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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 RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

FINANCIAL HIGHLIGHTS

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

The gross profit margin was 60.0% in 2022, representing a decrease by 3.4 percentage points from as compared with the gross profit margin of 63.4% in 2021.

The total loss for the year was RMB104.4 million in 2022, representing a decrease of loss of 8.4% as compared with the total loss for the year of RMB114.0 million in 2021.

The basic and diluted losses per share was RMB1.76 in 2022, as compared with the basic and diluted losses per share of RMB3.65 in 2021.

FINAL DIVIDEND

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

The board (the “**Board**”) of directors (the “**Directors**”) of Besunyen Holdings Company Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Revenue	3	943,283	1,101,150
Cost of sales		<u>(376,995)</u>	<u>(402,600)</u>
Gross profit		566,288	698,550
Selling and marketing expenses		(389,540)	(521,774)
Administrative expenses		(169,143)	(174,365)
Research and development costs		(101,486)	(93,099)
Credit impairment losses		72	257
Fair value changes on financial assets measured at fair value through profit or loss		627	1,979
Other income		21,287	19,473
Other expenses		(1,491)	(8,033)
Other losses, net	4	<u>(1,384)</u>	<u>(11,089)</u>
Operating loss		<u>(74,770)</u>	<u>(88,101)</u>
Finance income		2,026	3,829
Finance costs		<u>(8,148)</u>	<u>(6,692)</u>
Finance costs, net		<u>(6,122)</u>	<u>(2,863)</u>
Share of (losses)/profits of investments accounted for using the equity method		<u>(10,450)</u>	<u>240</u>
Loss before income tax		(91,342)	(90,724)
Income tax expense	5	<u>(13,047)</u>	<u>(23,267)</u>
Loss for the year		<u><u>(104,389)</u></u>	<u><u>(113,991)</u></u>

		Year ended 31 December	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
Attributable to:			
— Owners of the Company		(99,089)	(145,713)
— Non-controlling interests		(5,300)	31,722
		<u>(104,389)</u>	<u>(113,991)</u>
Other comprehensive income		—	—
Total comprehensive loss for the year		<u>(104,389)</u>	<u>(113,991)</u>
Attributable to:			
— Owners of the Company		(99,089)	(145,713)
— Non-controlling interests		(5,300)	31,722
		<u>(104,389)</u>	<u>(113,991)</u>
Losses per share attributable to owners of the Company for the year			
— Basic losses per share	6	<u>(1.76)</u>	<u>(3.65)</u>
— Diluted losses per share	6	<u>(1.76)</u>	<u>(3.65)</u>

CONSOLIDATED BALANCE SHEET

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

		As at 31 December 2022	As at 31 December 2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	10	288	94
Share premium		1,039,108	913,393
Other reserves		342,871	340,274
Accumulated losses		(527,930)	(426,244)
		<u>854,337</u>	<u>827,517</u>
Non-controlling interests		198,073	227,873
Total equity		<u>1,052,410</u>	<u>1,055,390</u>
LIABILITIES			
Non-current liabilities			
Deferred government grants		41,679	33,348
Lease liabilities		8,289	21,877
Deferred income tax liabilities		32,070	42,274
Long-term borrowings		52,681	92,930
Other non-current liabilities		—	497
		<u>134,719</u>	<u>190,926</u>
Total non-current liabilities		<u>134,719</u>	<u>190,926</u>
Current liabilities			
Trade and bills payables	9	20,559	40,727
Other payables and accrued expenses		169,863	151,813
Contract liabilities		24,945	31,469
Borrowings		124,890	150,750
Lease liabilities		9,027	21,057
Current income tax liabilities		725	—
		<u>350,009</u>	<u>395,816</u>
Total current liabilities		<u>350,009</u>	<u>395,816</u>
Total liabilities		<u>484,728</u>	<u>586,742</u>
Total equity and liabilities		<u>1,537,138</u>	<u>1,642,132</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1 GENERAL INFORMATION

Besunyen Holdings Company Limited 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 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").

