TYCOON

滿貫集團控股有限公司

Tycoon Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 3390

ANNUAL REPORT 2020

Table of Contents

Corporate Information

BOARD OF DIRECTORS

Executive Director
Mr. Wong Ka Chun Michael
(Chairman and Chief Executive Officer)

Non-executive Directors
Mr. Yao Qingqi
Ms. Chong Yah Lien
Mr. Ng Wang Yu Gary
Ms. Li Ka Wa Helen

Independent non-executive Directors
Mr. Wong Yuk Woo Louis
Mr. Chung Siu Wah
Ms. Chan Ka Lai Vanessa

AUDIT COMMITTEE
Ms. Chan Ka Lai Vanessa *(Chairman)*
Mr. Wong Yuk Woo Louis
Mr. Chung Siu Wah

REMUNERATION COMMITTEE
Mr. Wong Yuk Woo Louis *(Chairman)*
Mr. Chung Siu Wah
Ms. Chan Ka Lai Vanessa

NOMINATION COMMITTEE
Mr. Chung Siu Wah *(Chairman)*
Mr. Wong Yuk Woo Louis
Ms. Chan Ka Lai Vanessa

CORPORATE GOVERNANCE COMMITTEE
Mr. Wong Ka Chun Michael *(Chairman)*
Mr. Wong Yuk Woo Louis
Mr. Chung Siu Wah

COMPANY SECRETARY
Mr. Cheung Yuk Chuen *(CPA, ACCA)*

AUTHORISED REPRESENTATIVES
Mr. Wong Ka Chun Michael
Mr. Cheung Yuk Chuen

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 14, 8/F
Wah Wai Centre
38-40 Au Pui Wan Street
Shatin, New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS
Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HONG KONG LEGAL ADVISER
LCH Lawyers LLP

AUDITOR
Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

COMPLIANCE ADVISER
Shenwan Hongyuan Capital (H.K.) Limited

PRINCIPAL BANKERS
Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
China Everbright Bank

COMPANY WEBSITE
www.tycoongroup.com.hk

STOCK CODE
3390

Financial Highlights

	Year ended 31 December 2020 HK$'000	2019 HK$'000	Change
Revenue			
– Distribution	274,267	646,859	-57.6%
– E-commerce	224,687	35,362	+535.4%
– Retail stores	7,037	18,534	-62.0%
Total	505,991	700,755	-27.8%
Gross profit	83,826	191,141	-56.1%
Gross profit margin (%)	16.6%	27.3%	
Profit/(loss) attributable to equity holders of the Company	(61,134)	54,516	-212.1%
Profit margin attributable to equity holders of the Company (%)	N/A	7.8%	
Adjusted EBITDA *(Note)*	(35,635)	98,618	-136.1%
Adjusted EBITDA margin (%)	N/A	14.1%	
Return on equity (%)	N/A	46.1%	

	As at 31 December 2020 HK$'000	2019 HK$'000	Change
Total assets	619,910	366,364	+69.2%
Total liabilities	329,471	248,004	+32.8%
Total equity	290,439	118,360	+145.4%

Note:

Adjusted EBITDA is calculated based on adjusted earnings before interest, taxes, depreciation and amortisation, where "interest" is regarded as including interest income and interest expenses and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for share of losses of associates, share of losses of joint ventures and non-recurring items attributable to the operations of the Group such as listing expenses.

Chairman's Statement

Dear Valued Shareholders,

On behalf of the board ("**Board**") of directors ("**Directors**") of Tycoon Group Holdings Limited ("**Company**" or "**Tycoon**"), I am pleased to present to you the annual report ("**Annual Report**") of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2020 ("**Financial Year**" or "**FY2020**").

STRIVING FORWARD WITH PERSEVERANCE

Against the backdrop of the Coronavirus Disease 2019 ("**COVID-19**") pandemic, retail and distribution businesses faced a difficult operating environment in the past year. Amidst a challenging environment, Tycoon Group successfully reduced the deficit in the second half of this Financial Year through shrewd tactics and resilience. The Group's online business recorded a turnaround from loss, gaining a 6-fold increase in sales revenue as compared to the financial year ended 31 December 2019 ("**Last Financial Year**" or "**FY2019**").

For this Financial Year, the Group's sales amounted to HK$506.0 million, representing a decrease of 27.8% from HK$700.8 million for the Last Financial Year. According to data from the Census and Statistics Department, the provisionally estimated total sales value of medicines and cosmetics retailers in the year of 2020 decreased by 50.0% from the year of 2019 and the volume of sales decreased by 50.6%. In this regard, the Group's sales performance was better than the overall sales performance of medicine and cosmetics products in Hong Kong.

In the Financial Year, the Group recorded a loss of HK$61.0 million (FY2019: a profit of HK$54.5 million). The loss was mainly due to the reduction of economic activities caused by the outbreak of COVID-19 and the implementation of anti-pandemic measures such as gathering restrictions and travel bans, which led to a drastic drop in the number of Mainland Chinese visitors and weak consumer sentiments. Despite the hardship over the past year, the Board would like to take this opportunity to thank the shareholders for their continuous support. The Board has resolved to declare a special dividend of HK2 cents per share for this financial year (FY2019: paid final dividend of HK$30.0 million and a special dividend of HK$20.0 million for FY2019).

STRIDING FORWARD, PREPARING FOR THE FUTURE

At the time of writing, COVID-19 pandemic remains a worldwide threat which has posed severe damage to the global economy. However, the COVID-19 vaccines are now available and vaccination programmes in mainland China, Hong Kong and Macau are making progress. It is hoped that COVID-19 will eventually be eased, and China and Hong Kong will re-connect again and drive the recovery of the market. Furthermore, we expect that after COVID-19, people around the world will have greater awareness of healthcare and epidemic prevention. Therefore, it is a great opportunity for anti-epidemic and health supplement industry to flourish.

Chairman's Statement

There is no doubt that COVID-19 wreaked havoc on various industries. However, the Group saw opportunities in the crisis. COVID-19 has changed consumers' habits, driving them from shopping offline to online. With the advantage of a diversified online and offline dual-channel sales network, the Group's e-commerce business recorded growth despite the pandemic. Therefore, the Group will continue to seize the opportunity and allocate more resources for the development of the Group's e-commerce business, including but not limited to continuing to expand our China e-commerce team, setting up more e-commerce stores and cooperating with more reputable brands for the distribution of their best-selling products.

Given the large population in China and the strong demand for reputable PCM (i.e. Proprietary Chinese Medicines as defined by the Chinese Medicine Ordinance of Hong Kong) and health supplement products, we expect that the future business growth will mainly come from Mainland China. According to the data released by Guangdong Medicine Exchange, the annual transaction value of pharmaceuticals in Guangdong has exceeded RMB90 billion for three consecutive years. In 2020, the Group entered into an agreement with a wholly-owned subsidiary of China Resources Pharmaceutical Group Limited (stock code: 3320.hk) to set up a joint venture in China. The joint venture is expected to commence operations in the second quarter of 2021 to distribute high-quality anti-pandemic and healthcare related products selected from overseas for Chinese consumers.

CONCLUSION

I would like to express my deepest gratitude to our colleagues for their diligence and dedication, as well as our shareholders, business partners and customers for their steadfast support and trust in us in the current tough market.

Although the current economy remains weak, a recovery will eventually emerge. Since health is a priceless treasure to everyone, I remain optimistic about the future outlook for the Group. The Group will keep the promise of bringing health and vitality to consumers and continue to source quality health and well-being related products from all over the world, advocating a healthy and energetic lifestyle.

Wong Ka Chun Michael
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 26 March 2021

Management Discussion and Analysis

The Group is a Hong Kong-based provider of PCM (i.e. Proprietary Chinese Medicines as defined by the Chinese Medicine Ordinance of Hong Kong), health supplement, skin care, personal care and other healthcare products, mainly selling and distributing such products of third party brands and the Group's own brand (i.e. products developed and marketed under the brands of the Group and produced by external manufacturers engaged by the Group on an ODM basis) ("**Private Label Products**"). As a reputable provider of health and well-being related products, the Group has distributed over 100 brands and became one of the three major distributors in PCM in Hong Kong in 2018. With the mission of bringing health and vitality to consumers, the Group has established a diversified sales network through our distribution and retail business, bringing reputable and high-quality products to consumers by our online and offline dual-channel commerce strategy.

MARKET REVIEW

Against the backdrop of the COVID-19 pandemic, retail and distribution businesses are facing a difficult operating environment. Throughout the year of 2020, the HKSAR government implemented social distancing measures in public places and a compulsory quarantine arrangement for inbound visitors arriving Hong Kong in order to combat COVID-19. During the Financial Year, the number of Mainland Chinese tourists visiting Hong Kong through the Individual Visit Scheme dropped sharply and local consumers preferred to stay at home, causing fewer people to be on the streets and bringing an impact on the overall retail market in Hong Kong. According to the statistics from the Hong Kong Tourism Board, the number of tourists visiting Hong Kong in 2020 decreased by 93.6% to 3.6 million from 55.9 million for last year. The number of Mainland Chinese tourists, in particular, dropped by 93.8%.

There is a positive correlation between the local retail market and the number of tourists. A decline of the latter often predicts a weak retail sales performance and that the sales of medicines and health products that are popular among Mainland Chinese tourists will also be adversely affected. According to the data from the Census and Statistics Department, the provisional estimate of the value of total retail sales in 2020 decreased by 24.3% from last year, whereas the provisional estimate of total sales volume decreased by 25.5%. For medicines and cosmetics retailers, the total sales value in 2020 is provisionally estimated at HK$21.5 billion, decreased by 50.0% from last year and the volume of sales decreased by 50.6% from last year.

Management Discussion and Analysis

BUSINESS REVIEW

From the financial perspective, the Group operates three business segments, namely the e-commerce business, the distribution business and the retail stores business. The Group distributes and sells PCM, health supplements, skin care, personal care and other healthcare products of third-party brands and the Group's own brand. The e-commerce business includes the operation of online stores and wholesale to e-commerce customers. The distribution business includes the distribution of consumer products to large chain retailers, non-chain retailers (mainly pharmacies) and traders in Hong Kong. The retail stores business includes sales of products through its brick-and-mortar retail stores. Both the e-commerce business and the distribution business are the Group's major operating segments.

For FY2020, the Group recorded a revenue of around HK$506.0 million, representing a decrease of 27.8% from HK$700.8 million for FY2019 and a loss of HK$61.0 million (FY2019: a profit of HK$54.5 million). Such decrease in revenue for FY2020 was principally attributable to the worse-than-expected performance of the Group, particularly, for the first half of 2020 as a result of the outbreak of COVID-19 since early 2020, which is still subsisting at the date of this Annual Report. As a result of the pandemic, the government of Hong Kong and the PRC have implemented various anti-pandemic measures such as gathering restrictions and travel bans, which has led to a drastic drop in the number of Mainland Chinese visitors and weak consumer sentiments. There has also been substantial reduction of economic activities. According to data from the Census and Statistics Department, for medicines and cosmetics retailers, the total sales value in FY2020 is provisionally estimated at HK$21.5 billion, decreased by 50.0% from FY2019. In this regard, the Group's sales performance in terms of total sales was better than the overall sales performance of medicine and cosmetics products in Hong Kong.

Management Discussion and Analysis

Although the offline sales of the Group recorded a decrease for the Financial Year due to COVID-19, the decrease was narrowed in the second half of the Financial Year. Meanwhile, the e-commerce sales of the Group recorded a significant increase as compared to the Last Financial Year. For the Financial Year, the Group's e-commerce sales recorded a 6-fold increase to HK$224.7 million from HK$35.4 million for the Last Financial Year, reflecting the success of the Group's online and offline dual-channel business model. With the combined effect of reducing infection risk by staying home and the travel restrictions in Mainland China, consumers turned to e-commerce platforms, which help the growth of the Group's e-commerce business. The Group's e-commerce revenue mainly derives from Mainland China, possibly because Mainland Chinese consumers turned to e-commerce platforms to purchase reputable anti-pandemic and healthcare products as visiting to Hong Kong through Individual Visit Scheme was restricted. The Group expects that the trend of consumers switching from offline to online shopping will continue. In the Financial Year, the Group has recruited more employees and expanded the office in Mainland China to cope with the Group's expansion in the e-commerce business.

