potential impact of a range of possible outcomes; and • We assessed the adequacy of related disclosures in the consolidated financial statements. We considered the key judgements and estimates adopted by management in the impairment assessment of the goodwill are supportable based on the evidence derived from our procedures performed.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of intangible assets	
Refer to Note 4.1(c) "Critical accounting estimates and assumptions" and Note 18 "Intangible assets" to the consolidated financial statements. As at 31 December 2022, the Group's net carrying amounts of intangible assets were approximately RMB131,959,000. Management assesses related assets for potential impairment whenever there are indications that the carrying value of an asset or a group of assets may not be recoverable. As at 31 December 2022, there are indicators that the Group's medicine production licenses for the manufacturing of the Group's weight-loss medicines (the "**Weight-loss Medicine CGU**") and patents for the Group's wholly-owned subsidiary Henan Xueyinghua Pharmaceutical Co., Ltd. (the "**Henan Xueyinghua CGU**") may not be recoverable. Therefore, the management has performed impairment assessment to assess the "value-in-use" amounts of the medicine production licenses of the Weight-loss Medicine CGU and the patents of the Henan Xueyinghua CGU as at 31 December 2022 by using the discounted cash flow models. Weight-loss Medicine CGU and Henan Xueyinghua CGU all belong to one reportable segment and are the lowest aggregation of assets that generate largely independent cash inflows. Based on the assessment results, impairment of approximately RMB18,986,000 had been provided for against the carrying amounts of the aforesaid intangible assets as at 31 December 2022. We focused on this matter due to the significance of the intangible assets and given that significant judgement and estimates were involved in determining the key assumptions (in particular the revenue growth rate, sales margin and discount rate applicable) for the impairment assessment.	In response to this key audit matter, we have performed the following procedures: • We obtained an understanding of management's assessment process of impairment test of intangible assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; • We evaluated management's control processes for preparing the budget and future cash flow forecast (which were used as the source input data for the impairment assessment) and reconciled the input data for the impairment assessment to supporting evidence, such as approved budgets; • We assessed the competence, capabilities and objectivity of the independent valuer; • We assessed the appropriateness of the valuation model with the assistance of our internal valuation expert; • We evaluated the management's future cash flow forecast of the relevant CGUs including the reasonableness of the forecast in the context of historical results of the Group's business, and assessed the reasonableness of the key assumptions adopted by management (primarily with respect to the revenue growth rate, sales margin and discount rate applicable) by reference to external industry data, the Group's historical and subsequent sales and margin information and the cost of equity of comparable companies in the industry;

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of intangible assets *(Continued)*	• We tested the mathematical accuracy of the calculations of the discounted cash flow model; • We evaluated the sensitivity analysis prepared by management around the key assumptions and estimates applicable to assess the potential impact of a range of possible outcomes; and • We assessed the adequacy of related disclosures in the consolidated financial statements. We considered the key judgements and estimates adopted by management in the impairment assessment of the intangible assets are supportable based on the evidence derived from our procedures performed.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Sun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 March 2023

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2022 RMB'000	2021 RMB'000
Revenue	5	**943,283**	1,101,150
Cost of sales	7	**(376,995)**	(402,600)
Gross profit		**566,288**	698,550
Selling and marketing expenses	7	**(389,540)**	(521,774)
Administrative expenses	7	**(169,143)**	(174,365)
Research and development costs	7	**(101,486)**	(93,099)
Credit impairment losses	21	**72**	257
Fair value changes on financial assets measured at fair value through profit or loss	25	**627**	1,979
Other income	8	**21,287**	19,473
Other expenses	7	**(1,491)**	(8,033)
Other losses, net	9	**(1,384)**	(11,089)
Operating loss		**(74,770)**	(88,101)
Finance income	11	**2,026**	3,829
Finance costs	11	**(8,148)**	(6,692)
Finance costs, net		**(6,122)**	(2,863)
Share of (losses)/profits of investments accounted for using the equity method	13	**(10,450)**	240
Loss before income tax		**(91,342)**	(90,724)
Income tax expense	14	**(13,047)**	(23,267)
Loss for the year		**(104,389)**	(113,991)
Attributable to:			
— Owners of the Company		**(99,089)**	(145,713)
— Non-controlling interests		**(5,300)**	31,722
		(104,389)	(113,991)
Other comprehensive income		**—**	—
Total comprehensive loss for the year		**(104,389)**	(113,991)
Attributable to:			
— Owners of the Company		**(99,089)**	(145,713)
— Non-controlling interests		**(5,300)**	31,722
		(104,389)	(113,991)
Losses per share attributable to owners of the Company for the year			
— Basic losses per share	15	**(1.76)**	(3.65)
— Diluted losses per share	15	**(1.76)**	(3.65)

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

Consolidated Balance Sheet

	Note	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**398,114**	401,486
Right-of-use assets	17	**78,219**	103,675
Intangible assets	18	**131,959**	168,670
Investments accounted for using the equity method	13	**29,196**	44,971
Financial assets measured at fair value through profit or loss	25	**47,283**	38,656
Long-term bank deposits	26	**40,000**	170,000
Deferred income tax assets	33	**55,509**	77,905
Other non-current assets	19	**14,086**	12,191
Total non-current assets		**794,366**	1,017,554
Current assets			
Inventories	20	**109,239**	136,341
Trade receivables	21	**104,163**	94,057
Bills receivable	22	**5,153**	2,974
Deposits, prepayments and other receivables	23	**80,426**	87,320
Restricted bank deposits	24	**5,801**	28,400
Short-term bank deposits	26	**207,670**	10,563
Cash and cash equivalents	27	**230,320**	216,042
		742,772	575,697
Assets classified as held for sale	28	**—**	48,881
Total current assets		**742,772**	624,578
Total assets		**1,537,138**	1,642,132

Consolidated Balance Sheet

	Note	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	29	**288**	94
Share premium		**1,039,108**	913,393
Other reserves	30	**342,871**	340,274
Accumulated losses		**(527,930)**	(426,244)
		854,337	827,517
Non-controlling interests	12	**198,073**	227,873
Total equity		**1,052,410**	1,055,390
LIABILITIES			
Non-current liabilities			
Deferred government grants	32	**41,679**	33,348
Lease liabilities	37	**8,289**	21,877
Deferred income tax liabilities	33	**32,070**	42,274
Long-term borrowings	36	**52,681**	92,930
Other non-current liabilities		**—**	497
Total non-current liabilities		**134,719**	190,926
Current liabilities			
Trade and bills payables	34	**20,559**	40,727
Other payables and accrued expenses	35	**169,863**	151,813
Contract liabilities	6	**24,945**	31,469
Borrowings	36	**124,890**	150,750
Lease liabilities	37	**9,027**	21,057
Current income tax liabilities	14	**725**	—
Total current liabilities		**350,009**	395,816
Total liabilities		**484,728**	586,742
Total equity and liabilities		**1,537,138**	1,642,132

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

The financial statements on pages 106 to 203 were approved by the Board of Directors on 17 March 2023 and were signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2021		94	962,777	331,762	(280,402)	1,014,231	196,151	1,210,382
Total comprehensive (loss)/income for the year		—	—	—	(145,713)	(145,713)	31,722	(113,991)
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	10	—	—	8,383	—	8,383	—	8,383
Appropriation to statutory surplus reserve		—	—	129	(129)	—	—	—
Dividends declared to owners of the Company	39	—	(49,384)	—	—	(49,384)	—	(49,384)
Balance at 31 December 2021		94	913,393	340,274	(426,244)	827,517	227,873	1,055,390
Balance at 1 January 2022		**94**	**913,393**	**340,274**	**(426,244)**	**827,517**	**227,873**	**1,055,390**
Total comprehensive loss for the year		**—**	**—**	**—**	**(99,089)**	**(99,089)**	**(5,300)**	**(104,389)**
Total transactions with owners in their capacity as owners:								
Appropriation to statutory surplus reserve		**—**	**—**	**2,597**	**(2,597)**	**—**	**—**	**—**
Rights Issue	15	**194**	**125,715**	**—**	**—**	**125,909**	**—**	**125,909**
Dividends declared to non-controlling interests	12	**—**	**—**	**—**	**—**	**—**	**(24,500)**	**(24,500)**
Balance at 31 December 2022		**288**	**1,039,108**	**342,871**	**(527,930)**	**854,377**	**198,073**	**1,052,410**

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

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	38(a)	**36,216**	(140,018)
Income taxes paid		**(131)**	(9,329)
Interest received	11	**2,026**	3,829
Net cash generated from/(used in) operating activities		**38,111**	(145,518)
Cash flows from investing activities			
Purchases of short-term investments measured at fair value through profit or loss		**(1,232,300)**	(814,700)
Proceeds from short-term investments measured at fair value through profit or loss		**1,236,453**	815,440
Purchases of long-term investments measured at fair value through profit or loss		**(8,000)**	(17,297)
Placement of term bank deposits		**(117,197)**	(250,563)
Withdrawal of term bank deposits		**60,546**	193,360
Purchases of financial assets measured at amortised cost		**—**	(80,000)
Proceeds from disposal of financial assets measured at amortised cost		**—**	80,566
Decrease in restricted bank deposits		**22,599**	28,386
Purchases of property, plant and equipment		**(54,612)**	(132,675)
Purchases of intangible assets		**(2,250)**	(1,066)
Distribution from a joint venture	13(a)	**5,325**	11,159
Payments for acquisition of a subsidiary		**—**	(31,990)
Proceeds from disposals of land use rights, property, plant and equipment and intangible assets	38(b)	**131**	1,458
Deposits received in connection with disposal of investment properties		**—**	9,168
Proceeds from disposal of assets classified as held for sale	28	**44,337**	—
Receipt of asset-related government grants	32	**9,476**	400
Net cash used in investing activities		**(35,492)**	(188,354)
Cash flows from financing activities			
Repayment of borrowings		**(213,720)**	(95,090)
Proceeds from borrowings		**147,540**	178,990
Principal elements of lease payments		**(14,527)**	(21,356)
Bank loan interest and other finance costs paid		**(8,210)**	(6,844)
Dividends paid to owners of the Company	39	**—**	(49,384)
Dividends paid to non-controlling interests	12	**(24,500)**	—
Proceeds from Rights Issue	15	**125,909**	—
Net cash generated from financing activities		**12,492**	6,316
Net increase/(decrease) in cash and cash equivalents		**15,111**	(327,556)
Cash and cash equivalents at beginning of year		**216,042**	543,822
Exchange losses on cash and cash equivalents		**(833)**	(224)
Cash and cash equivalents at end of year		**230,320**	216,042

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

Notes to the Consolidated Financial Statements

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 ultimate parent undertaking of the Company is Moonlight Family Trust. The principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are manufacturing and sales of therapeutic tea products (including Detox tea, Slimming tea, Fit tea and other tea products) and weight-loss and other medicines.

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

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets which were measured at fair value either through other comprehensive income ("**FVOCI**") or through profit or loss ("**FVPL**").

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following amendments and annual improvements for the first time for the annual reporting period commencing 1 January 2022:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) New and amended standards adopted by the Group (Continued)

- Reference to the Conceptual Framework — Amendments to IFRS 3
- Amendments to AG 5 Merger Accounting for Common Control Combinations

The amendments and annual improvements listed above did not have any significant impact on the Group's consolidated financial statements.

(b) New and amended standards not yet adopted

Certain new and amended accounting standards as below have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
IFRS 17	Insurance contracts	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IFRS 16 (Amendments)	Leases liability in a sale and leaseback	1 January 2024
IAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
IAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

These new and amended standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Principles of consolidation and equity accounting

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) Associate

Associate is entity over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting (see (d) below), after initially being recognised at cost.

(c) Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. For the year ended 31 December 2021 and 2022, the Group only had joint ventures.

Interests in joint ventures are accounted for using the equity method (see (d) below), after initially being recognised at cost in the consolidated balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Principles of consolidation and equity accounting *(Continued)*

(d) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associate and joint ventures are recognised as a reduction in the carrying amounts of the investments.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealised gains on transactions between the Group and its associate and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

(e) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Company has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. 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.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the functional currency of the Company and the presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income within "other losses, net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associate or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("**CIP**"), are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and is stated at cost less accumulated impairment losses, if any. Depreciation is not provided on CIP until such time as the related assets are completed and ready for intended use. When the assets being constructed are ready for their intended use, the CIP is transferred to the appropriate categories of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings and facilities	10–30 years
Plant and machinery	5–10 years
Furniture and others	2–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss and presented in the consolidated statement of comprehensive income within "other losses, net".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Investment properties

Investment properties are initially measured at costs, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognised so as to write off the cost of investment properties to their residual values over their estimated useful lives of 30 years by using the straight-line method.

The Group transfers a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

The Group has disposed its all investment properties in 2022, further details are described in Note 17(b) and Note 28.