2. 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 Changes in accounting policy and disclosures

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

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

- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to IAS 16
- Onerous Contracts — Cost of Fulfilling a Contract — Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020
- Reference to the Conceptual Framework — Amendments to IFRS 3
- Amendments to AG 5 Merger Accounting for Common Control Combinations

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

(b) New and amended standards not yet adopted

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

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

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

3. 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 resources.

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

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

Revenue

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

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

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

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

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

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

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

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

4. OTHER LOSSES, NET

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

5. INCOME TAX EXPENSE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current income tax:		
Adjustments of prior year's PRC income tax	130	(2,499)
Enterprise income tax	725	—
Deferred income tax:		
Origination and reversal of temporary differences	12,192	25,766
Income tax expense	<u>13,047</u>	<u>23,267</u>

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

The Company is a Hong Kong tax resident and subject to Hong Kong profit tax.

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

Tibet Besunyen Trading Co., Ltd. and Tibet Qianruiwanfu Venture Investment Co., Ltd., two subsidiaries established by the Group in February 2017, are entitled to the preferential policy of Encouraged Industries in the West Regions in Tibet from establish date to 31 December 2030, for which the applicable income tax rate is 15% (2021: 15%).

In July 2020, Beijing Outsell Product Development Co., Ltd. obtained the High and New Technology Enterprise (“HNTTE”) qualification for three years from 2020 to 2022, for which the applicable income tax rate is 15% (2021: 15%).

In November 2020, Zhongshan Wanyuan New Medicine Research and Development Co., Ltd. obtained the HNTTE qualification for three years from 2020 to 2022, for which the applicable income tax rate is 15% (2021: 15%).

In December 2022, Zhongshan Wanhan Pharmacy Co., Ltd. obtained the HNTTE qualification for three years from 2022 to 2024, for which the applicable income tax rate is 15% (2021: 15%).

All other PRC subsidiaries of the Group are subject to the statutory enterprise income tax rate of 25% (2021: 25%).

6. LOSSES PER SHARE

On 18 March 2022, the Board has resolved a share consolidation on the basis that every 40 ordinary shares of US\$0.00000833333 each in the issued and unissued share capital of the Company be consolidated into 1 ordinary share of US\$0.0003333332 each (the “Share Consolidation”). The Share Consolidation was subsequently approved by the shareholders of the Company on 13 April 2022, and was completed on 19 April 2022. Following the share consolidation, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended 31 December 2022 and 2021 has been retrospectively adjusted.

On 24 October 2022, the date on which the fully-paid rights shares are allotted and issued, the Company issued 81,510,390 shares based on the subscription price of HK\$1.75 per share to the qualifying shareholders (“Rights Issue”). The net proceeds from the Rights Issue after the deduction of expenses are approximately HK\$138.8 million (equivalent to RMB125,909,000).

(a) Basic

Basic losses per share is calculated by dividing the losses attributable to owners of the Company by the weighted-average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares under the Company’s restricted share award scheme.

	2022	2021
Loss attributable to owners of the Company (<i>RMB'000</i>)	<u>(99,089)</u>	<u>(145,713)</u>
Weighted-average number of ordinary shares in issue (<i>thousands</i>)	<u>56,164</u>	<u>39,890</u>
Basic losses per share	<u><u>(1.76)</u></u>	<u><u>(3.65)</u></u>

(b) Diluted

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

The share options had anti-diluted effect to the Group for the years ended 31 December 2022 and 2021. In addition, there were no unvested restricted shares which would result in dilutive effect to the Group as at 31 December 2022 and 2021. Accordingly, the diluted losses per share is same as the basic losses per share for the years ended 31 December 2022 and 2021.

7. TRADE RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	104,290	94,256
Less: Loss allowance	(127)	(199)
	104,163	94,057

The Group allows a credit period of 30–90 days to its customers. The following is an aging analysis of trade receivable (net of loss allowance) based on the dates of deliveries of the related goods to the customers, which are approximate to their invoice date:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0–90 days	103,125	93,965
91–180 days	551	31
181–365 days	473	—
Over 365 days	14	61
	104,163	94,057

8. BILLS RECEIVABLE

As of 31 December 2022 and 2021, bills receivable amounted to RMB5,153,000 and RMB2,974,000 were all bank acceptance notes with maturity date within 6 months and are classified as financial assets measured at FVOCI.