In addition, the Group has implemented strategic plans in Macau to seize the opportunities brought by the economic recovery in Macau, where COVID-19 is under control. In the first half of 2020, the Group's exclusive distributorship business for Po Chai Pills (保濟丸) in Macau has officially commenced. Po Chai Pills is a well-known PCM brand in China and Hong Kong, one of the bestselling PCM products and a top souvenir choice of Mainland Chinese tourists. It is expected that Po Chai Pills will bring stable revenue to the Group. In the future, the Group will continue to explore and obtain the distributorship rights of more new healthcare, skin care and personal care products to provide consumers with a diversified selection of products.

In 2020, the Group also acquired 80% interest in Jefferine Macau Limited ("**Jefferine**"). Jefferine is a holder of the licence for import, export and wholesale of pharmaceutical products in Macau and an authorised sole or exclusive distributor of certain brands of PCM and pharmaceutical products, which the Directors believe are popular products amongst the Mainland Chinese tourists, in Macau. Through the acquisition, it is expected that the Group can, by utilising Jefferine's existing and well established distribution channels and customer base in Macau, expand the Group's operations in Macau.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

During the Financial Year, revenue derived from the Group's distribution business decreased by 57.6% to HK$274.3 million (FY2019: HK$646.9 million). Revenue generated from the Group's retail stores business decreased by 62.2% to HK$7.0 million (FY2019: HK$18.5 million).

The business of the Group's major customers, being the leading and reputable chain retailers in Hong Kong, suffered from the social unrest resulted from the large-scale protest in various districts in Hong Kong in the second half of 2019 followed by COVID-19 pandemic in 2020. Inevitably, the Group's business was, in turn, adversely affected by the weakened demand for its products in the same periods, as a result of the various stringent policies promulgated by the Hong Kong Government to combat COVID-19, such as the social distancing measures and stricter travel bans for inbound travelers which resulted in a drastic decrease in the number of cross-border travelers coming to Hong Kong and weak consumer sentiments.

Furthermore and by reason of the foregoing, the Group received requests from its chain retailer customers to return certain products with short-shelf life and/or less popular products to the Group in 2020. In order to maintain the good business relationship with these customers, the Group has accommodated these requests even though the transactions with them were on a buy-and-sell basis.

During the Financial Year, revenue derived from the Group's e-commerce business increased substantially by 6 times to HK$224.7 million (FY2019: HK$35.4 million) which mainly derived from Mainland China. Such increase was mainly attributable to the tighter travel restrictions from Mainland China to Hong Kong, driving customers in Mainland China to resort to online platforms for anti-pandemic and healthcare products of good reputation and quality. As COVID-19 is rapidly changing people's shopping behavior toward online channels and the shifts are likely to stick post-pandemic, the Group will continue to adopt the online and offline dual-channel commerce strategy and expand its cross-border e-commerce network to distribute and sell more products to customers in Mainland China.

Cost of Sales

The cost of sales decreased by 17.2% to HK$422.2 million for the Financial Year as compared to that of HK$509.6 million for the Last Financial Year. The decrease was mainly attributable to the diminution in revenue for the Financial Year.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

The gross profit decreased to HK$83.8 million for the Financial Year as compared to that of HK$191.1 million for the Last Financial Year, and the gross profit margin decreased by 10.7 percentage points to 16.6%. The decrease in gross profit margin is primarily attributable to (a) the change in the mix of sales channel i.e. more sales by way of cross-border e-commerce instead of offline sales, which generated a lower gross profit margin due to the fierce competition in the e-commerce market; and (b) the change in the mix of products sold i.e. more anti-pandemic products were sourced and sold by the Group and due to the keen competition of these products on the market, these products were sold at a relatively competitive price which also resulted in a lower gross profit margin.

Other Income and Gains

Other income and gains increased to HK$6.6 million for the Financial Year as compared to that of HK$0.4 million for the Last Financial Year, which was mainly due to (a) the subsidy from Hong Kong Government's Employment Support Scheme; and (b) the gain on disposal of property, plant and equipment.

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the Financial Year were HK$58.7 million, as compared to that of HK$62.3 million for the Last Financial Year. Despite the decrease in revenue during the Financial Year, the selling and distribution expenses were at a similar level to the Last Financial Year primarily attributable to the combined effect of the reduced expenses on advertisements as consumer sentiment was weak as a result of the widespread of COVID-19 and an increase in website service fee due to the increase in e-commerce sales.

General and Administrative Expenses

The Group's general and administrative expenses increased by 70.3% to HK$93.5 million for the Financial Year as compared to that of HK$54.9 million for the Last Financial Year, such increase was primarily due to the combination of the following factors:

(a) a write-off of inventories of HK$10.4 million (FY2019: Nil) for products which are not merchantable or products with short-shelf life returned from chain retailer customers of the Group;

(b) a provision for inventories of HK$20.1 million (FY2019: Nil) for certain health and well-being related products with relatively shorter shelf life as the Group has taken into account the decline of consumer sentiment during the ongoing coronavirus crisis and the Group has implemented stringent policy on remaining shelf life of health and well-being products in order to safeguard the customers' health;

(c) a one-off impairment on assets of HK$6.5 million (FY2019: Nil), including the leased assets as right-of-use assets associated with the store's remaining lease, and some property, plant and equipment, in relation to the closure of one of the two brick-and-mortar retail stores in Macau in mid-July 2020. Such closure was mainly due to its unfavourable location in Macau, and the weak local tourism and retail industry in 2020;

(d) a gain on termination of lease of HK$4.4 million (FY2019: Nil) upon the closure of one of the two brick-and-mortar retail stores in Macau in mid-July 2020; and

(e) an increase in the legal and compliance costs by 4.4 times to HK$7.1 million (FY2019: HK$1.6 million) after listing of the shares of the Company on the Stock Exchange in April 2020.

Finance Costs

Finance costs for the Financial Year decreased by 18.3% to HK$4.9 million as compared to HK$6.0 million for the Last Financial Year due to the change in the Group's loan structure. The Group maintains a conservative approach in financial resource management.

Loss Attributable to Shareholders

The loss attributable to the shareholders of the Company for the Financial Year was HK$61.1 million as compared to a profit of HK$54.5 million for the Last Financial Year.

LIQUIDITY AND FINANCIAL RESOURCES

During the Financial Year, the Group has funded the liquidity and capital requirements primarily through capital contributions from the shareholders of the Company, bank borrowings, loan from a related company, cash generated from the operating activities and the net proceeds from the Global Offering ("**Net IPO Proceeds**").

Management Discussion and Analysis

As at 31 December 2020, the Group had cash and bank balances of approximately HK$119.3 million (31 December 2019: HK$50.4 million) of which were mainly denominated in Hong Kong dollars and Renminbi. The gearing ratio (defined as total debt divided by total equity, where total debt includes interest-bearing bank borrowings, loan from a related company and lease liabilities) of the Group as at 31 December 2020 was 68.3% (31 December 2019: 140.8%). The decrease was mainly due to bank borrowings settled by part of the Net IPO Proceeds during the Financial Year.

CAPITAL STRUCTURE

As at 31 December 2020, the borrowings included secured interest-bearing bank borrowings of approximately HK$92.9 million (31 December 2019: HK$151.1 million), unsecured interest-bearing bank borrowings of approximately HK$39.0 million (31 December 2019: Nil) and a loan from a related company with maturity date on 26 March 2021 of approximately HK$50 million (31 December 2019: Nil). Except for the Group's interest-bearing bank borrowings of HK$11.4 million (31 December 2019: HK$10.2 million) which was denominated in MOP, the Group's interest-bearing bank borrowings are all denominated in Hong Kong dollars. All borrowings are at floating rates.

Maturity analysis of bank borrowings of the Group as at 31 December 2020 and 2019 is as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000
Within one year	**118,321**	136,086
In the second year	**1,302**	2,941
In the third to fifth years, inclusive	**2,445**	4,246
Beyond five years	**9,797**	7,847
	131,865	151,120

As at 31 December 2020, the Company's issued share capital was HK$8.0 million and the number of its issued ordinary shares was 800,000,000 of HK$0.01 each.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's reporting currency is Hong Kong dollars. The Group is exposed to currency risk primarily through sales and purchases, which give rise to receivables, payables and cash balances that are denominated in a foreign currency. The currency giving rise to this risk is primarily Renminbi. During the Financial Year, the Group did not use any derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business. The Group's management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

PLEDGE OF ASSETS

As at 31 December 2020, (i) certain of the Group's leasehold land and buildings with a net carrying amount of approximately HK$58.4 million (31 December 2019: HK$50.3 million) were pledged to secure certain bank loans granted to the Group; and (ii) all the Group's equity interest in Hong Ning Hong Limited were pledged to secure a loan from a related company granted to the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus of the Company dated 30 March 2020 ("**Prospectus**"), the Group does not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Acquisition of 49% Interest in Hong Ning Hong from Jacobson Pharma

On 1 June 2020, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement with a wholly-owned subsidiary of Jacobson Pharma Corporation Limited ("**Jacobson Pharma**") (stock code: 2633.hk), pursuant to which the Group conditionally agreed to purchase 49% of the issued shares of Hong Ning Hong Limited ("**Hong Ning Hong**") from Jacobson Pharma at the consideration of HK$41.7 million. The investment is accounted for as an investment in an associate by the Group. The Hong Ning Hong Group (comprising Hong Ning Hong and its wholly-owned subsidiary) is principally engaged in the retail and wholesale of proprietary medicines and pharmaceutical products in Hong Kong. Such acquisition fills the gaps that the Group lacks offline retail outlets in Hong Kong other than through its chain retailer customers' outlets and such acquisition can drive online and O2O business of the Group. The acquisition allows the Group to increase the accessibility and availability of the Group's products, also expand the Group's offline sales to non-chain retailers and increase the market penetration of the Group's products to consumers. Completion of such acquisition took place on 15 June 2020.

Management Discussion and Analysis

The Hong Ning Hong Group has an established customer network, and mainly operates two retail outlets in Hong Kong. The Group expects to gain access to the existing customer base of the Hong Ning Hong Group and increase the market's availability of the Group's products. In addition, through the retail and wholesale activities of the Hong Ning Hong Group, it is expected that the Group will obtain first-hand market information which will enable the Group to capitalise on further market opportunities and new product development with a view to providing growth potential of the Group.

For further details, please refer to the announcement of the Company dated 1 June 2020.

Subscription of Shares in JBM (Healthcare) Limited

On 27 July 2020, an indirect wholly-owned subsidiary of the Company and JBM Group (BVI) Limited and JBM (Healthcare) Limited ("**JBM Healthcare**", together with its subsidiaries, "**JBM Group**") entered into a sale and purchase agreement, pursuant to which the Group agreed to subscribe for, and JBM Healthcare agreed to allot and issue the subscription shares at the aggregate subscription price of HK$20.0 million in cash ("**Subscription**"). Subsequently, JBM Healthcare was listed on the Main Board of the Stock Exchange on 5 February 2021. As at the date of this Annual Report, the shares acquired under the Subscription represent approximately 2.2% of JBM Healthcare's issued shares.

JBM Healthcare (stock code: 2161.hk) is principally engaged in branded healthcare business comprising branded medicines, PCM and branded health and wellness products such as health supplements, personal care products and diagnostic kits. The Directors believe that the Subscription will strengthen its strategic relationship with the JBM Group, which could allow the Group to access to a broader product portfolio, further strengthen the Group's capability and competitiveness as a provider of health and well-being related products and enhance the confidence of the Group's suppliers and chain retailer customers as their distributor and supply chain partner respectively. In addition, the Directors believe that the Subscription can provide the Group with an opportunity to generate potential investment returns by investing in the JBM Group.

For further details, please refer to the announcement of the Company dated 27 July 2020.

Acquisition of 80% Interest in Jefferine

On 15 September 2020, an indirect wholly-owned subsidiary of the Company and the vendor entered into a sale and purchase agreement ("**SPA**"), pursuant to which the Group has conditionally agreed to purchase 80% of the registered share capital of Jefferine at the consideration of HK$37.4 million ("**Consideration**"). The acquisition was completed on 30 September 2020.

Jefferine is a holder of the licence for import, export and wholesale of pharmaceutical products in Macau, is principally engaged in the import and distribution of pharmaceuticals, PCM and healthcare products in Macau. It is an authorised sole or exclusive distributor of certain brands of PCM and pharmaceutical products, which the Directors believe are popular products amongst the Mainland Chinese tourists, in Macau. Through the acquisition, it is expected that the Group can, by utilising Jefferine's existing and well established distribution channels and customer base in Macau, expand the Group's operations in Macau.