2.9 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Intangible assets *(Continued)*

(c) Research and development costs

Research and development costs incurred by the Group to design and testing of new or improved products comprised of salaries, employee benefits and other headcount-related costs, raw material consumable and depreciation associated with the research and development activities. Research expenditures are charged to the profit or loss as an expense in the period the expenditure is incurred. Development costs are recognised as assets if they can be directly attributable to development project and all the following can be demonstrated:

- the technical feasibility of completing the development project so that it will be available for use or sale;
- its intention to complete the development project and use or sell it;
- its ability to use or sell the intangible asset;
- the manner in which the development project will generate probable future economic benefits for the Group;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the asset during its development can be reliably measured.

Development expenditures not satisfying the above criteria are recognised in the profit or loss as incurred. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

(d) Trademarks, brand name, patents, distribution right, licenses and other intangible assets

Separately acquired trademarks, patents and other intangible assets are shown at historical cost. Trademarks, brand name, patents, distribution right and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks, brand name, patents, distribution right and licenses have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses (if any).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Intangible assets *(Continued)*

(e) Amortisation methods and periods

The Group amortises intangible assets with definite useful lives by using the straight-line method as follows:

Trademarks and brand name	5–10 years
Computer software	3–5 years
Exclusive medicine distribution right	10 years
Medicine production licenses	15 years
Patents and others	5–10 years

2.10 Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other assets that are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred income tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through FVOCI or FVPL); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets *(Continued)*

2.12.3 Measurement

At initial recognition, the Group measures a financial asset measured at its fair value plus, in the case of a financial asset not measured at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other losses, net" together with foreign exchange gains and losses.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "other losses, net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "other losses, net" in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "other losses, net" in the period in which it arises.

The Group has purchased structured bank deposits from banks with fixed rate of return which are recognised as financial assets measured at amortised cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets *(Continued)*

2.12.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other financial assets, mainly including other receivables, term bank deposits and bill receivables measured at fair value through other comprehensive income, is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.14 Inventories

Raw materials, packing materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade and other receivables are generally due for settlement within 30–90 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.12 for further information about the Group's accounting for trade and other receivables and a description of the Group's impairment policies.

2.16 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 Share capital and shares held for employee share scheme

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

Shares held under the Restricted Share Award Scheme as described in Note 31(b) are disclosed as treasury shares and deducted from other reserves.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 180 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries/regions where the Company's subsidiaries, associate and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government mandated multi-employer defined contribution plan, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current other payables and accrued expenses in the balance sheet.

According to the relevant rules and regulations in the PRC, the contributions borne by the Group under the PRC government mandated multi-employer defined contribution plan are principally determined based on certain percentages of the salaries of employees, subject to certain ceilings. The Group's liability in respect of the funds is limited to the contributions payable in each year.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when employment is terminated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Share-based payments

Share-based compensation benefits are provided to employees through the Group's Share Option Scheme and Restricted Share Award Scheme. Information relating to these schemes are set out in Note 31.

(a) Employee options

The fair value of options granted under the Group's Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions and excluding the impacts of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period) as well as any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Employee Option Plan is administered by the Group's Employee Share Trust, which is consolidated in accordance with the principles in Note 2.3. When the options are exercised, the trust transfers the appropriate number of shares to employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

(b) Employee share scheme

Under the employee share scheme, shares issued by the Group's Employee Share Trust to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.25 Revenue recognition

(a) Sales of goods

Wholesales

The Group produces and sells therapeutic tea products (including Detox tea, Slimming tea, Fit tea and other tea products) and weight-loss and other medicines in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume rebates based on aggregate sales over a specific period as defined in the contracts. Revenue from sales are based on the price specified in the sales contracts, net of the estimated volume rebates at the time of sale. Accumulated experience is used to estimate and provide for the rebates, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Expected volume rebates payable to customer (included in other payables and accrued expenses) in relation to sales made until the end of reporting period are assessed based on anticipated annual purchases. During the years ended 31 December 2022 and 2021, the wholesalers have no right to return any goods after its acceptance of the products, therefore there was no any refund liability and right to returned goods have been recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Revenue recognition *(Continued)*

(a) ***Sales of goods*** *(Continued)*

Wholesales (Continued)

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

In addition, if a customer pays consideration that is unconditional, before the entity transfers a good to the customer, the entity shall present the contract as a contract liability when the payment is made. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.

Internet sales

Revenue from the sale of goods on the internet is recognised when control of the products has been transferred, being the acceptance of the delivery of the products by the customer. Payment of the transaction price is due immediately when the customer place the order for the products online. It is the PRC regulation to sell any products online to the end customer with a right of return within 7 days. Therefore, a refund liability (included in other payables and accrued expenses) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale. As of 31 December 2022 and 2021, there was no any refund liability and right to returned goods have been recognised since the estimated return is immaterial.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Interest income

Interest income from financial assets at FVPL is included in change in fair value of short-term investments measured at FVPL, presented in "other losses, net", further details are described in Note 9.

Interest income on financial assets measured at amortised cost and financial assets measured at FVOCI calculated using the effective interest method is recognised in consolidated statement of comprehensive income as part of other income.

Interest income is presented as other income where it is earned from financial assets that are held for cash management purposes, further details are described in Note 8.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.27 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.28 Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchases of property, plant and equipment and land use rights are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.30 Lease

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Lease *(Continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.30 Lease *(Continued)*

Land use rights were reclassified as right-of-use assets since the initial adoption of IFRS 16 on 1 January 2019. All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the rights to use certain land and the premiums paid for such rights are recorded as land use rights. Land use rights which are held for self-use are stated at cost and amortised over the use terms using straight-line method with definite useful lives of 34–64 years.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.31 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior management of the Group.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("**US$**") and the HK dollar ("**HK$**"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities denominated in a currency other than the RMB.

The carrying amounts of the Group's US$ and HK$ denominated monetary assets and monetary liabilities at the respective balance dates are as follows:

	2022 **RMB'000**	2021 RMB'000
US$		
Assets	**991**	1,353
HK$		
Assets	**127,295**	11,138

As at 31 December 2022, if RMB strengthened/weakened by 5% against US$ and HK$ with all other variables held constant, the pre-tax loss for the year would have been approximately RMB6,414,000 higher/lower (2021: RMB625,000 higher/lower), mainly as a result of foreign exchange gain or loss on translation of US$ and HK$ denominated cash and cash equivalents and other receivables.

(b) Interest rate risk

The Group's main interest rate risk arises from borrowings with variable rates, which expose the Group to cash flow interest rate risk.

If interest rates on the borrowings at variable rates had risen/fallen 200 basis points while all other variables had been held constant, the Group's pre-tax loss for the year ended 31 December 2022 would have been approximately RMB1,846,000 higher/lower (2021: RMB2,474,000 higher/lower).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk

For cash and cash equivalents, term bank deposits, restricted bank deposits and short-term investments measured at FVPL, the Group manages the credit risk by placing all the bank deposits in or purchasing all the short-term investments from state-owned financial institutions or reputable banks located in PRC; for bills receivable, the Group only accepts bank acceptance notes issued by reputable banks located in PRC, and the Group believes the credit risk of these banks and financial institutions is relatively low. Therefore, the Group's credit risk arises primarily from trade receivables. Aging analysis of the Group's trade receivables is disclosed in Note 21. The Group assesses the credit quality of its customers by taking into account various factors including their financial position, past experience and forward-looking information. Management does not expect any significant losses from non-performance by these counterparties except for those recognised. The Group's other receivables as at 31 December 2022 mainly consisted of consideration receivable for deposits for rental of properties, deposits for the use of e-commerce platform and distribution right for sales of certain products. Management considers there was no significant credit risk associated with these other receivables.

(a) Impairment of financial assets

The Group only has following types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of goods;
- bills receivable carried at FVOCI; and
- other receivables.

While cash and cash equivalents, term bank deposits and restricted bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

(a) Impairment of financial assets (Continued)

Trade receivables (Continued)

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2022 or 1 January 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the business climate index in China, including GDP, PPI and CPI etc., and collection schedule of the trade receivable to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowances as at 31 December 2022 and 31 December 2021 were determined as follows for trade receivables:

	Current	Less than 1 year past due	1–2 years past due	More than 2 years past due	Total
As at 31 December 2022					
Expected loss rate	**0.06%**	**0.83%**	**30.00%**	**100.00%**	
Gross carrying amount					
— trade receivables	**96,399**	**7,871**	**20**	**—**	**104,290**
Loss allowance	**56**	**65**	**6**	**—**	**127**
As at 31 December 2021					
Expected loss rate	0.06%	0.56%	39.00%	100.00%	
Gross carrying amount					
— trade receivables	72,909	21,247	100	—	94,256
Loss allowance	41	119	39	—	199

The Group was exposed to concentration of credit risk on its trade receivables. As at 31 December 2022, the top trade receivables balance due from a single external customer amounted to approximately RMB25,657,000 and accounted for 25% of total trade receivables. The single external customer is a reputable organisation. Management considers that the credit risk is limited in this regard.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

(a) Impairment of financial assets (Continued)

Bills receivable and other receivables

Bills receivable are issued mainly by the four state-owned banks and other listed commercial banks whose risks of non-acceptance are limited low, while most of the other receivables are security deposits. The directors of the Company have assessed that other receivables have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The directors of the Company do not expect any significant losses from non-performance by the counterparties of bills receivable and other receivables. Thus no loss allowance provision for bills receivable and other receivables was recognised.

3.1.3 Liquidity risk

The Group manages liquidity risk by maintaining adequate cash and cash equivalents. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest elements computed using contractual rates.

	On demand or less than 3 months	3 months to 1 year	1 to 5 Years	Over 5 years	Total contractual cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2022						
Borrowings	**7,369**	**122,762**	**33,828**	**33,990**	**197,949**	**177,571**
Trade and bills payables	**19,175**	**1,384**	**—**	**—**	**20,559**	**20,559**
Other payables and accrued expenses (excluding non-financial liabilities)	**39,114**	**44,884**	**34,328**	**—**	**118,356**	**118,356**
Lease liabilities	**2,934**	**6,872**	**8,594**	**—**	**18,400**	**17,316**
	68,622	**175,902**	**76,750**	**33,990**	**355,264**	**333,802**
As at 31 December 2021						
Borrowings	19,867	139,556	72,540	42,793	274,756	243,680
Trade and bills payables	10,768	29,959	—	—	40,727	40,727
Other payables and accrued expenses (excluding non-financial liabilities)	31,033	58,039	20,174	—	109,246	109,246
Lease liabilities	6,924	14,108	24,749	—	45,781	42,934
	68,592	241,662	117,463	42,793	470,510	436,587

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or drawdown of borrowings.

The Group monitors capital on the basis of the liability-to-asset ratio. As at 31 December 2022, the Group's liability-to-asset ratio was approximately 31.53% (2021: 35.73%).

3.3 Fair value estimation

The Group had two types of financial assets measured at fair value which are bills receivables and equity investments as at 31 December 2022 and 31 December 2021, and had no financial liabilities measured at fair value.

The bills receivable are all bank acceptance notes with maturity dates within 6 months, whose fair value approximates to their carrying amount, where the contractual cash flow was solely principal and interest. The Group's business model is achieved both by collecting contractual cash flows and selling of these assets.

The financial assets measured at fair value through profit or loss represented the Group's wealth management products purchased from bank and equity investments.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's financial assets that are measured at fair values at 31 December 2022 and 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2022				
Assets				
Financial assets at fair value through profit or loss	—	—	**47,283**	**47,283**
Financial assets measured at fair value through other comprehensive income	—	—	**5,153**	**5,153**
	—	—	**52,436**	**52,436**
At 31 December 2021				
Assets				
Financial assets at fair value through profit or loss	—	—	38,656	38,656
Financial assets measured at fair value through other comprehensive income	—	—	2,974	2,974
	—	—	41,630	41,630

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2022.

	Financial assets measured at fair value through profit or loss RMB'000	Financial assets measured at fair value through other comprehensive income RMB'000
Opening balance	**38,656**	**2,974**
Additions	**1,240,300**	**124,473**
Change in fair value	**627**	**—**
Disposals	**(1,236,453)**	**(122,294)**
Gains recognised in "other losses, net"	**4,153**	**—**
Closing balance	**47,283**	**5,153**
Includes unrealised gains during the year recognised in profit or loss under "other losses, net"	**—**	**—**

The fair value hierarchy levels used for determining the fair value for disclosure purpose are as below:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

(a) Current and deferred income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax expense and deferred income tax provisions in the period in which such determination is made. In addition, the realisation of deferred income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates would result in adjustments to the value of future income tax assets and liabilities, which could have a significant effect on the income tax expenses.

(b) Goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit ("**CGU**") is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the growth rates as estimated by management by reference to certain internal and external market data. Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 18.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(c) Recoverability of non-financial assets other than goodwill

Other non-financial assets, mainly including property, plant and equipment, intangible assets as well as right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of these non-financial assets is determined based on the higher of its fair value less costs of disposal and its "value-in-use" amounts. In determining fair values, various applicable valuation techniques (e.g. market approach or income approach) are used, with certain unobservable inputs including terminal yield, revisionary yield, market unit rent of individual unit, etc. In assessing "value-in-use" amounts, the net present value of the future cash flows are calculated while certain assumptions are required to be made in respect of highly uncertain matters including management's expectation of revenue growth rate, sales margin, and pre-tax discount rate.