9. TRADE AND BILLS PAYABLES

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0–90 days	19,175	10,768
91–180 days	998	80
Over 180 days	386	29,879
	<u>20,559</u>	<u>40,727</u>

10. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Nominal value of ordinary shares <i>US\$</i>	Equivalent nominal value of ordinary share <i>RMB'000</i>
<i>Authorised:</i>			
Ordinary shares of US\$0.0003333332 each (Note 6)			
At 1 January 2021, 31 December 2021 and 2022 (Note 6)	<u>150,000,000</u>	<u>50,000</u>	<u>341</u>
<i>Issued and fully paid:</i>			
At 1 January 2021 and 31 December 2021 (Note 6)	<u>40,755,195</u>	<u>13,585</u>	<u>94</u>
Issuance of ordinary shares upon Rights Issue (Note)	81,510,390	27,170	194
At 31 December 2022	<u>122,265,585</u>	<u>40,755</u>	<u>288</u>

As at 31 December 2022, no share (2021: no share) was held by the Company's restricted share award scheme.

Note:

As described in Note 6, the Company issued 81,510,390 rights shares of par value of US\$0.0003333332 each at the subscription price of HK\$1.75 per share to the qualifying shareholders on 24 October 2022.

Share issuance costs related to the Rights Issue mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other costs. Incremental costs that are directly attributable to the issue of the new shares amounting to approximately RMB3,248,000 were treated as a deduction against the share premium arising from the issuance.

11. DIVIDENDS

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend paid for the current year	<u>—</u>	<u>49,384</u>

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

On 16 June 2021, the Group has paid a total dividend amounting to HK\$61,133,000 (equivalent to approximately RMB49,384,000) which was approved by the annual general meeting held on 25 May 2021.

12. EVENT OCCURRING AFTER THE BALANCE SHEET DATE

There is no significant event occurred after the balance sheet date which has material impact to the consolidated financial statements of the Group.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended 31 December 2022 in this results announcement as set out above have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

BUSINESS REVIEW AND PROSPECTS

OVERVIEW

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

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

Over the years, China has been keeping up the development momentum of the big health industry and it has promulgated a series of important documents and measures. It also made the decision and deployment for the implementation of the Healthy China initiative during the “13th Five-Year” period. At the national health and well-being convention held by the Central Committee of the Communist Party and the State Council, the Outline of the “Healthy China 2030” Plan was issued and the “14th Five-Year” Plan for

National Health Plan was compiled. The steady advancement of the Healthy China process and action has laid a solid policy foundation for the quality and substantial development of the big health industry.

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

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

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

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

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

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

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

1. Overview of the industry where the Company operated

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

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

2. Policies of the health food industry

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

3. Development of the health product industry

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

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

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

4. Position of the Company in the health product industry

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

BUSINESS OPERATION AND MANAGEMENT REVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company proactively advanced an organizational management reform to adapt to the business development and situation. The headquarters of the Company advanced a large-scale system reform, which significantly merged and streamlined the management departments of the Company, thus the numbers of management departments and personnel of the Company were greatly reduced. The vice president of the Company directly managed the functional departments, as a result, communication costs were greatly reduced and communication efficiency was improved. The main responsibility for contract and business approval process was determined based on the principles that applicant and approver shall be held responsible for application and approval, and the approval process was streamlined. The Company continued to improve the incentive system. The OTC Business Division proactively launched the track reward and performance ranking mechanism, implemented performance PK, “horse racing” mechanism and elimination mechanism, encouraging the business personnel in the team to improve their enthusiasm and initiative, and facilitating the younger workforce; whereas the E-commerce Department focused on the assessment of efficiency and output of staff to continuously improve per capita output and operating contribution. As for the newly established Douyin, Kuaishou, private domain and data marketing operations, the Company constantly attempted and explored new incentive models, and

stimulated innovation capabilities through product mix and incentive mechanism that our staff should actively try without being rash. Regarding the improvement of incentive mechanism, the Company adopted non-material incentive measures that we commended and recognized employees with good work attitude and outstanding performance by granting corresponding honorary titles to enhance their sense of honor and belonging, bonding and cohesion.