Given the proximity of Hong Kong and Macau and building on the Group's well-established and effective distribution channels in Hong Kong, the Group can increase the accessibility and availability of its products to consumers in Macau. The Group believes that the acquisition represents an opportunity for the Group to align the distribution business of the Group in Hong Kong and Macau so as to better consolidate and utilise the brand advantages of the Group and enhance the influence of its product portfolio across the regions in the Guangdong-Hong Kong-Macao Greater Bay Area ("**GBA**").

Pursuant to the SPA, the Consideration would be subject to downward adjustments upon the occurrence of each of the following events: (i) Jefferine records an unaudited loss for the three months ending 31 December 2020 ("**2020Q4**"); and (ii) the aggregate of the audited net profit of Jefferine for FY2021 and FY2022 is less than HK$14.0 million. Based on the information available, the Directors confirm that Jefferine did not record any unaudited loss for 2020Q4.

For further details, please refer to the announcement of the Company dated 15 September 2020.

Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures during FY2020.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investments during the Financial Year.

CAPITAL COMMITMENT

As at 31 December 2020, the Group had no capital commitment (31 December 2019: Nil).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities (31 December 2019: Nil).

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

200,000,000 Shares are charged by Tycoon Empire Investment Limited ("**Tycoon Empire**"), the controlling shareholder of the Company, in favour of China Resources Pharmaceutical Retail Group Limited as security for the performance by Tycoon Empire and Mr. Wong Ka Chun Michael of their obligations under the shareholders' agreement dated 19 February 2019 entered into among Tycoon Empire, Mr. Wong Ka Chun Michael, China Resources Pharmaceutical Retail Group Limited and the Company. For details of such charge, please refer to "Pre-IPO Investments" in the Prospectus. Please also refer to the paragraph headed "Update on the Pre-IPO Shareholders Agreement" below for an update of the related matters.

UPDATE ON THE PRE-IPO SHAREHOLDERS AGREEMENT

Reference is made to the Prospectus.

As set out in the section headed "Pre-IPO Investments" in the Prospectus, the Company, the controlling shareholders of the Company ("**Controlling Shareholders**") and the pre-IPO investors entered into a shareholders' agreement on 19 February 2019 ("**Pre-IPO Shareholders Agreement**").

Under the Pre-IPO Shareholders Agreement, China Resources Pharmaceutical Retail Group Limited ("**CR Pharma**"), being one of the pre-IPO investors, was granted certain special rights by the Controlling Shareholders, which have survived after Listing. Such rights include, without limitation, the right to receive compensation from the Controlling Shareholders in the event that the aggregated sum of the audited consolidated net profit of the Company for FY2019 and FY2020 (excluding certain expenses) is less than HK$274.0 million ("**Target Profit**").

Given that the Target Profit is not met, the Controlling Shareholders have approached CR Pharma to liaise for amendment of certain terms of the Pre-IPO Shareholders Agreement. As at the date of this Annual Report, the parties are still under negotiations on the possible amendment of terms of the Pre-IPO Shareholders Agreement. A voluntary announcement will be published by the Company once the details of such amendment have been confirmed by the parties.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 172 employees in Hong Kong, Mainland China, Macau, Singapore, Malaysia and Australia (FY2019: 164). For the Financial Year, the total staff costs incurred was approximately HK$37.3 million (FY2019: HK$42.2 million). The Group's remuneration policy is based on position, duties and performance of the employees. Employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus and subsidies. The performance appraisal cycle varies according to the positions of employees. In order to provide incentives to and to recognise the contributions of employees of the Group, the Group has also adopted the Share Award Scheme and the Share Option Scheme.

DIVIDEND

The Board has resolved to declare a special dividend of HK2 cents per share for this Financial Year (FY2019: paid final dividend of HK$30.0 million and special dividend of HK $20.0 million).

USE OF PROCEEDS FROM LISTING

The Company's shares ("**Shares**") were successfully listed on the Stock Exchange on 15 April 2020 ("**Listing Date**"), where a total of 192,420,000 Shares were issued by the Company by way of the Global Offering at the offer price of HK$1.49 per Share and the net IPO proceeds (after deducting listing expenses) ("**Net IPO Proceeds**") amounted to approximately HK$224.5 million.

The Group has utilised and will continue to utilise the Net IPO Proceeds in accordance with the purposes set out in "Future Plans and Use of Proceeds" in the Prospectus. The table below sets out the planned applications of the net proceeds and the actual usage up to 31 December 2020:

Use of proceeds	Adjusted on a pro rata basis based on the actual net proceeds (HK$ million)	Percentage of total net proceeds	Actual use of proceeds from the Listing Date up to 31 December 2020 (HK$ million)	Unutilised net proceeds as at 31 December 2020 (HK$ million)	Expected timeline of utilising the unutilised proceeds
Further developing supply chain and retail management	66.6	30%	42.6	24.0	On or before 31 December 2022
Further investing in brand management to increase mass awareness of the Group and its products	33.8	15%	6.4	27.4	On or before 31 December 2022
Repaying loans	101.6	45%	101.6	–	
General working capital	22.5	10%	22.5	–	
Total	224.5	100%	173.1	51.4	

As at the date of this Annual Report, the unutilised Net IPO Proceeds were deposited into interest-bearing bank accounts at licensed banks in Hong Kong.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Directors are aware that the Group is exposed to various types of principal risks and uncertainties as discussed below.

(i) Risks with regards to consumers

The demand for the Company's products is subject to changes in consumer preferences, perception and spending habits. The Company's performance depends significantly on factors which may affect the level and pattern of consumer spending. Such factors include consumer preferences, consumer confidence, consumer income and consumer perception of the safety and quality of the Company's products. Media coverage regarding the safety or quality of, or diet or health issues relating to, health supplements or the raw materials, ingredients or processes involved in their manufacturing, may damage consumer confidence in the Company's products. If there is a change in consumer preferences, perception and spending habits at any time, the demand for the Company's products by consumers may decline and the Company's business, financial condition and results of operations may be materially and adversely affected.

(ii) Currency risks

The sales of the Company's products are predominately made in Hong Kong, while the majority of the health supplement products are sourced from brand owners in overseas countries such as the U.S., Australia and Japan. The Company also engage external manufacturers in overseas countries such as Taiwan and Japan to produce Private Label Products on an ODM basis. The Company's functional currency is Hong Kong dollar, being the settlement currency for most of the Company's sales, whereas purchases from overseas brand owners and manufacturers are primarily settled in foreign currencies. All of the Company's purchases made in foreign currencies are translated into Hong Kong dollars at the prevailing rate at the time of settlement. The Group does not have any foreign currency hedging policy. Accordingly, fluctuations in the relevant foreign currencies against Hong Kong dollar may affect the cost of sales in terms of Hong Kong dollar and consequently the profit margin and results of operations.

(iii) Risk pertaining to outbreak of COVID-19

The Group's business has been, to a certain extent, affected by the recent global outbreaks of COVID-19. The global epidemic has resulted in lockdowns and disruptions of transportations in various countries and regions as well as a downward pressure in the global economy. Some of the Group's suppliers have suffered a reduction in their productivity in 2020. There has also been a reduction in the demand of our products from the Group's customers. Travel restrictions and mandatory quarantine imposed by the Hong Kong government have limited the number of tourist visits to Hong Kong, which affected those who might have been attracted to physically come to Hong Kong for shopping and buying health and well-being related products. To minimise the risk of infection, local consumers tend to reduce their outdoor activities, including off-line shopping, and to shift their shopping habits from offline to online. Consumers' demand may also shift to necessities from other non-essential consumer goods such as PCM, health supplement, skin and personal care products. These may adversely affect the retail sales of the Company's products at the Company's customers' retail stores, and may thereby affect the demands and purchases of the Company's products from customers.

These risks are further described in "Risk Factors" in the Prospectus. Please note that the above risks may not be indicative of future performance due to a variety of factors beyond the Company's control, including but not limited to the general economic and social conditions.

FUTURE OUTLOOK

Although COVID-19 has severely impacted the retail and distribution industry, the Group remains optimistic about the future outlook for the healthcare industry. In response to the current situation of the outbreak of COVID-19 in Hong Kong, the Hong Kong SAR Government has, in addition to the other preventive measures adopted, launched a territory-wide COVID-19 vaccination programme free of charge for Hong Kong residents to combat COVID-19. As a matter of fact, governments all over the world are also collaborating to keep COVID-19 under control. A number of countries have already made significant progress in COVID-19 vaccination programmes. It is hoped that, with the joint efforts from all around the world, COVID-19 will eventually be eased, and China and Hong Kong will re-connect again and drive the recovery of the market. Furthermore, the Group expects that after the pandemic, people around the world will have greater awareness of healthcare and epidemic prevention. Therefore, it is a great opportunity for the anti-epidemic and health supplement industry to flourish.

COVID-19 has changed consumers' habits, driving them from shopping offline to shopping online. This phenomenon is reflected in the growth of the Group's e-commerce business despite the pandemic. As a result, the Group will seize the opportunity and allocate more resources to the development of the Group's e-commerce business, including but not limited to cooperate with more reputable brands for the distribution of their best-selling products. As China will be the Group's main focus for the development of e-commerce market given the enormous business opportunity therein, the future development plan of the Group will be to continue to wholesale products to the Group's e-commerce customers such as JD.com, Inc. and Alibaba Health (Hong Kong) Technology Company Limited for sales on the e-commerce portals such as JD.hk (海囤全球 京東旗下全球直購平台) and Tmall.com (天貓國際) as well as to explore global OTC and healthcare products. Meanwhile, also to closer partnership with, and to set up more online stores operated by the Group on the popular e-commerce portals in China (such as JD.hk, Tmall.com, Kaola.com (網易考拉) and Youzan.com (有贊), etc.) which mainly target on Mainland Chinese consumers.

On the other hand, the aging of global population is one of the factors that drives the healthcare industry prosperous. According to the United Nations' statistics, the number and proportion of the elderly population in almost all countries in the world are increasing. The statistics in "World Population Prospects 2019: Revised Edition" published by the United Nations show that, 1 out of every 6 persons in the world will be 65 years old or above in 2050. By then, the population of elderly who are 80 years old or above is expected to double, from 143 million in 2019 to 426 million in 2050. The aging population may become one of the most important social issues in the 21st century. The constant growth of the aging population will greatly motivate the development of the health supplement product distribution industry.

In November 2020, the central government of the PRC promulgated the Work Plan ("**Work Plan**") for Regulatory Innovation and Development of Pharmaceutical and Medical Device in the GBA, which specifically allows, among others, designated healthcare institutions operating in the nine cities of the GBA to use Hong Kong-registered drugs with urgent clinical use upon approval and simplification of the registration process for importing proprietary Chinese medicines for external use registered in Hong Kong. The Directors expect that there will be great business opportunities for the Group to source products for the hospitals in the GBA upon the implementation of the Work Plan.

Given the large population in China and the strong demand for reputable PCM and health supplement products, together with the favorable policies stated above, the Group expects that the future business growth will mainly come from Mainland China and therefore will continue to actively develop the Mainland China market. The Group entered into an agreement with a wholly-owned subsidiary of China Resources Pharmaceutical Group Limited ("**CR Pharmaceutical**"; stock code: 3320.hk), one of the substantial shareholders of the Company, on 11 March 2020 to set up a joint venture in China. The initial capital contribution from the Group was RMB1.5 million. The joint venture is expected to commence operation in the second quarter of 2021. It was expected that the joint venture will make good use of the CR Pharmaceutical's sales network of more than 100,000 downstream customers and over 850 self-owned retail pharmacies across Mainland China, to distribute high-quality anti-pandemic and healthcare related products selected by the Group from overseas for Chinese consumers.

The Group's future marketing and promotion plan will focus on digital marketing, mainly using social media as the main channel to promote and publicise the Group's Private Label Brands. In the future, the Group will actively expand its O2O business and further develop the supply chain and retail management by adopting the online and offline dual-channel commerce strategy and establishing a KOL (key opinion leaders) team in Mainland China for products promotion. In addition, the Group has established a new subsidiary in Japan to liaise for the sole operation and distributorship rights of more high-quality health and beauty related product brands, in order to further expand the diversity of its product collections.