Judgment is required to identify any impairment indicators existing for any of these non-financial assets to determine appropriate impairment approaches, i.e., fair value less costs of disposal or value in use, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows, market approach and income approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated statement of comprehensive income.

(d) Fair value of financial assets measured at fair value through profit or loss

The fair value of financial assets that are not traded in an active market (for example, investments in private companies) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

5 REVENUE AND SEGMENT INFORMATION

The chief operating decision makers ("**CODM**") have been identified as the executive directors of the Company who review the Group's internal reporting in order to assess performance and allocate recourses.

The CODM had identified the manufacturing and sales of tea products (including Detox tea, slimming tea, Fit tea and others) and weight-loss and other medicines as separate reportable segments, namely the tea products segment and the weight-loss and other medicines segment.

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

Revenue

The revenue segment information reported to CODM for the years ended 31 December 2022 and 2021 is as follows:

	2022 **RMB'000**	2021 RMB'000
Tea products segment		
— Detox tea	**137,512**	128,915
— Slimming tea	**135,783**	135,902
— Fit tea	**66,691**	79,073
— Others	**184,417**	229,881
	524,403	573,771
Weight-loss and other medicines segment		
— Weight-loss medicines	**267,578**	381,469
— Other medicines	**151,302**	145,910
	418,880	527,379
	943,283	1,101,150

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue *(Continued)*

The segment results for the year ended 31 December 2022 are as follows:

	Tea products segment RMB'000	Weight-loss and other medicines segment RMB'000	Total RMB'000
Total revenue	**524,403**	**418,880**	**943,283**
Revenue from external customers	**524,403**	**418,880**	**943,283**
Timing of revenue recognition			
At a point in time	**524,403**	**418,880**	**943,283**
Cost of sales	**(148,535)**	**(228,460)**	**(376,995)**
Gross profit	**375,868**	**190,420**	**566,288**
Selling and marketing expenses	**(218,030)**	**(171,510)**	**(389,540)**
Research and development costs	**(20,117)**	**(81,369)**	**(101,486)**
Segment results	**137,721**	**(62,459)**	**75,262**
Administrative expenses			**(169,143)**
Credit impairment losses			**72**
Fair value changes on financial assets measured at fair value through profit or loss			**627**
Other income			**21,287**
Other expenses			**(1,491)**
Other losses, net			**(1,384)**
Operating loss			**(74,770)**
Finance income			**2,026**
Finance costs			**(8,148)**
Finance costs, net			**(6,122)**
Share of losses of investments accounted for using the equity method			**(10,450)**
Loss before income tax			**(91,342)**
Income tax expense			**(13,047)**
Loss for the year			**(104,389)**
Other segment information:			
Impairment losses of non-current assets (Note 16 and 18(b))	**—**	**(27,930)**	**(27,930)**
Depreciation	**(28,547)**	**(39,089)**	**(67,636)**
Amortisation	**(1,094)**	**(10,865)**	**(11,959)**

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue *(Continued)*

The segment results for the year ended 31 December 2021 are as follows:

	Tea products segment RMB'000	Weight-loss and other medicines segment RMB'000	Total RMB'000
Total revenue	573,771	527,379	1,101,150
Revenue from external customers	573,771	527,379	1,101,150
Timing of revenue recognition			
At a point in time	573,771	527,379	1,101,150
Cost of sales	(169,803)	(232,797)	(402,600)
Gross profit	403,968	294,582	698,550
Selling and marketing expenses	(321,143)	(200,631)	(521,774)
Research and development costs	(9,910)	(83,189)	(93,099)
Segment results	72,915	10,762	83,677
Administrative expenses			(174,365)
Credit impairment losses			257
Fair value changes on financial assets measured at fair value through profit or loss			1,979
Other income			19,473
Other expenses			(8,033)
Other losses, net			(11,089)
Operating loss			(88,101)
Finance income			3,829
Finance costs			(6,692)
Finance costs, net			(2,863)
Share of profits of investments accounted for using the equity method			240
Loss before income tax			(90,724)
Income tax expense			(23,267)
Loss for the year			(113,991)
Other segment information:			
Impairment losses of non-current assets	(1,718)	—	(1,718)
Depreciation	(32,071)	(35,795)	(67,866)
Amortisation	(856)	(10,008)	(10,864)

Non-current assets of the Group are all located in the PRC.

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue *(Continued)*

For the year ended 31 December 2022, revenue of approximately RMB108,523,000 (2021: RMB157,060,000) was derived from a single external customer, which accounted for 11.5% (2021: 14.3%) of the Group's total revenue and was primarily attributable to the weight-loss and other medicines segment. Other than the aforementioned customer, the revenues derived from any of the remaining external customers were less than 10% of the Group's total revenue.

6 CONTRACT LIABILITIES

Contract liability is recognised when a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, preceding the Group's performance. The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligations as at 31 December 2022 and 2021 are expected to be recognised within one year.

	31 December 2022 RMB'000	31 December 2021 RMB'000
Tea products	**3,512**	11,213
Weight-loss and other medicines	**21,433**	20,256
	24,945	31,469

The Group's contract liabilities balance at the beginning of the year were all recognised as revenue in 2022.

7 EXPENSES BY NATURE

	2022 RMB'000	2021 RMB'000
Changes in inventories of finished goods and work in progress	**28,901**	(6,539)
Raw materials and consumables used	**288,346**	350,903
Provision for impairment of inventories (Note 20)	**739**	—
Impairment losses on non-current assets (Note 16 and 18(b))	**27,930**	—
Employee benefit expenses (Note 10)	**248,729**	291,927
Marketing and promotional expenses	**160,729**	210,839
Advertising costs	**46,660**	85,699
Depreciation and amortisation	**79,595**	78,730
Professional and consulting service fees	**22,766**	32,760
Logistics expenses	**22,263**	26,193
Outsourced researching and development expenses	**45,933**	23,157
Entertainment and travelling expenses	**14,329**	22,463
Maintenance and testing costs	**18,460**	15,214
Office expenses	**6,008**	12,837
Stamp duties, property and other taxes	**4,417**	5,075
Rental expenses (Note a)	**1,753**	3,302
Auditors' remunerations		
— audit	**2,890**	2,950
— non-audit (Note b)	**100**	1,819
Others	**18,127**	42,542
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**1,038,655**	1,199,871

Note:

a. Rental expenses for the years ended 31 December 2022 and 2021 derived from short-term leases and leases of low-value assets which were recognised on a straight-line basis as an expense in profit or loss.

b. Non-audit services provided by auditors in 2022 include agreed-upon procedures on Share consolidation.

8 OTHER INCOME

	2022 RMB'000	2021 RMB'000
Government grants	**11,729**	6,423
Interest income	**4,844**	7,373
Rental income from investment properties	—	1,365
Others	**4,714**	4,312
	21,287	19,473

9 OTHER LOSSES, NET

	2022 RMB'000	2021 RMB'000
Impairment losses on non-current assets	—	(1,718)
Impairment loss on prepayment for an equity transaction (Note)	—	(4,000)
Change in fair value of short-term investments measured at fair value through profit or loss	**4,153**	740
Donation	**(1,997)**	(3,133)
Net losses on disposals of land use rights, property, plant and equipment and intangible assets	**(1,036)**	(1,082)
Net foreign exchange losses	**(851)**	(682)
Others	**(1,653)**	(1,214)
	(1,384)	(11,089)

Note:

On 8 April 2020, Beijing Outsell Product Development Co., Ltd. ("**Beijing Outsell**"), a wholly owned subsidiary of the Group, entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with the independent third party, owner of Weihai Shitongyuan Biological Technology Co., Ltd. ("**Weihai Shitongyuan**"), pursuant to which Beijing Outsell has conditionally agreed to purchase and the owner of Weihai Shitongyuan has conditionally agreed to transfer 51% of Weihai Shitongyuan's equity interest through cash injection of RMB16,500,000 (the "**Proposed Equity Transfer**"), and an advance payment of RMB4,000,000 has been made by Beijing Outsell as a part of cash consideration.

On 16 March 2021, due to failure of satisfaction of certain completion conditions, Beijing Outsell terminated the Equity Transfer Agreement, and made the full provision for the prepayment of RMB4,000,000 considering the risk of recoverability.

10 EMPLOYEE BENEFIT EXPENSES

	2022 RMB'000	2021 RMB'000
Salaries, bonus and other allowances	**228,780**	262,276
Share-based compensation	**—**	8,383
Pension cost — defined contribution plan	**19,949**	21,268
	248,729	291,927

The Group did not have any forfeited contribution for the years ended 31 December 2022 and 2021 in connection with the defined contribution plan operated by local governments. The Group did not have defined benefit plan for the years ended 31 December 2022 and 2021.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2021: two) directors whose emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the remaining two (2021: three) individuals during the year are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other allowances	**2,769**	5,100
Share-based compensation	**—**	1,677
Pension cost — defined contribution plan	**42**	121
	2,811	6,898

The emoluments fell within the following bands:

	Number of individuals	
	2022	2021
Emolument bands (in HK$)		
HK$1,000,001—HK$1,500,000	**1**	—
HK$1,500,001—HK$2,000,000	**1**	—
HK$2,000,001—HK$2,500,000	**—**	1
HK$2,500,001—HK$3,000,000	**—**	1
HK$3,000,001—HK$3,500,000	**—**	1

11 FINANCE INCOME AND COSTS

	2022 RMB'000	2021 RMB'000
Interest income from financial assets held for cash management purpose	**2,026**	3,829
Finance income	**2,026**	3,829
Interest expenses	**(11,200)**	(9,386)
— borrowings	**(9,984)**	(8,091)
— lease liabilities	**(1,216)**	(1,295)
Guarantee fee for bank borrowings	**(1,153)**	(1,272)
	(12,353)	(10,658)
Less: Amount capitalised (Note 16(b))	**4,205**	3,966
Finance costs	**(8,148)**	(6,692)
Net finance costs	**(6,122)**	(2,863)

Note:

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted-average interest rate applicable to the Group's general borrowings during the year ended 31 December 2022 which was 4.28% (2021: 4.77%) per annum.

12 SUBSIDIARIES

(a) Subsidiaries

The Group's principal subsidiaries at 31 December 2022 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country/region of incorporation or registration is also their principal place of business.

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2022	2021	**2022**	2021
Besunyen BVI	BVI, limited liability company	Investment holding in BVI	US$1	**100%**	100%	**–**	–
Besunyen (Hong Kong) Co., Ltd. 碧生源(香港)有限公司	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$1	**100%**	100%	**–**	–
Beijing Outsell(note ii) 北京澳特舒爾保健品開發有限公司	The PRC, limited liability company	Manufacture and sales of therapeutic tea products in PRC	RMB829,413,849	**100%**	100%	**–**	–
Beijing Pincha Online Ecommerce Co., Ltd. (note iii) 北京品茶在線電子商務有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB30,000,000	**100%**	100%	**–**	–
Heilongjiang Besunyen Trading Co., Ltd. (note iii) 黑龍江碧生源商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB5,000,000	**100%**	100%	**–**	–
Guangdong Runliang Pharmaceutical Co., Ltd. (note iii) 廣東潤良藥業有限公司	The PRC, limited liability company	Sales of weight-loss medicine in PRC	RMB80,000,000	**100%**	100%	**–**	–
Zhuhai Kangbaina Pharmaceutical Co., Ltd. ("**Kangbaina**") (note iii) 珠海康百納藥業有限公司	The PRC, limited liability company	Sales of therapeutic tea products and medicines in PRC	RMB1,000,000	**100%**	100%	**–**	–
Zhuhai Aolixin Pharmaceutical Co., Ltd. ("**Aolixin**") (note iii) 珠海奧利新醫藥有限公司	The PRC, limited liability company	Sales of medicine in PRC	RMB2,000,000	**100%**	100%	**–**	–
Zhongshan Wanhan Pharmacy Co., Ltd. ("**Zhongshan Wanhan**") 中山萬漢製藥有限公司	The PRC, limited liability company	Research, manufacturing and sales of medicines in PRC	RMB18,471,429	**51%**	51%	**49%**	49%
Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. ("**Zhongshan Wanyuan**") 中山萬遠新藥研發有限公司	The PRC, limited liability company	Research and development of medicine in PRC	RMB10,204,082	**51%**	51%	**49%**	49%

12 SUBSIDIARIES *(Continued)*

(a) Subsidiaries *(Continued)*

Name of subsidiaries	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2022	2021	**2022**	2021
Guangdong Runze Supply Chain Management Co., Ltd. (note iii) 廣東潤澤供應鏈管理有限公司	The PRC,limited liability company	Sales of therapeutic tea products in PRC	RMB5,000,000	**100%**	100%	**–**	–
Hangzhou Besunyen Ecommerce Co., Ltd. (note iii) 杭州碧生源電子商務有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB1,000,000	**100%**	100%	**–**	–
Guangzhou Bihai Health Industry Co., Ltd. (note iii) 廣州碧海健康產業有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB1,000,000	**100%**	100%	**–**	–
Henan Xueyinghua Pharmaceutical Co., Ltd. ("**Henan Xueyinghua**") (note iii) 河南雪櫻花製藥有限公司	The PRC, limited liability company	Manufacturing and sales of medicines in PRC	RMB31,990,000	**100%**	100%	**–**	–
Jiangxi Yize Trading Co., Ltd. (note i and note iii) 江西易澤商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB5,000,000	**100%**	–	**–**	–
Jiangxi Outsell Trading Co., Ltd. (note i and note iii) 江西澳特舒爾商貿有限公司	The PRC, limited liability company	Sales of therapeutic tea products in PRC	RMB5,000,000	**100%**	–	**–**	–

Notes:

i. These subsidiaries were newly established by the Group in 2022.

ii. These subsidiaries are registered as wholly foreign owned enterprises under PRC law.

iii. These subsidiaries are registered as wholly owned enterprises under PRC law.

