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 2021

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) (together with the Two Teas, the "**Three Teas**"). As of 31 December 2021, the Three Teas recorded an accumulated sales volume of over 5.585 billion bags, with an accumulated sales amount of over RMB7.494 billion. Since April 2015, the Group has commenced sale of LARLLY Orlistat weight-loss medicine, 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. Since its launch, Besunyen Orlistat weight-loss capsule has been highly praised among consumers. 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 would enable the Group to obtain more comprehensive 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 Three Teas is located in Fangshan District, Beijing. Its production plant and production process are in compliance with the national GMP standards, and the Three 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

overall layout of the plant is a garden-like design surrounding a beautiful environment, with its hygiene, process, technology, procedure and management reaching the world's advanced standards. The Group uses natural Chinese herbs and tea leaves as raw materials to research, develop, formulate and produce the Three 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 raw material medicines. 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.

As of 31 December 2021, the Group's offline sales business covered about 500,000 OTC pharmacies and the retail terminals in shopping malls and supermarkets, spanning across 31 provinces, autonomous regions and municipalities across the country, through 87 distributors and 142 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 Three 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.

Contents

Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGIC INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Mr. Au Lap Ming, *CPA, ACG, HKACG*

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WEBSITE OF THE COMPANY

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INVESTOR RELATIONS

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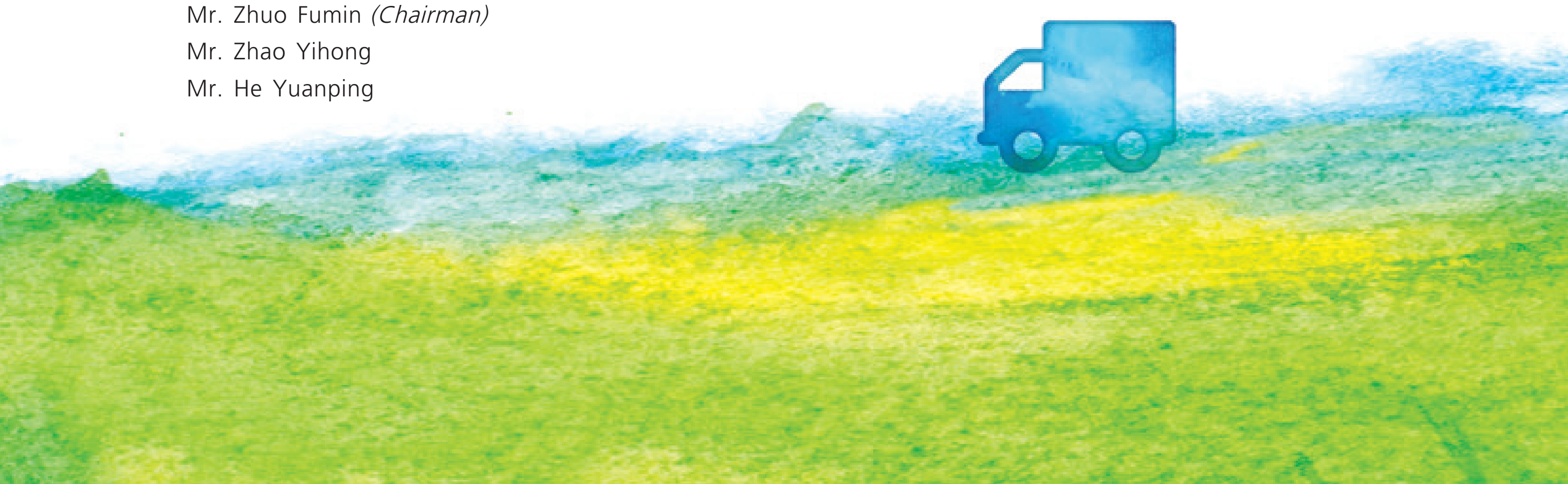

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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PRC

Chairman and CEO's Report

"Since its establishment 21 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

Chairman and CEO's Report

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 2021.

The year of 2021 is a year with special meaning. China has completed the building of a moderately prosperous society in all aspects, ushering in an important moment of the 100th anniversary of the founding of the Communist Party of China. It is also the first year of the "14th five-year plan". China remains its status of a global leader in the prevention and control of pandemic, while its economy maintains the recovery trend generally. China also overcomes the unfavorable factors such as the sporadic occurrence of pandemic in multiple locations, the impact of extreme weather and the unstable situation outside the PRC. The growth of its full year GDP reaches 8.1%, and the economic development goal of achieving a growth of above 6% is successfully completed. Among which, consumption becomes the important driving force for the economic growth again, reflecting the enormous strength of the consumption market in China.

The increase in per capita GDP of China brings a fundamental change in the consumption rationale and willingness on health food from the young consumers, and health food is gradually transforming from consumer discretionary to consumer staples. According to the data prediction from Euromonitor, the market size of health products in China reaches RMB270 billion in 2021, ranking second in the world, and by 2025 the market size will reach RMB320 billion. The increasingly strong pursuit for health by the young consumers provides a period of opportunity for the development strategy in the health food industry in China.

On the front of industry development, the "Outline of the 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives for 2035 of the People's Republic of China (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》)", which was considered and approved by the Fourth Meeting of the 13th National People's Congress in March 2021, provides the formulation of system and strategy arrangement for the national economy and social development. It emphasizes the protection of people's health to be put in a strategic position for priority development and the comprehensive implementation of the "Healthy China" initiative, adheres to the prevention-first directive, and provides comprehensive, full-lifecycle health services for the people. As an integral part of the "prevention" stage of the big health industry, the health food industry will experience a period of accelerated development. On policy side, the Guiding Opinions on Promoting the Healthy Development of the Food Industry (《關於促進食品工業健康發展的指導意見》) issued by the National Development and Reform Commission and the Ministry of Industry and Information Technology states that the development of healthcare food products, and the research and development of healthcare and health food, such as functional protein, functional dietary fiber, functional glycogen and probiotic, are being supported. On market supervision and product registration, the State Administration for Market Regulation implements the "dual systems" of registration and filing for health food, thus formulating the system of regulatory rules for supervision and achieving the standardization on technology and products, which is beneficial to the stable, regulated and long-term development of the industry.

Since its establishment 21 years ago, the Group has focused on consumers and strived to ensure the health of consumers by controlling the quality of each product in accordance with industry requirements. Meanwhile, in the past year, with the changes in policies, the market and communication environment and the upgrade of sales models and people's concept of health consumptions, competitions in the industry became progressively fierce. In 2021, the Group continued to develop a multi-channel sales model based on e-commerce platforms, refine its research and development system and product structure. Moreover, taking advantage of the research and development capabilities, inventory of product and production process of Zhongshan Wanhan, Zhongshan Wanyuan and Xueyinghua in the pharmaceutical field, the Group continued to develop and reserve new products in the pharmaceutical industry to gradually achieve a comprehensive layout in the pharmaceutical product chain. Based on the product strategy of "One Focus and Two Dimensions", the Group actively adjusted its business operation model and marketing strategy and pinpointed precise functional and marketing positions for its products so as to lay a solid foundation for the Group's future development.

INDUSTRY, MARKET AND COMPETITION

Besunyen Detox Tea and Besunyen Slimming Tea enjoy absolute competitive advantages when compared with similar products in the market. According to a survey report on national retail pharmacies issued by National Medical Products Administration Southern Medicine Economic Research Institute in March 2022, in 2021, based on the retail pharmacy sales of health products, medicines or other types of products, Besunyen Slimming Tea ranked among the top for twelve consecutive years in the market segment of slimming products with a market share of approximately 22.74% in 2021, representing a year-on-year increase of 0.36 percentage point. The availability of diversified laxative products in retail pharmacy market provides consumers with more options on product, and together with the effect from factors like post-pandemic, the market share of Besunyen Detox Tea in 2021 suffered a year-on-year decrease of 1.2 percentage points to approximately 12.69%, ranking first in the market. With respect to the e-commerce market segment for weight-loss medicines, in 2021, according to the statistics of Alibaba's "Business Consultant", the proportion of the market segment of Orlistat on the overall market sales under the e-commerce platforms of Ali Group did not suffer a significant decrease, however since all firms adopted a strategy of product price competition, the overall market sales amount of Orlistat decreased from approximately RMB1.3 billion in 2020 to approximately RMB855 million in 2021, among which the market share of Besunyen Orlistat accounted for approximately 28.85%, ranking top one in the market, while the sales amount generated from these products for the Group recorded a significant decrease when compared to the number from last year. As a result, the sales team is actively contacting business platforms with a wider coverage and by now a new layout is established on short video platforms like Kuaishou and Douyin. On products front, the Company is actively working on research and development of products that suit the needs of the current consumer groups, with the aim of generating new performance growth for the Group.

BUSINESS REVIEW

Setting up three main business divisions and adjusting business operation model

In an effort to strengthen the management on marketing system, the Group set up the OTC Business Division, the E-commerce Business Division and the New Retail Business Division in 2021, and established a "service + management" business operation model in the marketing system. After adjustment, the OTC Business Division is comprised of the National Key-Account (NKA) Division, the Local Key-Account (LKA) Division, the Business Operation Division and nine main business regions. Each department supported each other on product training, business negotiation, chain cooperation, terminal construction and the formulation of marketing strategies, thus providing a complete system protection for the marketing of each product. In 2021, through real time monitoring the inventory cycles and turnover rates of various products, strengthening the sense of operation of each business team, reviewing operational data regularly and evaluating the input and output of various operational expenses, the OTC Business Division could ensure profit maximation even the income did not meet the anticipation.

The internal organizational structure of the E-commerce Business Division has been adjusted during the second half of 2021, and is now comprised of three main business lines and four main platforms. The three main business lines are distinguished in accordance with the product types for which they are responsible, including the drug business line, the Four Teas (i.e. the Three Teas and Besunyen Relief Tea) business line and the new products business line. The four main platforms are segregated in accordance with the business model they support for, which are the promotion platform, the content platform, the live-streaming platform and the member platform. In the meantime, as the proportion of sales of pharmaceutical big health products on e-commerce channels kept increasing, the E-commerce Business Division set up the large pharmacy shops on main e-commerce platforms, acting as the sales agent for the products from other brands, among which the sales amount of the cross-border product "VitaRealm PowerEye Kids" ranked first among the agents of this foreign brand.

With the help from the professional operation team, the New Retail Business Division carried out systematic management on short video and live-streaming marketing in 2021. It also commenced a brand strategic cooperation with Kuaishou platform. By promoting the Group's business model of short video and live-streaming commerce, the New Retail Business Division continuously provided help to personalized marketing team in deep exploration of customer value and enhanced the performance. The nutrition consultant team of the New Retail Business Division provided quality and professional services to customers through the social customer management system platform and AI customer services tools newly introduced, and thus increasing the repurchase rate of products.

In order to plan, organize, direct and coordinate the sales system of the Group in a more efficient way, the Group set up the Operation Management Division in 2021. The Operation Management Division is responsible for the comprehensive management on the strategy, decision-making, finance, human resources and IT aspects of all marketing segments that include the e-commerce, new retail and OTC of the Group, to promote the formulation and implementation of marketing plan in each business segment, and to assist each business division in matters such as formulating organizational structure and performance appraisal. Meanwhile, the Operation Management Division also continuously promoted the establishment of digitalized marketing, sorted out the requirement for the digitalization on each marketing segment and followed up on its implementation, thus providing help in enhancing the level of sales management of the Group.

Deepening the development on young consumer groups by leveraging the brand communication way in multi-channels

The Group continued to promote the content marketing by soft placement and customization of short plays to strengthen product usage scenarios, and there were four TV dramas with our product placement in 2021. In addition, the Group leveraged the advantage of media on high-speed railway to create an immersive advertising environment for Besunyen Orlistat, thus promoting the effective communication with consumers within the area of high-speed railway and stimulating the demand and desire of purchase from consumers. On the front of brand rejuvenation, the Group continuously explored on transformation and its layout. In December 2021, "The Commencement Ceremony for the Collection Activity of Spring Competition of Academy Award 2022" was held in Xiamen. The Academy Award 2022 covered 2,578 colleges and universities, and collected a total of 14,148 works of 12,047 groups, injecting the innovation from the young generation into the brand. The Group insisted in penetrating the brand value into the young generation in order to capture the consumption market of such group.

Strengthening own R&D capabilities and developing products in multiple categories

In 2021, the Group continued to implement the product strategy of "One Focus and Two Dimensions" in respect of research and development and unswervingly took "herbs and health regimen" as the core philosophy of the Group's diversified products layout. Through internal research and development, introduction from external parties as well as cooperation in research and development, the Group's research and development system and product strategy were adjusted continuously. During the year of 2021, the research and development centre assisted each business team in rolling out twelve types of medicines and foods for special uses, eleven types of health food and sixty-two types of general food, which included jelly drops candies with probiotic, light calorie milk tea, "Anranyin" from Burning Queen line and pressed candy of white kidney beans with Sodium hyaluronate, gradually completing the Group's product structure and layout by expanding into pharmaceuticals and general food based on health food.

On technological innovation front, in 2021, the Group continuously enhanced its leverage in the resources of external scientific research, and participated in the project "Modernisation of Chinese Medicine", a key research and development plan of the Ministry of Science and Technology, and established a cooperative research and development platform with various renowned research institutes such as Beijing University of Chinese Medicine. Meanwhile, the Group organised the "Innovation and Development Seminar on the Integration of Production, Study and Research of Chinese Medicines" in conjunction with a number of experts and scholars in the field of Chinese medicine, and had in-depth exchanges on the inheritance and innovation of traditional Chinese medicine under the new situation. In 2021, the Group actively involved itself in the layout of intellectual property rights, and "Besunyen Yanyuan Granules" obtained Beijing New Technology and New Product (Service) Certificate jointly issued by six departments including Beijing Municipal Science & Technology Commission, Beijing Municipal Commission of Development and Reform, and Beijing Municipal Bureau of Economy and Information Technology.

Both Zhongshan Wanhan and Zhongshan Wanyuan under the Group have the qualifications of high-tech enterprise. Zhongshan Wanhan was among the first batch of innovative benchmark enterprises in Zhongshan and was recognised as an engineering and technology centre in Guangdong Province and Zhongshan, whereas Zhongshan Wanyuan was recognised as an innovative research institution in Guangdong Province. In 2021, Zhongshan Wanhan and Zhongshan Wanyuan focused on research and development of endocrine metabolites, ophthalmic drugs, and antiviral drugs. In addition, Zhongshan Wanhan and Zhongshan Wanyuan attached great importance to intellectual property rights. Zhongshan Wanhan concluded "Orlistat Core Technology and High-

Value Patent Cultivation Programme" under the high-value patent cultivation project of Zhongshan. The invention patent of "aqueous eye drops for the treatment of increased intraocular pressure" jointly declared by Zhongshan Wanhan and Zhongshan Wanyuan won the China Patent Award. The levofloxacin eye drops produced by Zhongshan Wanhan was included in the catalog for the national drug centralized procurement in 2020 and supplied to 16 provinces in the PRC, while its sodium hyaluronate eye drops was included in the catalog for the national drug centralized procurement in 2021 and supplied to 15 provinces in the PRC.

Rebuilding the management system of Xueyinghua and accelerating the progress for the launch of products

In 2021, upon acquiring Xueyinghua, the Group upgraded and rebuilt its production, quality, equipment, safety and finance management systems. The Group readjusted the personnel organisation structure of Xueyinghua, renovated the production equipment and fire protection system in its workshop, upgraded the instruments and equipment in its laboratory. In the meantime, the Group completed a general upgrade of the documentation of the GMP quality management system of Xueyinghua, and set up the EAS system to ensure that the whole process of procurement, warehousing, inspection, production and stock-out of materials and products can be tracked. On accelerating the launch of products to the market, Xueyinghua obtained Medicine Production License, with which it possessed the production qualification on tablets, hard capsules and soft capsules (including preprocessing and extraction of traditional Chinese medicine). In November 2021, Xueyinghua officially commenced production, and it had successively produced a total of seven batches of three types of products, namely Benproperine Phosphate capsules, Xinnaoqing soft capsules and Vitamin E soft capsules.

Formulating the fully digitalized operation system for leading the transformation of business through IT

The Group continued its process on implementing digital transformation in an effort to formulate a fully digitalized operation system, and to capture the diversified demands from users precisely through the digitalized operation, at the same time it continued to promote the digitalization of user services and professional upgrading. The Group implemented data panel project in 2021, in which the ERP system acted as the core and connected other core business systems such as OA system, cost control system, flow system and e-commerce CRM, such that the operational status of each business segment, including mission and goal, product income and money returned, could be shown in real time, thus providing reliable data support in decision-making. Through the data panel project, the Group established a unified data asset base and data asset safety management system, laying a good foundation for expanding the depth of data mining and the application of business scenarios in the future. In addition, the Group promoted RPA project in each business division, assisting business personnel to complete the repetitive works with clear rules such as batch extraction of data, batch reply, batch data capture and calculating statistics, in order to enhance working efficiency and lower the operation cost.

In 2021, the Group set up the e-commerce warehousing outsourcing management model on goods management front, commenced the operation of FineEx Platform and Phoenix Bird Cloud warehouse and brought innovation to warehouse management business model. In addition, with the support of IT department, the interconnection of data between internal goods management system and third party warehousing system was created.