Having said all of the above, as the business of the Group is still adversely affected by the pandemic currently and it is not possible to accurately estimate the full impact of the pandemic to the Group's operations up to the date of this Annual Report. The current goal of the Group is therefore to restore the business back to the pre-COVID-19 level. The Group will continue to monitor the development of pandemic and respond proactively to mitigate the impact of the outbreak on the Group's performance. The Group will also take a prudent attitude and continue to explore opportunities for mergers and acquisitions.

Biographical Details of Directors

Biographical details of the Directors of the Group are set out as follows:

DIRECTORS

Executive Director

Mr. Wong Ka Chun Michael (王嘉俊) ("Mr. Wong"), aged 45, was appointed as a Director on 14 June 2017 and became the chairman of the Board and executive Director on 8 October 2018. Mr. Wong is also the chief executive officer of the Group and the chairman of the Corporate Governance Committee. Mr. Wong is the founder of the Group and has been in charge of the overall business strategies, planning, management and operational development of the Group. Mr. Wong is also a director of various subsidiaries of the Company.

Mr. Wong has over 20 years of experience in the healthcare and personal care products industry. Prior to founding the Group, from April 1999 to June 2014, Mr. Wong worked as a sales and marketing manager at Hengan Pharmacare, a subsidiary of Hengan International Group Company Limited (listed on the Main Board of the Stock Exchange with stock code: 1044.hk), a company principally engaged in the manufacturing, distribution and sale of personal care products. Mr. Wong was responsible for analysing the industry trend and developing a strategy to market products.

Mr. Wong obtained a Bachelor of Science degree in Business Administration from the University of Southern California, the United States, in December 1998. In September 2018, Mr. Wong was appointed as an honourary president and vice chief supervisor of the Hong Kong Medicine Dealers' Guild.

Non-executive Directors

Mr. Yao Qingqi (姚青琪) ("Mr. Yao"), aged 53, was appointed as a Director on 19 February 2019 and designated as a non-executive Director on 19 July 2019. He is primarily responsible for participating in formulating the corporate and business strategies of the Company.

Mr. Yao has over 20 years of experience in business management. Mr. Yao joined China Resources group which comprises member companies of China Resources Company Limited, a state-owned enterprise of the PRC, since 1993 and is currently the general manager and a director of CR Care Company Limited, a company principally providing health care services and products, and a director of China Resources Pharmaceutical Retail Group Limited, each of which is a wholly-owned subsidiary of China Resources Pharmaceutical Group Limited (華潤醫藥集團有限公司) ("**CR Pharmaceutical**", listed on the Main Board of the Stock Exchange with stock code: 3320.hk) which is a member of China Resources group.

Biographical Details of Directors

Mr. Yao obtained a Bachelor of Economics in Business Economics from Yangzhou Teachers' College* (揚州師範學院) (now known as Yangzhou University) in June 1990 and a Master of Economics in Business Economics from Beijing Business School* (北京商學院) (now known as Beijing Technology and Business University) in June 1993.

Ms. Chong Yah Lien (張雅蓮) ("Ms. Chong"), aged 49, was appointed as a Director on 19 February 2019 and designated as a non-executive Director on 19 July 2019. She is primarily responsible for participating in formulating the corporate and business strategies of the Company.

Ms. Chong has over 20 years of experience in auditing, accounting and financial management with international accounting firm and state-owned enterprise of the PRC. Ms. Chong joined China Resources group which comprises member companies of China Resources Company Limited, a state-owned enterprise of the PRC, since 1999 and is currently the deputy general manager of the Financial Administration Department of CR Pharmaceutical. Ms. Chong is also a director of China Resources Pharmaceutical Trading (HK) Limited, CR Care Company Limited, Beijing Pharmaceutical Investment and Management (HK) Limited, Beijing Pharmaceutical Investment and Management (BVI) Limited, China Resources Pharmaceutical Retail Group Limited, each of which is a wholly-owned subsidiary of CR Pharmaceutical.

Ms. Chong obtained a degree of Bachelor of Business majoring in accounting from Edith Cowan University, Australia in February 1993 and a degree of Master of Business Administration from Deakin University, Australia in September 2003. Ms. Chong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

Mr. Ng Wang Yu Gary (吳弘宇) ("Mr. Ng"), aged 49, was appointed as a non-executive Director on 19 July 2019. He is primarily responsible for participating in formulating the corporate and business strategies of the Company.

Mr. Ng has extensive experience in the retail industry among which 14 years were in senior executive positions of the corporations he worked for. Prior to joining the Group, from October 2004 to February 2014, Mr. Ng was the managing director of A.S. Watson Retail (HK) Limited responsible for running Watsons Hong Kong and Fortress Hong Kong, the two retail chains of A.S. Watson Group. From April 2015 to October 2017, Mr. Ng worked as a managing director of PARKnSHOP (HK) Limited, responsible for running the supermarket chain.

Mr. Ng obtained a degree of Bachelor of Arts with Honours majoring in English and minoring in Integrated Bachelor of Business Administration programme from The Chinese University of Hong Kong in December 1994 and a degree of Master of Business Administration with Honours from The Chinese University of Hong Kong in December 2005.

Biographical Details of Directors

Ms. Li Ka Wa Helen (李家華) ("Ms. Li"), aged 60, was appointed as a non-executive Director on 19 July 2019. She is primarily responsible for participating in formulating the corporate and business strategies of the Company.

Ms. Li has over 25 years of experience in retailing and corporate management. From September 1987 to August 1991, Ms. Li worked in Marks & Spencer in Hong Kong, a retailing fashion, food and homeware chain, where her last position was store controller responsible for the operations and sales of Marks & Spencer stores in Hong Kong. From September 1992 to 1994, she worked in Marks & Spencer in Canada, where her last position was assistant manager responsible for operations and sales. From January 1995 to July 2000, Ms. Li worked in Marks & Spencer in Hong Kong where her last position was regional commercial controller – franchises responsible for managing, designing and controlling the operations of Marks & Spencer across Asia. From August 2000 to July 2001, she was the general manager of Hong Kong of G2000 (Apparel) Limited, a company principally engaged in retailing fashion. From September 2002 to January 2007 and February 2008 to April 2019, Ms. Li worked in The Dairy Farm Company Limited where her last position was the chief executive officer of Mannings Hong Kong & Macau, a health, personal care, beauty products retail chain.

Ms. Li obtained a diploma in Business Retailing from Algonquin College of Applied Arts and Technology, Canada in June 1993. She also completed the Building and Sustaining Competitive Advantage programme, from Harvard Business School in June 2012 and completed the Senior Executive Program For China held by Harvard Business School, Tsinghua University School of Economic and Management and China Europe International Business School in December 2013.

Independent non-executive Directors

Mr. Wong Yuk Woo Louis (黃旭和) ("Mr. Louis Wong"), aged 53, was appointed as an independent non-executive Director on 20 January 2020. He is also the chairman of Remuneration Committee and the member of Audit Committee, Nomination Committee and Corporate Governance Committee. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of the Company.

Biographical Details of Directors

Mr. Louis Wong has over 20 years of experience in merchandising and procurement. From August 2000 to July 2008, he worked in bigboXX.com Limited, a member of the Hutchison Whampoa Company, a company principally engaged in providing office products and services where his last position was procurement manager, responsible for sourcing and procurement. From July 2008 to July 2010, Mr. Louis Wong worked in Bunzl UK Ltd, a company principally engaged in providing medical and healthcare supplies where his last position was purchasing manager – Asia Pacific, responsible for purchasing healthcare and medical products. From August 2010 to October 2012, Mr. Louis Wong worked in Office Depot Asia Holding Limited, a company principally engaged in merchandising office supplies and equipment where his last position was senior manager, regional merchandise operations and sales support, responsible for monitoring and planning Asia merchandising activities and sales operation. Since March 2012, he has worked in bigboXX.com Limited, as senior manager in strategic sourcing and procurement.

Mr. Louis Wong obtained a Bachelor of Science in Hotel and Catering Management from the Oxford Polytechnic, United Kingdom in July 1992 and a Master of Science in Procurement Management from the University of Strathclyde, United Kingdom in July 2010.

Mr. Chung Siu Wah (鍾兆華) ("Mr. Chung"), aged 43, was appointed as an independent non-executive Director on 20 January 2020. He is also the chairman of Nomination Committee and a member of Audit Committee, Remuneration Committee and Corporate Governance Committee. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of the Company.

Mr. Chung has over 18 years of experience in financial services, investments and management. From September 2000 to June 2003, Mr. Chung worked in Merrill Lynch (Asia Pacific) Limited where his last position was research associate, equity research. From April 2003 to April 2006, Mr. Chung worked in Citigroup Global Markets Asia Limited where his last position was analyst. From June 2006 to July 2006, Mr. Chung worked in Morgan Stanley Asia Limited where his last position was vice president, equity research. From July 2006 to October 2008, Mr. Chung worked in Redbrick Capital Management (Asia) Limited where his last position was managing director, Head of Asia. From July 2009 to February 2010, Mr. Chung worked in Citigroup Global Markets Hong Kong Futures and Securities Limited where his last position was director, Asia Pacific Equity Trading. From April 2010 to November 2011, Mr. Chung worked in Chater Capital Advisors (Hong Kong) Limited with his last position as managing partner and chief investment officer. From February 2013 to February 2014, Mr. Chung worked in CreditEase Wealth Management (HK) Limited where his last position was managing director. From November 2014 to April 2015, Mr. Chung worked in South China Finance and Management Limited, as managing director. Mr. Chung has been a director in Top Ace Asset Management Limited since October 2015, a company principally engaged in providing financial investment services.

Mr. Chung obtained a Bachelor of Science from the University of California, Riverside in the United States in March 2000.

Ms. Chan Ka Lai Vanessa (陳嘉麗) ("Ms. Chan"), aged 47, was appointed as an independent non-executive Director on 20 January 2020. She is also the chairman of Audit Committee and a member of Remuneration Committee and Nomination Committee. She is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of the Company.

Ms. Chan has over 20 years of experience in financial accounting, auditing and financial management. From July 1995 to August 2005, Ms. Chan worked in KPMG where her last position was senior manager, responsible for auditing and due diligence projects for businesses in Hong Kong and the PRC. From August 2005 to February 2008, Ms. Chan worked in The Kowloon Motor Bus Co. (1933) Ltd., a subsidiary of Transport International Holdings Limited (listed on the Main Board of the Stock Exchange with stock code: 62.hk), as accounting manager responsible for accounting and financial management activities. From November 2009 to December 2018, Ms. Chan worked in China Agri-Industries Holdings Limited (previously listed on the Main Board of the Stock Exchange with stock code: 606.hk), as financial controller responsible for overall accounting, financial management and human resources activities. Since January 2019, Ms. Chan has been working in WA C&E Limited, a private company incorporated in Hong Kong, as a director to provide business and financial advisory services in Hong Kong. Ms. Chan has also been serving as an independent non-executive director of Innovax Holdings Limited (listed on the Main Board of the Stock Exchange with stock code: 2680.hk) since August 2018.

Ms. Chan obtained a Bachelor of Arts in Accountancy from the Hong Kong Polytechnic University in October 1995. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Ms. Chan is also an associate member of Chartered Governance Institute and the Hong Kong Institute of Directors.

* *For identification purpose only*

Directors' Report

The Directors present the Annual Report and the audited consolidated financial statements for the year ended 31 December 2020 ("**consolidated financial statements**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is a Hong Kong-based provider of PCM, health supplement, skin care, personal care and other healthcare products, mainly selling and distributing such products of third party brands and the Private Label Products.

Details of the principal activities of the subsidiaries of the Company are set out in note 1 to the consolidated financial statements.

REORGANISATION AND GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 14 June 2017 as an exempted company with limited liability. Its shares ("**Share(s)**") were listed on the Main Board of the Stock Exchange on 15 April 2020 ("**Listing Date**").

Pursuant to the reorganisation of the Group in connection with the Listing, the Company underwent a corporate reorganisation ("**Reorganisation**"), the Company became the holding company of the Group on 30 November 2018. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure – Reorganisation" in the Prospectus.

BUSINESS REVIEW

A review of the business of the Group including a discussion and analysis of the Group's performance during the year ended 31 December 2020 and the material factors underlying its financial performance and financial position as well as an indication of likely future development in the Group's business as required by section 388(2) and Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are included in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this Annual Report, respectively. The future development of the Group's business is discussed in the section headed "Management Discussion and Analysis" of this Annual Report. In addition, further details regarding the Group's principal risks and uncertainties are included in the section headed "Management Discussion and Analysis" of this Annual Report. The sections headed "Chairman's Statement" and "Management Discussion and Analysis" form part of this Directors' Report.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past four financial years is set out in the section headed "Financial Summary" of this Annual Report. This summary does not form part of the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2020 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this Annual Report.