(b) Significant restrictions

Cash and cash equivalents and term deposits of approximately RMB341,021,000 (2021: RMB404,166,000) were held in Mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

12 SUBSIDIARIES *(Continued)*

(c) Consolidation of structured entities

The Company has set up a trust ("**Share Scheme Trust**") for the implementation of the restricted share award scheme of the Company mentioned in Note 31(b), and details of which are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired through purchases on the Hong Kong Stock Exchange for the purpose of restricted share award scheme.

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the eligible persons who are awarded with the shares by the scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust.

As at 31 December 2022 and 2021, the Share Scheme Trust held no share which has not yet been granted to employees.

(d) Non-controlling interests ("NCI")

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Zhongshan Wanhan		Zhongshan Wanyuan	
	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**	As at 31 December 2021 RMB'000
Current assets	**302,052**	312,919	**3,174**	3,633
Current liabilities	**(111,459)**	(89,234)	**(32,578)**	(24,555)
Net current assets/(liabilities)	**190,593**	223,685	**(29,404)**	(20,922)
Non-current assets	**296,856**	319,783	**59,849**	63,796
Non-current liabilities	**(106,292)**	(105,952)	**(6,355)**	(15,343)
Net non-current assets	**190,564**	213,831	**53,494**	48,453
Net Assets	**381,157**	437,516	**24,090**	27,531
NCI	**186,767**	214,383	**11,804**	13,490

12 SUBSIDIARIES *(Continued)*

(d) Non-controlling interests ("NCI") *(Continued)*

Summarised statement of comprehensive income

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**202,421**	342,010	**1,225**	—
Other income	**—**	—	**12,896**	9,442
(Loss)/profit for the year	**(6,360)**	72,276	**(3,441)**	(7,537)
Total comprehensive (loss)/ income	**(6,360)**	72,276	**(3,441)**	(7,537)
(Loss)/profit allocated to NCI	**(3,116)**	35,415	**(1,686)**	(3,693)
Dividends paid to NCI	**24,500**	—	**—**	—

Summarised statement of cash flows

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows generated from operating activities	**33,633**	23,798	**14,905**	8,652
Cash flows generated from/ (used in) investing activities	**66,815**	(141,582)	**(43)**	(5,903)
Cash flows (used in)/generated from financing activities	**(66,111)**	30,805	**(15,152)**	(3,989)
Net increase/(decrease) in cash and cash equivalents	**34,337**	(86,979)	**(290)**	(1,240)

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Joint ventures (a)	**29,196**	44,971
	29,196	44,971

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

	2022 RMB'000	2021 RMB'000
Joint ventures (a)	**(10,450)**	240
	(10,450)	240

(a) Investments in joint ventures

	Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. RMB'000	**Ningbo Yuanyuan Liuchang Investment Centre (Limited partnership)** RMB'000	**Weihai Huisheng Bioscience Technology Co., Ltd.** RMB'000	**Total** RMB'000
Carrying amounts at 1 January 2021	2,485	52,957	448	55,890
Capital distributed to the Group during the year	—	(11,159)	—	(11,159)
Share of profit/(loss)	886	(198)	(2)	686
Liquidation of a joint venture	—	—	(446)	(446)
Carrying amounts at 31 December 2021	3,371	41,600	—	44,971
Carrying amounts at 1 January 2022	**3,371**	**41,600**	**—**	**44,971**
Capital distributed to the Group during the year	**—**	**(5,325)**	**—**	**(5,325)**
Share of profit/(loss)	**888**	**(11,338)**	**—**	**(10,450)**
Carrying amounts at 31 December 2022	**4,259**	**24,937**	**—**	**29,196**

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in joint ventures *(Continued)*

Details of investments in joint ventures as at 31 December 2022 and 2021 are as below:

Name of entity	Place of business / country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Ningbo Yuanyuan Liuchang Investment Management Co., Ltd. (the "**Fund Management Company**") (note i)	The PRC	50%	Joint venture	Equity method
Ningbo Yuanyuan Liuchang Investment Centre (Limited Partnership) (the "**Fund**") (notes i and ii)	The PRC	89.5%	Joint venture	Equity method
Weihai Huisheng Bioscience Technology Co.,Ltd.(the "**Weihai Huisheng**") (note iii)	The PRC	—	—	—

Notes:

i. Fund Management Company was established on 8 March 2016 and is jointly owned by Beijing Besunyen Pharmaceutical Co., Ltd. ("**Besunyen Pharmaceutical**") (a wholly owned subsidiary of the Group) and Mr. Bai Jiguang (the "**Co-Partner**"). On 29 March 2016, Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company entered into a limited partnership agreement, pursuant to which the involved parties agreed to establish the Fund in the PRC. The Fund has a total capital commitment of RMB100,000,000 and is owned by Besunyen Pharmaceutical, the Co-Partner and the Fund Management Company as to 89%, 10% and 1%, respectively. As of 31 December 2022, the Group has already contributed capital of RMB500,000 and RMB79,210,000 (2021: RMB500,000 and RMB79,210,000) to the Fund Management Company and the Fund respectively.

In 2018, Besunyen Pharmaceutical transferred its entire equity interests of the Fund Management Company and the Fund to Beijing Bihai Yuanyuan Enterprise Management Co., Ltd., a wholly owned subsidiary of the Group.

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in joint ventures *(Continued)*

Notes: (Continued)

ii. The principal business of the Fund is investments in portfolio companies specialising in the health care industry, TMT (technology, media and telecommunications) industry and consumer industry, etc., as well as the investment in certain early stage partnership companies. The term of the Fund was originally 5 years, and has been extended to 7 years as unanimously agreed by all parties in 2020. The Fund financed its operation from the capital injection from the Group and Co-Partner.

The Fund made investments in some preferred shares and ordinary shares of certain private companies which have no quoted market prices available for their shares. After considering the Fund's investment objectives and intentions, the Fund classified these investments as FVPL. The fair value of the aforesaid investment portfolio is determined within level 1 as one of the investees was listed in the Stock Exchange in 2021 and level 3 of the fair value hierarchy (i.e. inputs for the assets that are not based on observable market data (that is, unobservable inputs)). The Fund's maximum exposure to loss from these investments at the reporting date is the carrying value of these investments. The Group's maximum exposure to the loss from its investment in the Fund at the reporting date is the carrying amount of its investment in the Fund.

Although the Group owns more than half of the equity interests in the Fund, the Group only has joint control over the Fund Management Company and the Fund with the Co-Partner pursuant to the investment agreements. Consequently, the Group has accounted for the Fund Management Company and the Fund by using the equity method.

iii. On 29 December 2021, Weihai Huisheng has been liquidated.

Commitments and contingent liabilities in respect of joint ventures

There is no contingent liability relating to the Group's interest in the joint ventures.

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in joint ventures *(Continued)*

Summarised financial information for the joint ventures

Set out below are the summarised financial information for the joint ventures which are accounting for using the equity method.

Summarised balance sheet

	The Fund Management Company		The Fund		Weihai Huisheng	
	As at 31 December 2022 RMB' 000	As at 31 December 2021 RMB' 000	**As at 31 December 2022 RMB' 000**	As at 31 December 2021 RMB' 000	**As at 31 December 2022 RMB' 000**	As at 31 December 2021 RMB' 000
Current						
Cash and cash equivalents	**238**	183	**3,744**	3,705	**—**	—
Deposits, prepayments and other receivables	**8,900**	7,120	**2,000**	2,000	**—**	—
Total current assets	**9,138**	7,303	**5,744**	5,705	**—**	—
Other payables and accrued expenses	**(1,195)**	(1,195)	**—**	—	**—**	—
Total current liabilities	**(1,195)**	(1,195)	**—**	—	**—**	—
Non-current						
Financial assets measured at fair value through profit or loss	**—**	—	**22,615**	41,272	**—**	—
Other non-current assets	**575**	634	**—**	—	**—**	—
Total non-current assets	**575**	634	**22,615**	41,272	**—**	—
Net assets	**8,518**	6,742	**28,359**	46,977	**—**	—

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in joint ventures *(Continued)*

Summarised statement of comprehensive income

	The Fund Management Company		The Fund		Weihai Huisheng	
	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000	**Year ended 31 December 2022 RMB'000**	Year ended 31 December 2021 RMB'000	**Year ended 31 December 2022 RMB'000**	Period ended 29 December (Date of liquidation) 2021 RMB'000
Revenue	**1,780**	1,780	**—**	—	**—**	—
Cost of sales	**—**	—	**—**	—	**—**	—
Other income	**—**	—	**—**	12	**—**	—
Selling and marketing expenses	**—**	—	**—**	—	**—**	—
Administrative expenses	**(3)**	(7)	**(3)**	(208)	**—**	(10)
Other expenses	**(1)**	(1)	**—**	—	**—**	—
Fair value changes on financial assets measured at fair value through profit or loss	**—**	—	**(12,665)**	(25)	**—**	—
Profit/(loss) before income tax	**1,776**	1,772	**(12,668)**	(221)	**—**	(10)
Income tax expenses	**—**	—	**—**	—	**—**	—
Other losses	**—**	—	**—**	—	**—**	(7)
Profit/(loss) for the year/period	**1,776**	1,772	**(12,668)**	(221)	**—**	(17)
Total comprehensive income/(loss)	**1,776**	1,772	**(12,668)**	(221)	**—**	(17)

The information above reflects the amounts presented in the financial statements of the joint ventures and not the Group's share of those amounts.

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in joint ventures *(Continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amounts of the Group's interests in the joint ventures.

Summarised financial information	The Fund Management Company	The Fund	Weihai Huisheng	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Opening net assets at 1 January 2021	4,970	59,666	200	64,836
Capital distributed to the shareholders of the joint ventures	—	(12,468)	—	(12,468)
Profit/(loss) for the year/period	1,772	(221)	(17)	1,534
Liquidation of a joint venture	—	—	(183)	(183)
Closing net assets at 31 December 2021	6,742	46,977	—	53,719
Percentage of share of interests	50%	89.5%	—	
Interest in joint ventures	3,371	42,044	—	45,415
Others	—	(444)	—	(444)
Carrying amounts at 31 December 2021	3,371	41,600	—	44,971
Opening net assets at 1 January 2022	**6,742**	**46,977**	**—**	**53,719**
Capital distributed to the shareholders of the joint ventures	**—**	**(5,950)**	**—**	**(5,950)**
Profit/(loss) for the year	**1,776**	**(12,668)**	**—**	**(10,892)**
Closing net assets at 31 December 2022	**8,518**	**28,359**	**—**	**36,877**
Percentage of share of interests	**50.0%**	**89.5%**	**—**	
Interest in joint ventures	**4,259**	**25,381**	**—**	**29,640**
Others	**—**	**(444)**	**—**	**(444)**
Carrying amounts at 31 December 2022	**4,259**	**24,937**	**—**	**29,196**

14 INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current income tax:		
Adjustments of prior year's PRC income tax	**130**	(2,499)
Enterprise income tax	**725**	—
Deferred income tax (Note 33):		
Origination and reversal of temporary differences	**12,192**	25,766
Income tax expense	**13,047**	23,267

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

The Company is a Hong Kong tax resident and subject to Hong Kong profit tax.

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

Tibet Besunyen Trading Co., Ltd. and Tibet Qianruiwanfu Venture Investment Co., Ltd., two subsidiaries established by the Group in February 2017, are entitled to the preferential policy of Encouraged Industries in the West Regions in Tibet from establish date to 31 December 2030, for which the applicable income tax rate is 15% (2021: 15%).

In July 2020, Beijing Outsell obtained the High and New Technology Enterprise ("**HNTE**") qualification for three years from 2020 to 2022, for which the applicable income tax rate is 15% (2021: 15%).

In November 2020, Zhongshan Wanyuan obtained the HNTE qualification for three years from 2020 to 2022, for which the applicable income tax rate is 15% (2021: 15%).

In December 2022, Zhongshan Wanhan obtained the HNTE qualification for three years from 2022 to 2024, for which the applicable income tax rate is 15% (2021: 15%).

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2021: 25%).