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

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

ANALYSIS OF COMPETITIVENESS DURING THE REPORTING PERIOD

1. Continuously enhancing the corporate brand competitiveness

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

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

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

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

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

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

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

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

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

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

Meanwhile, the Company continued to put effort on content marketing. We conveyed the product concept through the soft implantation of films and television dramas, strengthened the use of scenarios, and met users’ needs to

purchase products while watching videos, which was in line with the consumption habits of young consumer groups. Such approach diluted the commercial characteristics of traditional advertisements, making it easier for audiences to accept information about products or brands unconsciously, making their memory more durable. The Group's efforts in content marketing will continue to empower the brand through scenario-based marketing for long-term and continuous communication.

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

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

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

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

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

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

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

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

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

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

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

In order to reduce procurement costs, reduce the occupation of the Company's funds, realize cost reduction and efficiency improvement, we integrated the existing supply chain, made full use of supplier research and development capabilities, customer resources and effective information, and accelerated the launch of products. We also integrated the procurement, warehousing and

logistics systems, jointly operated the large pharmacy project and Zhuhai warehousing and logistics business, unified vertical management, centralized dispatch and coordinated multiple warehouses to improve work efficiency.

(2) *Constructing a highly automated workshop with GMP certification*

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

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

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

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

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

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

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

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

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

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

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

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

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

FULFILMENT OF SOCIAL RESPONSIBILITIES DURING THE REPORTING PERIOD

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

1. Social welfare activities

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

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

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

2. Revitalization of rural economy and support of poverty alleviation

The Company thoroughly implemented the spirit of the important speech of General Secretary Xi Jinping and implemented the “Opinions on Consolidating and Expanding the Achievements of Poverty Alleviation and Effectively Connecting with Rural Revitalization” issued by the Central Committee of the Communist Party of China and the State Council. Industrial chain was integrated into local economic development so as to revitalize rural vitality and achieve common prosperity. We actively participated in the special poverty alleviation work of “Ten Thousand Enterprises Help Ten Thousand Villages” and “Ten Thousand Enterprises Revitalize Ten Thousand Villages”. We supported the sustainable development of industries in poverty-stricken areas and provided important support for promoting rural

revitalization. Through economic support and industrial support, we assisted in pairing with Putaokou Village, Fanjiazhuang Town, Quyang County, Baoding City, Hebei Province, to help expand sales channels for agricultural products and provide assistance funds to families in need. We also helped Yangchanggou Village, Ulanhayesumu Town, Chayouzhongqi County, Inner Mongolia to solve the difficulties of medical treatment and continuously improve the life of low-income people.

FUTURE DEVELOPMENT OUTLOOK

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

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

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

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

Profit and positive cash flow are the foundation of the quality of operation and the existence of the Company. Stabilization of operation is the idea of establishing long-term operation. Facing the current complex economic situation, the Company will not make any urgent progress, and will not make any sharp turn. The Company will make steady progress in its operation direction and business. The principle of “stability” is not to be rest on one’s laurels, action-free, but to be pragmatic and proactive, not to be

courageous and eager to succeed, but to be law-abiding and progressive. Structural adjustment is to optimize and adjust the product structure, channel structure and organizational structure according to market needs and effectiveness, so as to improve operating results, optimize internal operation process and improve efficiency. Cost reduction is to take measures for reducing production costs and procurement costs, and to streamline and refine expenses. Improvement of quality and efficiency is to attain quality development, requiring all businesses to have profits and positive cash flow, and closing non-strategic projects that cannot generate benefits as soon as possible.