2020 was a difficult year for the Group, its employees, business partners and shareholders of the Company ("**Shareholders**") with the widespread of the COVID-19 pandemic. Despite the Group's offline distribution business has been adversely affected, the Group has been actively exploring and expanding its e-commerce business which has been performing well due to the social and travel restrictions imposed in light of the COVID-19 pandemic. The Board would like to take this opportunity to thank the Shareholders for their continuous support over the past year. In this regard, the Board has resolved to declare a special dividend ("**Special Dividend**") of HK2 cents per share for the year ended 31 December 2020 to the Shareholders. It is expected that the Special Dividend will be paid on 14 July 2021 to the Shareholders whose names appear in the register of members of the Company on 30 June 2021.

Save for the Special Dividend, the Board did not recommend payment of any other dividends for the year ended 31 December 2020.

DIVIDEND POLICY

The Board has adopted a dividend policy ("**Dividend Policy**") with effect from 15 April 2020. The Dividend Policy allows the Company to declare interim dividends or special dividends from time to time in addition to the final dividends. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, *inter alia*:

(i) the financial condition of the Group;

(ii) the prevailing economic climate;

(iii) the Group's earnings and cash flow;

(iv) the Group's expected capital requirements;

DIVIDEND POLICY (continued)

(v) the statutory fund reserve requirements;

(vi) the retained earnings and distributable reserves of the Company and each of the members of the Group; and

(vii) any other factors that the Board deems appropriate.

Declaration and payment of dividend by the Company is also subject to the articles of association of the Company and the laws of the Cayman Islands.

The Dividend Policy will continue to be reviewed from time to time by the Board and there can be no assurance that any dividend will be proposed or declared in any given period.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the eligibility of the Shareholders to attend and vote at the forthcoming annual general meeting ("**AGM**") to be held on 25 May 2021 and their entitlements to the Special Dividend, the register of members of the Company will be closed as set out below:

(i) For determining the entitlement to attend and vote at the AGM:

The register of members of the Company will be closed from Thursday, 20 May 2021 to Tuesday, 25 May 2021 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 pm on Tuesday, 18 May 2021.

(ii) For determining the entitlement to the Special Dividend:

The register of members of the Company will be closed from Tuesday, 29 June 2021 to Wednesday, 30 June 2021 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the Special Dividend, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 pm on Monday, 28 June 2021.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2020 are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in note 46 to the consolidated financial statements and the consolidated statement of changes in equity of this Annual Report, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's distributable reserves were HK$711.5 million (2019: HK$478.0 million).

CHARITABLE DONATIONS

The Group made charitable donations totalling approximately HK$2.5 million during the year ended 31 December 2020.

Directors' Report

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this report are:

Executive Directors

Mr. Wong Ka Chun Michael, *Chairman and Chief Executive Officer*
Mr. Chan Fan Shing *(resigned on 28 August 2020)*

Non-executive Directors

Mr. Yao Qingqi
Ms. Chong Yah Lien
Mr. Ng Wang Yu Gary
Ms. Li Ka Wa Helen

Independent non-executive Directors

Mr. Wong Yuk Woo Louis *(appointed on 20 January 2020)*
Mr. Chung Siu Wah *(appointed on 20 January 2020)*
Ms. Chan Ka Lai Vanessa *(appointed on 20 January 2020)*

In accordance with articles 84(1) and 84(2) of the Company's articles of association, each of Mr. Wong Ka Chun Michael, Mr. Yao Qingqi and Ms. Chong Yah Lien shall retire by rotation at the forthcoming AGM and each of them being eligible, will offer himself/herself for re-election.

Details of the Directors' biographical information are set out in the section headed "Biographical Details of Directors" of this Annual Report.

CONFIRMATION OF INDEPENDENCE

In compliance with Rule 3.10(1), 3.10(2) and 3.10A of the Listing Rules, the Company has appointed at least three independent non-executive Directors during the period from the Listing Date and up to 31 December 2020. The Board considers that all the independent non-executive Directors have appropriate and sufficient diversity, industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. One of the independent non-executive Directors, Ms. Chan Ka Lai Vanessa, has extensive experience in auditing, accounting and financial management. She is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Director and non-executive Directors has entered into a letter of appointment with the Company pursuant to which he/she agreed to act as a Director for a fixed term of three years with effect from 19 July 2019, which is subject to termination by either party giving not less than one month's written notice and subject to retirement and re-election in accordance to the Company's articles of association and the Listing Rules.

Each of the independent non-executive Directors has been appointed for a fixed term of three years from 20 January 2020, which is subject to retirement and re-election in accordance to the Company's articles of association and the Listing Rules and terminable by either party by giving at least one month's written notice to the other.

None of the Directors has a service contract with the Company or any of the subsidiaries of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

The emoluments of the Directors of the Company are generally recommended by the Remuneration Committee for approval by the Board, having regard to the Group's operating results, individual performance and contributions and also the change in market conditions.

The COVID-19 pandemic has led to a severe contraction in economic activities both in Hong Kong and globally, due to the combination of supply chain disruptions, travel restrictions imposed and a decline in demand for PCM products. Taking into consideration the uncertainties over the duration and severity of the COVID-19 pandemic and the challenges affecting the overall operating environment, all the executive Directors and non-executive Directors (except for Mr. Chan Fan Shing) have agreed to waive their director fees for the 11 months ended 31 December 2020 and all the independent non-executive Directors have agreed to waive all their director fees for the year ended 31 December 2020. Mr. Yao Qingqi has agreed to continue to waive his director fee until his resignation as the non-executive Director. Mr. Wong Ka Chun Michael, being the executive Director and also a director of Tycoon Asia Pacific Group Limited ("**Tycoon Hong Kong**"), has also agreed to waive his salary entitlement for the five months ended 30 June 2020 and 50% of his salary entitlement for the six months ended 31 December 2020 under the employment contract entered into between Tycoon Hong Kong and himself.

Details of the remuneration of the Directors are set out in note 8 to the consolidated financial statements.

Directors' Report

PERMITTED INDEMNITY PROVISION

The articles of association of the Company provide that the Directors are entitled to be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain in or about the execution of the duties of their office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company has purchased and maintained Directors' liability insurance during the year ended 31 December 2020 and as at the date of this Annual Report, which provides appropriate cover for the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2020, none of the Directors had an interest in any business which competes or may compete with the business in which the Group is engaged.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2020.

RELATED PARTY TRANSACTIONS

The Board confirms that save as disclosed in the "Non-exempt Continuing Connected Transactions" in this report, none of the the related party transactions as disclosed in note 40 to the consolidated financial statements fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules and are subject to annual review, reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group constituted non-exempt continuing connected transactions for the Company for the year ended 31 December 2020 ("**Continuing Connected Transactions**") and are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For further details of the Continuing Connected Transactions, please refer to the section headed "Connected Transactions – Non-exempt Continuing Connected Transactions" in the Prospectus.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS (continued)

Master Supply Agreement

On 1 January 2020, Tycoon Hong Kong, a wholly-owned subsidiary of the Company, entered into a master supply agreement ("**Master Supply Agreement**") with CR Pharmaceutical, one of the substantial shareholders of the Company, pursuant to which Tycoon Hong Kong agreed to sell or procure its fellow subsidiary(ies) to sell and CR Pharmaceutical agreed to purchase, through itself or its subsidiary(ies), certain PCM, health supplement and other healthcare products sold by the Group ("**Contract Products**"). There is no minimum supply amount under the Master Supply Agreement. The Master Supply Agreement is for a term commencing on the date of the agreement and ending on 31 December 2021.

Pursuant to the Master Supply Agreement, the prices, payment terms, quantities and detailed terms with respect to the Contract Products shall be determined in accordance with the specific purchase orders to be agreed between the parties.

The annual cap for the year ended 31 December 2020 was HK$160 million, while the actual transaction amount for the year ended 31 December 2020 was approximately HK$27.1 million.

NC Products Distribution Agreement (JD & HK)

On 7 January 2020, Tycoon Hong Kong and Billion Crown (China) Limited ("**Billion Crown**"), a wholly-owned subsidiary of the Company entered into a distribution agreement ("**NC Products Distribution Agreement (JD & HK)**") with Sanjiu Healthy World Company Limited ("**Hong Kong CR Sanjiu**"), a non-wholly owned subsidiary of CR Pharmaceutical, in relation to the granting of distribution rights by Hong Kong CR Sanjiu to Billion Crown and Tycoon Hong Kong over certain Nature's Care Pro series of products under the brand name of Nature's Care for sales of such products on the e-commerce portal at JD.hk (海囤全球一京東旗下全球直購平台) and in the territory of Hong Kong respectively for a term commencing retrospectively on 1 September 2019 and ending on 31 December 2021.

NC Products Distribution Agreement (Tmall)

On 7 January 2020, Titita Trading Co., Limited ("**Titita**"), a wholly-owned subsidiary of the Company, entered into a distribution agreement ("**NC Products Distribution Agreement (Tmall)**") with Hong Kong CR Sanjiu in relation to the granting of distribution rights by Hong Kong CR Sanjiu to Titita over certain Nature's Care Pro series of products under the brand name of Nature's Care for sales of such products through Nature's Care Overseas Flagship Store* (Nature's Care 海外旗艦店) on the e-commerce portal at Tmall.hk (天貓國際) for a term commencing retrospectively on 10 December 2019 and ending on 31 December 2021.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS (continued)

NC Products Distribution Agreement (Tmall) (continued)

Pursuant to each of the NC Products Distribution Agreements, the prices, payment terms, quantities and detailed terms with respect to the NC Products shall be determined in accordance with the specific purchase orders to be agreed between the respective parties to each of NC Products Distribution Agreements.

The aggregate annual cap for the NC Products Distribution Agreement (JD & HK) and NC Products Distribution Agreement (Tmall) for the year ended 31 December 2020 is A$7.5 million, while the actual transaction amount for the year ended 31 December 2020 is approximately A$60,000.

Save as disclosed above and in note 40 to the consolidated financial statements, the Group has not engaged in any other connected transactions and/or related party transactions during the year ended 31 December 2020.

Note:

A$ = Australia Dollars, A$1.00 equals to HK$5.38.

Confirmation by independent non-executive Directors

The independent non-executive Directors reviewed the abovementioned continuing connected transactions, and confirmed that the transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the respective agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation by auditor

The external auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the conclusions in respect of the abovementioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules and submitted a copy of the auditor's letter to the Stock Exchange.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed above and in the related party transactions in note 40 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company, its holding company or its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether direct or indirect, subsisted at the end of the year or at any time during the year ended 31 December 2020.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("**SFO**"), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("**Model Code**"), were as follows:

(i) Interests in the Shares or underlying Shares of the Company

Name of director	Capacity/Nature of Interest	Number of Shares(1)	Approximate percentage of shareholding
Wong Ka Chun Michael(2), (3)	Interest in controlled corporation	448,096,326(L)	56.01%
		200,000,000(S)	25.00%

Notes:

(1) The letter "L" denotes the Director's long position in such Shares and the letter "S" denotes the Director's short position in such Shares.

(2) The 448,096,326 Shares and the short position in the 200,000,000 Shares are registered in the name of Tycoon Empire Investment Limited ("**Tycoon Empire**"), a company wholly-owned by Mr. Wong Ka Chun Michael. By virtue of the provisions of Part XV of the SFO, Mr. Wong Ka Chun Michael is deemed to be interested in all the Shares held by Tycoon Empire.

(3) The 200,000,000 Shares are charged by Tycoon Empire in favour of China Resources Pharmaceutical Retail Group Limited as security for the performance by Tycoon Empire and Mr. Wong Ka Chun Michael of their obligations under the shareholders agreement dated 19 February 2019 entered into among Tycoon Empire, Mr. Wong Ka Chun Michael, China Resources Pharmaceutical Retail Group Limited and the Company ("**Pre-IPO Shareholders Agreement**"). For details, please refer to the Prospectus.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

(ii) Interests in shares of the associated corporation of the Company

Name of director	Name of associated corporation	Capacity/ Nature of Interest	Number of Shares[(1)]	Approximate percentage of shareholding
Wong Ka Chun Michael[(2)]	Tycoon Empire	Beneficial owner	1(L)	100%

Notes:

(1) The letter "L" denotes the Director's long position in such share.