14 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the PRC statutory enterprise income tax rate as follows:

	2022 RMB'000	2021 RMB'000
Profit before income tax	**(91,342)**	(90,724)
Tax at PRC statutory enterprise income tax rate of 25%	**(22,836)**	(22,681)
Effect of preferential tax rate granted	**7,241**	(2,138)
Effect of different tax rates in other jurisdictions	**3,498**	(215)
Tax losses/temporary differences for which no deferred income tax asset was recognised	**34,401**	43,578
Utilisation or recognition of unrecognised tax losses/deductible temporary differences	**(9,861)**	(12,678)
Reversal of deferred tax assets	**7,217**	24,345
Tax super deduction for research and development expenses	**(10,788)**	(11,957)
Dividend tax for distributable profits of PRC subsidiaries	**(2,785)**	(492)
Tax effect of expenses not deductible for tax purposes and others	**6,960**	5,505
Income tax expense	**13,047**	23,267

15 LOSSES PER SHARE

On 18 March 2022, the Company's Board of Directors has resolved a share consolidation on the basis that every 40 ordinary shares of US$0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of US$0.0003333332 each (the "**Share Consolidation**"). The Share Consolidation was subsequently approved by the shareholders of the Company on 13 April 2022, and was completed on 19 April 2022. Following the share consolidation, the weighted average number of ordinary shares for the purpose of basic and diluted losses per share for the year ended 31 December 2022 and 2021 has been retrospectively adjusted.

On 24 October 2022, the date on which the fully-paid rights shares are allotted and issued, the Company issued 81,510,390 shares based on the subscription price of HK$1.75 per share to the qualifying shareholders ("**Rights Issue**"). The net proceeds from the Rights Issue after the deduction of expenses are approximately HK$138.8 million (equivalent to RMB125,909,000).

15 LOSSES PER SHARE *(Continued)*

(a) Basic

Basic losses per share is calculated by dividing the losses attributable to owners of the Company by the weighted-average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares under the Company's Restricted Share Award Scheme (Note 31(b)).

	2022	2021
Loss attributable to owners of the Company (RMB'000)	**(99,089)**	(145,713)
Weighted-average number of ordinary shares in issue (thousands)	**56,164**	39,890
Basic losses per share	**(1.76)**	(3.65)

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the losses per share. Diluted losses per share is calculated by adjusting the weighted-average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted losses per share).

The share options had anti-diluted effect to the Group for the years ended 31 December 2022 and 2021. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2022 and 2021. Accordingly, the diluted losses per share is same as the basic losses per share for the years ended 31 December 2022 and 2021.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Plant and machinery RMB'000	Furniture and others RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
At 1 January 2021	206,874	266,446	68,164	80,456	621,940
Additions	2,101	17,047	11,370	80,008	110,526
Transfer	99,386	24,625	3,600	(127,611)	—
Acquisition of a subsidiary	12,630	1,283	187	—	14,100
Disposals/write-off	(1,677)	(165)	(1,467)	—	(3,309)
At 31 December 2021	319,314	309,236	81,854	32,853	743,257
At 1 January 2022	**319,314**	**309,236**	**81,854**	**32,853**	**743,257**
Additions	**2,433**	**1,192**	**4,902**	**41,915**	**50,442**
Transfer	**14,076**	**46,343**	**8,523**	**(68,942)**	**—**
Disposals/write-off	**(574)**	**(2,083)**	**(2,537)**	**—**	**(5,194)**
At 31 December 2022	**335,249**	**354,688**	**92,742**	**5,826**	**788,505**
ACCUMULATED DEPRECIATION					
At 1 January 2021	68,031	178,835	39,559	—	286,425
Charge for the year	15,008	16,476	12,700	—	44,184
Disposals/write-off	(469)	(165)	(1,441)	—	(2,075)
At 31 December 2021	82,570	195,146	50,818	—	328,534
At 1 January 2022	**82,570**	**195,146**	**50,818**	**—**	**328,534**
Charge for the year	**21,210**	**17,764**	**12,645**	**—**	**51,619**
Disposals/write-off	**(367)**	**(1,247)**	**(2,413)**	**—**	**(4,027)**
At 31 December 2022	**103,413**	**211,663**	**61,050**	**—**	**376,126**
ACCUMULATED IMPAIRMENT					
At 1 January 2020, 31 December 2020 and 31 December 2021	1,630	11,607	—	—	13,237
Impairment charge (Note 18(b))	1,028	—	—	—	1,028
At 31 December 2022	2,658	11,607	—	—	14,265
NET BOOK VALUE					
At 31 December 2022	**229,178**	**131,418**	**31,692**	**5,826**	**398,114**
At 31 December 2021	235,114	102,483	31,036	32,853	401,486

16 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Depreciation charges have been expensed in profit or loss as follow:

	2022 **RMB'000**	2021 RMB'000
Cost of sales	**26,531**	23,711
Administrative expenses	**12,164**	9,560
Research and development costs	**12,288**	10,145
Selling and marketing expenses	**636**	768
	51,619	44,184

(b) The addition in construction in progress in 2022 included the finance costs capitalised amounting to approximately RMB4,205,000 (2021: RMB3,966,000).

(c) As at 31 December 2022, buildings with the carrying amounts of approximately RMB72,957,000 (31 December 2021: RMB76,786,000), RMB42,942,000 (31 December 2021: RMB44,457,000) and RMB4,996,000 (31 December 2021: RMB5,249,000) were pledged as the securities for the guarantee of the Group's bank borrowing of RMB45,051,000 (31 December 2021: RMB80,000,000), RMB68,450,000 (31 December 2021: RMB49,090,000), and RMB20,080,000 (31 December 2021: RMB32,000,000) (Note 36(a)) respectively.

17 RIGHT-OF-USE ASSETS

		Leased properties			
	Land use rights RMB'000 (Note a)	Office premises and staff quarters RMB'000	Leased Vehicles RMB'000	Sales and leaseback property RMB'000	Total RMB'000
At 1 January 2021	98,558	18,886	214	709	118,367
Additions	—	41,683	—	—	41,683
Acquisition of a subsidiary	8,880	—	—	—	8,880
Depreciation	(2,833)	(19,112)	(54)	(709)	(22,708)
Disposals	(474)	—	—	—	(474)
Impairment	(1,409)	—	—	—	(1,409)
Transfer to assets classified as held for sale (Note b)	(40,664)	—	—	—	(40,664)
At 31 December 2021	62,058	41,457	160	—	103,675
At 1 January 2022	**62,058**	**41,457**	**160**	**—**	**103,675**
Additions	**—**	**16,751**	**—**	**—**	**16,751**
Depreciation	**(1,489)**	**(14,368)**	**(160)**	**—**	**(16,017)**
Disposals	**—**	**(26,190)**	**—**	**—**	**(26,190)**
At 31 December 2022	**60,569**	**17,650**	**—**	**—**	**78,219**

Depreciation charges have been expensed in profit or loss as follows:

	2022 RMB'000	2021 RMB'000
Cost of sales	**821**	1,216
Other expenses	**—**	1,732
Research and development costs	**115**	266
Selling and marketing expenses	**9,709**	12,501
Administrative expenses	**5,372**	6,993
	16,017	22,708

17 RIGHT-OF-USE ASSETS *(Continued)*

(a) As at 31 December 2022, land use rights with the carrying amounts of approximately RMB5,721,000 (2021: RMB5,888,000), RMB17,871,000 (2021: RMB18,297,000), RMB10,009,000 (2021: RMB10,209,000) were pledged as the securities for the guarantee of the Group's bank borrowing of RMB45,051,000 (2021: RMB80,000,000) and RMB68,450,000 (2021: RMB49,090,000) and RMB20,080,000 (2021: RMB32,000,000) (Note 36(a)) respectively.

(b) On 29 November 2021, Shanghai Bisheng Property Management Co., Ltd ("**Bisheng Property**"), an indirect wholly-owned subsidiary of the Company and two third parties entered into an agreement, pursuant to which Bisheng Property has agreed to dispose buildings including the underlying land use rights located in Shanghai at a total cash consideration of RMB56,000,000 and the transaction was completed in January 2022.

As at 31 December 2021, the land use right of approximately RMB40,664,000 and investment properties of approximately RMB8,217,000 to be disposed have been presented as "Assets classified as held for sale" (Note 28).

18 INTANGIBLE ASSETS

	Goodwill (Note a) RMB'000	Trade-marks and brand name RMB'000	Computer software RMB'000	Exclusive medicine distribution right RMB'000	Medicine production licenses RMB'000	Patents and others RMB'000	Total RMB'000
COST							
At 1 January 2021	56,453	13,398	10,954	7,740	126,000	4,971	219,516
Acquisition of a subsidiary	3,800	—	—	—	—	13,000	16,800
Additions	—	—	1,066	—	—	—	1,066
Disposals	—	—	(26)	—	—	—	(26)
At 31 December 2021	60,253	13,398	11,994	7,740	126,000	17,971	237,356
At 1 January 2022	**60,253**	**13,398**	**11,994**	**7,740**	**126,000**	**17,971**	**237,356**
Additions	**—**	**2,150**	**—**	**—**	**—**	**—**	**2,150**
At 31 December 2022	**60,253**	**15,548**	**11,994**	**7,740**	**126,000**	**17,971**	**239,506**
ACCUMULATED AMORTISATION							
At 1 January 2021	—	11,871	9,266	2,938	25,543	3,428	53,046
Charge for the year	—	641	484	—	7,912	1,827	10,864
Disposals	—	—	(26)	—	—	—	(26)
At 31 December 2021	—	12,512	9,724	2,938	33,455	5,255	63,884
At 1 January 2022	**—**	**12,512**	**9,724**	**2,938**	**33,455**	**5,255**	**63,884**
Charge for the year	**—**	**910**	**1,132**	**—**	**9,384**	**533**	**11,959**
At 31 December 2022	**—**	**13,422**	**10,856**	**2,938**	**42,839**	**5,788**	**75,843**
ACCUMULATED IMPAIRMENT							
At 1 January 2021 and 31 December 2021	—	—	—	4,802	—	—	4,802
Impairment charge (note (b) and note (c))	7,916	—	—	—	15,161	3,825	26,902
At 31 December 2022	**7,916**	**—**	**—**	**4,802**	**15,161**	**3,825**	**31,704**
NET BOOK VALUE							
At 31 December 2022	**52,337**	**2,126**	**1,138**	**—**	**68,000**	**8,358**	**131,959**
At 31 December 2021	60,253	886	2,270	—	92,545	12,716	168,670

Amortisation charges have been expensed in the profit or loss as follows:

	2022 RMB'000	2021 RMB'000
Cost of sales	**7,603**	7,212
Administrative expenses	**2,713**	2,263
Research and development costs	**1,564**	1,288
Selling and marketing expenses	**79**	101
	11,959	10,864

18 INTANGIBLE ASSETS *(Continued)*

(a) Impairment assessment for goodwill

Goodwill is monitored by management at the level of the following three CGUs which were all attributable to the weight-loss and other medicines segment:

	2022 RMB'000	2021 RMB'000
Zhongshan Wanhan and Zhongshan Wanyuan	**52,337**	52,337
Kangbaina and Aolixin	**4,116**	4,116
Henan Xueyinghua	**3,800**	3,800
	60,253	60,253

The management has involved an independent qualified valuer, Asia-Pacific Consulting and Appraisal Limited, to assist in performing goodwill impairment assessment to assess the "value-in-use" (determined by management as the recoverable amount) of the three CGUs as at 31 December 2022 by using the discounted cash flow model.

The following table sets out the key assumptions for those CGU with goodwill allocated to them:

	Zhongshan Wanhan and Zhongshan Wanyuan	Kangbaina and Aolixin	Henan Xueyinghua
2022			
Revenue growth rate for next 5 years	**2.5%–21%**	**(29%)–7%**	**20%–359%**
Sales margin for next 5 years	**43%–45%**	**31%–32%**	**(16)%–48%**
Terminal growth rate for next 5 years	**2.5%**	**2.5%**	**2.5%**
Pre-tax discount rate	**17%**	**20%**	**20%**
2021			
Revenue growth rate for next 5 years	2.5%–18%	2.5%–13%	15%–50%
Sales margin for next 5 years	45%–46%	28%–30%	52%–55%
Terminal growth rate for next 5 years	2.5%	2.5%	2.5%
Pre-tax discount rate	17%	20%	20%

18 INTANGIBLE ASSETS *(Continued)*

(a) Impairment assessment for goodwill *(Continued)*

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Revenue growth rate	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Sales margin	Based on past performance and management's expectations for the five-year forecast period.
Terminal growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rate refer to forecasts included in industry practice.
Pre-tax discount rate	Reflect specific risks relating to the operation of the business in PRC.

(b) Impact of possible changes in key assumptions

Zhongshan Wanhan and Zhongshan Wanyuan CGU:

As at 31 December 2022, the recoverable amount of the Zhongshan Wanhan and Zhongshan Wanyuan CGU is approximately RMB479,000,000, which is estimated to exceed the carrying amount of the CGU at 31 December 2022 by approximately RMB8,933,000 (2021: RMB82,560,000).