SOCIAL WELFARE

Over the years, the Group has been actively fulfilling its social responsibilities and pursuing the concept of sustainable development. It partnered with Beijing Charity Association to establish the "Besunyen Special Charity Fund" for charity and public welfare undertakings, including carrying out social assistance activities, providing services to the underprivileged and playing a supplementary role in social security.

In response to the natural disaster of heavy precipitation in Henan Province in 2021, the e-commerce team of the Group successively joined hands with China Foundation for Poverty Alleviation and "Duoduo Maicai (多多買菜)" platform to donate goods and materials to the communities affected for the purpose of relief and post-disaster recovery.

AWARDS AND HONOURS

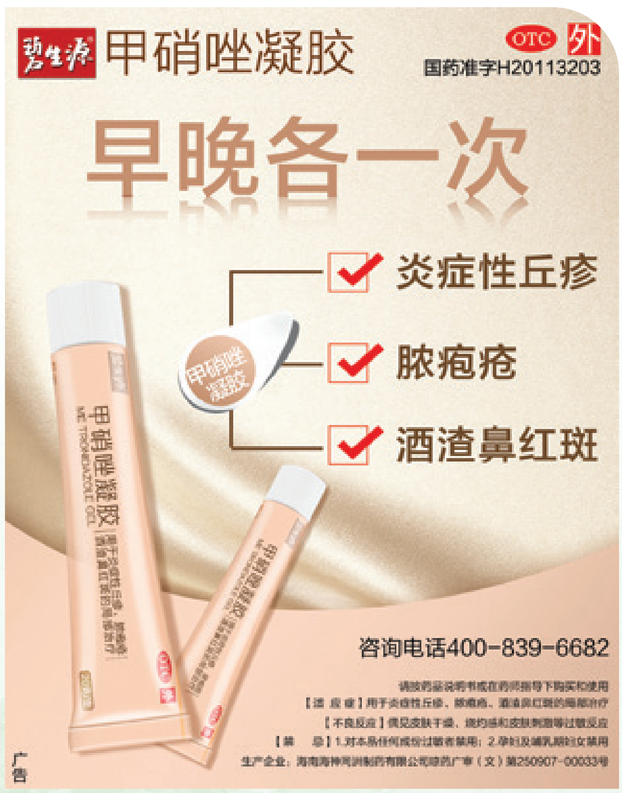
Selected as one of the "Excellent Case of Social Responsibility" in 2021 China CSR Cloud Summit

At the 2021 China CSR Cloud Summit with the theme of "igniting hope by love, implementing commitment through actions" held in December 2021, the Group was selected as one of the "Excellent Cases of Social Responsibility". The Group upheld integrity and social contribution as the core business philosophy since its establishment, to give back to society with a grateful heart, and to perform social responsibility actively.

Chairman and CEO's Report

OUTLOOK

According to the economic data released by the National Bureau of Statistics, the global economy continued to recover in 2021, however it still suffered from the impact of the emergence of variants of novel coronavirus, the uncertainties of the COVID-19 pandemic and inflation. The spread of pandemic was effectively controlled in China, and the Chinese economy in general remained its recovery trend and experienced a steady rise. The growth rate of GDP reached 8.1% in 2021, which showed that China became the important driving force for the growth of global economy. According to the "Outline of the 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives for 2035 of the People's Republic of China (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》)", the State will put the protection of people's health in a strategic position for priority development, adhere to the prevention-first directive, deeply implement the Healthy China initiative, refine national health promotion policies, weave a stable protection network for national public health, and provide comprehensive, full-lifecycle health services for the people. The big health industry will usher in an important period of strategic opportunities. However, compared with developed countries, the penetration rate and per capita consumption amount for health products in China are still at a lower level, which shows there is a large room for improvement in the industry. In the post-pandemic era, there is an increasing public health demand, with the driving forces from aging population and economic growth, the health product industry will enter a critical growth period. In addition, with the acceleration in the promotion of development in digitalized technology and artificial intelligence industries in the PRC, there will be a transformation in the product structure and consumption mode in the health product market, and the health product industry will enter a period of transformation and development at the same time.



Going forward, the Group will keep on cultivating the two major areas of weight loss and weight management as well as laxative and gastrointestinal health, while launching innovative and competitive products in terms of technological level, product form and external packaging, so as to meet new consumer demands. Moreover, taking advantage of its own research and development capability and product reserves, the Group will develop the entire industry chain of medicines, health food, medical devices and general food, thereby achieving the advancement of marketing strategy from focusing on product selling to brand value building. The Group will combine the demand of market consumption in the post-pandemic era, make scientific response, actively seek changes, and actively explore the marketing model suitable for itself, so as to fully release the brand potential.

The White Paper on the Digitalization of China Big Health Industry 2021 outlined that, as the digital technology is increasingly matured, the big health industry is gradually experiencing a transformation to digitalization, and such transformation is inevitable for the big health industry. As an enterprise that is deep-rooted in big health industry for more than 20 years, the Group will continue to improve the fully digitalized operation system, and strengthen the capability of digitalized health services through the integration of resources from technology development and research, production and manufacturing, brand marketing, e-commerce operation, in order to formulate a digitalized user operation system, and to serve the diversified demand for national health continuously.

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	
	2021	2020
	RMB'000	RMB'000
Revenue	**1,101,150**	1,292,711
Cost of sales	**(402,600)**	(379,385)
Gross profit	**698,550**	913,326
Other income	**19,473**	26,718
Selling and marketing expenses	**(521,774)**	(661,514)
Administrative expenses	**(174,365)**	(134,420)
Research and development costs	**(93,099)**	(93,802)
Credit impairment losses	**257**	(440)
Fair value changes on financial assets measured at fair value through profit or loss	**1,979**	—
Other expenses	**(8,033)**	(3,682)
Other losses, net	**(11,089)**	(12,424)
Gain on disposal of subsidiaries	**—**	80,108
Operating (loss)/profit	**(88,101)**	113,870
Finance income	**3,829**	2,758
Finance costs	**(6,692)**	(6,306)
Finance costs, net	**(2,863)**	(3,548)
Share of profits of investments accounted for using the equity method	**240**	4,736
(Loss)/profit before income tax	**(90,724)**	115,058
Income tax (expense)/credit	**(23,267)**	15,801
(Loss)/profit for the year	**(113,991)**	130,859
Attributable to:		
— Owners of the Company	**(145,713)**	45,479
— Non-controlling interests	**31,722**	85,380
	(113,991)	130,859
Other comprehensive income	**—**	—
Total comprehensive (loss)/income for the year attributable to:	**(113,991)**	130,859
— Owners of the Company	**(145,713)**	45,479
— Non-controlling interests	**31,722**	85,380
	(113,991)	130,859
(Losses)/earnings per share attributable to owners of the Company for the year (RMB cents)		
— Basic (losses)/earnings per share	**(9.13)**	2.85
— Diluted (losses)/earnings per share	**(9.13)**	2.85

REVENUE

	For the year ended 31 December			
	2021		2020	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Revenue:				
Besunyen Detox Tea	**128,915**	**11.7%**	191,889	14.8%
Besunyen Slimming Tea	**135,902**	**12.3%**	198,946	15.4%
Besunyen Fit Tea	**79,073**	**7.2%**	94,425	7.3%
Weight-loss medicines	**381,469**	**34.7%**	607,313	47.0%
Other products and medicines	**375,791**	**34.1%**	200,138	15.5%
Total	**1,101,150**	**100%**	1,292,711	100.0%

The revenue of the Group was RMB1,101.2 million in 2021, representing a decrease of 14.81% from that of RMB1,292.7 million in 2020. In particular, revenue from the Three Teas decreased by 29.14% to RMB343.9 million in 2021 from that of RMB485.3 million in 2020, revenue from weight-loss medicines decreased by 37.18% to RMB381.5 million in 2021 from that of RMB607.3 million in 2020, while revenue from other products and medicines increased by 87.81% to RMB375.8 million in 2021 from that of RMB200.1 million in 2020.

The revenue and percentages of revenue of the Three Teas and weight-loss medicines in 2021 decreased as compared with 2020, which is mainly due to the facts that: (i) the change in inventory management measures of a major distributor of the Group has led to a reduction in the Group's supply of goods to that distributor; (ii) the market price competition of Orlistat resulted in a decrease in the transaction amount of the overall market, thus affecting the sales amount of the Group's weight-loss medicines; (iii) the sales performance of the Group in "11.11" and "12.12" shopping festivals in 2021 failed to achieve the expected sales amount; and (iv) the re-layout in sales and marketing forces had a greater impact on the Group's temporary revenue than expected.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of sales	**402,600**	379,385
Gross profit	**698,550**	913,326
Gross profit margin	**63.4%**	70.7%

The Group's cost of sales increased by 6.11% from RMB379.4 million in 2020 to RMB402.6 million in 2021, while gross profit margin decreased from 70.7% in 2020 to 63.4% in 2021, mainly due to the decrease in the percentages of revenue of the Three Teas and weight-loss medicines with higher gross profit, resulting from the product diversification.

OTHER INCOME

In 2021, the Group's other income was RMB19.5 million, which mainly comprised interest income of RMB7.4 million (2020: RMB3.6 million) and government grants of RMB6.4 million (2020: RMB18.2 million) provided by the PRC government to support the Group's operation of business.

SELLING AND MARKETING EXPENSES

	For the year ended 31 December			
	2021		2020	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising costs	**85,699**	**7.8%**	115,473	8.9%
Marketing and promotional expenses	**210,839**	**19.1%**	352,010	27.2%
Employee benefit expenses	**161,682**	**14.7%**	142,968	11.1%
Others	**63,554**	**5.8%**	51,063	4.0%
Total	**521,774**	**47.4%**	661,514	51.2%

The selling and marketing expenses of the Group decreased from RMB661.5 million in 2020 to RMB521.8 million in 2021.

The marketing and promotional expenses in 2021 decreased by RMB141.2 million as compared to 2020, mainly due to the decrease in the expenditure of marketing and promotion via e-commerce platforms.

The advertising costs in 2021 decreased by RMB29.8 million as compared to 2020, mainly due to the decrease in expenditure on advertising activities.

The employee benefit expenses in 2021 increased by RMB18.7 million as compared to 2020, mainly due to the increase in the number of sales personnel in 2021 and the partial reduction of social insurance in 2020 due to the pandemic.

ADMINISTRATIVE EXPENSES

	For the year ended 31 December			
	2021		2020	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Employee benefit expenses	**78,418**	**7.1%**	43,921	3.4%
Office expenses	**10,035**	**0.9%**	8,038	0.6%
Professional and consultation service fees	**34,930**	**3.2%**	49,041	3.8%
Entertainment and travelling expenses	**10,059**	**0.9%**	5,996	0.5%
Others	**40,923**	**3.7%**	27,424	2.1%
Total	**174,365**	**15.8%**	134,420	10.4%

Administrative expenses of the Group increased by 29.76% from RMB134.4 million in 2020 to RMB174.4 million in 2021, mainly due to the increase in employee benefit expenses. The increase in employee benefit expenses was resulted from the increase in the number of management staff in 2021 and the partial reduction of social insurance in 2020 due to the pandemic.

RESEARCH AND DEVELOPMENT COSTS

	For the year ended 31 December			
	2021		2020	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**93,099**	**8.5%**	93,802	7.3%

Research and development costs amounted to RMB93.1 million in 2021 and RMB93.8 million in 2020.

OTHER LOSSES, NET

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Other losses, net	**11,089**	12,424

Other losses, net amounted to RMB11.1 million in 2021 and RMB12.4 million in 2020, mainly due to the impairment of assets and donation expenses.

TAXATION

As compared to the income tax credit in 2020 of RMB15.8 million, 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 year.

TOTAL COMPREHENSIVE LOSS FOR THE YEAR OF THE GROUP

Due to the factors set out above, the Group recorded a total comprehensive loss of RMB114.0 million in 2021 (2020: total comprehensive income of RMB130.9 million).

LIQUIDITY AND CAPITAL RESOURCES

In 2021, the capital required for the Group's operation and capital expenditure mainly derived from the cash flow generated from the operating activities and proceeds from bank borrowings.

CASH FLOWS

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

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	**(145,518)**	75,147
Net cash (outflow)/inflow from investing activities	**(188,354)**	170,851
Net cash inflow from financing activities	**6,316**	43,138
Net (decrease)/increase in cash and cash equivalents	**(327,556)**	289,136
Cash and cash equivalents at beginning of year	**543,822**	270,803
Exchange loss on cash and cash equivalents	**(224)**	(16,117)
Cash and cash equivalents at end of year	**216,042**	543,822

In 2021, the Group's net cash outflow from operating activities was RMB145.5 million (2020: net cash inflow of RMB75.1 million), which was mainly attributable to the operating activities during the year. In 2021, the Group's net cash outflow from investing activities was RMB188.4 million, which was mainly attributable to infrastructure construction expenditures and purchase of financial assets measured at fair value through profit or loss (2020: net cash inflow of RMB170.9 million, which was mainly attributable to the net cash received from the disposal of 100% equity interest in Beijing Shenhuibiyuan Cloud Computing Technology Co., Ltd.). In 2021, the net cash inflow from financing activities was RMB6.3 million, which was mainly due to the cash received from borrowings (2020: net cash inflow from financing activities of RMB43.1 million, which was mainly due to the cash received from borrowings).

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2021, the Group's financial assets measured at fair value through profit or loss amounted to RMB38.7 million (31 December 2020: Nil), which mainly include:

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.

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.

BANK BALANCES, CASH AND BANK BORROWINGS

The Group's bank balances and cash, comprising cash and cash equivalents, term deposits and restricted bank deposits, decreased by 41.05% from RMB720.9 million as at 31 December 2020 to RMB425.0 million as at 31 December 2021. Meanwhile, the Group had bank borrowings of RMB243.7 million, which bear interest rate ranging from 3.85% to 6.80%, as at 31 December 2021 (31 December 2020: RMB159.8 million, bearing interest rate ranging from 4.35% to 5.40%).

CAPITAL EXPENDITURE

In 2021, the capital expenditure of the Group amounted to RMB133.7 million (2020: RMB173.7 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	
	2021	2020
	RMB'000	RMB'000
Property, plant and equipment	**132,675**	123,443
Investment properties	—	1,376
Assets classified as held for sale	—	47,541
Intangible assets	**1,066**	1,359
Total	**133,741**	173,719

INVENTORIES

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Raw materials and packaging materials	**38,759**	48,351
Work in progress	**2,279**	5,052
Finished goods	**95,303**	85,991
Total inventories	**136,341**	139,394

The turnover of the Group's inventories in 2021 (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 125 days (2020: 96 days).

RISK OF FOREIGN EXCHANGE RATE

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

As at 31 December 2021, the Group did not purchase any foreign exchange, interest rate derivative products or hedging instruments (2020: net profit from foreign exchange forward contracts was RMB11.5 million).

MATERIAL ACQUISITIONS OR DISPOSALS

On 1 February 2021, Tibet Qianruiwanfu Venture Investment Co., Ltd. (西藏千瑞萬福創業投資有限公司, "**Qianruiwanfu**"), an indirect wholly-owned subsidiary of the Company, entered into a restructuring investment agreement with Xueyinghua and the asset administrator of Xueyinghua, pursuant to which Qianruiwanfu agreed to acquire the 100% equity interest in Xueyinghua at a consideration of RMB31.99 million. Upon completion, Xueyinghua has become an indirect wholly-owned subsidiary of the Company. Such transaction was completed on 21 April 2021. For details, please refer to the announcement of the Company dated 1 February 2021.

On 29 November 2021, Shanghai Bisheng Property Management Co., Ltd. ("**Bisheng Property**"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with two natural persons, pursuant to which Bisheng Property agreed to dispose of buildings located in Shanghai, including their land use rights, at a consideration of RMB56 million. For details, please refer to the announcement of the Company dated 29 November 2021. The transaction was completed in January 2022.

Save as disclosed above, the Group had no other material acquisitions and disposals of subsidiaries, associates and joint ventures in 2021.

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 2021, Yuanyuan Liuchang Fund did not invest in new projects. Gain of fair value changes in shares of Chaoju Eye Care Holdings Limited held by Yuanyuan Liuchang Fund in 2021 was RMB5.8 million.

PLEDGE OF ASSETS

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 (as at 31 December 2020, the Group received certain bank borrowings of RMB140.5 million through pledging properties with total book value of RMB104.9 million and land use rights with total book value of RMB42.5 million to banks and guarantee companies).

GEARING RATIO

As at 31 December 2021, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 35.7% (31 December 2020: 34.7%).

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2021, the Group had no material contingent liabilities and guarantees (31 December 2020: Nil).

CAPITAL COMMITMENTS

As at 31 December 2021, capital commitments for property, plant and equipment as contracted for but not yet incurred amounted to RMB24.9 million (31 December 2020: RMB52.4 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 timely inform relevant staff and operation teams. 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 of the Company, 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 endeavoured 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 realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2021, 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 2021, 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 2021, the Group had 1,626 employees in mainland China and Hong Kong (31 December 2020: 1,799 employees). The staff costs of the Group (including remunerations of the Directors) were RMB291.9 million for the year ended 31 December 2021 (2020: RMB226.9 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 (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 55, 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 32 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 sponsored 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 53, 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.