(2) Mr. Wong Ka Chun Michael directly owns 100% of the issued share capital of Tycoon Empire.

Save as disclosed above, as at 31 December 2020, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2020, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) and entities had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/Nature of Interest	Number of Shares[1]	Approximate percentage of shareholding
Tycoon Empire[2]	Beneficial owner	448,096,326(L)	56.01%
		200,000,000(S)	25.00%
Ngai Sze Kei[2], [3]	Interest of spouse	448,096,326(L)	56.01%
		200,000,000(S)	25.00%
China Resources Pharmaceutical Retail Group Limited[2]	Beneficial owner	151,895,000(L)	18.99%
	Person having a security interest in shares	200,000,000(L)	25.00%
China Resources Pharmaceutical Group Limited[4]	Interest in controlled corporation	351,895,000(L)	43.99%
CRH (Pharmaceutical) Limited[4]	Interest in controlled corporation	351,895,000(L)	43.99%
China Resources (Holdings) Company Limited[4]	Interest in controlled corporation	351,895,000(L)	43.99%
CRC Bluesky Limited[4]	Interest in controlled corporation	351,895,000(L)	43.99%
China Resources Inc.[4]	Interest in controlled corporation	351,895,000(L)	43.99%
China Resources Company Limited[4]	Interest in controlled corporation	351,895,000(L)	43.99%
Jacobson Group Treasury Limited[5]	Beneficial owner	56,590,000(L)	7.07%
Jacobson Pharma Group (BVI) Limited[5]	Interest in controlled corporation	56,590,000(L)	7.07%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

Name of shareholder	Capacity/Nature of Interest	Number of Shares[1]	Approximate percentage of shareholding
Jacobson Pharma Corporation Limited[5]	Interest in controlled corporation	56,590,000(L)	7.07%
Kingshill Development Limited[5]	Interest in controlled corporation	56,590,000(L)	7.07%
Kingshill Development Group Inc.[5]	Interest in controlled corporation	56,590,000(L)	7.07%
Sum Kwong Yip, Derek[5]	Founder of a discretionary trust who can influence how the trustee exercises discretion	56,590,000(L)	7.07%
UBS Trustees (B.V.I.) Limited[5]	Trustee	56,590,000(L)	7.07%

Notes:

(1) The letter "L" denotes the person's long position in such Shares and the letter "S" denotes the person's short position in such Shares.

(2) The 200,000,000 Shares are charged by Tycoon Empire in favour of China Resources Pharmaceutical Retail Group Limited as security for the performance by Tycoon Empire and Mr. Wong Ka Chun Michael of their obligations under the Pre-IPO Shareholders Agreement. For details, please refer to the Prospectus. Mr. Wong Ka Chun is the sole director of Tycoon Empire.

(3) The 448,096,326 Shares and the short position in the 200,000,000 Shares are registered in the name of Tycoon Empire, a company wholly-owned by Mr. Wong Ka Chun Michael. Ms. Ngai Sze Kei is the spouse of Mr. Wong Ka Chun Michael. By virtue of the provisions in Part XV of the SFO, Ms. Ngai Sze Kei is deemed to be interested in all the Shares which Mr. Wong Ka Chun Michael is interested in or is deemed to be interested in.

(4) These interests in Shares comprise the 151,895,000 Shares held by China Resources Pharmaceutical Retail Group Limited and the 200,000,000 Shares under the Share Charge in favour of China Resources Pharmaceutical Retail Group Limited (see note 2 above). China Resources Pharmaceutical Retail Group Limited is a company wholly-owned by China Resources Pharmaceutical Group Limited (stock code: 3320.hk). Based on the notices of disclosure of interests dated 21 November 2016 of CRH (Pharmaceutical) Limited, China Resources (Holdings) Company Limited, CRC Bluesky Limited, China Resources Inc. (formerly known as China Resources Co., Limited) and China Resources Company Limited (formerly known as China Resources National Corporation) filed with the Stock Exchange in relation to China Resources Pharmaceutical Group Limited, China Resources Pharmaceutical Group Limited is owned as to approximately 53.04% by CRH (Pharmaceutical) Limited, a wholly-owned subsidiary of China Resources (Holdings) Company Limited, which is wholly-owned by CRC Bluesky Limited, which in turn is wholly-owned by China Resources Inc., which in turn is wholly-owned by China Resources Company Limited. By virtue of the provisions of Part XV of the SFO, each of China Resources Pharmaceutical Group Limited, CRH (Pharmaceutical) Limited, China Resources (Holdings) Company Limited, CRC Bluesky Limited, China Resources Inc. and China Resources Company Limited is deemed to be interested in all the Shares held by China Resources Pharmaceutical Retail Group Limited.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

Notes: (continued)

(5) These interests in Shares are held by Jacobson Group Treasury Limited, which is a direct wholly-owned subsidiary of Jacobson Pharma Group (BVI) Limited, which in turn is a wholly-owned subsidiary of Jacobson Pharma Corporation Limited (stock code: 2633.hk), in which 42.5% of the issued share capital of Jacobson Pharma Corporation Limited is owned by Kingshill Development Limited, a wholly-owned subsidiary of Kingshill Development Group Inc., which in turn is wholly-owned by UBS Trustees (B.V.I.) Limited, the trustee of The Kingshill Trust, a discretionary trust established by Mr. Sum Kwong Yip, Derek (as the settlor) with Mr. Sum and his family members as the discretionary beneficiaries. By virtue of the provisions of Part XV of the SFO, each of Jacobson Pharma Group (BVI) Limited, Jacobson Pharma Corporation Limited, Kingshill Development Limited, Kingshill Development Group Inc., Mr. Sum Kwong Yip, Derek and UBS Trustees (B.V.I.) Limited is deemed to be interested in all the Shares held by Jacobson Group Treasury Limited.

Save as disclosed above, as at 31 December 2020, so far as the Directors were aware, no other persons (other than the Directors or chief executive of the Company) or entities had any interests or short positions in the Shares or underlying Shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Neither the Company nor any of its holding companies was a party to any arrangements to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the year ended 31 December 2020 and up to the date of this Annual Report.

SHARE OPTION SCHEME

On 23 March 2020, a share option scheme ("**Share Option Scheme**") was approved and conditionally adopted by the Company, whereby the Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, supplier, customer, adviser or consultant of the Group, options to subscribe for the Shares. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted and will end on 22 March 2030. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of the participant's contribution or potential contribution to the development and growth of the Group.

SHARE OPTION SCHEME (continued)

Without prior separate approval from the Company's shareholders, (i) the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the shares of the Company as at the Listing Date (i.e. 80,000,000 Shares); and (ii) the maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not (when aggregated with any shares of the Company subject to options granted during such period under any other share option scheme(s) of the Company) exceed 1% of the shares of the Company in issue for any time being. The maximum number of Shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 30% of the issued share capital of our Company from time to time.

Any grant of options to any directors, chief executive or substantial shareholders (as such terms as defined in the Listing Rules) of the Company, or any of their respective associates under the Share Option Scheme or any other share option scheme of the Company or any of its subsidiaries shall be subject to the prior approval of the independent non-executive Directors or shareholders of the Company as the case may be. Without prior separate approval from the Company's shareholders, the maximum number of shares issued and to be issued in respect of which options granted and may be granted to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates in the 12-month period up to and including the date of such grant shall not (i) exceed 0.1% of the shares of the Company in issue on the date of such grant; and (ii) have an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million.

Under the Share Option Scheme, the options granted may be accepted by the participants concerned for a period of twenty-one days from the date of such offer. Upon acceptance of an option to subscribe for shares, the eligible participant shall pay HK$1.00 to the Company as consideration for the grant. Options may be exercised in accordance with the terms of the Share Option Scheme at any time not exceeding a period of ten years from the date on which the share option is granted. The subscription price for the shares on the exercise of an option under the Share Option Scheme shall be determined by the Board in its absolute discretion but in any event shall not less than the highest of: (i) the closing price of the Company's share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the Company's share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

SHARE OPTION SCHEME (continued)

For details of the Share Option Scheme, please refer to the Prospectus.

Since the Listing Date and up to 31 December 2020, no option has been granted or agreed to be granted under the Share Option Scheme. As at the date of this annual report, the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme is 80,000,000 Shares, represents 10% of the issued Shares.

SHARE AWARD SCHEME

On 25 May 2020, the Board adopted a share award scheme of the Company ("**Share Award Scheme**") in which any employee or consultant of the Group (other than a connected person of the Company or an associate of such connected persons (both terms as defined in the Listing Rules)) ("**Eligible Persons**") will be entitled to participate.

The Share Award Scheme is for the purposes of (i) recognising the contributions by certain Eligible Persons and giving incentives thereto in order to retain them for the continuing operation and development of the Group; and (ii) attracting suitable personnel for further development of the Group.

The Share Award Scheme does not constitute a share option scheme nor an arrangement analogous to a share option scheme within the meaning of Chapter 17 of the Listing Rules. No shareholders' approval is required for the adoption of the Share Award Scheme.

The Share Award Scheme will remain in force for a period of 10 years commencing from its adoption date.

The total number of the Shares to be awarded pursuant to the Share Award Scheme shall not exceed 40,000,000 Shares, being 5% of the total issued share capital of the Company as at its adoption date. The maximum number of Shares which may be awarded to a selected grantee at any one time shall not exceed 0.50% of the total number of the issued Shares as at the adoption date and the total number of Shares awarded to such selected grantee in aggregate shall not exceed 1% of the total number of the issued Shares as at the adoption date. Details of the Share Award Scheme are set out in the announcement of the Company dated 25 May 2020.

Since the adoption date of the Share Award Scheme and up to the date of this Annual Report, the trustee of the Share Award Scheme has purchased 20,000,000 Shares and no awards have been granted or agreed to be granted under the Share Award Scheme.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Share Award Scheme, no equity-linked agreements were entered into by the Company during the year ended 31 December 2020.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2020, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 8.7% (2019: 13.2%) and 32.1% (2019: 38.6%) of the Group's total purchases, respectively.

For the year ended 31 December 2020, sales to the single largest customer of the Group and the five largest customers of the Group in aggregate accounted for approximately 22.8% (2019: 60.9%) and 60.4% (2019: 84.4%) of the Group's total revenue, respectively.

One of the five largest customers of the Company is a subsidiary ("**HLT**") of Hong Ning Hong. As disclosed in the paragraph headed "Material Acquisitions and Disposal of Subsidiaries - Acquisition of 49% Interest in Hong Ning Hong from Jacobson Pharma" in this report, the Group acquired 49% of the issued shares of Hong Ning Hong from Jacobson Pharma on 1 June 2020. By reason of such acquisition, Mr. Wong, the executive Director and a substantial shareholder of the Company, was appointed as a director of each of HLT and Hong Ning Hong. As at the date of this report, Jacobson Pharma, a Shareholder interested in 7.07% of the issued share capital of the Company, is indirectly interested in 21% of the issued share capital of HLT. Save as disclosed above, none of the Directors or any of their close associates or any Shareholders whom, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had an interest in any of the five largest suppliers or customers.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group understands the importance of maintaining good relationships with its stakeholders and considers it a key element to its sustainable business growth.

RELATIONSHIPS WITH KEY STAKEHOLDERS (continued)

Employees

The Group has always been people-oriented and has attached great importance to its human resources management. The Group attracts talents through a fair recruitment policy and provides employees with training opportunities, good career development prospects and growth opportunities. In addition, the Group offers attractive remuneration packages to its employees. The Company has adopted the Share Award Scheme for granting shares of the Company in recognition of their contributions to the Group. The Group also values its employees' physical and mental developments.

Customers

The Group is committed to offering its customers quality products to the best of its ability. During the year ended 31 December 2020, the Group maintained effective communications with its customers through various channels. The Group believes that feedback from its customers would help the Group to identify areas of improvement and hence to achieve excellence. The Group is keeping up its efforts in expanding its markets and optimising its customer portfolio.

Suppliers

The Group strongly believes that maintaining harmonious relationships with its major suppliers is essential to the Group's business performance and growth as its suppliers can exercise direct influence over the quality of its products and customer satisfaction. The Group keeps enhancing its communication with and commitment to its suppliers as well as the commercial banks and financial institutions as the Group's businesses are capital intensive which require on-going funding to maintain sustainable growth. The Group adopts a comprehensive procurement policy in respect of its supplier selection procedures and its quality control system regarding the products and performance of potential and existing suppliers. The Group is committed to establishing close and long-term cooperation relationships with its business partners.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the Listing Date and up to 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company, except that pursuant to the Share Award Scheme, the trustee of the Share Award Scheme purchased a total of 20,000,000 Shares at an aggregate consideration of approximately HK$23.8 million.