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	2022	
	From	**To**
Revenue growth rate	**2.5%–21%**	**2.5%–20%**
Sales margin	**43%–45%**	**43%–44%**
Terminal growth rate	**2.5%**	**1.5%**
Pre-tax discount rate	**17%**	**18%**

	2021	
	From	To
Revenue growth rate	2.5%–18%	2.5%–9%
Sales margin	45%–46%	42.5%
Terminal growth rate	2.5%	–1%
Pre-tax discount rate	17%	23%

18 INTANGIBLE ASSETS *(Continued)*

(b) Impact of possible changes in key assumptions *(Continued)*

Kangbaina and Aolixin CGU:

As at 31 December 2022, the recoverable amount of the Kangbaina and Aolixin CGU is approximately RMB20,200,000, which resulted in impairment of goodwill and buildings and facilities amounted to RMB4,116,000 and RMB1,028,000 respectively. The impairment of CGU is mainly due to the significant decrease of sales of weight-loss medicines due to the market changes and price competition in 2022. Thus, the Group reassessed the depreciation policies of its buildings and facilities and estimated that their useful lives will not be affected by the above adverse factors.

The impairment charge of Kangbaina and Aolixin CGU under different scenarios taken separately are as follows:

Sensitivity from base case forecast	**Impairment charge during the year ended 31 December 2022** RMB'000
Revenue growth rate decreased by 1% with other variables held constant	**14,540**
Sales margin decreased by 2% with other variables held constant	**18,239**
Terminal growth rate decreased by 1% with other variables held constant	**8,899**
Pre-tax discount rate increased by 1% with other variables held constant	**9,232**

As at 31 December 2021, the recoverable amount of the Kangbaina and Aolixin CGU is approximately RMB21,000,000, which is estimated to exceed the carrying amount of the CGU at 31 December 2021 by RMB4,855,000.

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	2021	
	From	To
Revenue growth rate	2.5%–13%	2.5%–8%
Sales margin	28%–30%	28%–29%
Terminal growth rate	2.5%	1%
Pre-tax discount rate	20%	24%

18 INTANGIBLE ASSETS *(Continued)*

(b) Impact of possible changes in key assumptions *(Continued)*

Henan Xueyinghua CGU:

As at 31 December 2022, the recoverable amount of the Henan Xueyinghua CGU is approximately RMB36,200,000, which resulted in impairment of goodwill amounted to RMB3,800,000, as the economic performance of Henan Xueyinghua CGU in 2022 was significantly worse than expected. Thus, the Group reassessed the depreciation policies of its intangible assets, property, plant and equipment and land use rights and estimated that their useful lives will not be affected by the above adverse factors.

The impairment charge of Henan Xueyinghua CGU under different scenarios taken separately are as follows:

Sensitivity from base case forecast	Impairment charge during the year ended 31 December 2022 RMB'000
Revenue growth rate decreased by 1% with other variables held constant	**4,836**
Sales margin decreased by 2% with other variables held constant	**12,936**
Terminal growth rate decreased by 1% with other variables held constant	**4,636**
Pre-tax discount rate increased by 1% with other variables held constant	**7,636**

As at 31 December 2021, the recoverable amount of the Henan Xueyinghua CGU is approximately RMB68,000,000, which is estimated to exceed the carrying amount of the CGU at 31 December 2021 by RMB26,721,000.

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	2021	
	From	To
Revenue growth rate	15%–50%	15%–30%
Sales margin	52%–55%	50%
Terminal growth rate	2.5%	0%
Pre-tax discount rate	20%	30%

18 INTANGIBLE ASSETS *(Continued)*

(c) Impairment assessment of intangible assets

Medicine production licenses

During the year ended 31 December 2022, affected by market changes and price competition, the sales of weight-loss medicines decreased significantly. Management considered that the significant decline in the sales of weight-loss medicines in 2022 constituted a triggering event for reassessing the recoverable amounts of the Group's medicine production licenses for the manufacturing of the Group's weight-loss medicines (the "**Weight-loss Medicine CGU**"). The Weight-loss Medicine CGU was attributable to weight-loss and other medicines segment, and is the lowest aggregation of assets that generate largely independent cash inflows. Therefore, management has performed an impairment assessment to assess the "value-in-use" (determined by management as the recoverable amount) of the medicine production licenses of Weight-loss Medicine CGU as at 31 December 2022 by using the discounted cash flow.

The management has involved an independent qualified valuer, Asia-Pacific Consulting and Appraisal Limited, to assist in performing impairment assessment of the medicine production licenses. The Company used discounted cash flow method covering the forecast periods ending 31 December 2031 to determine the recoverable amount of medicine production licenses. Such forecast periods equal to the expected remaining economic useful lives of the medicine production licenses. The average annual revenue recession rate and sales margin during the forecast periods were expected to be 10% and 31%, respectively, which were based on past performance and management's expectations of market development. The pre-tax discount rate used was 22%.

Based on the assessment results, the recoverable amounts of medicine production licenses are approximately RMB68,000,000, which resulted in impairment of RMB15,161,000 had been provided for against their carrying amounts during the year ended 31 December 2022.

Patents

During the year ended 31 December 2022, the economic performance of Henan Xueyinghua CGU was significantly worse than expected. Management considered such fact constituted a triggering event for reassessing the recoverable amounts of the patents of Group's Xueyinghua CGU, which was attributable to weight-loss and other medicines segment. Therefore, management has performed an impairment assessment to assess the "value-in-use" (determined by management as the recoverable amount) of the patents as at 31 December 2022 by using the discounted cash flow.

The management has involved an independent qualified valuer, Asia-Pacific Consulting and Appraisal Limited, to assist in performing impairment assessment of the patents. The Company used discounted cash flow method covering the forecast periods ending 31 December 2030 to determine the recoverable amount of patents. Such forecast periods equal to the expected remaining economic useful lives of the patents. The average annual revenue growth rate and sales margin during the forecast periods were expected to be 105% and 37%, respectively, which were based on past performance and management's expectations of market development. The pre-tax discount rate used was 21%.

Based on the assessment results, the recoverable amounts of patents are approximately RMB6,900,000, which resulted in impairment of RMB3,825,000 had been provided for against their carrying amounts during the year ended 31 December 2022.

19 OTHER NON-CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Prepayment for intangible assets	**3,000**	6,274
Prepayment for construction of property, plant and equipment	**11,086**	12,191
	14,086	18,465
Impairment on prepayment for intangible assets	**—**	(6,274)
Total other non-current assets	**14,086**	12,191

20 INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials and packaging materials	**41,297**	38,759
Work in progress	**8,919**	2,279
Finished goods	**59,762**	95,303
	109,978	136,341
Less: provision for impairment (Note(a))	**(739)**	—
	109,239	136,341

The cost of inventories recognised as expense and included in "cost of sales" and "research and development costs" amounted to approximately RMB296,928,000 and RMB20,319,000 (2021: RMB307,759,000 and RMB36,605,000), respectively.

Note:

(a) Provision for impairment was recognised for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "administrative expenses" in the consolidated statement of comprehensive income. The provision for impairment expense of inventory amounted to RMB739,000 for the year ended 31 December 2022 (2021: nil).

21 TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**104,290**	94,256
Less: Loss allowance	**(127)**	(199)
	104,163	94,057

(a) The Group allows a credit period of 30–90 days to its customers. The following is an aging analysis of trade receivable (net of loss allowance) based on the dates of deliveries of the related goods to the customers, which are approximate to their invoice date:

	2022 RMB'000	2021 RMB'000
0–90 days	**103,125**	93,965
91–180 days	**551**	31
181–365 days	**473**	—
Over 365 days	**14**	61
	104,163	94,057

(b) The Group's trade receivables are all denominated in RMB.

(c) Movement in the allowance for impairment of trade receivables is as follows:

	2022 RMB'000	2021 RMB'000
Opening loss allowance as at 1 January	**199**	456
Increase in loss allowance recognised in profit or loss during the year	**14**	84
Unused amount reversed	**(86)**	(341)
At 31 December	**127**	199

(d) As at 31 December 2022 and 2021, the carrying amounts of trade receivables approximate their fair values due to the short maturities of the related assets.

22 BILLS RECEIVABLE

As of 31 December 2022 and 2021, bills receivable amounted to RMB5,153,000 and RMB2,974,000 were all bank acceptance notes with maturity date within 6 months and are classified as financial assets measured at FVOCI.

23 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2022 **RMB'000**	2021 RMB'000
Prepayment for advertisement	**9,257**	10,130
Prepayment to suppliers	**29,831**	34,353
Other receivables	**37,676**	29,613
Interest receivables	**—**	5,726
Others	**3,662**	7,498
	80,426	87,320

Deposits, prepayment and other receivables are all denominated in RMB, except for:

	2022 **RMB'000**	2021 RMB'000
HK$	**51**	47
	51	47

The carrying amounts of the deposits and other receivables approximate their fair values due to the short maturities of the related assets.

24 RESTRICTED BANK DEPOSITS

Restricted bank deposits represented deposits placed in banks as security for the issue of bank acceptance notes to the suppliers for the purchases of raw materials and advertisement service.

25 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Equity investments in a private company (Note b)	**19,380**	19,380
Investments in funds (Note c)	**27,903**	19,276
Financial assets measured at fair value through profit or loss	**47,283**	38,656

During the year, the following gains were recognised in profit or loss:

	2022 RMB'000	2021 RMB'000
Fair value gains on wealth management products and structured deposits at FVPL recognised in "other losses, net" (Note a)	**4,153**	740
Fair value gains on investments in funds at FVPL (Note c)	**627**	1,979
	4,780	2,719

Notes:

a. The Group's wealth management products and structured deposits purchased from commercial financial institutes are denominated in RMB, with expected rates of return ranging from 1.86% to 2.18% per annum for the year ended 31 December 2022 (2021: 1.35% to 3.30%). The returns of these wealth management products and structured deposits are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss, and the fair values are based on discounted cash flow using the expected return based on management estimation and are within level 3 of the fair value hierarchy. There are no balance amounts as at 31 December 2022 and 2021.

25 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: (Continued)

b. The Group acquired 3.732% equity interests of ERX Pharmaceuticals Inc. (the "**ERX**") at a cash consideration of US$3.0 million (equivalent to RMB19,380,000) on 30 April 2021. Considering that the Group can neither control nor exercise significant influence on ERX, the management recognised this investment as financial assets measured at fair value through profit or loss.

c. Out of US$2.3505 million total investment commitment based on the agreement signed by the Group and Vstar Partners Limited on 26 February 2021, the Group invested US$2.0609 million (equivalent to approximately RMB13,297,000) to Vstar Investment Fund Limited Partnership (the "**Vstar**") on 17 May 2021. Considering that the Group can neither control nor exercise significant influence on Vstar, the management recognised this investment as financial assets measured at fair value through profit or loss.

   Out of RMB20,000,000 total investment commitment based on the agreement signed by the Group and Nanjing Jinming Venture Capital Management Partnership (Limited Partnership) on 19 July 2021, the Group's capital injection to Nanjing Jinbi Venture Capital Partnership (Limited Partnership) (the "**Jinbi**") was RMB12,000,000 as of 31 December 2022. Considering that the Group can neither control nor exercise significant influence on Jinbi, the management recognised this investment as financial assets measured at fair value through profit or loss.

   The fair value change of the investment in Jinbi was RMB627,000 for the year ended 31 December 2022 while the fair value changes of the investments in Vstar and ERX for the year ended 31 December 2022 was insignificant.

26 TERM BANK DEPOSITS

An analysis of the Group's term deposits as of 31 December 2022 and 2021 are listed as below:

	2022 **RMB'000**	2021 RMB'000
Long-term bank deposits	**40,000**	170,000
Short-term bank deposits	**207,670**	10,563

The effective interest rate of the long-term bank deposits of the Group ranges from 3.35% to 3.99% per annum for the year ended 31 December 2022 (2021: from 3.55% to 3.99%), and the effective interest rate of the short-term bank deposits of the Group ranges from 3.80% to 4.40% per annum for the year ended 31 December 2022 (2021: from 1.5% to 3.21%).

The term deposits are denominated in RMB and HK$.

27 CASH AND CASH EQUIVALENTS

	2022 RMB'000	2021 RMB'000
Cash at bank and financial institute and on hand	**230,320**	216,042

Cash and cash equivalents which are denominated in currencies other than RMB are as follow:

	2022 RMB'000	2021 RMB'000
US$	**991**	1,353
HK$	**20,052**	11,092

28 ASSETS CLASSIFIED AS HELD FOR SALE

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

	RMB'000
At 1 January 2021	—
Addition (Note 17(b))	48,881
At 31 December 2021	48,881
At 1 January 2022	**48,881**
Disposal (Note 17(b))	**(48,881)**
At 31 December 2022	**—**

29 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of ordinary shares (thousands)	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary share RMB'000
Authorised:			
Ordinary shares of US$0.0003333332 each (Note 15)			
At 1 January 2021, 31 December 2021 and 2022 (Note 15)	150,000,000	50,000	341
Issued and fully paid:			
At 1 January 2021 and 31 December 2021 (Note 15)	40,755,195	13,585	94
Issuance of ordinary shares upon Rights Issue (Note)	81,510,390	27,170	194
At 31 December 2022	122,265,585	40,755	288

As at 31 December 2022, no share (2021: no share) was held by the Company's Restricted Share Award Scheme (Note 31(b)).