Non-executive Director

Mr. ZHUO Fumin, aged 70, 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 46 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), Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648) 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 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 57, 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. Mr. Ren has over 33 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. He has served as an independent director of NavInfo Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002405). 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 55, 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. Currently, he is a director of Wuhan Sanzhen Industry Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600168). Mr. He has served as 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 66, was appointed as an independent non-executive Director of our Group 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.

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.

Ms. PENG Wei, aged 59, 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 33 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.

Ms. WANG Juan, aged 46, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 25 years of experience in accounting, finance and tax. Between 1997 and 2000, Ms. Wang worked for PricewaterhouseCoopers and lastly as a senior tax consultant. Between 2008 and September 2013, Ms. Wang served as deputy chief financial officer of Beijing Media Corporation Limited (a company listed on the Stock Exchange, stock code: 1000). Ms. Wang graduated from the Department of Accounting of Capital University of Economics and Business with a bachelor's degree in economics in 1997. Ms. Wang obtained confirmation from the Stock Exchange for her meeting qualification as a company secretary under the Listing Rules and is a member of the Institute of Certified Management Accountants in the United States and a fellow of the Institute of Public Accountants in Australia and the Institute of Financial Accountants in the United Kingdom.

Mr. YU Hongjiang, aged 57, is our Vice President principally in charge of our internal audit. Mr. Yu is also a director and the legal representative of several subsidiaries of the Group. Mr. Yu joined our Group in July 2000 and has more than 31 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.

Mr. LIN Ruhai, aged 53, is our Vice President principally in charge of our public relationships. Mr. Lin joined our Group in September 2012 and has over 32 years of experience in the media and health industry. He has served as a manager of China Optoelectro Industries Co., Ltd., China North Industries Group Corporation 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 38, 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 14 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. QIN Pu, aged 41, is our Chief Strategy Officer and Chief Investment Officer. Mr. Qin joined our Group in December 2019 and has more than 19 years of experience in the healthcare industry in China and overseas, including both sides for government authorities and corporate, investment and financing, demand side and supply side, etc. Between July 2016 and December 2019, Mr. Qin served as a senior vice president of 深圳碳雲智能科技有限公司 (Shenzhen iCarbonX Limited*). Between November 2009 and June 2016, Mr. Qin served as the industry principal for healthcare and life sciences of SAP Greater China and the industry partner of the SAP private equity team in Asia Pacific. Before that, Mr. Qin has worked in turn for National Institute of Hospital Administration of Ministry of Health in China, Healthe Group in Australia, etc. Mr. Qin graduated from the School of Mathematical Sciences of Peking University with a bachelor's degree in information and computational sciences in 2003.

* *For identification purpose only*

Environmental, Social and Governance Report

ABOUT THIS REPORT

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

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

In the preparation of this report, the Group has applied the reporting principles in the aforementioned ESG Reporting Guide as follow:

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

Quantitative: Data presented in this report have been collected prudently. 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 truly reflect 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.

The Board and all directors guarantee that the content of this ESG Report does not contain any false statement, misleading statement or material omission, and are responsible for the truthfulness, accuracy and completeness of the content of this ESG Report individually and severally.

MANAGEMENT POLICY AND STRATEGY ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASPECTS FOR THE BOARD

The Group implements a top-down management approach for its environmental, social and governance management, and suitable and effective environmental, social and governance management system and procedures are formulated. The Board is responsible for deciding the environmental, social and governance strategy of the Group, assessing risk and opportunity on 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 other tasks. The management of the Group is responsible for executing management on environmental, social and governance front, collecting data related to environmental, social and governance and preparing environmental, social and governance report. The Group keeps an effective communication with its stakeholders through daily operation, in order to understand and identify their needs, anticipation and concern on the environmental, social and governance factors of the Group, thereby assessing the importance on environmental, social and governance aspect, and formulating a long-term development approach and strategy. The Board will review and approve the environmental, social and governance report annually, so as to ensure the environmental, social and governance report presenting all material environmental, social and governance issues and their impacts to sustainable development of the Group in a fair manner.

PARTICIPATION FROM STAKEHOLDERS

The Group fully understands that keeping a close communication with stakeholders is an integral part of the sustainable development of the enterprise. As such, the Group adopts proactive measures to facilitate the close communication with stakeholders. The opinion and anticipation from different stakeholders are collected through different channels, for the purpose of assisting the Group in formulating strategy for sustainable development, and maximizing the economic output and business value. Diversified methods of participation, which are listed below, are applied by the Group for considering 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 meeting and other shareholders' meeting • Annual report, announcements and corporate communications • Disclosures on the Company website and HKEx website • E-mail • Meeting with senior management
Clients and suppliers	• Quality on products and services • Condition on contract compliance • Genuine cooperation	• Satisfaction survey • Phone and e-mail communication • Business visit
Employees	• Remuneration and welfare • Training and development • Health and safety • Protection on employee interest • Working environment	• Regular meeting • Employee training and regular employee activity • Suggestion box for employees • Employee representative meeting
Consumers	• Product quality • Pre-sales services • After-sales services • Protection on consumer interest	• Company website • Customer service center • Client satisfaction survey • Phone and e-mail communication
Government	• Compliance with laws and regulations • Implementation of policies • Social welfare	• Consultation and visit • Meeting • Annual and interim reports
Media	• Corporate governance system • Community investment	• Company website • Meeting with media • Forum

MATERIALITY ASSESSMENT

The management and staff from key functions of the Group participated 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 obtaining an understanding on the key environmental, social and governance issues that are material to the business of the Group, the Group adopted the principle of materiality in the ESG Report. All key environmental, social and governance issues and key performance indicators ("**KPIs**") have been reported in this report in accordance with the suggestion of the ESG Reporting Guide.

The Group assessed the significance and materiality on environmental, social and governance through the following steps:

Step 1: Identification — Identifying material issues

- The United Nations Summit on Sustainable Development was held on 25 September 2015, and 17 sustainable development goals were duly passed by 193 member states of the United Nations during the summit, with an aim to guide everybody toward a more sustainable and better future. Through reviewing the Sustainable Development Goals, the Group identifies the relevant environmental, social and governance aspects.

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

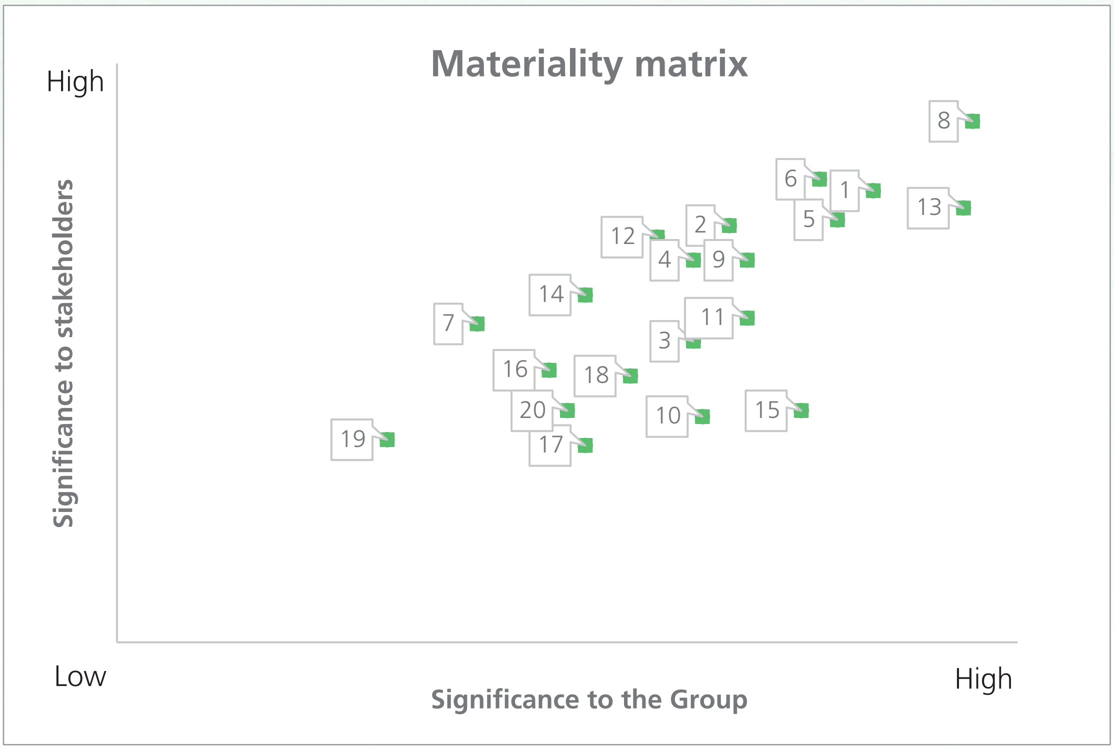
Step 2: Sorting — Participation from stakeholders

- The Group invites internal and external stakeholders to provide rating and opinion 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 between 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 on intellectual property rights 10. After-sales services of products 11. Protection on 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. ENVIRONMENT

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 and sustainable development are relied on the associated effort from all industries. 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 reform 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 lower the emission, so as to facilitate the sustainable development and enhance the environmental performance of the business. The Group devotes to provide learning for its employees on enhancing the awareness of environmental protection, and on complying with the related laws and regulations on environmental protection.

During the reporting period, the Group is not aware of any breach of environment-related laws and regulations in material aspect, which has significant effect to the Group. The environment-related laws and regulations include but not limited to the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Integrated Emission Standard of Air Pollutants, the Cleaner Production Promotion Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste.

Key performance indicator

1. Emission of exhaust gas

The industrial exhaust gas produced in the production process, the heating boiler and oily fumes from canteen are the main sources of exhaust gas produced by the Group. The Group has adopted a number of 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;

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

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

Types of exhaust gas	Units	2021	2020
Nitrogen oxides	kg	829.24	186
Sulfur oxides	kg	4.68	3
Industrial exhaust gas	m^3	10,000,945	1,999,877
Intensity of industrial exhaust gas[1]	m^3/million revenue	9,001.3	1,547.04

The increase in emission of exhaust gas of the Group in 2021 as compared to 2020 was due to the significant increase in production of eye drops manufactured by Zhongshan Wanhan, which led to an increase in the use of natural gas and hence an increase in emission of exhaust gas.

2. *Emission of greenhouse gas*

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

1) the purification device for oily fumes in canteen being regularly inspected and maintained to ensure it operated in a highly efficient way;

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

3) encouraging staff to fully utilize the seating capacity of vehicles, in order to minimize the unnecessary usage and wasting.

Indicator		Units	2021	2020
Scope one: direct emission	Amount of emission of greenhouse gas	tCO_2e	822.15	699.62
	Greenhouse gas emission intensity	tCO_2e/million revenue	0.74	0.54
Scope two: indirect emission	Amount of emission of greenhouse gas	tCO_2e	6,721.27	3,650.10
	Greenhouse gas emission intensity	tCO_2e/million revenue	6.10	2.82

Note 1: Calculated based on the revenue of the Group of RMB1,292.7 million in 2020 and RMB1,101.2 million in 2021. Same as below.

3. *Hazardous and non-hazardous waste*

The Group's wastes are generated from its production workshops, offices, canteens and laboratories, which are mainly 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 in advance, meals are prepared by canteen in accordance with the actual meal consumption, staff are encouraged to take food for a number of turns, with less quantity of food in each turn, instead of taking a large quantity of food in one go, thus to prevent any occurrence of wasting food;

2) encouraging staff to use electronic communication, 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 transportation and disposal contracts with qualified third party companies for the unified collection and disposal of waste, strictly implementing waste transferal procedure.

Indicator		Units	2021	2020
Hazardous waste	Total emissions	T	28.53	11.5
	Emission intensity	T/million revenue	0.03	0.01
Non-hazardous waste	Total emissions	T	381.2	340.06
	Emission intensity	T/million revenue	0.34	0.14

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 disposal 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 effective usage of resources

The Group has formulated relevant policies and procedures on usage of energy and water, in order to enhance the efficiency on energy usage and reduce unnecessary usage of resources. The Group implements "4R" strategy on resources usage, 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 resources reservation, and minimize the ecological footprint related to our consumption of resources.

Key performance indicator

1. *Energy consumption and management*

The main energy consumption of the Group is electricity, natural gas and fuel. The Group has minimized the effect of the operation to the environment through identifying and applying suitable measures. The Group has formulated energy policy, measures and practices to further minimize 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 seating capacity of vehicle shall be fully leveraged to its greatest extent;

3) posting notice near the switch 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, executive will carry out inspection everyday to ensure the electrical appliances in idle are switched off.

Indicator		Units	2021	2020
Electricity	Total consumption	kWh	11,568,453.44	6,282,451.54
	Total consumption intensity	kWh/million revenue	10,412.12	4,859.90
Natural Gas	Total consumption	m^3	539,373.95	117,121.41
	Total consumption intensity	m^3/million revenue	485.46	90.60
Fuel	Total consumption	L	247,139.97	324,188.21
	Total consumption intensity	L/million revenue	222.44	250.78

Compared to 2020, the Group's electricity and natural gas consumption increased in 2021 was due to the significant increase in production of levofloxacin eye drops and sodium glassate eye drops manufactured by Zhongshan Wanhan, which led to an increase in steam consumption for its production processes, thus resulting in an increase in electricity and natural gas consumption.

2. Water consumption and management

Apart from energy reservation, the Group makes every effort to cultivate a culture of water consumption reservation with staff together. By adopting the relevant measures, unnecessary water resources consumption is reduced:

1) adopting the "multi-use of water" plan;

2) fixing the bathing time for staff, and measuring the amount of bathing water consumed by tapping card;

3) installing separate water meter in each water consuming unit for separate measurement; and

4) conducting regular inspections on the water consuming equipment to avoid leakage.

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 water supply problems in its operation.

Indicator	Units	2021	2020
Water consumption	T	112,416.06	62,654.45
Water consumption intensity	T/million revenue	101.18	48.47

The increase in the Group's water consumption in 2021 as compared to 2020 is due to the increase in water consumption as a result of the significant increase in production of eye drops manufactured by Zhongshan Wanhan.

3. *Packaging materials*

The packaging materials consumed by the Group during its production are mainly carton, packaging box, iron box, and PE film. 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 on packaging material. Through measures such as upgrading and transforming production line equipment, repairing and maintaining packaging equipment regularly, promoting machine automation and recycling of outer packaging box, 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 minimize the consumption of packaging materials caused by abnormal or unfamiliar operation. In the meantime, the Group no longer provides the manual inside the packaging box of therapeutic teas in order to minimize the consumption of paper packaging materials.

Indicator	Units	2021	2020
Packaging materials	T	3,422	3,277
Packaging material intensity	T/million revenue	3.08	2.53

Environmental goals

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

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 in contributing to the environmental protection, and to minimize the impact on environment generated by its business activity. The Group assesses the environmental risk of its business model regularly, and minimizes 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 minimizing 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 reserve energy, water and other raw materials.

In addition, the Group adopts a number of promotional activities to strengthen the awareness on environmental protection of its employees. A comprehensive promotion on environmental protection and waste management is carried out in work place by the Group, sufficient and suitable labels of environmental protection management are posted and staff are encouraged to participate in environmental protection activities. The Group advocates the operational management rationale of "Green office and low-carbon lifestyle", through vigorously promoting the smart office by adopting various systems, including OA system, cloud home system, and video conference system to reduce energy consumption.

Key performance indicator

As a result of expansion in production business and the significant increase in production capacity, for the year ended 31 December 2021, the increase in the use of electricity and natural gas results in an indirect emission of greenhouse gas, which may affect the environment and natural resources. The Group devotes to adopt and implement policies on minimizing the significant impacts to the environment and natural resources included in the environmental, social and governance report, in order to ensure the protection on environment and natural resources.

A4. Climate Change

Policies on identification and mitigation of significant climate-related issues

The Group will review its environmental protection policies from time to time, and 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 regulations, which have significant impact to 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 prioritised identified risks based on their potential impact or relevance to business development, and accordingly adjusted and updated 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 halt or disruption to business, or cause the Group to face risks relating to non-performance and delay in performance. In order to minimize the potential risks and damages, the Group has flexible working arrangement and prevention measures in place under the bad or extreme weather.

Following measures are adopted by the Group to minimize the risks related to climate on business operation: keeping close communication with suppliers to formulate contingency plan together, in order to prevent the disruption of supply chain or other problem; continuously expanding the supplier base so that the Group could procure from alternative suppliers if a supplier is being affected by extreme weather; electricity consumption may increase under the prolonged heat, leading to an increase in operational cost, therefore the Group implemented zonal lighting control and used energy-saving lightings in the office, and posted notices on energy reservation to remind employees to switch off electrical appliances in idle; extreme conditions like earthquake may affect our properties and operation, thus the Group formulated internal safety guidelines to provide guidances to employees on addressing 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 enterprise may also be downgraded if the enterprises fail 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 trend, policy 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 provide 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 in 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 employment 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 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 formulates Staff Promotion Management System to provide promotion and development opportunities to outstanding employees through an open and fair system of assessment, in order to explore the potential of employee. 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 supervisor. Results on performance review are used to review the remuneration of the employee and for considering their promotion.

The Group does not tolerate any unreasonable dismissal, 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 law, and will provide reasonable compensation to staff being dismissed. The relevant provisions related to the termination of employment relationship are contained in the employment contracts with each staff.