Directors' Report

CORPORATE GOVERNANCE

The Company is committed to fulfilling its responsibilities to its Shareholders and protecting and enhancing Shareholders' value through good corporate governance. The Directors recognise that a good corporate governance is essential for the Company to achieve its objectives and drive improvement, as well as maintain legal and ethical standing in the eyes of Shareholders, regulators and the general public.

The Company has adopted the code provisions set out in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Listing Rules. To the best knowledge of the Board, the Company has fully complied with the requirements under the CG Code, which are applicable to the Company, during the period from the Listing Date and up to 31 December 2020, except for the deviation from code provision A.2.1 of the CG Code. For details, please refer to the section headed "Corporate Governance Report" of this Annual Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operate in compliance with the applicable environmental laws as well as protecting the environment by minimising the negative impact of the Group's existing business activities on the environment. For details, please refer to the section headed "Environmental, Social and Governance Report" of this Annual Report. To the best of the knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection for the year ended 31 December 2020.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has established compliance and risk management policies and procedures, and its senior management has been delegated with the responsibility to monitor the Group's compliance with all significant legal and regulatory requirements. These compliance and risk management policies and procedures are reviewed regularly.

As far as the Company is aware, it has complied with the relevant laws and regulations, such as the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), that have a significant impact on the business and operations of the Group in material respects during the year ended 31 December 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float during the period from the Listing Date to the date of this Annual Report.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed with the management regarding the accounting principles and practices adopted by the Group and discussed the internal controls system, risk management system and financial reporting matters including the review of the audited consolidated financial statements and annual results of the Group for the year ended 31 December 2020.

AUDITOR

The Company has appointed Ernst & Young as the auditor of the Company for the year ended 31 December 2020. A resolution will be proposed for approval by Shareholders at the AGM to re-appoint Ernst & Young as the auditor of the Company until the conclusion of the next AGM and to authorise the Board to fix their remuneration.

On behalf of the Board

Wong Ka Chun Michael
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 26 March 2021

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the period from the Listing Date up to 31 December 2020 ("**Review Period**").

CORPORATE GOVERNANCE PRACTICES

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. In this regard, a corporate governance committee of the Board has been established with primary responsibility for developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board.

The Company has adopted the code provisions set out in the CG Code as set out in Appendix 14 to the Listing Rules as its code of corporate governance.

To the best of the knowledge of the Board, the Company has fully complied with the requirements under the CG Code, which are applicable to the Company, during the Review Period, except for the deviation from code provision A.2.1 of the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The roles of the chairman and the chief executive officer of the Group is not separated and are performed by the same individual, Mr. Wong Ka Chun Michael, who has been responsible for overall strategic planning and management of the Group since the Group was founded and has extensive knowledge and experience in the healthcare and personal care products industry. The Directors meet regularly to consider major matters affecting the operations of the Group. As such, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Group and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding securities transactions of the Company by the Directors ("**Securities Dealing Code**") on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiries with the Directors, all the Directors confirmed that they had complied with the Securities Dealing Code during the Review Period.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Inside Information Policy sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way to avoid placing any person in a privileged dealing position. The Inside Information Policy also provides guidelines to employees of the Group to ensure proper safeguards exists to prevent the Company from breaching the statutory and listing rule disclosure requirements. The Company has appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Stock Exchange and the Company, according to the requirements of the Listing Rules.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management. The delegated functions and powers are reviewed periodically to ensure that they remain appropriate.

Matters specifically reserved for the Board include the approval of financial statements, dividend policy, significant changes in accounting policies, strategies, budgets, internal control system, risk management system, material transactions (in particular those that may involve conflicts of interests), selection of directors, changes to appointments such as company secretary and external auditors, remuneration policy for Directors and senior management, terms of reference of Board committees, as well as major corporate policies.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Group are delegated to the executive Directors and senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions.

In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective defined written terms of reference. Further details of the board committees of the Company are set out below in this Corporate Governance Report.

Corporate Governance Report

Board composition

The Board currently comprises eight members, including one executive Director, four non-executive Directors and three independent non-executive Directors as detailed below:

Executive Director
Mr. Wong Ka Chun Michael *(Chairman and Chief Executive Officer)*

Non-executive Directors
Mr. Yao Qingqi
Ms. Chong Yah Lien
Mr. Ng Wang Yu Gary
Ms. Li Ka Wa Helen

Independent non-executive Directors
Mr. Wong Yuk Woo Louis
Mr. Chung Siu Wah
Ms. Chan Ka Lai Vanessa

The biographical information of the Directors is set out in the section headed "Biographical Details of the Directors" of this Annual Report. To the best of the knowledge of the Directors, none of the members of the Board are related to one another (including financial, business, family or other material relevant relationships).

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Review Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

NON-EXECUTIVE DIRECTORS

CG Code provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term subject to re-election. The non-executive Directors (including independent non-executive Directors) have served a significant role in the Board by bringing independent judgment on the performance, development and risk management of the Group. Each of the non-executive Director and independent non-executive Directors of the Company is appointed for a specific term of three (3) years subject to the retirement and re-election in accordance to the Company's articles of association and the Listing Rules.

BOARD MEETINGS

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the Review Period, the Board held five board meetings to review financial and operating performance of the Company and to discuss future strategies. The Directors participated in the Board meetings in person or through electronic means.

Draft agenda of each meeting are normally made available to the Directors in advance. Notices and draft agenda of regular Board meetings are served to all Directors at least 14 days before the meeting, to enable them to include other matters in the agenda. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors updated of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Where necessary, senior management would attend regular Board meetings and other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

All the Directors have access to advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable regulations under the Company's articles of association or otherwise are complied with. Each Director is entitled, if necessary, to seek independent professional advice at the Company's expense.

Corporate Governance Report

All minutes are kept by the Company are open for inspection by any Director during normal office hours with reasonable notice in advance. Matters considered and decisions reached at the Board and Committee meetings are recorded with sufficient detail in the minutes. Draft and final versions of minutes of Board meetings will be sent to all Directors for their comments and recorded within a reasonable time after the relevant meeting is held.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

DIRECTORS' ATTENDANCE RECORDS AT MEETINGS

The attendance records of each Director at various meetings held during the Review Period are set out below:

	Attendance/Number of meetings				
Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Executive Directors					
Mr. Wong Ka Chun Michael	5/5	N/A	N/A	N/A	1/1
Mr. Chan Fan Shing (Note)	0/3	N/A	N/A	N/A	N/A
Non-executive Directors					
Mr. Yao Qingqi	5/5	N/A	N/A	N/A	N/A
Ms. Chong Yah Lien	5/5	N/A	N/A	N/A	N/A
Mr. Ng Wang Yu Gary	5/5	N/A	N/A	N/A	N/A
Ms. Li Ka Wa Helen	5/5	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Wong Yuk Woo Louis	5/5	2/2	1/1	1/1	1/1
Mr. Chung Siu Wah	5/5	2/2	1/1	1/1	1/1
Ms. Chan Ka Lai Vanessa	5/5	2/2	1/1	1/1	N/A

Note: Mr. Chan Fan Shing resigned as an executive Director with effect from 28 August 2020.

During the Review Period, the Chairman also held a meeting with the independent non-executive Directors without the presence of other Directors.

Continuous Professional Development

Pursuant to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills as to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director receives comprehensive, formal and tailored induction at the time around the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the Group structure, Board and Board committee meetings procedures, business, management and operations of the Group, etc. and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and applicable regulatory requirements.

Besides, the Company keeps circulating information and materials to develop and update Directors' knowledge and skills as and when appropriate. All the information and materials are relevant to the Group's business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors' duties and responsibilities. There are also arrangements in place for providing continuing briefing and professional development to each Director. All Directors are encouraged to attend relevant training courses at the Company's expense. During the year ended 31 December 2020, the Company organized a training session conducted by the legal adviser for all Directors.

The training records of the Directors for the year ended 31 December 2020 are summarized as follows:

	Areas		
Name of Director	Legal, regulatory and corporate governance	Businesses of the Group	Directors' roles, functions and duties
Executive Director			
Mr. Wong Ka Chun Michael	✓	✓	✓
Non-executive Directors			
Mr. Yao Qingqi	✓	✓	✓
Ms. Chong Yah Lien	✓	✓	✓
Mr. Ng Wang Yu Gary	✓	✓	✓
Ms. Li Ka Wa Helen	✓	✓	✓
Independent Non-executive Directors			
Mr. Wong Yuk Woo Louis	✓	✓	✓
Mr. Chung Siu Wah	✓	✓	✓
Ms. Chan Ka Lai Vanessa	✓	✓	✓

BOARD COMMITTEES

The Board has established four Board committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are published on the websites of the Company and the Stock Exchange. All Board committees should report to the Board on their decisions or recommendations made. All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

Audit Committee

The Board has established the Audit Committee which comprises three independent non-executive Directors, namely Ms. Chan Ka Lai Vanessa (chairman), Mr. Wong Yuk Woo Louis and Mr. Chung Siu Wah. The primary duties of the Audit Committee include making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, reviewing the Group's financial information, financial controls, internal control and risk management systems.

During the Review Period, the Audit Committee held two meetings to perform the following tasks:-

- reviewing and discussing the interim results for the six months ended 30 June 2020 and the related accounting principles and practices adopted by the Group

- reviewing and discussing the risk management and internal control system of the Group

- recommending the amendments to the terms of reference of the Audit Committee

The Audit Committee also met with the external auditor twice without the presence of the executive Director during the Review Period.

Remuneration Committee

The Board has established the Remuneration Committee which comprises three independent non-executive Directors, namely Mr. Wong Yuk Woo Louis (chairman), Ms. Chan Ka Lai Vanessa and Mr. Chung Siu Wah. The primary duties of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy and on the remuneration packages of individual executive Director and senior management.

In determining the remuneration of the Directors and the senior management, the Remuneration Committee would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and the senior management, performance and contributions of the Directors and the senior management and the change in market conditions.

During the Review Period, the Remuneration Committee held one meeting to review the director's fees for the year 2020 and the policy and structure for the remuneration of all Directors and senior management.

Pursuant to the code provision B.1.5 of the CG Code, the remuneration of the members of the Board and senior management by band for the year ended 31 December 2020 is set out below:

Remuneration Band	Number of Individuals
Nil to HK$1,000,000	9
Above HK$1,000,000	1

Further particulars regarding the remuneration of each Director and the five individuals with the highest emoluments in the Group for the year ended 31 December 2020 are set out in notes 8 and 9 to the consolidated financial statements, respectively.

Nomination Committee

The Board has established the Nomination Committee which comprises three independent non-executive Directors, namely Mr. Chung Siu Wah (chairman), Mr. Wong Yuk Woo Louis and Ms. Chan Ka Lai Vanessa. The primary duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; assessing the independence of independent non-executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

During the Review Period, the Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors.

Corporate Governance Committee

The Board has established the Corporate Governance Committee which comprises the executive Director, Mr. Wong Ka Chun Michael (chairman), and two independent non-executive Directors, namely Mr. Wong Yuk Woo Louis and Mr. Chung Siu Wah. The primary duties of the Corporate Governance Committee include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board, and reviewing and monitoring the training and continuous professional development of the directors and senior management of the Group.

During the Review Period, the Corporate Governance Committee held one meeting to review the policies and practices on corporate governance and the training and continuous professional development of Directors and senior management.

The Corporate Governance Committee is also responsible for, among others, performing the corporate governance duties as set out in the code provision D.3.1 of the CG Code, which include:

a. to develop and review the Group's policies and practices on corporate governance and make appropriate recommendations to the Board;

b. to review and monitor the training and continuous professional development of the Directors and senior management;

c. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

d. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and

e. to review our Group's compliance with the provisions of the CG Code and disclosure in the corporate governance report.

PROCEDURES FOR NOMINATION OF DIRECTORS

The Company has adopted a procedure for the nomination of Directors ("**Nomination Procedures**") for the purpose of enhancing transparency and accountability of the nomination process of Directors and enabling the Company to ensure the Board has a balance of skills and experience and diversity of perspectives appropriate to the requirements of the Company's business.