Note:

As described in Note 15, the Company issued 81,510,390 rights shares of par value of US$0.0003333332 each at the subscription price of HK$1.75 per share to the qualifying shareholders on 24 October 2022.

Share issuance costs related to the Rights Issue mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other costs. Incremental costs that are directly attributable to the issue of the new shares amounting to approximately RMB3,248,000 were treated as a deduction against the share premium arising from the issuance.

30 OTHER RESERVES

	Merger reserve RMB'000	Capital redemption reserve and capital reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Statutory surplus reserve RMB'000	Share based payment reserve RMB'000	Total RMB'000
At 1 January 2021	230,864	(9,886)	(22,431)	75,684	57,531	331,762
Share-based payments	—	—	—	—	8,383	8,383
Vesting of restricted shares under restricted share award scheme	—	—	22,431	—	(22,431)	—
Appropriation to statutory surplus reserve	—	—	—	129	—	129
At 31 December 2021	230,864	(9,886)	—	75,813	43,483	340,274
At 1 January 2022	**230,864**	**(9,886)**	**—**	**75,813**	**43,483**	**340,274**
Appropriation to statutory surplus reserve	**—**	**—**	**—**	**2,597**	**—**	**2,597**
At 31 December 2022	**230,864**	**(9,886)**	**—**	**78,410**	**43,483**	**342,871**

31 SHARE-BASED PAYMENTS

(a) Share Option Scheme

The Company's pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**"), was adopted pursuant to a resolution passed on 30 April 2010 for the primary purpose of providing incentives to eligible employees. Under the Pre-IPO Share Option Scheme, the board of directors of the Company may grant 151,200,000 share options to eligible directors, employees and consultant to subscribe for shares in the Company within 10 years. For the years ended 31 December 2022 and 2021, all options granted under the Pre-IPO Scheme have been vested and exercised or lapsed.

The Company's post-IPO share option scheme (the "**Share Option Scheme**"), was adopted pursuant to a resolution passed on 8 September 2010 for the purpose of providing incentives to eligible persons including directors, employees and consultant to subscribe for shares in the Company. Under the Share Option Scheme, 49,660,000 shares had been granted by the Company from 2014 to 2016. The Share Option Scheme has been expired on 29 September 2020, after which no further share options shall be granted. As at 31 December 2022, all share options granted under the Share Option Scheme have been vested and exercised or lapsed or expired.

31 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(i) Movements in share options

	Pre-IPO Share Option Scheme		Share Option Scheme		
	Average exercise price (RMB)	Number of options	Average exercise price (HK$)	Number of options	Total number of options
At 1 January 2021	—	—	1.00	18,620,000	18,620,000
Lapsed	—	—	1.00	(100,000)	(100,000)
At 31 December 2021	—	—	1.01	18,520,000	18,520,000
Exercisable as at 31 December 2021	—	—	1.00	18,520,000	18,520,000
At 1 January 2022	**—**	**—**	**1.00**	**18,520,000**	**18,520,000**
Effect of Share Consolidation (Note 15)	**—**	**—**	**1.00**	**(18,057,000)**	**(18,057,000)**
Lapsed after Share Consolidation	**—**	**—**	**40.00**	**(80,000)**	**(80,000)**
Effect of Right Issue (Note)	**—**	**—**	**40.00**	**183,840**	**183,840**
Lapsed after Rights Issue	**—**	**—**	**27.03**	**(11,840)**	**(11,840)**
Expired	**—**	**—**	**27.03**	**(555,000)**	**(555,000)**
At 31 December 2022	**—**	**—**	**—**	**—**	**—**
Exercisable as at 31 December 2022	**—**	**—**	**—**	**—**	**—**

Note:

As at 24 October 2022, there were outstanding share options entitling the holders thereof to subscribe for up to an aggregate of 383,000 shares under the Share Option Scheme. As a result of the Rights Issue (Note 15) and in accordance with the Share Option Scheme, the exercise price and the number of shares to be issued upon exercise of the outstanding share options have been adjusted.

31 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(ii) Outstanding share options

Expiry date	Exercise price	Number of share options 31 December 2022	31 December 2021
10 years commencing from the date of the grant of options Pre-IPO Share Option Scheme	RMB1.23	—	—
8 years commencing from the date of the commencement of options Share Option Scheme	HK$1–HK$1.16	—	18,520,000

There was no option granted to any eligible employee during the years ended 31 December 2022 and 2021.

(b) Restricted Share Award Scheme

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

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

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

31 SHARE-BASED PAYMENTS *(Continued)*

(b) Restricted Share Award Scheme *(Continued)*

Movements in the number of restricted shares are as follows:

	Number of shares held for the Restricted Share Award Scheme	Number of awarded shares	Total
At 1 January 2021	34,801,567	—	34,801,567
Granted	(34,801,567)	34,801,567	—
Vested and transferred	—	(34,801,567)	(34,801,567)
At 31 December 2021 and 2022	—	—	—

The fair value of the awarded shares was calculated based on the market price of the Company's share at the respective grant dates.

For the years ended 31 December 2022 and 2021, all shares under the Restricted Share Award Scheme have been vested.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the years as part of employee benefit expenses were as follows:

	2022 **RMB'000**	2021 RMB'000
Shares issued under restricted share awarded scheme	—	8,383
	—	8,383

32 DEFERRED GOVERNMENT GRANTS

The government grants were received for subsidising the Group's construction/purchases of certain property, plant and equipment and land use rights and are recognised over the estimated useful lives of the relevant assets. Movements of these asset-related government grants are as below:

	2022 **RMB'000**	2021 RMB'000
At 1 January	**33,348**	33,795
Addition for the year	**11,576**	400
Amortisation during the year	**(3,245)**	(847)
At 31 December	**41,679**	33,348

33 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2022 **RMB'000**	2021 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	**50,533**	58,688
— Deferred income tax assets to be recovered within 12 months	**22,565**	39,579
	73,098	98,267
Offsetting of deferred tax liabilities	**(17,589)**	(20,362)
Net deferred tax assets	**55,509**	77,905
Deferred income tax liabilities:		
— Deferred income tax liability to be settled after more than 12 months	**(31,186)**	(55,422)
— Deferred income tax liability to be settled within 12 months	**(18,473)**	(7,214)
	(49,659)	(62,636)
Offsetting of deferred tax assets	**17,589**	20,362
Net deferred tax liabilities	**(32,070)**	(42,274)

The movement on the deferred income tax account is as follows:

	2022 **RMB'000**	2021 RMB'000
At 1 January	**35,631**	69,187
Acquisition of a subsidiary	**—**	(7,790)
Charges to profit or loss (Note 14)	**(12,192)**	(25,766)
At 31 December	**23,439**	35,631

33 DEFERRED INCOME TAX *(Continued)*

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

Deferred income tax assets

	Accrued expenses and payables RMB'000	Lease liabilities RMB'000	Deferred government grants RMB'000 RMB'000	Tax losses RMB'000	Unrealised profit for intra-group transaction RMB'000 (Note)	Total RMB'000
At 1 January 2021	51,460	4,374	5,081	45,369	13,538	119,822
(Charges)/credit to profit or loss	(34,160)	3,037	(67)	18,514	(8,879)	(21,555)
At 31 December 2021	17,300	7,411	5,014	63,883	4,659	98,267
(Charges)/credit to profit or loss	**(4,730)**	**(5,069)**	**1,252**	**(16,469)**	**(153)**	**(25,169)**
At 31 December 2022	**12,570**	**2,342**	**6,266**	**47,414**	**4,506**	**73,098**

Note:

The unrealised profit for intra-group transaction mainly comprised the gain on the transfer to certain properties within the Group subsidiaries before 1 January 2022 and the profit resulted from intra-group sales transaction during the year ended 31 December 2022.

Deferred income tax liabilities

	Withholding tax on undistributed earnings RMB'000	Unrealised fair value change RMB'000	Right-of-use assets RMB'000	Accelerated depreciation on property, plant and equipment RMB'000	Long-term assets identified in business combinations RMB'000	Total RMB'000
At 1 January 2021	(11,029)	—	(3,947)	(9,308)	(26,351)	(50,635)
Acquisition of a subsidiary	—	—	—	—	(7,790)	(7,790)
Credit/(charges) to profit or loss	492	(495)	(3,189)	(3,919)	2,900	(4,211)
At 31 December 2021	(10,537)	(495)	(7,136)	(13,227)	(31,241)	(62,636)
Credit/(charges) to profit or loss	**2,785**	**(157)**	**4,741**	**(1,968)**	**7,576**	**12,977**
At 31 December 2022	**(7,752)**	**(652)**	**(2,395)**	**(15,195)**	**(23,665)**	**(49,659)**

33 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities *(Continued)*

(a) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at 31 December 2022, the Group had unused tax losses of approximately RMB439,956,000 (31 December 2021: RMB244,073,000) that can be carried forward against future taxable income. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future taxable income. The unused tax losses of the Group were mainly from the subsidiaries incorporated in Mainland China, where the accumulated tax losses will normally expire within 5 years.

(b) As at 31 December 2022, the Group has unrecognised deductible temporary differences (including the advertising expenses incurred in excess of the maximum deductible caps as accumulated for the tax financial years from 2012 to 2020) and other accrued expenses of approximately RMB9,283,000 (2021: RMB26,867,000).

(c) In accordance with the related PRC Corporate Income Tax Law and regulations effective from 1 January 2008, a withholding income tax is levied on dividends declared to foreign investors from the enterprises with foreign investments established in the PRC. The Group is therefore liable to withholding tax at 5% on dividends distributable by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. As of 31 December 2022, considering the dividend policies of the PRC subsidiaries and the Group's business plan, the management are of the view that all of the undistributed earnings of the PRC subsidiaries as at 31 December 2022 of approximately RMB155,044,000 (2021: RMB210,746,000) may be distributed to their foreign parent company in the foreseeable future and the related deferred income tax liabilities of approximately RMB7,752,000 (2021: RMB10,537,000) have been recognised accordingly.

34 TRADE AND BILLS PAYABLES

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

	2022 RMB'000	2021 RMB'000
0–90 days	**19,175**	10,768
91–180 days	**998**	80
Over 180 days	**386**	29,879
	20,559	40,727

Trade payables of approximately RMB11,855,000 are unsecured and are mainly paid within 30 days from the date of initial recognition.

Bills payables of approximately RMB8,704,000 are bank acceptance notes within periods of 3 months.

The carrying amounts of trade and bills payables are considered to be the same as their fair values due to the short maturities of the related liabilities.

The trade and bill payables are all denominated in RMB.

35 OTHER PAYABLES AND ACCRUED EXPENSES

	2022 RMB'000	2021 RMB'000
Payroll and welfare payable	**30,788**	21,077
Accrued expenses	**34,270**	22,695
Accrued sales rebates	**15,475**	19,376
Taxes and surcharges payable	**20,719**	2,114
Payable to suppliers for:		
— purchases of property, plant and equipment	**11,516**	16,130
— advertisement	**690**	15,205
Deposits received in connection with disposal of investment properties	**—**	10,000
Others	**56,405**	45,216
	169,863	151,813

36 BORROWINGS

	2022 RMB'000	2021 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	**112,378**	138,750
Bank borrowing, unsecured	**10,013**	12,000
Other borrowing (b)	**2,499**	—
	124,890	150,750
Included in non-current liabilities		
Bank borrowing, secured (a)	**52,460**	92,930
Other borrowing (b)	**221**	—
	52,681	92,930
	177,571	243,680

Bank borrowings mature until 2030 and bear average coupons of 4.67% annually (2021: 4.79% annually).

At 31 December 2022, the Group's borrowings were repayable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	**124,890**	150,750
Between 1 and 2 years	**8,231**	47,260
Between 2 and 5 years	**15,780**	9,710
Over 5 years	**28,670**	35,960
	177,571	243,680

36 BORROWINGS *(Continued)*

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

Bank borrowings RMB'000	Land use rights with buildings built on as collateral: Buildings RMB'000	Land use rights RMB'000	Guarantor
30,035	72,957	5,721	A third-party guarantee company
15,016	72,957	5,721	A third-party guarantee company, Mr. Zhao Yizhen (note i), Mr. Zhao Yihong and Ms. Gao Yan (note ii)
68,450	42,942	17,871	Ms. Peng Wei (note iii)
20,080	4,996	10,009	Mr. Zhao Yihong
24,250	Not applicable	Not applicable	Ms. Peng Wei
7,007	Not applicable	Not applicable	Mr. Zhao Yihong and Ms. Gao Yan

Notes:

i. Mr. Zhao Yizhen is the legal representative of Beijing Outsell.

ii. Mr. Zhao Yihong and his spouse Ms. Gao Yan are the controlling shareholders of the Company.