Work-life balance

The Group devotes to create a balanced environment between work and life, and has formulated policies in compliance with relevant regulations to manage the working hours and holiday of employees. The Group has formulated standardised working hour system (7.5 working hours per day) and flexible working system for its employees in different positions so as to ensure that its employees have adequate entitlements to annual leave, compensatory leave, personal leave, sick leave, marriage leave, maternity leave, compassionate leave, carer's 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 provides a "white list" in accordance with the contribution to business from staff and reasonable promotion opportunity and bonus are provided.

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 and pension, etc. In addition, meal subsidy, travel subsidy, high temperature subsidy, festival welfare fund, team building, medical check up for employee and employee birthday party are provided in order to enhance the cohesion of employees.

Equal opportunity, policies on diversification and anti-discrimination

The Group regards staff as its most valuable and core asset, outstanding talents are being recruited in accordance with the fair employment principles with fairness, justice and openness, so as to provide a talent pool for the business operation of the Group. Discrimination on nationality, age, gender, religion, disability, marital status or any other forms of discrimination are prohibited by the Group, and the Group bears a zero tolerance stand on any discriminatory behaviour. The Group ensures its employees can obtain success and growth in a working environment that advocates diversification and inclusion.

Key performance indicator

1. *Total number of workers*

For the year ended 31 December 2021, the total number of workers by gender, employment type, age group and region are as follows:

		For the year ended 31 December 2021 (Number of people)
Gender	— Male	824
	— Female	802
Employment type	— Full-time	1,626
	— Part-time	0
Age group	— Below 30	634
	— 30 to 50	853
	— Above 50	139
Region	— Hong Kong	3
	— Mainland	1,623

2. *Employee turnover rate*[2]

For the year ended 31 December 2021, the employee turnover rates by gender, age group and region are as follows:

		For the year ended 31 December 2021 (%)
Gender	— Male	44.71
	— Female	51.63
Age group	— Below 30	74.59
	— 30 to 50	31.94
	— Above 50	7.81
Region	— Hong Kong	0.00
	— Mainland	48.25

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 2021 × 100%.

B2. Health and safety

The Group devotes to provide a safe, happy and healthy working environment to its employees. The Group strictly complies with 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 Occupational Safety and Health Guideline to create a safe working environment and to protect employees from occupational risks.

The Group formulates safety guidelines such as Management Measures for Production Safety and the Accountability System for Production Safety for the daily production activity and measures on 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, and the Group plans its office layout in accordance with relevant safety requirement to ensure there is 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 2021	For the year ended 31 December 2020	For the year ended 31 December 2019
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 also appoints an environment, health and safety officer ("**EHS Officer**") who is responsible to maintain 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. The Group 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 distributing masks and sterilizing materials to employee regularly, and increasing the frequency on cleaning and sterilization in office. In addition, all employees are required to have their temperature checked and wear masks before entering the office.

B3. Development and Training

Skills and knowledge of employees are the critical factors in leading a 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 to employees. The Group provides induction training to all new employees, as well as regular on-the-job training for all employees of the Group. The induction training covers the corporate culture, code of conduct for all staff, corporate management policy, etc. On the other hand, the on-the-job training includes the business knowledge and skills required for the designated position, and aims to enhance the working performance of the staff. The Group also encourages its employees to join suitable training courses or seminars that relate to their working responsibility organized by external party during office hours. If the employee is taking an external examination related to his/her working responsibility, he or she can apply for a day of leave on the examination day. The Group makes every effort to ensure 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*[3]

		For the year ended 31 December 2021 (%)
Gender	— Male	54.45
	— Female	45.55
Employee category	— Senior management	6.50
	— Middle management	15.50
	— Junior employees	78.00

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 2021 (hours)
Gender	— Male	100
	— Female	97
Employee category	— Senior management	66
	— Middle management	98
	— Junior employees	120

B4. Labour standards

The Group strictly complies with the Employment Ordinance of Chapter 57 of Hong Kong Law, Regulation on Labor Security Supervision issued by the State Council of the PRC and relevant laws and regulations in order to eliminate child labour 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 in providing false academic certification and working experience will not be recruited.

Key performance indicator

Avoid child and forced labour

The recruitment procedure of the Group must comply with the strict internal verification procedure, which includes verifying the identity documentation of candidate, in order to ensure that the age of candidate meets the requirement of the law. The Group prohibits the employment of child labour and forced labour, and during the year all employees attain 18 years of age. If any non-compliance is found, the Group will investigate, punish or dismiss the relevant staff immediately. During the reporting period, the Group is not aware of any non-compliance of laws and regulations related to recruitment of child and forced labour.

B5. Supply Chain Management

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 the different aspects of suppliers, including their ability on production, product quality and the stability on products supply. The Group also carries out random quality inspection and performs tracking and recording on products supplied, in order to maintain a high level of management on supply chain.

Key performance indicator

1. *Suppliers by geographical region*

   For the year ended 31 December 2021, the Group makes procurement to a total of 36 suppliers located in 13 provinces and municipality in China, of which nine are located in Guangdong Province, six from Zhejiang Province, five from Anhui Province, three each from Jiangsu Province and Tianjin, two each from Liaoning Province and Sichuan Province, and one each from Fujian Province, Guangxi Zhuang Autonomous Region, Henan Province, Jilin Province, Shandong Province and Shaanxi Province.

2. *Practices relating to engaging suppliers*

The Group 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 considers the sustainability commitment of all suppliers as an important factor for consideration, and strongly emphasizes its ability to adopt effective measures in reducing the adverse impact of operation to 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 supplying goods. 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. 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 supplier, 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, 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 minimize the impact caused by business operation to 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 requirement 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 its products fulfil the quality requirement. The Group also implements 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 personnel responsible for reviewing the information to be disseminated in advertisement, and to get out any exaggerated and untrue information. The Group regulates the word choice in advertisement and prohibits any information that is deceptive or misleading to consumers in the advertisement. If there is any compliant from client, the Group will address and investigate timely, thus ensuring the continuous enhancement in satisfaction from client to our service and product quality. During the reporting period, the Group is not aware of any breaching of laws and regulations on advertisement, label, and privacy that is related to product and service provided, which have significant impact to the Group.

Key performance indicator

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

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

2. *Products and service related complaints*

   The Group established a professional customer services centre and set up a consumer consultation hotline, as well as formulated and strictly implemented Consumer Complaint Management System to ensure consumers can enjoy the rights under the Law of the People's Republic of China on the Protection of Consumer Rights and Interests and applicable laws. The Consumer Complaint Management System explicitly determines procedures and measures on handling complaint, in order to ensure 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 were received by the 400 consumer consultation hotline, complaints were mainly due to logistics express delivery time and packaging damage. For complaints related to express delivery time, the customer services team proactively communicated with consumer through WeChat, and compensation of a certain extent was provided. For complaints related to packaging damage, the customer services team has replaced product with well packaging 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 different brands and trademarks. The Group strictly complies with the relevant laws and regulations, including Trademark Law of the People's Republic of China, the Copyright Law of the People's Republic of China, the Patent Law of the People's Republic of China, and has formulated and implemented systems like "intellectual property rights approach", "method of trademark management" and "method of patent management". The Group formulates a clear management procedure on the application, renewal, licensing management and use of licensing of trademark, 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 authorized 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, in order to enhance the legal knowledge on using and protecting intellectual property rights of staff.

4. *Quality assurance processes and recall procedures*

The Group insists on providing quality products, and is devoted to reduce or prevent product quality problem. The Group formulates systems and regulations on management and control related to quality standard and inspection for raw and other materials, packaging materials, semi-finished products, 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 organizes 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 its "Return and Replacement Management System", which uniformly recycles the sub-standard products, unqualifiedly packaged products, near-expiration (including expired) and unsaleable products. Each business division submits the application for products that fulfil returning requirement, and sales management department is responsible for reviewing and approving the documentation for products return. After the return 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 protections and privacy policies*

The Group has strictly complied 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 its Administrative Measures for Protection of User Information Security to set up strict management process on personal information of consumer collected, in order to ensure such personal information not be disclosed. The Group explains to consumers on how personal information is collected and used, how technologies like Cookie, Beacon, Proxy are being used, in order to provide a transparency on privacy policy and way of protection, paving a way for the implementation and monitoring of privacy protection policy.

B7. Anti-corruption

The Group emphasizes incorruptible and honest corporate environment, and devotes to prevent the occurrence of any forms of behaviours of corruption, as well as holds a zero tolerance stand towards such behaviours. It has strictly complied with 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 summarize principles of ethic and compliance, relevant rules-breaking behaviour, the management responsibility and penalty of relevant departments are listed in the rules to regulate principles that should be abided by during daily operation.

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. *Concluded legal cases regarding corruption practices*

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. 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 provided to directors and staffs*

To ensure a good corporate governance environment, the Group has established audit committee and has engaged external legal advisers and auditor to review the financial report and statutory disclosure of the Group and to provide their opinions. During the reporting period, the Group provides two training sessions themed "Always be alerted on anti-corruption and advocating incorruptibility" to directors and middle and senior management, one training session on the latest laws and regulations on anti-bribery and corruption to all staff as the target audiences, and holds an activity on collecting suggestions on anti-corruption and advocating incorruptibility.

B8. Community Investment

The Group devotes to perform its corporate citizenship responsibility, 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

The Group cooperates with charitable organization and non-governmental organization to engage and invest in local community. During the reporting period, the Group joined China Foundation for Poverty Alleviation to donate goods and materials worth around RMB2.90 million to the communities affected by the flood in Zhengzhou for relief and postdisaster recovery. The Group also donated RMB150,000 to Beijing Green Sunshine Environmental Protection Public Welfare Foundation. In addition, in order to address the COVID-19 pandemic, the Group distributed masks and sterilizing materials to employees (a part of the community) regularly to prevent the spread of virus to the community, thus protecting the health of employees. The Group also devotes to provide support and care to persons in poverty and in need by ways of education and volunteering activities.

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 2021, except for code provision A.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 2021.

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 2021, the Board comprises six Directors, including two executive Directors, namely Mr. Zhao Yihong (Chairman and Chief Executive Officer) and Ms. Gao Yan (Vice Chairman); 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. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 27 to 31.

Under code provision A.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 32 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.

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. 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 2021.

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 2020; and

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

COMMITTEES UNDER THE BOARD

Audit Committee

In 2021, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. He Yuanping, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. Ren Guangming and Mr. Fu Shula. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2021, 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 and financial 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 2021, 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 2020 and 2021;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2020 auditors' report issued by PricewaterhouseCoopers;

(iv) reviewed and approved the 2020 annual report and audited financial statements, the 2020 annual results announcement, the 2021 interim report and the 2021 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 2021, the fee payment by the Group to PricewaterhouseCoopers and its member firm for audit services and non-audit services amounted to RMB2.95 million and RMB1.82 million, respectively. Among the non-audit services, the service fee for the digitalisation advisory service was RMB1.55 million.

Remuneration Committee

In 2021, 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.

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 2021, 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 2021, 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.

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).

In the Nomination Committee meetings held in 2021, the following works, inter alia, were performed by the Nomination Committee:

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

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

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

Strategic Investment Committee

In 2021, 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.

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 2021, 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	12/12	—	2/2	2/2	4/4	1/1
Ms. Gao Yan	11/12	—	—	—	—	1/1
Non-executive Director						
Mr. Zhuo Fumin	10/12	—	—	—	4/4	1/1
Independent Non-executive Directors						
Mr. Ren Guangming	10/12	4/4	2/2	2/2	—	1/1
Mr. He Yuanping	9/12	4/4	2/2	2/2	4/4	1/1
Mr. Fu Shula	10/12	4/4	2/2	2/2	—	1/1

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 2021, 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 86 to 88 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 Board and confirms the effectiveness of such systems. The systems aim at providing reasonable, though not absolute, assurance against material misstatement or loss and to manage 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 2021

For the year ended 31 December 2021, 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 and internal audit functions were adequate.

3. Significant Risks and Response Plans

In 2021, 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 2021 are as follows:

Risk	Risk Description	Change in 2021	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 decrease, which result in a decrease in the sales volume and gross profit margin for the Group's Orlistat as compared to figures from last year.	↑	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.

Corporate Governance Report

Risk	Risk Description	Change in 2021	Risk Counter-measures and Plans
Social and economic risks	The adjustments to relevant policies and the 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 products increase steadily, there are greater opportunities and challenges in the big health sector in the long run.	↓	The Group positions 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. 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 relating to external disasters	The pandemic in the PRC had been gradually under control in 2021, 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 2021. 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.

Risk	Risk Description	Change in 2021	Risk Counter-measures and Plans
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.
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, 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.

Corporate Governance Report

Risk	Risk Description	Change in 2021	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.

Notes:

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

↓ "Internal Risk" decreased

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 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 2021.

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 13 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 2021 are set out in the Consolidated Statement of Comprehensive Income on page 89 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 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 May 2022 to 24 May 2022, 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 24 May 2022 will be 24 May 2022. 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 18 May 2022.

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 180 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 17 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 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2021 amounted to RMB886 million.

Under the Companies Law 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 92 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021:

(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 33%;

(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 14%;

(c) the purchases attributable to the five largest suppliers of the Group accounted for 33% of the purchases of the Group;

(d) the purchases attributable to the largest supplier of the Group accounted for 16% 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)*

Non-executive Director

Mr. Zhuo Fumin

Independent Non-executive Directors

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

In accordance with article 16.18 of the articles of association of the Company, Mr. Ren Guangming and Mr. He Yuanping 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 45 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 2021**	Number of individuals in 2020
Under HK$1,000,000	**—**	—
HK$1,000,001—HK$1,500,000	**—**	2
HK$1,500,001—HK$2,000,000	**2**	—
HK$2,000,001—HK$2,500,000	**1**	3
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 and a restricted share award 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 11 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 2021, 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/options	Number of options granted under the Share Option Scheme	Approximate percentage of total issued Shares (%)[7]
Mr. Zhao Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director[1][3]	842,008,783[1][L]	5,000,000[1][L]	51.65%
Ms. Gao Yan	Beneficial owner and interest of her spouse[2][3]	842,008,783[2][L]	5,000,000[2][L]	51.65%
Mr. Zhuo Fumin	Beneficial owner and interest of his spouse	736,000[4][L]	600,000[4][L]	0.05%
Mr. Ren Guangming	Beneficial owner	970,000[5][L]	600,000[5][L]	0.06%
Mr. He Yuanping	—	—	—	—
Mr. Fu Shula	Beneficial owner	200,000[6][L]	—	0.01%

(1) Mr. Zhao Yihong, executive Director, beneficially owns 4,000,000 options granted under the Share Option Scheme and 4,173,567 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/options for the purposes of the SFO:

(i) 816,259,176 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;

(ii) 14,255,040 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and

(iii) 1,000,000 options granted under the Share Option Scheme and 2,321,000 Shares, which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse.

(2) Ms. Gao Yan, executive Director, beneficially owns 1,000,000 options granted under the Share Option Scheme and 2,321,000 Shares directly. Ms. Gao is also deemed or taken to be interested in the following Shares/options for the purposes of the SFO:

(i) 4,000,000 options granted under the Share Option Scheme and 4,173,567 Shares, which are beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;

(ii) 816,259,176 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Foreshore Holding Group Limited; and

(iii) 14,255,040 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Better Day Holdings Limited.

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

(4) Mr. Zhuo Fumin, non-executive Director, beneficially owns 600,000 options granted under the Share Option Scheme. Mr. Zhuo is also deemed or taken to be interested in the 136,000 Shares beneficially owned by his wife for the purposes of the SFO.

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

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

(7) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 31 December 2021. The percentage of interest in the columns includes the options granted under the Share Option Scheme.

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

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.

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 movements of the Company's share options held by the Directors and employees under the Share Option Scheme for the year ended 31 December 2021:

	Date of grant	Options type	Vesting period	Outstanding at 1/1/2021	Granted during the year	Cancelled during the year	Lapsed during the year	Exercised during the year	Outstanding at 31/12/2021
Executive Directors									
Zhao Yihong	27.10.2014	1st	4 Years	4,000,000	—	—	—	—	4,000,000
Gao Yan	27.10.2014	1st	4 Years	1,000,000	—	—	—	—	1,000,000
				5,000,000	—	—	—	—	5,000,000
Non-executive Director									
Zhuo Fumin	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
				600,000	—	—	—	—	600,000
Independent non-executive Directors									
Ren Guangming	27.10.2014	1st	4 Years	600,000	—	—	—	—	600,000
He Yuanping	—	—	—	—	—	—	—	—	—
Fu Shula	—	—	—	—	—	—	—	—	—
				600,000	—	—	—	—	600,000
Employees in aggregate	27.10.2014	1st	4 Years	6,800,000	—	—	(100,000)	—	6,700,000
	27.10.2014	2nd	4 Years	5,620,000	—	—	—	—	5,620,000
	27.10.2014	3rd	4 Years	—	—	—	—	—	—
	10.8.2015	4th	4 Years	—	—	—	—	—	—
	10.8.2015	5th	4 Years	—	—	—	—	—	—
	15.3.2016	6th	4 Years	—	—	—	—	—	—
	20.12.2016	7th	4 Years	—	—	—	—	—	—
				12,420,000	—	—	(100,000)	—	12,320,000
	Total			18,620,000	—	—	(100,000)	—	18,520,000
Weighted average exercise price (HK$)				1.00	—	—	1.00	—	1.00
Exercisable at the end of the year									18,520,000

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 2021. 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 2021 in relation to share options granted under the Share Option Scheme by the Company (2020: RMB77,000).

RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the "**Restricted Share Award Scheme**") on 11 November 2011 with duration of 10 years commencing from the effective date. The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants who shall receive offers of restricted shares as designated by the administration committee (the "**Selected Participants**") and to increase the degree to which the Selected Participants' remuneration and interests are tied to the financial performance of the Company and fortunes of the shareholders of the Company. This scheme will provide the Selected Participants, which includes any Director, employee, consultant, executive or officer of the Company or any of its subsidiaries, with the opportunities to have a personal stake in the Company. The Company has set up the Employees' Share Award Scheme Trust (the "**Trust**") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trust purchases the Company's shares being awarded from the open market using cash contributed by the Company. The scheme period ended in December 2021.

On 29 November 2021, 34,801,567 Shares were offered to be granted by the Company to 54 Selected Participants at nil consideration, and vested on 30 December 2021.

As at 31 December 2021, no Share (31 December 2020: 34,801,567 Shares) was held by the Trust and not yet vested to Selected Participants.

The Group recognised a total expense of RMB8,383,000 for the year ended 31 December 2021 (2020: RMB119,000) in relation to the restricted shares granted under the Restricted Share Award Scheme.

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the year ended 31 December 2021 and outstanding as at 31 December 2021:

Employees	**Number of awarded shares**
Outstanding as at 1 January 2021	—
Granted during the year	34,801,567
Vested during the year	(34,801,567)
Outstanding as at 31 December 2021	—

The closing price of the Company's shares immediately before 29 November 2021, the date of grant of the restricted shares, was HK$0.211.

Save as disclosed above, during the year ended 31 December 2021, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, so far as known to the Directors, persons (other than the Directors or chief executive of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

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

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

(2) The entire issued share capital of Everyoung Investment Holdings Limited is directly owned by Ms. Peng Wei. Ms. Peng beneficially owns 4,365,000 Shares.

(3) This is calculated based on 1,630,207,820 Shares, being the number of Shares in issue as at 31 December 2021.

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

Save as disclosed above, as at 31 December 2021, 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. Save as disclosed below, there were no non-exempt connected transactions carried out by the Group for the year ended 31 December 2021.

On 26 February 2021, Hainan Besunyen Healthcare Investment Limited ("**Besunyen Healthcare Investment**"), an indirect wholly-owned subsidiary of the Company, and Vstar Partners Limited (the "**General Partner**") entered into the Subscription Agreement, pursuant to which Besunyen Healthcare Investment, as a Limited Partner, has made a capital commitment in an amount of USD2.3505 million to Vstar Investment Fund Limited Partnership (the "**Fund**"), while the General Partner has agreed to accept the capital commitment of Besunyen Healthcare Investment. The Fund will invest in a Singaporean company which engages in the research and development of infection-related immunotherapy and antiviral and anti-bacterial medications and vaccines. The General Partner is controlled by Mr. Zhuo Fumin, the non-executive Director of the Company. Therefore, the General Partner is an associate of Mr. Zhuo Fumin and hence a connected person of the Company. The Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 26 February 2021.

Save as disclosed above, for the year ended 31 December 2021, there is no related party transaction or continuing related party transaction as set out in note 44 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 2021 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 Law 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 2021.

DONATION

The Group made charitable donations of RMB3.1 million in aggregate during the year ended 31 December 2021.

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 47 to the consolidated financial statements.

AUDITOR

The Company has appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2021. 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, 18 March 2022

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 89 to 179, comprise:

- the consolidated balance sheet as at 31 December 2021;
- 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 2021, 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 matter identified in our audit is impairment assessment of goodwill.

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 20 "Intangible assets" to the consolidated financial statements. As at 31 December 2021, the Group's goodwill amounted to approximately RMB60,253,000 and management has performed an annual impairment assessment on the goodwill. 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 by management based on "value-in-use" calculations using the discounted cash flow model. Based on the result of the assessment, management has concluded that no impairment loss was required for the year ended 31 December 2021. 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.	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 and our understanding of the Group's business; • 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; • We assessed the appropriateness of the valuation model with the assistance of our internal valuation expert;

Key Audit Matter	How our audit addressed the Key Audit Matter

Impairment assessment of goodwill (Continued)

- We assessed the reasonableness of the key assumptions and estimates as adopted by management in the discounted cash flow model for the impairment assessment (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.

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 Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2022

Consolidated Statement of Comprehensive Income

		Year ended 31 December	
		2021	2020
	Note	**RMB'000**	RMB'000
Revenue	5	**1,101,150**	1,292,711
Cost of sales	7	**(402,600)**	(379,385)
Gross profit		**698,550**	913,326
Other income	8	**19,473**	26,718
Selling and marketing expenses	7	**(521,774)**	(661,514)
Administrative expenses	7	**(174,365)**	(134,420)
Research and development costs	7	**(93,099)**	(93,802)
Credit impairment losses	23	**257**	(440)
Fair value changes on financial assets measured at fair value through profit or loss	27	**1,979**	—
Other expenses	7	**(8,033)**	(3,682)
Other losses, net	9	**(11,089)**	(12,424)
Gain on disposal of subsidiaries	10	**—**	80,108
Operating (loss)/profit		**(88,101)**	113,870
Finance income	12	**3,829**	2,758
Finance costs	12	**(6,692)**	(6,306)
Finance costs, net		**(2,863)**	(3,548)
Share of profits of investments accounted for using the equity method	14	**240**	4,736
(Loss)/profit before income tax		**(90,724)**	115,058
Income tax (expense)/credit	15	**(23,267)**	15,801
(Loss)/profit for the year		**(113,991)**	130,859
Attributable to:			
— Owners of the Company		**(145,713)**	45,479
— Non-controlling interests		**31,722**	85,380
		(113,991)	130,859
Other comprehensive income		**—**	—
Total comprehensive (loss)/income for the year		**(113,991)**	130,859
Attributable to:			
— Owners of the Company		**(145,713)**	45,479
— Non-controlling interests		**31,722**	85,380
		(113,991)	130,859
(Losses)/earnings per share attributable to owners of the Company for the year (RMB cents)			
— Basic (losses)/earnings per share	16	**(9.13)**	2.85
— Diluted (losses)/earnings per share	16	**(9.13)**	2.85

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

Consolidated Balance Sheet

	Note	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	**401,486**	322,278
Right-of-use assets	18	**103,675**	118,367
Investment properties	19	**—**	9,500
Intangible assets	20	**168,670**	161,668
Other non-current assets	21	**12,191**	19,204
Investments accounted for using the equity method	14	**44,971**	55,890
Financial assets measured at fair value through profit or loss	27	**38,656**	—
Long-term bank deposits	28	**170,000**	—
Deferred income tax assets	35	**77,905**	106,567
Total non-current assets		**1,017,554**	793,474
Current assets			
Inventories	22	**136,341**	139,394
Trade receivables	23	**94,057**	65,643
Bills receivable	24	**2,974**	9,119
Deposits, prepayments and other receivables	25	**87,320**	124,686
Restricted bank deposits	26	**28,400**	56,786
Short-term bank deposits	28	**10,563**	120,300
Cash and cash equivalents	29	**216,042**	543,822
		575,697	1,059,750
Assets classified as held for sale	30	**48,881**	—
Total current assets		**624,578**	1,059,750
Total assets		**1,642,132**	1,853,224

Consolidated Balance Sheet

	Note	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	31	**94**	94
Share premium		**913,393**	962,777
Other reserves	32	**340,274**	331,762
Accumulated losses		**(426,244)**	(280,402)
		827,517	1,014,231
Non-controlling interests	13	**227,873**	196,151
Total equity		**1,055,390**	1,210,382
LIABILITIES			
Non-current liabilities			
Deferred government grants	34	**33,348**	33,795
Lease liabilities	39	**21,877**	10,044
Deferred income tax liabilities	35	**42,274**	37,380
Long-term borrowings	38	**92,930**	64,730
Other non-current liabilities		**497**	497
Total non-current liabilities		**190,926**	146,446
Current liabilities			
Trade and bills payables	36	**40,727**	107,148
Other payables and accrued expenses	37	**151,813**	235,627
Contract liabilities	6	**31,469**	34,180
Borrowings	38	**150,750**	95,050
Lease liabilities	39	**21,057**	12,563
Current income tax liabilities		**—**	11,828
Total current liabilities		**395,816**	496,396
Total liabilities		**586,742**	642,842
Total equity and liabilities		**1,642,132**	1,853,224

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

The financial statements on pages 89 to 179 were approved by the Board of Directors on 18 March 2022 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 2020		94	962,777	327,065	(321,261)	968,675	110,771	1,079,446
Total comprehensive income for the year		—	—	—	45,479	45,479	85,380	130,859
Total transactions with owners in their capacity as owners:								
Share-based payments under share option scheme and restricted share award scheme	11	—	—	77	—	77	—	77
Appropriation to statutory surplus reserve		—	—	4,620	(4,620)	—	—	—
Balance at 31 December 2020		94	962,777	331,762	(280,402)	1,014,231	196,151	1,210,382
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	11	**—**	**—**	**8,383**	**—**	**8,383**	**—**	**8,383**
Appropriation to statutory surplus reserve		**—**	**—**	**129**	**(129)**	**—**	**—**	**—**
Dividends	41	**—**	**(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**

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 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	40(a)	**(140,018)**	84,931
Income taxes paid		**(9,329)**	(12,554)
Interest received	12	**3,829**	2,770
Net cash (used in)/generated from operating activities		**(145,518)**	75,147
Cash flows from investing activities			
Purchase of short-term investments measured at fair value through profit or loss		**(814,700)**	(810,151)
Proceeds from short-term investments measured at fair value through profit or loss		**815,440**	906,425
Purchase of long-term investments measured at fair value through profit or loss		**(17,297)**	—
Placement of term bank deposits		**(250,563)**	(230,300)
Withdrawal of term bank deposits		**193,360**	123,485
Purchases of financial assets measured at amortised cost		**(80,000)**	(15,000)
Proceeds from disposal of financial assets measured at amortised cost		**80,566**	15,038
Decrease/(increase) in restricted bank deposits		**28,386**	(28,546)
Purchases of property, plant and equipment		**(132,675)**	(123,443)
Purchases of intangible assets		**(1,066)**	(1,359)
Addition to investment properties		**—**	(1,376)
Distribution from a joint venture	14(a)	**11,159**	28,122
Payments for acquisition of a subsidiary	43	**(31,990)**	—
Proceeds from disposal of subsidiaries, net	10	**—**	466,747
Proceeds from disposals of land use rights, property, plant and equipment, intangible assets	40(b)	**1,458**	722
Deposits received in connection with disposal of investment properties	37	**9,168**	—
Addition to assets classified as held for sale		**—**	(47,541)
Receipt of asset-related government grants	34	**400**	—
Payment of deposits for investment in a third party		**—**	(19,575)
Deposits repaid in connection with a subsidiary to be disposed		**—**	(92,397)
Net cash (used in)/generated from investing activities		**(188,354)**	170,851
Cash flows from financing activities			
Repayment of borrowings		**(95,090)**	(120,450)
Proceeds from borrowings		**178,990**	185,430
Principal elements of lease payments		**(21,356)**	(16,761)
Bank loan interest and other finance costs paid		**(6,844)**	(5,081)
Dividends paid to owners of the Company	41	**(49,384)**	—
Net cash generated from financing activities		**6,316**	43,138
Net (decrease)/increase in cash and cash equivalents		**(327,556)**	289,136
Cash and cash equivalents at the beginning of year		**543,822**	270,803
Exchange loss on cash and cash equivalents		**(224)**	(16,117)
Cash and cash equivalents at end of year		**216,042**	543,822

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 for the first time for the annual reporting period commenced 1 January 2021:

- Interest Rate Benchmark Reform — Phase 2 — amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

- COVID-19-related Rent Concessions — amendments to IFRS 16

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact to the Group in the current or future reporting periods and on foreseeable future transactions.

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 when 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(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 2020 and 2021, 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(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.

2.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Business combinations *(Continued)*

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.

2.4 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the replaced part 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, principally freehold office buildings, are held for long-term rental yields, and are not occupied by the Group. 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.

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 listing 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;
- 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.

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

Separately acquired trademarks and patents 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 and intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment, or more frequently if events in circumstances indicate impairment. 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 flows (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.

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

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Non-current assets (or disposal groups) held for sale *(Continued)*

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.

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 OCI or through profit or loss); 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.

2.12.3 *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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets *(Continued)*

2.12.3 Measurement (Continued)

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 '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.

2.12.4 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges),
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedges items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in 'other losses, net'.

The Group has entered into foreign currency forward contracts with banks. The forward contracts are accounted for financial assets measured at fair value through profit or loss, which do not qualify for hedge accounting. The changes in fair value are recognised as 'other losses, net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 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.

2.16 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.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash in 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 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 33(b) are disclosed as treasury shares and deducted from other reserves.

2.19 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 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.

2.21 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 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 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(b) Deferred income tax (Continued)

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.

2.23 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)*

2.24 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 33.

(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)*

2.25 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.

2.26 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 2021 and 2020, 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)*

2.26 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 2021 and 2020, 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)*

2.27 Interest income

Interest income from financial assets measured at FVPL is included in the change in fair value of financial assets measured at fair value through profit or loss on these assets, see 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, see Note 8 below.

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).

2.28 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.

2.29 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)*

2.30 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.

2.31 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)*

2.31 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)*

2.31 Lease *(Continued)*

Land use rights were reclassified as right-of-use assets since the initial adoption of IFRS16 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 (Note 18). 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.

2.32 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:

	2021 **RMB'000**	2020 RMB'000
US$		
Assets	**1,353**	63,272
Net	**1,353**	63,272
HK$		
Assets	**11,138**	10,095
Net	**11,138**	10,095

As at 31 December 2021, 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 RMB625,000 higher/lower (2020: RMB3,668,000 lower/higher), 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 2021 would have been approximately RMB2,474,000 (2020: RMB1,430,000 lower/higher) 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 fair value through profit or loss, 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 23. 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 2021 mainly consisted of consideration receivable for deposits for rental of properties, deposits for the use of e-commerce platform and sales agent right for 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.

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

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.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2021 or 1 January 2021 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 of the forward-looking information and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2021 and 31 December 2020 was 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 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**
As at 31 December 2020					
Expected loss rate	0.37%	1.32%	62.29%	100.00%	
Gross carrying amount — trade receivables	46,170	19,901	12	16	66,099
Loss allowance	171	262	7	16	456

The Group was exposed to concentration of credit risk on its trade receivables. As at 31 December 2021, the top trade receivables balance due from a single external customer amounted to approximately RMB16,377,000 and accounted for 17% 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 quite 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 RMB'000	3 months to 1 year RMB'000	1 to 5 Years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
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**
As at 31 December 2020						
Borrowings	6,546	94,241	42,575	42,790	186,152	159,780
Trade and bills payables	67,574	39,574	—	—	107,148	107,148
Other payables and accrued expenses (excluding non-financial liabilities)	58,331	65,468	—	—	123,799	123,799
Lease liabilities	3,981	8,307	11,878	—	24,166	22,607
	136,432	207,590	54,453	42,790	441,265	413,334

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 2021, the Group's liability-to-asset ratio was approximately 35.73% (2020: 34.69%).

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 2021, whereas the Group had one type of financial assets measured at fair value which is bills receivables as at 31 December 2020, 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 2021 and 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
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**
At 31 December 2020				
Assets				
Financial assets measured at fair value through other comprehensive income	—	—	9,119	9,119

The following table presents the changes in level 3 instruments for the year ended 31 December 2021.

	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	**—**	**9,119**
Additions	**851,377**	**208,794**
Change in fair value	**1,979**	**—**
Disposals	**(815,440)**	**(214,939)**
Gains recognised in 'other losses, net'	**740**	**—**
Closing balance	**38,656**	**2,974**
Includes unrealised gains during the year recognised in profit or loss under 'other losses, net'	**—**	**—**

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The disclosure in respect of the fair value of the Group's investment properties has been set out in Note 19.

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 trading and available-for-sale 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(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 key assumptions are disclosed in Note 20.