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

Firstly, actively expanding sales channels and strengthening marketing efforts

1. Continuously deepening offline sales reform

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

2. Rapidly upgrading traditional online e-commerce

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

3. Steadily promoting new retail business

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

Secondly, strengthening cooperation with manufacturers and continuously improving operational quality

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

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

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

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

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

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

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

FINANCIAL REVIEW

REVENUE

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

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

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

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

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

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

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

OTHER INCOME

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

SELLING AND MARKETING EXPENSES

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

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

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

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

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

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

ADMINISTRATIVE EXPENSES

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

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

RESEARCH AND DEVELOPMENT COSTS

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

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

OTHER LOSSES, NET

	For the year ended	
	31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Other losses, net	<u>1,384</u>	<u>11,089</u>

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

TAXATION

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

TOTAL COMPREHENSIVE LOSS FOR THE YEAR OF THE GROUP

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

LIQUIDITY AND CAPITAL RESOURCES

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

CASH FLOWS

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

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

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

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

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

- (i) Hainan Besunyen Healthcare Investment Limited (“**Besunyen Healthcare Investment**”), an indirect wholly-owned subsidiary of the Company, as the limited partner has made a capital commitment of US\$2.3505 million to Vstar Investment Fund Limited Partnership (the “**Fund**”) and injected US\$2.0609 million in cash on 17 May 2021. The Fund aims at investing in a Singaporean company which engages in the research and development of infection-related immunotherapy and antiviral and anti-bacterial medications and vaccines. As at 31 December 2022, the Group's investment in the Fund amounted to approximately RMB15.3 million.
- (ii) Smooth Raise Limited, an indirect wholly-owned subsidiary of the Company, invested in ERX Pharmaceuticals Inc. with a total consideration of US\$3 million, and the transaction was completed on 30 April 2021. As at 31 December 2022, the Group's investment in ERX Pharmaceuticals Inc. amounted to approximately RMB19.4 million.
- (iii) The Group's investment in Nanjing Jinbi Venture Capital Partnership (Limited Partnership) amounted to approximately RMB12.6 million.

BANK BALANCES, CASH AND BANK BORROWINGS

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

ISSUE OF SHARES

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

USE OF PROCEEDS FROM RIGHTS ISSUE

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

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

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

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

CAPITAL EXPENDITURE

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

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

INVENTORIES

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

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

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

RISK OF FOREIGN EXCHANGE RATE

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

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

SHARE CONSOLIDATION

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

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

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

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisition or disposal in 2022.

YUANYUAN LIUCHANG FUND

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

PLEDGE OF ASSETS

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

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

GEARING RATIO

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

CONTINGENT LIABILITIES AND GUARANTEES

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

CAPITAL COMMITMENTS

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group endeavored to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understood that employees are its valuable assets, and the realization and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2022, the Group provided generous social insurance benefits to its employees to motivate their proactivity at work and heighten their sense of belonging. The Group also understood the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group placed emphasis on supplier selection and encouraged fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of its brand and

products, the Group abided by the principles of honesty and trustworthiness and committed itself to consistently providing quality products to establish a reliable service environment for its customers. For the year ended 31 December 2022, there was no significant or material dispute between the Group and its suppliers and/or customers.

HUMAN RESOURCES MANAGEMENT

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

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

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

CORPORATE GOVERNANCE

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

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of The Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the year ended 31 December 2022, except for code provision C.2.1 of the CG Code.

The Directors are committed to upholding 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.

CODE PROVISION C.2.1 UNDER THE CG CODE

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 33 years of experience in food and beverage industry in the PRC. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group’s business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code during the year ended 31 December 2022.

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

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

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

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors in the year of 2022, 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 consolidated financial statements and this annual results announcement of the Group for the year ended 31 December 2022, reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Mr. Mou Wenjun was appointed as a member of the Audit Committee on 17 March 2023.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (<http://ir.besunyen.com>) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2022 will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board
Besunyen Holdings Company Limited
Zhao Yihong
Chairman and Chief Executive Officer

Hong Kong, 17 March 2023

As at the date of this announcement, the executive Directors are Mr. Zhao Yihong (Chairman and Chief Executive Officer), Ms. Gao Yan (Vice Chairman) and Mr. Yu Hongjiang (Executive Vice President, Chief Operating Officer and Chief Financial Officer); the non-executive Director is Mr. Zhuo Fumin; and the independent non-executive Directors are Mr. Ren Guangming, Mr. He Yuanping, Mr. Fu Shula and Mr. Mou Wenjun.