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

(b) On 14 January 2022, Beijing Outsell signed a financial leasing contract with a third-party financial leasing company, pursuant to which Beijing Outsell agreed to transfer a machine with carrying amount of RMB483,000 to an independent financial leasing company at a consideration of approximately RMB4,790,000 and lease the machine back at approximately RMB224,000 per month for 24 months from January 2022 to January 2024. As the transfer of the machine does not satisfy the requirement to be accounted for as a sale of the asset, the Group continues to recognise the transferred machine and recognise a financial liability of borrowing equal to the transfer proceeds. This financial liability was recognised as borrowings mortgaged by Beijing Outsell with the machine and guaranteed by Mr. Zhao Yizhen and Ms. Zhao Lixia (one of the management personnel of Beijing Outsell).

(c) The fair values of the borrowings are not materially different from their carrying amounts, considering the short remaining maturity period and also all of these borrowings bear fixed interest rates which are closed to the market interest rates.

(d) Details of the Group's exposure to financial risks arising from the borrowing are set out in Note 3.1.1(b) and Note 3.1.3.

37 LEASE LIABILITIES

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Lease liabilities		
Current	**9,027**	21,057
Non-current	**8,289**	21,877
	17,316	42,934

Liabilities arising from a lease are initially measured on a present value basis and are discounted at a rate of 5.59%. The finance cost of leases is charged to consolidated statement of comprehensive income over the lease period.

(b) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	2022 RMB'000	2021 RMB'000
Depreciation of right-of-use assets (Note 17)	**14,528**	19,875
Interest expense (included in finance costs) (Note 11)	**1,216**	1,295
Total cash outflow for leases	**15,743**	22,651
Expense relating to short-term leases (included in cost of goods sold, selling expenses, administrative expenses and research and development expenses) (Note 7)	**1,629**	2,992
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in selling expenses, administrative expenses and research and development expenses) (Note 7)	**124**	310

The lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, retail stores and vehicles. Rental contracts are typically made for fixed periods of 3 months to 5 years, but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowings purposes.

38 CASH USED IN OPERATIONS

(a) Reconciliation of loss before income tax to cash used in operating activities

	2022 RMB'000	2021 RMB'000
Cash flows from operating activities		
Loss before income tax	**(91,342)**	(90,724)
Adjustments for:		
Depreciation of right-of-use assets	**16,017**	22,708
Amortisation of intangible assets	**11,959**	10,864
Depreciation of property, plant and equipment	**51,619**	44,184
Depreciation of investment properties	**—**	974
Impairment losses on non-current assets	**27,930**	1,718
Provision for impairment of inventories	**739**	—
Finance costs	**8,148**	6,692
Interest income	**(4,844)**	(7,373)
Finance income	**(2,026)**	(3,829)
Change in fair value of short-term investments measured at fair value through profit or loss	**(4,153)**	(740)
Change in fair value of long-term investments measured at fair value through profit or loss	**(627)**	(1,979)
Net losses on disposals of land use rights, property, plant and equipment and intangible assets	**1,036**	1,082
Net gain on termination of lease	**(1,652)**	—
Impairment losses on prepayment for an equity transaction	**—**	4,000
Amortisation of deferred government grants	**(2,301)**	(847)
Reversal of impairment of trade receivables	**(72)**	(257)
Share-based compensation	**—**	8,383
Foreign exchange losses	**851**	682
Share of losses/(profits) of investments accounted for using the equity method	**10,450**	(686)
Net losses on liquidation of a joint venture	**—**	446
Operating cash flows before movements in working capital	**21,732**	(4,702)
Decrease in inventories	**26,363**	3,053
Increase in trade and bills receivable	**(12,231)**	(29,677)
(Increase)/decrease in deposits, prepayments and other receivables	**(2,477)**	6,969
Decrease in trade and bills payables	**(20,168)**	(66,421)
Increase/(decrease) in other payables and accrued expenses	**30,018**	(46,529)
Decrease in contract liabilities	**(6,524)**	(2,711)
Decrease in other non-current liabilities	**(497)**	—
Cash generated from/(used in) operations	**36,216**	(140,018)

38 CASH USED IN OPERATIONS *(Continued)*

(b) In the statement of cash flows, proceeds from sale of land use rights, property, plant and equipment and intangible assets comprise:

	2022 RMB'000	2021 RMB'000
Net book amount (Note 16, 17 and 18)	**1,167**	1,708
Net losses on disposals of land use rights,property, plant and equipment and intangible assets (Note 9)	**(1,036)**	(1,082)
Transaction cost for proposed disposal of investment property	**—**	832
Proceeds from disposals of land use rights, property, plant and equipment and intangible assets	**131**	1,458

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2022 RMB'000	2021 RMB'000
Cash and cash equivalents	**230,320**	216,042
Term bank deposits	**247,670**	180,563
Borrowings	**(177,571)**	(243,680)
Lease liabilities	**(17,316)**	(42,934)
Net debt	**283,103**	109,991
Cash and liquid investments	**477,990**	396,605
Gross debt — fixed interest rates	**(102,607)**	(162,924)
Gross debt — variable interest rates	**(92,280)**	(123,690)
Net debt	**283,103**	109,991

	Cash and cash equivalents RMB'000	Term bank deposits RMB'000	Borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
Net debt as at 1 January 2021	543,822	120,300	(159,780)	(22,607)	481,735
Cash flows	(327,556)	60,263	(83,900)	21,356	(329,837)
Addition-leases	—	—	—	(41,683)	(41,683)
Exchange losses on cash and cash equivalents	(224)	—	—	—	(224)
Net debt as at 31 December 2021	216,042	180,563	(243,680)	(42,934)	109,991
Cash flows	**15,111**	**67,107**	**66,180**	**14,527**	**162,925**
Addition-leases	**—**	**—**	**—**	**11,091**	**11,091**
Exchange losses on cash and cash equivalents	**(833)**	**—**	**—**	**—**	**(833)**
Interest expense	**—**	**—**	**(71)**	**—**	**(71)**
Net debt as at 31 December 2022	**230,320**	**247,670**	**(177,571)**	**(17,316)**	**283,103**

39 DIVIDENDS

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

The Board has resolved not to recommend for the declaration and payment of a final dividend for the year ended 31 December 2022.

On 16 June 2021, the Group has paid a total dividend amounting to HK$61,133,000 (equivalent to approximately RMB49,384,000), which was approved by the annual general meeting held on 25 May 2021.

40 COMMITMENT

(a) Capital commitments

Capital expenditure contracted for at end of year but not yet incurred is as follows:

	2022 RMB'000	2021 RMB'000
Property, plant and equipment	**12,621**	24,943

(b) Operating lease commitments

The Group as lessee

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

	2022 RMB'000	2021 RMB'000
No later than 1 year	**342**	513
Later than 1 year and no later than 5 years	**17**	1
	359	514

41 RELATED PARTY TRANSACTIONS

(a) Key management compensation

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

	2022 RMB'000	2021 RMB'000
Salaries, bonus and other allowances	**9,104**	11,265
Share-based compensation	**—**	3,989
Pension cost — defined contribution plan	**273**	278
	9,377	15,532

(b) Transactions with related parties

The following balances are guaranteed by related parties for the Group's bank borrowings (Note 36(a)):

Guaranteed by	Guaranteed credit line RMB'000	Guarantees start date	Guarantees end date	Guarantees due or not
Ms. Peng Wei	14,250	30 April 2019	31 December 2030	Not due
Ms. Peng Wei	68,450	3 April 2020	2 April 2023	Not due
Ms. Peng Wei	10,000	1 June 2021	31 May 2031	Not due
Mr. Zhao Yihong and Ms. Gao Yan	7,007	20 August 2021	18 August 2024	Not due
Mr. Zhao Yihong	20,080	17 November 2021	16 May 2028	Not due
Mr. Zhao Yihong and Ms. Gao Yan	15,016	2 June 2022	1 June 2023	Not due

42 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

For the year ended 31 December 2022:

Name	Fees RMB'000	Salaries and other allowances RMB'000	Bonuses RMB'000	Share-based payments RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive directors:						
Zhao Yihong	262	1,926	270	—	58	2,516
Gao Yan	262	1,486	208	—	—	1,956
Yu Hongjiang	37	1,373	192	—	58	1,660
	561	4,785	670	—	116	6,132
Non-executive directors:						
Zhuo Fumin	262	—	—	—	—	262
	262	—	—	—	—	262
Independent non-executive directors:						
He Yuanping	262	—	—	—	—	262
Ren Guangming	262	—	—	—	—	262
Fu Shula	262	—	—	—	—	262
	786	—	—	—	—	786
	1,609	4,785	670	—	116	7,180

42 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2021:

Name	Fees RMB'000	Salaries and other allowances RMB'000	Bonuses RMB'000	Share-based payments RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive directors:						
Zhao Yihong	238	1,901	608	586	53	3,386
Gao Yan	238	1,467	468	559	—	2,732
	476	3,368	1,076	1,145	53	6,118
Non-executive directors:						
Zhuo Fumin	238	—	—	—	—	238
	238	—	—	—	—	238
Independent non-executive directors:						
He Yuanping	238	—	—	—	—	238
Ren Guangming	238	—	—	—	—	238
Fu Shula	238	—	—	—	—	238
	714	—	—	—	—	714
	1,428	3,368	1,076	1,145	53	7,070

During the year ended 31 December 2022, no directors waived or agree to waive any emoluments (2021: Nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**221,545**	221,545
Financial assets measured at fair value through profit or loss	**19,380**	19,380
Property, plant and equipment	**—**	1
Loans to subsidiaries	**718,948**	672,153
	959,873	913,079
Current assets		
Deposits, prepayments and other receivables	**6,714**	6,669
Cash and cash equivalents	**128,421**	10,477
	135,135	17,146
Total assets	**1,095,008**	930,225
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**288**	94
Share premium	**1,039,108**	913,393
Other reserves	**43,489**	43,489
Retained earnings/(accumulated deficit)	**11,235**	(27,640)
Total equity	**1,094,120**	929,336
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	**888**	889
Total liabilities	**888**	889
Total equity and liabilities	**1,095,008**	930,225

The balance sheet of the Company was approved by the Board of Directors on 17 March 2023 and was signed on its behalf.

Zhao Yihong	**Gao Yan**
Director	*Director*

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Reserve movement of the Company

		Other reserves					
	Share premium RMB'000	Share-based payment reserve RMB'000	Capital redemption reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Total other reserves RMB'000	Retained earnings/ (accumulated deficit) RMB'000	Total RMB'000
At 1 January 2021	962,777	57,531	6	(22,431)	35,106	(9,562)	988,321
Loss for the year	—	—	—	—	—	(18,078)	(18,078)
Share-based payments	—	8,383	—	—	8,383	—	8,383
Vesting of restricted share under share option scheme and restricted share award scheme	—	(22,431)	—	22,431	—	—	—
Dividends	(49,384)	—	—	—	—	—	(49,384)
At 31 December 2021	913,393	43,483	6	—	43,489	(27,640)	929,242
At 1 January 2022	**913,393**	**43,483**	**6**	**—**	**43,489**	**(27,640)**	**929,242**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**38,875**	**38,875**
Rights Issue	**125,715**	**—**	**—**	**—**	**—**	**—**	**125,715**
At 31 December 2022	**1,039,108**	**43,483**	**6**	**—**	**43,489**	**11,235**	**1,093,832**

44 EVENT OCCURRING AFTER THE BALANCE SHEET DATE

There is no significant event occurred after the balance sheet date, which has material impact to the consolidated financial statements of the Group.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	378,378	812,160	1,292,711	1,101,150	**943,283**
Gross profit	255,317	584,452	913,326	698,550	**566,288**
(Loss)/profit from operating	(115,262)	(16,207)	30,214	(90,964)	**(80,892)**
Gain on disposal of subsidiaries	—	222,276	80,108	—	**—**
Impairment loss on intangible assets	(4,802)	—	—	—	**—**
Reversal of impairment of property, plant and equipment	—	—	—	—	**—**
Investment (loss)/profit accounted for using the equity method	(1,295)	(12,862)	4,736	240	**(10,450)**
Profit/(loss) before income tax	(121,359)	193,207	115,058	(90,724)	**(91,342)**
Profit/(loss) and total comprehensive income/(loss) for the year	(93,472)	188,246	130,859	(113,991)	**(104,389)**
Earnings/(loss) per share					
Basic	(2.39)	4.07	1.14	(3.65)	**(1.74)**
Diluted	(2.39)	4.07	1.14	(3.65)	**(1.74)**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	825,412	672,836	793,474	1,017,554	**794,366**
Net current assets	310,174	509,435	563,354	228,762	**392,763**
Total assets less current liabilities	1,135,586	1,182,271	1,356,828	1,246,316	**1,187,129**
Non-current liabilities	86,681	102,825	146,446	190,926	**134,719**
Net assets	1,048,905	1,079,446	1,210,382	1,055,390	**1,052,410**
Share capital	94	94	94	94	**288**
Reserves	963,938	968,581	1,014,137	827,423	**854,049**
	964,032	968,675	1,014,231	827,517	**854,337**
Non-controlling interests	84,873	110,771	196,151	227,873	**198,073**
Total equity	1,048,905	1,079,446	1,210,382	1,055,390	**1,052,410**

碧生源控股有限公司
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