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 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 2021 and 2020 is as follows:

	2021 **RMB'000**	2020 RMB'000
Tea products segment		
— Detox tea	**128,915**	191,889
— Slimming tea	**135,902**	198,946
— Fit tea	**79,073**	94,425
— Others	**229,881**	145,076
	573,771	630,336
Weight-loss and other medicines segment		
— Weight-loss medicines	**381,469**	607,313
— Other medicines	**145,910**	55,062
	527,379	662,375
	1,101,150	1,292,711

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**
Other income			**19,473**
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 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 loss of non-current assets	**(1,718)**	**—**	**(1,718)**
Depreciation	**(32,071)**	**(35,795)**	**(67,866)**
Amortisation	**(856)**	**(10,008)**	**(10,864)**

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue *(Continued)*

The segment results for the year ended 31 December 2020 are as follows:

	Tea products segment RMB'000	Weight-loss and other medicines segment RMB'000	Total RMB'000
Total revenue	630,336	662,375	1,292,711
Revenue from external customers	630,336	662,375	1,292,711
Timing of revenue recognition			
At a point in time	630,336	662,375	1,292,711
Cost of sales	(116,445)	(262,940)	(379,385)
Gross profit	513,891	399,435	913,326
Selling and marketing expenses	(403,777)	(257,737)	(661,514)
Research and development costs	(16,098)	(77,704)	(93,802)
Segment results	94,016	63,994	158,010
Other income			26,718
Administrative expenses			(134,420)
Credit impairment losses			(440)
Other expenses			(3,682)
Other losses, net			(12,424)
Gain on disposal of subsidiaries			80,108
Operating profit			113,870
Finance income			2,758
Finance costs			(6,306)
Finance costs, net			(3,548)
Share of profits of investments accounted for using the equity method			4,736
Profit before income tax			115,058
Income tax credit			15,801
Profit for the year			130,859
Other segment information:			
Impairment loss of non-current assets	(8,595)	—	(8,595)
Depreciation	(29,494)	(16,587)	(46,081)
Amortisation	(750)	(9,399)	(10,149)

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 2021, revenue of approximately RMB157,060,000 (2020: RMB325,680,000) was derived from a single external customer, which accounted for 14.3% (2020: 25.2%) 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 2021 and 2020 are expected to be recognised within one year.

	31 December 2021 RMB'000	31 December 2020 RMB'000
Tea products	**11,213**	10,412
Weight-loss and other medicines	**20,256**	23,768
	31,469	34,180

The Group's contract liabilities balance at the beginning of the year were all recognised as revenue in 2021.

7 EXPENSES BY NATURE

	2021 RMB'000	2020 RMB'000
Changes in inventories of finished goods and work in progress	**(6,539)**	(46,409)
Raw materials and consumables used	**350,903**	385,215
Write-off of inventories	**1,674**	1,188
Employee benefit expenses (Note 11)	**291,927**	226,936
Marketing and promotional expenses	**210,839**	352,010
Advertising costs	**85,699**	115,473
Depreciation and amortisation	**78,730**	56,230
Professional and consulting service fees	**32,760**	44,841
Logistics expenses	**26,193**	19,873
Outsourced researching and development expenses	**23,157**	28,900
Entertainment and travelling expenses	**22,463**	14,752
Maintenance and testing costs	**15,214**	18,625
Office expenses	**12,837**	8,038
Stamp duties, property and other taxes	**5,075**	4,489
Rental expenses (Note)	**3,302**	5,713
Auditors' remunerations		
— audit	**2,950**	2,800
— non-audit	**1,819**	1,400
Others	**40,868**	32,729
Total cost of sales, selling and marketing expenses, administrative expenses, research and development costs and other expenses	**1,199,871**	1,272,803

Note:

Rental expenses for the years ended 31 December 2021 and 2020 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.

8 OTHER INCOME

	2021 RMB'000	2020 RMB'000
Government grants	**6,423**	18,177
Interest income	**7,373**	3,592
Rental income from investment properties	**1,365**	—
Others	**4,312**	4,949
	19,473	26,718

9 OTHER LOSSES, NET

	2021 RMB'000	2020 RMB'000
Impairment loss on non-current assets (Note 18 and 19)	**(1,718)**	(8,595)
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	**740**	14,052
Donation	**(3,133)**	(1,552)
Net losses on disposals of land use rights, property, plant and equipment,intangible assets	**(1,082)**	(658)
Net foreign exchange losses	**(682)**	(16,086)
Others	**(1,214)**	415
	(11,089)	(12,424)

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, 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 GAIN ON DISPOSAL OF SUBSIDIARIES

	2021 **RMB'000**	2020 RMB'000
Gain on disposal of Beijing Shenhuibiyuan Cloud Computing Technology Co., Ltd. ("**Beijing Shenhuibiyuan**") (Note)	—	80,108
	—	80,108

Note:

Beijing Outsell disposed 100% equity interests in Beijing Shenhuibiyuan, which was a wholly-owned subsidiary of Beijing Outsell to a third party, at a consideration of RMB478.3 million. The disposal was completed in 2020 and the gain on such disposal was approximately RMB80.1 million.

Details of the disposal of Beijing Shenhuibiyuan as described above:

	2020 RMB'000
Consideration received or receivable:	
Cash received	456,062
Consideration receivable	22,280
Total disposal consideration	478,342
Carrying amount of net assets of the subsidiaries at the date of disposal	(371,197)
Transaction costs	(27,037)
Net gain before income tax	80,108

The cash flows from the disposal of Beijing Shenhuibiyuan is as below:

	Disposal of Beijing Shenhuibiyuan RMB'000
Cash received, net of cash disposed	436,224
Transaction costs paid	(24,977)
Proceeds from disposals of subsidiaries, net	411,247

11 EMPLOYEE BENEFIT EXPENSES

	2021 RMB'000	2020 RMB'000
Salaries, bonus and other allowances	**262,276**	225,110
Share-based compensation	**8,383**	77
Pension cost — defined contribution plan	**21,268**	1,749
	291,927	226,936

The Group did not have any forfeited contribution for the years ended 31 December 2021 and 2020 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 2021 and 2020.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2020: two) directors whose emoluments are reflected in the analysis shown in Note 44. The emoluments payable to the remaining three (2020: three) individuals during the year are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other allowances	**5,100**	4,754
Bonuses	**—**	1,040
Share-based compensation	**1,677**	—
Pension cost — defined contribution plan	**121**	6
	6,898	5,800

The emoluments fell within the following bands:

	Number of individuals	
	2021	2020
Emolument bands (in HK$)		
HK$1,500,001—HK$2,000,000	**—**	2
HK$2,000,001—HK$2,500,000	**1**	1
HK$2,500,001—HK$3,000,000	**1**	—
HK$3,000,001—HK$3,500,000	**1**	—

12 FINANCE INCOME AND COSTS

	2021 RMB'000	2020 RMB'000
Interest income from financial assets held for cash management purpose	**3,829**	2,758
Finance income	**3,829**	2,758
Interest expenses	**(9,386)**	(9,478)
— borrowings	**(8,091)**	(8,411)
— lease liabilities	**(1,295)**	(1,067)
Guarantee fee for bank borrowings	**(1,272)**	(1,250)
	(10,658)	(10,728)
Less: Amount capitalised (Note 17(b))	**3,966**	4,422
Finance costs	**(6,692)**	(6,306)
Net finance costs	**(2,863)**	(3,548)

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 2021 which was 4.77% (2020: 5.68%) per annum.

13 SUBSIDIARIES

(a) Subsidiaries

The Group's principal subsidiaries at 31 December 2021 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 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 2021	Ownership interest held by the Group 2020	Ownership interest held by non-controlling interests 2021	Ownership interest held by non-controlling interests 2020
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) 北京品茶在綫電子商務有限公司	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 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%

13 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	
				2021	2020	**2021**	2020
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%
Guangdong Runze Supply Chain Management Co., Ltd. (note I and 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%**	–	**–**	–
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%	**–**	–
Hainan Bihai Health Industry Co., Ltd. (note iii) 海南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 and iv) 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%**	–	**–**	–

Notes:

i These subsidiaries were newly established by the Group in 2021.

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.

iv The subsidiary was acquired by the Group in 2021.

(b) Significant restrictions

Cash and cash equivalents and term bank deposits of approximately RMB404,166,000 (2020: RMB533,175,000) 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.

13 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 33(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 2021, the Share Scheme Trust held no (2020: 34,801,567) shares.

(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. The amounts disclosed for each subsidiary are post inter-company eliminations.

Summarised balance sheet

	Zhongshan Wanhan		Zhongshan Wanyuan	
	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	**As at 31 December 2021 RMB'000**	As at 31 December 2020 RMB'000
Current assets	**312,919**	318,051	**3,633**	4,596
Current liabilities	**(89,234)**	(126,340)	**(24,555)**	(10,773)
Net current assets/(liabilities)	**223,685**	191,711	**(20,922)**	(6,177)
Non-current assets	**319,783**	271,469	**63,796**	62,991
Non-current liabilities	**(105,952)**	(97,940)	**(15,343)**	(21,746)
Net non-current assets	**213,831**	173,529	**48,453**	41,245
Net Assets	**437,516**	365,240	**27,531**	35,068
NCI	**214,383**	178,968	**13,490**	17,183

13 SUBSIDIARIES *(Continued)*

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

Summarised statement of comprehensive income

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**342,010**	538,364	**—**	—
Other income	**—**	—	**9,442**	8,827
Profit for the year	**72,276**	172,000	**(7,537)**	2,245
Total comprehensive income	**72,276**	172,000	**(7,537)**	2,245
Profit allocated to NCI	**35,415**	84,280	**(3,693)**	1,100
Dividends paid to NCI	**—**	—	**—**	—

Summarised statement of cash flows

	Zhongshan Wanhan		Zhongshan Wanyuan	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows generated from operating activities	**23,798**	199,773	**8,652**	7,692
Cash flows used in investing activities	**(141,582)**	(165,848)	**(5,903)**	(7,368)
Cash flows generated from/(used in) financing activities	**30,805**	37,565	**(3,989)**	363
Net (decrease)/increase in cash and cash equivalents	**(86,979)**	71,490	**(1,240)**	687

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Joint ventures (a)	**44,971**	55,890
	44,971	55,890

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

	2021 RMB'000	2020 RMB'000
Joint ventures (a)	**240**	4,736
	240	4,736

(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 2020	1,491	77,287	498	79,276
Capital distributed to the Group during the year	—	(28,122)	—	(28,122)
Share of profit/(loss)	994	3,792	(50)	4,736
Carrying amounts at 31 December 2020	2,485	52,957	448	55,890
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**

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

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

Details of investments in joint ventures as at 31 December 2021 and 2020 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 the Group and Mr. Bai Jiguang (the "**Co-Partner**"). On 29 March 2016, the Group, 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 the Group, the Co-Partner and the Fund Management Company as to 89%, 10% and 1%, respectively. As of 31 December 2021, the Group has already contributed capital of RMB500,000 and RMB79,210,000 (2020: RMB500,000 and RMB79,210,000) to the Fund Management Company and the Fund respectively.

14 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

	2021 RMB'000	2020 RMB'000
Commitment to provide funding if called	—	9,790

There are no contingent liabilities relating to the Group's interest in the joint ventures.

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.

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

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

Summarised balance sheet

	The Fund Management Company		The Fund		Weihai Huisheng	
	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	**As at 31 December 2021 RMB'000**	As at 31 December 2020 RMB'000	**As at 31 December 2021 RMB'000**	As at 31 December 2020 RMB'000
Current						
Cash and cash equivalents	**183**	6	**3,705**	4,359	**—**	1
Inventories	**—**	—	**—**	—	**—**	27
Deposits, prepayments and other receivables	**7,120**	5,341	**2,000**	2,000	**—**	500
Total current assets	**7,303**	5,347	**5,705**	6,359	**—**	528
Other payables and accrued expenses	**(1,195)**	(1,196)	**—**	—	**—**	(336)
Total current liabilities	**(1,195)**	(1,196)	**—**	—	**—**	(336)
Non-current						
Financial assets measured at fair value through profit or loss	**—**	—	**41,272**	53,307	**—**	—
Other non-current assets	**634**	819	**—**	—	**—**	8
Total non-current assets	**634**	819	**41,272**	53,307	**—**	8
Net assets	**6,742**	4,970	**46,977**	59,666	**—**	200

14 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 2021 RMB'000	Year ended 31 December 2020 RMB'000	**Year ended 31 December 2021 RMB'000**	Year ended 31 December 2020 RMB'000	**Period ended 29 December (Date of liquidation) 2021 RMB'000**	Year ended 31 December 2020 RMB'000
Revenue	**1,780**	1,780	**—**	—	**—**	—
Cost of sales	**—**	—	**—**	—	**—**	—
Other income	**—**	—	**12**	8	**—**	315
Selling and marketing expenses	**—**	—	**—**	—	**—**	(114)
Administrative expenses	**(7)**	210	**(208)**	(1,140)	**(10)**	(433)
Other expenses	**(1)**	(2)	**—**	—	**—**	(266)
Fair value changes on financial assets measured at fair value through profit or loss	**—**	—	**(25)**	5,369	**—**	—
Profit/(loss) before income tax	**1,772**	1,988	**(221)**	4,237	**(10)**	(498)
Income tax expenses	**—**	—	**—**	—	**—**	—
Other losses	**—**	—	**—**	—	**(7)**	—
Profit/(loss) for the year/period	**1,772**	1,988	**(221)**	4,237	**(17)**	(498)
Total comprehensive income/(loss)	**1,772**	1,988	**(221)**	4,237	**(17)**	(498)

The information above reflects the amounts presented in the financial statements of the joint ventures and not the Group's share of those amounts.

14 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 RMB'000	The Fund RMB'000	Weihai Huisheng RMB'000	Total RMB'000
Opening net assets at 1 January 2020	2,982	87,027	698	90,707
Capital distributed to the shareholders of the joint ventures	—	(31,598)	—	(31,598)
Profit/(loss) for the year	1,988	4,237	(498)	5,727
Closing net assets at 31 December 2020	4,970	59,666	200	64,836
Percentage of share of interests	50%	89.5%	10%	
Interest in joint ventures	2,485	53,401	20	55,906
Others	—	(444)	428	(16)
Carrying amounts at 31 December 2020	2,485	52,957	448	55,890
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**

15 INCOME TAX EXPENSE/(CREDIT)

	2021 RMB'000	2020 RMB'000
Current income tax:		
Current income tax for the period	—	20,261
Adjustments of prior year's PRC income tax	(2,499)	—
Deferred income tax (Note 35):		
Origination and reversal of temporary differences	25,766	(36,062)
Income tax expense/(credit)	23,267	(15,801)

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 at a rate of 16.5%. No provision for Hong Kong profit tax has been made as the Group has no estimated assessable profit derived from or generated in Hong Kong for the years ended 31 December 2021 and 2020.

Tibet Besunyen Trading Co., Ltd. and Tibet Qianruiwanfu Venture Investment Co., Ltd. ("**Qianruiwanfu**"), two subsidiaries established by the Group in February 2017, are entitled to the preferential policy of Encouraged Industries in the West Regions in Tibet from establish date to 31 December 2030, for which the applicable income tax during the approved period is 15%(2020: 15%).

In July 2020, Beijing Outsell obtained the High and New Technology Enterprise ("**HNTE**") qualification from 2020 to 2022, in which the applicable income tax rate during the approved period is 15% (2020: 15%).

In November 2020, Zhongshan Wanyuan obtained the HNTE qualification from 2020 to 2022, in which the applicable income tax rate during the approved period is 15% (2020: 15%).

In December 2019, Zhongshan Wanhan obtained the HNTE qualification from 2019 to 2021, in which the applicable income tax rate during the approved period is 15%.

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2020: 25%).

15 INCOME TAX EXPENSE/(CREDIT) *(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:

	2021 RMB'000	2020 RMB'000
Profit before income tax	**(90,724)**	115,058
Tax at PRC statutory enterprise income tax rate of 25%	**(22,681)**	28,765
Effect of preferential tax rate granted	**(2,353)**	(34,115)
Re-measurement of deferred tax due to change of tax rate	**—**	13,723
Tax losses or temporary differences for which no deferred income tax asset was recognised	**43,578**	6,311
Utilisation or recognition of unrecognised tax losses/deductible temporary differences	**(12,678)**	(35,212)
Reversal of deferred tax assets	**24,345**	—
Tax super deduction for research and development expenses	**(11,957)**	(8,400)
Dividend tax for distributable profits of PRC subsidiaries	**(492)**	7,391
Tax effect of expenses not deductible for tax purposes and others	**5,505**	5,736
Income tax expense/(credit)	**23,267**	(15,801)

16 (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (losses)/profit 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 33(b)).

	2021	2020
(Loss)/profit attributable to owners of the Company (RMB'000)	**(145,713)**	45,479
Weighted-average number of ordinary shares in issue (thousands)	**1,595,597**	1,595,199
Basic (losses)/earnings per share (RMB cents per share)	**(9.13)**	2.85

16 (LOSSES)/EARNINGS PER SHARE *(Continued)*

(b) Diluted

The share options granted and restricted shares awarded by the Company have potential dilutive effect on the (losses)/earnings per share. Diluted (losses)/earnings per share is calculated by adjusting the weighted-average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted and restricted shares awarded by the Company (collectively forming the denominator for computing the diluted (losses)/earnings per share).

The share options had anti-diluted effect to the Group for the years ended 31 December 2021 and 2020. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2021 and 2020. Accordingly, the diluted (losses)/earnings per share is same as the basic (losses)/earnings per share for the years ended 31 December 2021 and 2020.

17 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 2020	200,639	224,682	44,774	19,809	489,904
Additions	356	17,452	15,144	103,638	136,590
Transfer	6,349	25,588	11,054	(42,991)	—
Disposals/write-off	(470)	(1,276)	(2,808)	—	(4,554)
At 31 December 2020	206,874	266,446	68,164	80,456	621,940
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 (Note 43)	**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**
ACCUMULATED DEPRECIATION					
At 1 January 2020	58,312	163,735	34,797	—	256,844
Charge for the year	9,768	15,721	7,266	—	32,755
Disposals/write-off	(49)	(621)	(2,504)	—	(3,174)
At 31 December 2020	68,031	178,835	39,559	—	286,425
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**
ACCUMULATED IMPAIRMENT					
At 1 January 2020, 31 December 2020 and 31 December 2021	1,630	11,607	—	—	13,237
NET BOOK VALUE					
At 31 December 2021	**235,114**	**102,483**	**31,036**	**32,853**	**401,486**
At 31 December 2020	137,213	76,004	28,605	80,456	322,278

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Depreciation charges have been expensed in profit or loss as follow:

	2021 RMB'000	2020 RMB'000
Cost of sales	**23,711**	21,495
Administrative expenses	**9,560**	4,526
Research and development costs	**10,145**	5,967
Selling and marketing expenses	**768**	767
	44,184	32,755

(b) The addition in construction in progress in 2021 included the finance costs capitalised amounting to approximately RMB3,966,000 (2020: RMB4,422,000).

(c) As at 31 December 2021, buildings with the carrying amounts of approximately RMB76,786,000 (31 December 2020: RMB80,615,000), RMB23,394,000 (31 December 2020: RMB24,247,000), RMB44,457,000 and RMB5,249,000 were pledged as the securities for the guarantee of the Group's bank borrowing of RMB80,000,000(31 December 2020: RMB70,000,000), RMB30,000,000 (31 December 2020: RMB27,500,000), RMB49,090,000, and RMB32,000,000 (Note 38(a)) respectively.

18 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 2020	105,425	7,714	253	1,418	114,810
Additions	—	20,734	—	—	20,734
Depreciation	(2,539)	(9,562)	(39)	(709)	(12,849)
Impairment	(4,328)	—	—	—	(4,328)
At 31 December 2020	98,558	18,886	214	709	118,367
At 1 January 2021	**98,558**	**18,886**	**214**	**709**	**118,367**
Additions	**—**	**41,683**	**—**	**—**	**41,683**
Acquisition of a subsidiary (Note 43)	**8,880**	**—**	**—**	**—**	**8,880**
Depreciation	**(2,833)**	**(19,112)**	**(54)**	**(709)**	**(22,708)**
Disposals	**(474)**	**—**	**—**	**—**	**(474)**
Impairment (Note b)	**(1,409)**	**—**	**—**	**—**	**(1,409)**
Transfer to assets classified as held for sale (Note 30) (Note b)	**(40,664)**	**—**	**—**	**—**	**(40,664)**
At 31 December 2021	**62,058**	**41,457**	**160**	**—**	**103,675**

18 RIGHT-OF-USE ASSETS *(Continued)*

Depreciation charges have been expensed in the consolidated statement of comprehensive income as follows:

	2021 **RMB'000**	2020 RMB'000
Cost of sales	**1,216**	1,091
Other expenses	**1,732**	1,615
Research and development costs	**266**	281
Selling and marketing expenses	**12,501**	7,911
Administrative expenses	**6,993**	1,951
	22,708	12,849

(a) As at 31 December 2021, land use rights with the carrying amounts of approximately RMB5,888,000 (2020: RMB6,056,000), RMB18,297,000 (2020: RMB18,722,000), RMB17,293,000 (2020: RMB17,683,000) and RMB10,209,000 were pledged as collateral for the Group's bank borrowing of RMB80,000,000 (2020: RMB70,000,000), RMB49,090,000 (2020: RMB51,500,000)and RMB30,000,000 (2020: RMB19,000,000) and RMB32,000,000 (Note 38(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 million 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 30).

19 INVESTMENT PROPERTIES

	Buildings and facilities RMB'000
COST	
At 1 January 2020	15,294
Addition	1,376
At 31 December 2020	16,670
At 1 January 2021	**16,670**
Transfer to assets classified as held for sale (Note 30 and 18 (b))	**(15,538)**
At 31 December 2021	**1,132**
ACCUMULATED DEPRECIATION	
At 1 January 2020	5,870
Charge for the year	477
At 31 December 2020	6,347
At 1 January 2021	**6,347**
Charge for the year	**974**
Transfer to assets classified as held for sale (Note 30 and 18 (b))	**(7,321)**
At 31 December 2021	—
ACCUMULATED IMPAIRMENT	
At 31 December 2020	823
Impairment charge for the year	309
At 31 December 2021	**1,132**
NET BOOK VALUE	
At 31 December 2021	—
At 31 December 2020	9,500

19 INVESTMENT PROPERTIES *(Continued)*

(a) Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2021 and 2020 are as follows:

	As at 31 December 2021		As at 31 December 2020	
	Carrying amount RMB'000	Fair value (level 3) RMB'000	Carrying amount RMB'000	Fair value (level 3) RMB'000
Commercial property units located in Shanghai	—	—	9,500	9,500

The Group's investment properties were valued at 31 December 2020 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuer have valued the commercial property in 2020 by the income approach which is by taking into account the net rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases.

(b) During the year ended 31 December 2021, income of property rental income was approximately RMB1,365,000 (2020: Nil). As at 29 November 2021, investment properties has been proposed to be disposed by Bisheng Property and the related lease agreement was transferred accordingly (Note 18(b)). The Group had future minimum lease receipts under non-cancellable operating leases as follows:

	2021 RMB'000	2020 RMB'000
No later than 1 year	—	1,488
Later than 1 year and no later than 7 years	—	15,659
	—	17,147

(c) Depreciation charges of approximately RMB974,000 for the year ended 31 December 2021 (2020: RMB477,000) have been charged in 'other expenses' in consolidated statement of comprehensive income.

20 INTANGIBLE ASSETS

	Goodwill (Note a) RMB'000	Trademarks 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 2020	56,453	13,398	9,223	7,740	126,000	4,971	217,785
Additions	—	—	1,731	—	—	—	1,731
At 31 December 2020	56,453	13,398	10,954	7,740	126,000	4,971	219,516
At 1 January 2021	**56,453**	**13,398**	**10,954**	**7,740**	**126,000**	**4,971**	**219,516**
Acquisition of a subsidiary (Note 43)	**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**
ACCUMULATED AMORTISATION							
At 1 January 2020	—	11,401	8,496	2,938	17,631	2,431	42,897
Charge for the year	—	470	770	—	7,912	997	10,149
At 31 December 2020	—	11,871	9,266	2,938	25,543	3,428	53,046
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**
ACCUMULATED IMPAIRMENT							
At 31 December 2020 and 31 December 2021	—	—	—	4,802	—	—	4,802
NET BOOK VALUE							
At 31 December 2021	**60,253**	**886**	**2,270**	**—**	**92,545**	**12,716**	**168,670**
At 31 December 2020	56,453	1,527	1,688	—	100,457	1,543	161,668

Amortisation charges have been expensed in the profit or loss as follows:

	2021 RMB'000	2020 RMB'000
Cost of sales	**7,212**	7,252
Administrative expenses	**2,263**	1,952
Research and development costs	**1,288**	875
Selling and marketing expenses	**101**	70
	10,864	10,149

20 INTANGIBLE ASSETS *(Continued)*

(a) Impairment assessment for goodwill

Goodwill is monitored by management at the level of the following three CGUs:

	Total RMB'000
Zhongshan Wanhan and Zhongshan Wanyuan	**52,337**
Kangbaina and Aolixin	**4,116**
Henan Xueyinghua	**3,800**
	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 2021 by using the discounted cash flow model.

The following table sets out the key assumptions for those CGUs with goodwill allocated to them:

	Zhongshan Wanhan and Zhongshan Wanyuan	Kangbaina and Aolixin	Henan Xueyinghua
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%**
2020			
Revenue growth rate for next 5 years	2.5%–22%	2.5%–24%	—
Sales margin for next 5 years	49%–50%	38%–41%	—
Terminal growth rate for next 5 years	2.5%	2.5%	—
Pre-tax discount rate	18%	21%	—

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.

20 INTANGIBLE ASSETS *(Continued)*

(b) Impact of possible changes in key assumptions

Zhongshan Wanhan and Zhongshan Wanyuan CGU:

As at 31 December 2021, the recoverable amount of the Zhongshan Wanhan and Zhongshan Wanyuan CGU is approximately RMB590,000,000, which exceeds the carrying amount of the CGU at 31 December 2021 by approximately RMB82,560,000.

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%–18%**	**2.5%–9%**
Sales margin	**45%–46%**	**42.5%**
Terminal growth rate	**2.5%**	**–1%**
Pre-tax discount rate	**17%**	**23%**

The Directors and management have considered and assessed reasonable possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the Zhongshan Wanhan and Zhongshan Wanyuan CGU to exceed its recoverable amount.

Kangbaina and Aolixin CGU:

As at 31 December 2021, the recoverable amount of the Kangbaina and Aolixin CGU is approximately RMB21,000,000, which exceeds 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%

The Directors and management have considered and assessed reasonable possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the Kangbaina and Aolixin CGU to exceed its recoverable amount.

20 INTANGIBLE ASSETS *(Continued)*

(b) Impact of possible changes in key assumptions *(Continued)*

Henan Xueyinghua CGU:

As at 31 December 2021, the recoverable amount of the Henan Xueyinghua CGU is approximately RMB58,000,000, which exceeds the carrying amount of the CGU at 31 December 2021 by RMB16,721,000.

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%

The Directors and management have considered and assessed reasonable possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the Henan Xueyinghua CGU to exceed its recoverable amount.

Based on the results of the aforesaid impairment assessments, the directors of the Company concluded that no provision for impairment on the goodwill has to be recognised as of 31 December 2021.

21 OTHER NON-CURRENT ASSETS

	2021	2020
	RMB'000	RMB'000
Prepayment for intangible assets	**6,274**	6,454
Prepayment for construction of property, plant and equipment	**12,191**	19,024
	18,465	25,478
Impairment on prepayment for intangible assets	**(6,274)**	(6,274)
Total other non-current assets	**12,191**	19,204

22 INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials and packaging materials	**38,759**	48,351
Work in progress	**2,279**	5,052
Finished goods	**95,303**	85,991
	136,341	139,394

The cost of inventories recognised as expense and included in 'cost of sales' and 'research and development costs' amounted to approximately RMB307,759,000 and RMB36,605,000 (2020: RMB307,408,000 and RMB31,398,000), respectively.

23 TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**94,256**	66,099
Less: Loss allowance	**(199)**	(456)
	94,057	65,643

(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:

	2021 RMB'000	2020 RMB'000
0–90 days	**93,965**	62,760
91–180 days	**31**	2,773
181–365 days	**—**	92
Over 365 days	**61**	18
	94,057	65,643

(b) The Group's trade receivables are all denominated in RMB.

23 TRADE RECEIVABLES *(Continued)*

(c) Movement in the allowance for impairment of trade receivables is as follows:

	2021 RMB'000	2020 RMB'000
Opening loss allowance as at 1 January	**456**	509
Increase in loss allowance recognised in profit or loss during the year	**84**	546
Unused amount reversed	**(341)**	(599)
At 31 December	**199**	456

(d) As at 31 December 2021 and 2020, the carrying amounts of trade receivables approximate their fair values due to the short maturities of the related assets.

24 BILLS RECEIVABLE

As of 31 December 2021 and 2020, bills receivable amounted to RMB2,974,000 and RMB9,119,000 were all bank acceptance notes with maturity date within 6 months and are classified as financial assets measured at FVOCI.

25 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Prepayment for advertisement	**10,130**	7,547
Prepayment to suppliers	**34,353**	37,601
Other receivables (Note)	**29,613**	70,554
Interest receivables	**5,726**	1,290
Others	**7,498**	7,694
	87,320	124,686

Note:

As at 31 December 2020, other receivables include consideration receivables in connection with the disposal of subsidiaries of approximately RMB22,280,000 (Note 10(a)) which was collected in 2021, and deposits for investment in a third party of approximately RMB19,575,000 which was completed in 2021.

25 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Deposits, prepayment and other receivables are all denominated in RMB, except for:

	2021 **RMB'000**	2020 RMB'000
US$	**—**	19,575
HK$	**47**	219
	47	19,794

The carrying amounts of the deposits and other receivables approximate their fair values due to the short maturities of the related assets.

26 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.

27 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Equity investments in a private company (Note b)	**19,380**	—
Investments in funds (Note c)	**19,276**	—
Financial assets measured at fair value through profit or loss	**38,656**	—

Notes:

a. The Group's wealth management products purchased from commercial financial institutes are denominated in RMB, with expected rates of return ranging from 1.35% to 3.30% per annum for the year ended 31 December 2021 (2020: 2.00% to 4.00%). The returns of these wealth management products 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 2021 and 2020.

b. The Group acquired 236,407 shares of ERX Pharmaceuticals Inc. (the "**ERX**") at a cash consideration of USD3.0 million (equivalent to RMB19,380,000) on 30 April 2021 and as at 31 December 2021, the Group owns approximately 3.66% equity interests of ERX. 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.

27 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: (Continued)

c. Out of USD2.3505 million total investment commitment based on the agreement signed by the Group and Vstar Partner Limited on 26 February 2021, the Group invested USD2.0609 million (equivalent to approximately RMB13,297,000) to Vstar Investment Fund Limited Partnership (the "**Vstar**") on 17 May 2021. Considering that the Group can neither control nor exercise significant influence on Vstar, the management recognised this investment as financial assets measured at fair value through profit or loss.

Out of RMB20.0 million total investment commitment based on the agreement signed by the Group and Nanjing Jinming venture capital management partnership (Limited Partnership) on 19 July 2021, the Group invested RMB4.0 million to Nanjing Jinbi venture capital partnership (the "**Jinbi**") on 31 August 2021. 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 Vstar was RMB1,979,000 for the year ended 31 December 2021 while the fair value changes of the investments in ERX and Jinbi for the year ended 31 December 2021 was insignificant.

28 TERM BANK DEPOSITS

An analysis of the Group's term deposits as of 31 December 2021 and 2020 are listed as below:

	2021 **RMB'000**	2020 RMB'000
Long-term bank deposits	**170,000**	—
Short-term bank deposits	**10,563**	120,300

The effective interest rate of the long-term bank deposits of the Group ranges from 3.55% to 3.99% per annum for the year ended December 31, 2021, and the effective interest rate of the short-term bank deposits of the Group ranges from 1.5% to 3.21% per annum for the year ended December 31, 2021 (2020: from 1.75% to 3.99%).

The term deposits are all denominated in RMB.

29 CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Cash at bank and financial institute and on hand	**216,042**	543,822

Cash and cash equivalents which are denominated in currencies other than RMB are as follow:

	2021 RMB'000	2020 RMB'000
US$	**1,353**	1,286
HK$	**11,092**	9,875

30 ASSETS CLASSIFIED AS HELD FOR SALE

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

	RMB'000
At 1 January 2020	286,500
Addition	84,697
Disposal (Note)	(371,197)
At 31 December 2020	—
At 1 January 2021	**—**
Addition (Note 18(b))	**48,881**
At 31 December 2021	**48,881**

Note:

As disclosed in Note 10(a), the assets and liabilities classified as held for sale as at 31 December 2019 had been disposed in the year ended 31 December 2020.

31 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$0.00000833333 each			
At 1 January 2020, 31 December 2020 and 31 December 2021	6,000,000	50,000	341
Issued and fully paid:			
At 1 January 2020, 31 December 2020 and 31 December 2021	1,630,208	13,585	94

As at 31 December 2021, no shares (2020: 34,801,567 shares) were held by the Company's Restricted Share Award Scheme (Note 33(b)).

32 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 2020	230,864	(9,886)	(22,688)	71,064	57,711	327,065
Share-based payments	—	—	—	—	77	77
Vesting of restricted shares under restricted share award scheme	—	—	257	—	(257)	—
Transfer to statutory surplus reserve	—	—	—	4,620	—	4,620
At 31 December 2020	230,864	(9,886)	(22,431)	75,684	57,531	331,762
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)**	**—**
Transfer to statutory surplus reserve	**—**	**—**	**—**	**129**	**—**	**129**
At 31 December 2021	**230,864**	**(9,886)**	**—**	**75,813**	**43,483**	**340,274**

33 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 2021 and 2020, 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 2021, all share options granted under the Share Option Scheme have been vested, among which 18,520,000 share options have not been exercised.

33 SHARE-BASED PAYMENTS *(Continued)*

(a) Share Option Scheme *(Continued)*

(i) Movements in share options

	Pre-IPO Share Option Scheme Average exercise price (RMB)	Pre-IPO Share Option Scheme Number of options	Share Option Scheme Average exercise price (HK$)	Share Option Scheme Number of options	Total number of options
At 1 January 2020	1.23	72,290,000	1.01	19,820,000	92,110,000
Lapsed	1.23	(72,290,000)	1.00	(1,200,000)	(73,490,000)
At 31 December 2020	—	—	1.01	18,620,000	18,620,000
Exercisable as at 31 December 2020	—	—	1.00	18,620,000	18,620,000
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**

(ii) Outstanding share options

Expiry date	Exercise price	Number of share options 31 December 2021	Number of share options 31 December 2020
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**	18,620,000

There was no option granted to any eligible employee during the years ended 31 December 2021 and 2020.

(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.

33 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 2020	35,001,567	200,000	35,201,567
Granted	(200,000)	200,000	—
Vested and transferred	—	(400,000)	(400,000)
At 31 December 2020	34,801,567	—	34,801,567
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	**—**	**—**	**—**

The fair value of the awarded shares was calculated based on the market price of the Company's share at the respective grant dates.

The weighted average fair value of awarded shares granted during the year ended 31 December 2021 was HK$0.30 per share (equivalent to approximately RMB0.24 per share) (2020: HK$0.32 per share (equivalent to approximately RMB0.27 per share)).

(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:

	2021 **RMB'000**	2020 RMB'000
Shares issued under restricted share awarded scheme	**8,383**	119
Options issued under employee share option plan	**—**	(42)
	8,383	77

34 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:

	2021 RMB'000	2020 RMB'000
At 1 January	**33,795**	34,381
Addition for the year	**400**	—
Amortisation during the year	**(847)**	(586)
At 31 December	**33,348**	33,795

35 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	2021 RMB'000	2020 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	**58,688**	53,230
— Deferred income tax assets to be recovered within 12 months	**39,579**	66,592
	98,267	119,822
Offsetting of deferred tax liabilities	**(20,362)**	(13,255)
Net deferred tax assets	**77,905**	106,567
Deferred income tax liabilities:		
— Deferred income tax liability to be settled after more than 12 months	**(55,422)**	(45,388)
— Deferred income tax liability to be settled within 12 months	**(7,214)**	(5,247)
	(62,636)	(50,635)
Offsetting of deferred tax assets	**20,362**	13,255
Net deferred tax liabilities	**(42,274)**	(37,380)

35 DEFERRED INCOME TAX *(Continued)*

The movement on the deferred income tax account is as follows:

	2021 RMB'000	2020 RMB'000
At 1 January	**69,187**	33,125
Acquisition of a subsidiary	**(7,790)**	—
(Charges)/credit to profit or loss (Note 15)	**(25,766)**	36,062
At 31 December	**35,631**	69,187

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	Tax losses RMB'000	Unrealised profit for intra-group transaction RMB'000 (Note)	Total RMB'000
At 1 January 2020	16,031	3,916	5,295	39,263	5,339	69,844
Credit/(charges) to profit or loss	35,429	458	(214)	6,106	8,199	49,978
At 31 December 2020	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**

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 2021 and the profit resulted from intra-group sales transaction during the year ended 31 December 2021.

35 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities

	Withholding tax on undistributed earnings	Unrealised fair value change	Right-of-use assets	Accelerated depreciation on property, plant and equipment	Long-term assets identified in business combinations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	(3,638)	—	(1,839)	(2,763)	(28,479)	(36,719)
(Charges)/credit to profit or loss	(7,391)	—	(2,108)	(6,545)	2,128	(13,916)
At 31 December 2020	(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)**

(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 2021, the Group had unused tax losses of approximately RMB244,073,000 (31 December 2020: RMB4,256,000) 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 2021, 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 RMB26,867,000 (2020: RMB77,866,000), deferred income tax assets have not been recognised on these deductible temporary differences as accumulated.

(c) In accordance with the related PRC Enterprise 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 2021, 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 2021 of approximately RMB210,746,000 (2020: RMB220,581,000) may be distributed to their foreign parent company in the foreseeable future and the related deferred income tax liabilities of approximately RMB10,537,000 (2020: RMB11,029,000) have been recognised accordingly.

36 TRADE AND BILLS PAYABLES

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

	2021	2020
	RMB'000	RMB'000
0–90 days	**10,768**	67,574
91–180 days	**80**	10,956
Over 180 days	**29,879**	28,618
	40,727	107,148

Trade payables of approximately RMB12,327,000 are unsecured and are usually paid within 30 days from the date of initial recognition.

Bills payables of approximately RMB28,400,000 are bank acceptance notes within periods from 3 months to 1 year.

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.

37 OTHER PAYABLES AND ACCRUED EXPENSES

	2021	2020
	RMB'000	RMB'000
Payroll and welfare payable	**21,077**	22,203
Accrued expenses	**22,695**	41,362
Accrued sales rebates	**19,376**	71,112
Taxes and surcharges payable	**2,114**	5,216
Payable to suppliers for:		
— purchases of property, plant and equipment	**16,130**	48,948
— advertisement	**15,205**	8,980
Deposits received in connection with disposal of investment properties	**10,000**	—
Others	**45,216**	37,806
	151,813	235,627

38 BORROWINGS

	2021 RMB'000	2020 RMB'000
Included in current liabilities		
Bank borrowing, secured (a)	**138,750**	92,050
Bank borrowing, unsecured (b)	**12,000**	3,000
	150,750	95,050
Included in non-current liabilities		
Bank borrowing, secured (a)	**92,930**	64,730
	243,680	159,780

Bank borrowings mature until 2030 and bear average coupons of 4.79% annually (2020: 4.87% annually).

At 31 December 2021, the Group's borrowings were repayable as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	**150,750**	95,050
Between 1 and 2 years	**47,260**	17,720
Between 2 and 5 years	**9,710**	13,160
Over 5 years	**35,960**	33,850
	243,680	159,780

(a) As at 31 December 2021, the Group had total bank borrowings of RMB123,690,000 bearing floating interest rates, among which:

- RMB32,000,000 bear the floating interest rates (the higher one of loan prime rate ("**LPR**") plus 2.15% and 6.80% per annum);
- RMB49,090,000 bear the floating interest rates of loan prime rate ("**LPR**") plus 0.15% to 0.25% per annum;
- RMB15,000,000 bear floating rate of LPR plus 1.2025% per annum;
- RMB3,500,000 bear floating rate of LPR plus 0.80%;
- RMB20,000,000 bear floating rate of LPR plus 0.10%; and
- RMB4,100,000 bear floating rate of LPR plus 0.20% to 0.90%.

38 BORROWINGS *(Continued)*

(a) (Continued)

As at 31 December 2021, the Group had total bank borrowings of RMB107,990,000 bearing fixed interest rates, among which:

- RMB80,000,000 bear fixed interest rates ranges from 3.85%–4.35% per annum;
- RMB15,000,000 bear fixed interest rates of 4.59%;
- RMB3,000,000 bear fixed rate of 4.35%; and
- RMB9,990,000 bear fixed rate of 4.05%.

All bank borrowings above were secured by a third-party company, a group company or individuals, and/or pledged by land use rights and buildings.

(b) The Group's unsecured bank borrowings of RMB12,000,000 bear interests at fixed rate of 4.70% per annum and the principal is due for repayment from August to September in 2022.

(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.

39 LEASE LIABILITIES

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Lease liabilities		
Current	**21,057**	12,563
Non-current	**21,877**	10,044
	42,934	22,607

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:

	2021 RMB'000	2020 RMB'000
Depreciation of right-of-use assets (Note 18)	**19,875**	10,310
Interest expense (included in finance costs) (Note 12)	**1,295**	1,067
Total cash outflow for leases	**22,651**	15,694
Expense relating to short-term leases (included in cost of goods sold, selling expenses, administrative expenses and research and development expenses) (Note 7)	**2,992**	4,901
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)	**310**	812

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 6 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.

40 CASH USED IN OPERATIONS

(a) Reconciliation of loss before income tax to cash used in operating activities

	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
(Loss)/profit before income tax	**(90,724)**	115,058
Adjustments for:		
Depreciation of right-of-use assets	**22,708**	12,849
Amortisation of intangible assets	**10,864**	10,149
Depreciation of property, plant and equipment	**44,184**	32,755
Depreciation of investment properties	**974**	477
Impairment loss on non-current assets	**1,718**	8,595
Interest expenses	**6,692**	6,306
Interest income	**(7,373)**	(3,592)
Finance income	**(3,829)**	(2,758)
Change in fair value of short-term investments measured at fair value through profit or loss	**(740)**	(14,052)
Change in fair value of long-term investments measured at fair value through profit or loss	**(1,979)**	—
Net losses on disposals of land use rights, property, plant and equipment, intangible assets	**1,082**	658
Impairment loss on equity transaction of a subsidiary	**4,000**	—
Gain on disposal of subsidiaries	**—**	(80,108)
Amortisation of deferred government grants	**(847)**	(586)
Reversal of impairment of trade receivables	**(257)**	(53)
Share-based compensation	**8,383**	77
Foreign exchange losses	**682**	16,086
Share of profits of investments accounted for using the equity method	**(686)**	(4,736)
Net losses on liquidation of a joint venture	**446**	—
Operating cash flows before movements in working capital	**(4,702)**	97,125
Decrease/(increase) in inventories	**3,053**	(79,210)
(Decrease)/increase in trade and bills receivable	**(29,677)**	51,912
Decrease/(increase) in deposits, prepayments and other receivables	**6,969**	(48,803)
(Decrease)/increase in trade and bills payables	**(66,421)**	58,043
Decrease in other payables and accrued expenses	**(46,529)**	(1,604)
(Decrease)/increase in contract liabilities	**(2,711)**	6,971
Increase in other non-current liabilities	**—**	497
Cash (used in)/generated from operations	**(140,018)**	84,931

40 CASH USED IN OPERATIONS *(Continued)*

(b) In the statement of cash flows, proceeds from sale of property, plant and equipment and intangible assets comprise:

	2021 RMB'000	2020 RMB'000
Net book amount (Note 17 and 18 and 20)	**1,708**	1,380
Net losses on disposals of land use rights, property, plant and equipment, intangible assets (Note 9)	**(1,082)**	(658)
Transaction cost for proposed disposal of investment property	**832**	—
Proceeds from disposals of property, plant and equipment and intangible assets	**1,458**	722

(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	2021 RMB'000	2020 RMB'000
Cash and cash equivalents	**216,042**	543,822
Term bank deposits	**180,563**	120,300
Borrowings	**(243,680)**	(159,780)
Lease liabilities	**(42,934)**	(22,607)
Net debt	**109,991**	481,735
Cash and liquid investments	**396,605**	664,122
Gross debt — fixed interest rates	**(162,924)**	(181,001)
Gross debt — variable interest rates	**(123,690)**	(1,386)
Net debt	**109,991**	481,735

	Cash and cash equivalents RMB'000	Term bank deposits RMB'000	Liquid investments RMB'000	Borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
Net debt as at 31 December 2019	270,803	10,000	83,000	(94,800)	(17,568)	251,435
Cash flows	289,136	110,300	(83,000)	(64,980)	15,694	267,150
Addition-leases	—	—	—	—	(20,733)	(20,733)
Exchange losses on cash and cash equivalents	(16,117)	—	—	—	—	(16,117)
Net debt as at 31 December 2020	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**

41 DIVIDENDS

	2021 RMB'000	2020 RMB'000
Dividend paid for the current year, of HK$3.75 cents (2020: Nil) per ordinary share	**49,384**	—

On 25 May 2021, the Board has declared a dividend of HK$3.75 cents per share, amounting to a total dividend of HK$61,133,000 (equivalent to approximately RMB49,384,000).

42 COMMITMENT

(a) Capital commitments

Capital expenditure contracted for at end of year but not yet incurred is as follows:

	2021 RMB'000	2020 RMB'000
Property, plant and equipment	**24,943**	52,363

(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:

	2021 RMB'000	2020 RMB'000
No later than 1 year	**513**	812
Later than 1 year and no later than 5 years	**1**	15
	514	827

43 BUSINESS COMBINATION

(a) Summary of acquisition

On 1 February 2021, Qianruiwanfu entered into a restructuring investment agreement, pursuant to which Qianruiwanfu agreed to acquire 100% equity interest of Henan Xueyinghua at a cash consideration of approximately RMB31.99 million. The transaction was completed on 21 April 2021 and Henan Xueyinghua became an indirect wholly-owned subsidiary of the Company.

The acquired business did not contribute any revenue but contributed a net loss of approximately RMB360,000 to the Group for the period from 21 April 2021 to 31 December 2021. If the acquisition had occurred on 1 January 2021, the revenue and loss contributed to the Group for the year ended 31 December 2021 would have been nil and RMB1,542,000 respectively.

Details of the consideration, the fair value of the assets acquired and the goodwill are as follows:

	Henan Xueyinghua RMB'000
Fair value	
Property, plant and equipment (Note 17)	**14,100**
Land use rights	**8,880**
Intangible assets (Note 20)	**13,000**
Deferred income tax liabilities	**(7,790)**
Net identifiable assets acquired	**28,190**
Total consideration paid	**31,990**
Goodwill	**3,800**

The goodwill is attributable to Henan Xueyinghua's production capacity in pharmaceuticals industry and synergies expected to arise after the Group's acquisition of the new subsidiary.

(b) Purchase consideration — cash outflow

	Henan Xueyinghua RMB'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	**(31,990)**
Less: Cash and cash equivalents of the subsidiary acquired	**—**
Cash outflow on acquisition — investing activities	**(31,990)**

44 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:

	2021 RMB'000	2020 RMB'000
Salaries, bonus and other allowances	**11,265**	12,128
Share-based compensation	**3,989**	120
Pension cost — defined contribution plan	**278**	18
	15,532	12,266

(b) Transactions with related party

During the year ended 31 December 2021, Ms. Peng Wei, the shareholder of the Company and the non-controlling interests of two significant subsidiaries of the Company have been the guarantor of the Group's bank borrowings amounted to RMB116,680,000 (2020: RMB86,780,000) (Note 38(a)).

45 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director is set out below:

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

45 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2020:

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	211	1,765	608	—	4	2,588
Gao Yan	211	1,363	468	—	—	2,042
	422	3,128	1,076	—	4	4,630
Non-executive directors:						
Zhuo Fumin	211	—	—	—	—	211
	211	—	—	—	—	211
Independent non-executive directors:						
Ren Guangming	211	—	—	—	—	211
He Yuanping	211	—	—	—	—	211
Fu Shula	211	—	—	—	—	211
	633	—	—	—	—	633
	1,266	3,128	1,076	—	4	5,474

During the year ended 31 December 2021, no directors waived or agree to waive any emoluments (2020: 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.

46 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**221,545**	212,085
Financial assets measured at fair value through profit or loss	**19,380**	—
Property, plant and equipment	**1**	3
Loans to subsidiaries	**672,153**	749,468
	913,079	961,556
Current assets		
Deposits, prepayments and other receivables	**6,669**	26,221
Cash and cash equivalents	**10,477**	1,525
	17,146	27,746
Total assets	**930,225**	989,302
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	**94**	94
Share premium	**913,393**	962,777
Other reserves	**43,489**	35,106
Accumulated deficit	**(27,640)**	(9,562)
Total equity	**929,336**	988,415
LIABILITIES		
Current liabilities		
Other payable and accrued expenses	**889**	887
Total liabilities	**889**	887
Total equity and liabilities	**930,225**	989,302

The balance sheet of the Company was approved by the Board of Directors on 18 March 2022 and was signed on its behalf.

Zhao Yihong
Director

Gao Yan
Director

46 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 RMB'000	Total RMB'000
At 1 January 2020	962,777	57,711	6	(22,688)	35,029	37,168	1,034,974
Loss for the year	—	—	—	—	—	(46,730)	(46,730)
Share-based payments	—	77	—	—	77	—	77
Vesting of restricted share under share option scheme and restricted share award scheme	—	(257)	—	257	—	—	—
At 31 December 2020	962,777	57,531	6	(22,431)	35,106	(9,562)	988,321
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**

47 EVENT OCCURRING AFTER THE BALANCE SHEET DATE

On 18 March 2022, the Company's Board of Directors proposed a share consolidation on the basis that every 40 ordinary shares of USD0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of USD0.0003333332 each (the "**Consolidated Shares**"). The share consolidation is expected to become effective on 19 April 2022 subject to the approval by the shareholders of the Company, the listing of and permission to deal in the Consolidated Shares and the compliance with all relevant requirements under the applicable laws of Cayman Islands and The Rules Governing the Listing of Securities on the Stock Exchange to effect the share consolidation.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	542,870	378,378	812,160	1,292,711	**1,101,150**
Gross profit	430,193	255,317	584,452	913,326	**698,550**
(Loss)/profit from operating	(16,783)	(115,262)	(16,207)	30,214	**(90,964)**
Gain on disposal of subsidiaries	—	—	222,276	80,108	**—**
Impairment loss on intangible assets	—	(4,802)	—	—	**—**
Reversal of impairment of property, plant and equipment	—	—	—	—	**—**
Share of profits/(losses) of investments accounted for using the equity method	9,599	(1,295)	(12,862)	4,736	**240**
(Loss)/profit before income tax	(7,184)	(121,359)	193,207	115,058	**(90,724)**
Profit/(loss) and total comprehensive income/(loss) for the year	5,281	(93,472)	188,246	130,859	**(113,991)**
Earnings/(losses) per share (RMB cents)					
Basic	0.27	(5.98)	10.18	2.85	**(9.13)**
Diluted	0.27	(5.98)	10.18	2.85	**(9.13)**

CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2017	2018	2019	2020	**2021**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	1,114,142	825,412	672,836	793,474	**1,017,554**
Net current assets	89,960	310,174	509,435	563,354	**228,762**
Total assets less current liabilities	1,204,102	1,135,586	1,182,271	1,356,828	**1,246,316**
Non-current liabilities	61,819	86,681	102,825	146,446	**190,926**
Net assets	1,142,283	1,048,905	1,079,446	1,210,382	**1,055,390**
Share capital	94	94	94	94	**94**
Reserves	1,059,143	963,938	968,581	1,014,137	**827,423**
	1,059,237	964,032	968,675	1,014,231	**827,517**
Non-controlling interests	83,046	84,873	110,771	196,151	**227,873**
Total equity	1,142,283	1,048,905	1,079,446	1,210,382	**1,055,390**

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