Under the Nomination Procedures, Shareholder(s) may nominate person(s), other than a retiring director of the Company and the Shareholder himself/herself, to be appointed as a Director ("**Proposed Director**"). The qualifications of the Proposed Director include (i) attaining the age of 18 years; (ii) possessing the necessary work experience and qualification considered fit by the Nomination Committee; and (iii) not being prohibited by law from being a director. These above qualifications are not exhaustive and conclusive and the Nomination Committee has the discretion to nominate any person as it considers appropriate.

Under the Nomination Procedures, upon obtaining the required information from the candidate, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the candidate to the Board for appointment as a Director. The Nomination Committee shall review whether the candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and the policies of the Company. In particular, the Nomination Committee shall consider the potential contribution a candidate can bring to the Board in terms of qualification, skills, experience, independence and gender diversity.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy ("**Board Diversity Policy**") which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

The Company endeavours to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and to maximize the Board's effectiveness. The Company sees diversity as a wide concept and believe that a diversity of perspectives can be achieved through consideration of a number of factors, including skills, regional and industry experience, background, gender and other qualities etc. In forming its perspective on diversity, the Company will also take into account factors based on its own business model and specific needs from time to time. The decision of the appointment will be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board.

At present, the Board considers that the Board Diversity Policy is sufficient to serve the purpose and will review the Board Diversity Policy on a regular basis to ensure its continued effectiveness.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2020.

With the assistance of the finance department of the Group, the Directors have ensured that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors have also ensured that the financial statements of the Group are published in a timely manner in accordance with the applicable laws and regulations.

The management of the Company has provided to the Board all explanation and information necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are submitted to the Board for approval.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as going concern. The Board has prepared the consolidated financial statements on a going concern basis.

The responsibilities of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements are set out in the Independent Auditor's Report in this Annual Report.

AUDITOR'S REMUNERATION

The remuneration paid to the Group's external auditor, Ernst & Young, for the year ended 31 December 2020 is set out below:

Service Category	Fees (HK$)
Audit Service	2,390,000
Non-audit services	
(i) Tax services	51,000
(ii) Services rendered in connection with the Company's interim report	500,000
(iii) Services rendered in connection with the Company's preliminary announcement of results and continuing connected transactions	10,000
Total	2,951,000

COMPANY SECRETARY

The Company Secretary is responsible for facilitating the Board process, as well as communication among Board members, with Shareholders and management. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws, rules and regulations, are followed.

The Company has appointed Mr. Cheung Yuk Chuen of S.C. To & Co. Certified Public Accountants, an external service provider, as the Company's company secretary since January 2020. Mr. Cheung's primary contact person at the Company is Mr. Wong Wai Ming, Chief Financial Officer of the Group.

During the year ended 31 December 2020, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company does not have an internal audit function. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems and they have conducted their annual review on the effectiveness of the Group's risk management and internal control systems in respect of the year ended 31 December 2020.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology, financial, operational and compliance controls. The Board is satisfied that the Group's risk management and internal control systems including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place and considers the risk management and internal control systems effective and adequate.

Internal Controls

The Company has adopted a series of internal control policies, measures and procedures designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Below is a summary of the internal control policies, measures and procedures the Company has implemented and/or plan to implement:

- the Group engaged an independent internal control adviser to review the overall adequacy of the risk management and internal control system associated with the major business processes of the Group and that the Company has established procedures, systems and controls (including accounting and management systems);

- all the Directors and senior management attended training conducted by the Company's Hong Kong legal advisers or other external parties on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under certain applicable laws and regulations, including the Listing Rules;

- the Company engaged appropriate external legal advisers and/or institutions and/or consultants to advise, update the knowledge of and/or provide trainings to the Directors, senior management and/or relevant employees on the relevant laws and regulations, including changes thereto, which may affect the Company's business operations;

- the Company engaged external professionals, such as auditors, internal control adviser, external legal advisor(s) and other advisors to render professional advice as to compliance with statutory and regulatory requirements, as applicable to the Group from time to time;

- the Company has appointed Shenwan Hongyuan Capital (H.K.) Limited as the compliance adviser in compliance with the applicable Listing Rules;

- the Company has appointed three independent non-executive Directors to ensure the effective exercise of independent judgment on the Board's decision-making process and provide independent advice to the Board and Shareholders; and

- the Audit Committee, comprising three independent non-executive Directors, continuously provides the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group and oversees the audit process and performs other duties and responsibilities as assigned by the Directors.

Risk Management

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitoring of the residual risks.

The Board together with senior management monitor and assess risk regularly, boost related management standards and evaluate investment projects. Based on the risk assessments conducted for the year under review, no significant risk was identified.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Procedure for Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the articles of association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Procedures for Making Proposals at Shareholder's Meeting

Any Shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration either via personal delivery, mail or email.

The Board may, in its sole discretion, consider if such proposals are appropriate and shall be put forward to the Shareholders for approval at the next annual general meeting or at an extraordinary general meeting to be convened by the Board, as appropriate.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

The Shareholders may at any time send their enquiries and concerns to the Board in writing. The contact details are as follows:

Address: Room 14, 8/F, Wah Wai Centre, 38-40 Au Pui Wan Street, Shatin, New Territories, Hong Kong
Email: info@tapgl.com
Tel No.: (852) 2661 6727

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and extraordinary general meetings. The Chairman of the Board, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at general meetings to meet Shareholders and answer their enquiries.

In addition, to promote effective communication, the Company maintains a website at www.tycoongroup.com.hk, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

CONSTITUTIONAL DOCUMENTS

Save for the adoption of the Articles of Association for the purpose of the Listing, during the year ended 31 December 2020, there had been no significant changes in the constitutional documents of the Company.

An up-to-date version of the articles of association of the Company is available on both the websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

1 BOARD STATEMENT

Tycoon Group Holdings Limited ("**Company**", together with its subsidiaries, the "**Group**") always believes that only health makes a happy life. Since its establishment, the Group has been committed to providing consumers from Hong Kong, Macao and mainland China with high quality proprietary Chinese medicine, health supplement, skincare, personal care and other healthcare products, thereby taking full care of the health of consumers. Environmental, social and governance ("**ESG**") is embedded within the business strategy to bring values to our stakeholders and the Group to thrive in changes and build an inclusive and sustainable world.

Publishing the first ESG report

A global trend of environmental and social issues has been increasingly important in the market, and the pressure to enhance ESG disclosures is accelerated under the pandemic. The board of directors ("**Board**") of the Company is pleased to launch its first Environment, Social and Governance Report ("**Report**") to demonstrate the sustainability performance of the Group. To better understand our stakeholder's perspective, the Group has conducted an engagement survey to evaluate, prioritise and manage the material ESG issues. The Board has overall responsibility for ESG strategy and reporting.

Forming an ESG committee

A committee consists of the sales and marketing department, human resource department, finance department, procurement and sourcing department is formed to conduct materiality assessment, engage stakeholders, consolidate ESG performance, and exercise ESG measures in the Group. The committee regularly reports to the Board, and the Board reviews the progress against ESG-related targets and modifies the business plans if necessary.

Transitioning to e-commerce

COVID-19 changes the way we conduct our business. Global movement complexities accelerated our transitioning from offline retail trade to online electronic business. In 2020, three major e-commerce platforms served almost 90% of mainland China cities, but this also required more substantial logistics support. Hence, the Group is expanding its teams into developing and thriving in healthcare products' trading and distribution business. We set up other two new offices in Malaysia and Japan to manage the growing number of overseas purchase orders.

Safeguarding the health and safety of our employees and workplace

The factories went into a three-month temporarily lockdown during the outbreak of the COVID-19. The Group promptly released the stocks of the products to compensate for the cessation of the production. Also, the Group has adopted a series of COVID-19 safety measures in the premises and protecting our employees. The Board and the committee closely updated and followed the cleaning and disinfection protocols released by the Centre for Health Protection (CHP) and other available global practices to safeguard our employees' health and safety. Supply chain management was also taking the same stringent attitudes.

These are highlights of the Group in 2020. The Board is pleased to disclose our ESG performance of each aspect to you in detail by sections below.

Looking ahead, the economic downturn and uncertainty of the pandemic make us continue to be conservative and prudent, preserving the resilience and flexibility to doing business and striving to transform the Group to a more ESG-oriented company and transitioning into a more to electronic business.

On behalf of the Board

Wong Ka Chun Michael
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 26 March 2021

2 ABOUT THIS REPORT

The scope of the report covers its commitments and practices on the environment, social and governance performance for the year ended 31 December 2020 ("**Reporting Period**") of the trading and distribution business of proprietary Chinese medicine ("**PCM**"), health supplement, skincare, personal care and other healthcare products in Hong Kong and Greater China including Shenzhen, Hangzhou and Macao based operations. Also, the Group developed an e-commerce business in the Reporting Period in Shenzhen and Hangzhou and the business revenues were on the rise. These businesses are financially significant and operationally important to the Group and its stakeholders.

In compliance with the reporting guideline, the report is prepared based on the following four reporting principles, making it representative of the year and comparable over the years.

Materiality: The Group is eager to know its stakeholders' perspectives on material ESG issues. In the Reporting Period, the Group conducted a materiality assessment to help the Board determines and reports sufficiently important ESG issues to investors and other stakeholders.

Quantitative: Appendix 27 of the Rules ("**Listing Rules**") Governing the Listing of securities on The Stock Exchange of Hong Kong Limited ("**HKEx**") guides the Group to prepare measurable key performance indicators ("**KPIs**") for performance review. Quantitative information presented in the report is accompanied by narrative, explanation and comparison wherever applicable. The frequency of publication is once a year.

Balance: The Group upholds this reporting principle to prepare ESG reports and strives to disclose both challenges and opportunities of ESG issues that the Group experienced during the Reporting Period. Pictures, charts and graphs reflect the actual performances of the Group, and with appropriate presentation formats, to avoid misleadingness.

Consistency: The Group adopts consistent methodologies and retrieves social and environmental KPIs from the Group's internal record system. The Group also reference Environmental KPIs and Social KPIs from Appendix IX of the Listing Rules to calculate Key Performance Indicators ("**KPIs**"), so as to make meaningful comparisons over the years.

3 DESCRIPTION OF DATA

The Group has an internal system to collect data and information for statistical analysis. For environmental KPIs, only the Group's Hong Kong office data can be retrieved; whereas social KPIs cover offices in Hong Kong, and the Greater China. The Board has accountability to review and approve data and the report.

4 STAKEHOLDER ENGAGEMENT

It is important to understand the stakeholders' needs and expectations. Better still, stakeholders' opinion can help the Group identifies as well as prioritises development strategies. Therefore, there are communication channels to engage with different stakeholders on a regular basis.

	Stakeholders	Communication Channel	
External	**Customer**	• Websites • Emails • Customer satisfaction surveys	• Annual reports • Annual General Meeting • Customer service hotline
Internal	**Employee**	• Day-to-day trainings • Regular meetings • Phone calls • Internal circulars (notices, intranet)	• Emails/opinions collection boxes • Appraisals • Annual reports • Instance communication platforms (WeChat, WhatsApp)
Internal	**Supplier**	• Hotlines/emails • Onsite visit	• Annual performance review • Annual reports

5 MATERIALITY ASSESSMENT

In order to understand stakeholders' expectations, the Group has commissioned a third party to conduct materiality assessment to external and internal stakeholders. We are pleased to receive a total of 56 responses from suppliers, customers and employees. The first two most material ESG issues are Product Safety and Product Integrity. Occupational Health & Safety was in the third place.

The assessment follows three steps to identify material ESG issues:

First: Identify ESG issues	With reference to HKEx's ESG Reporting Guide and Sustainability Accounting Standard Board Materiality Map, the Group has formulated 21 ESG issues, covering environment, operations, employment and society aspects
Second: Collect stakeholders' opinions	The Group collected a total of 56 responses from our suppliers, customers and employees.
Third: Prioritise material ESG issues	Each ESG issue is based on importance to our internal and external stakeholders to prioritise, and then formulate a materiality matric. In summary, 14 ESG issues were assessed as material and reported accordingly in order.

The 14 material ESG issues identified are:

14 material ESG issues identified

Product Responsibility

- Product safety
- Product integrity
- Intellectual Property Rights Protection
- Product diversity
- Data security and personal information protection
- Research & Development of self-product
- Anti-competitive practice

Employment

- Occupational health & safety
- Employee benefits and welfare
- Equal Opportunities
- Talent Management

Supply Chain management

- Procurement and supply chain management

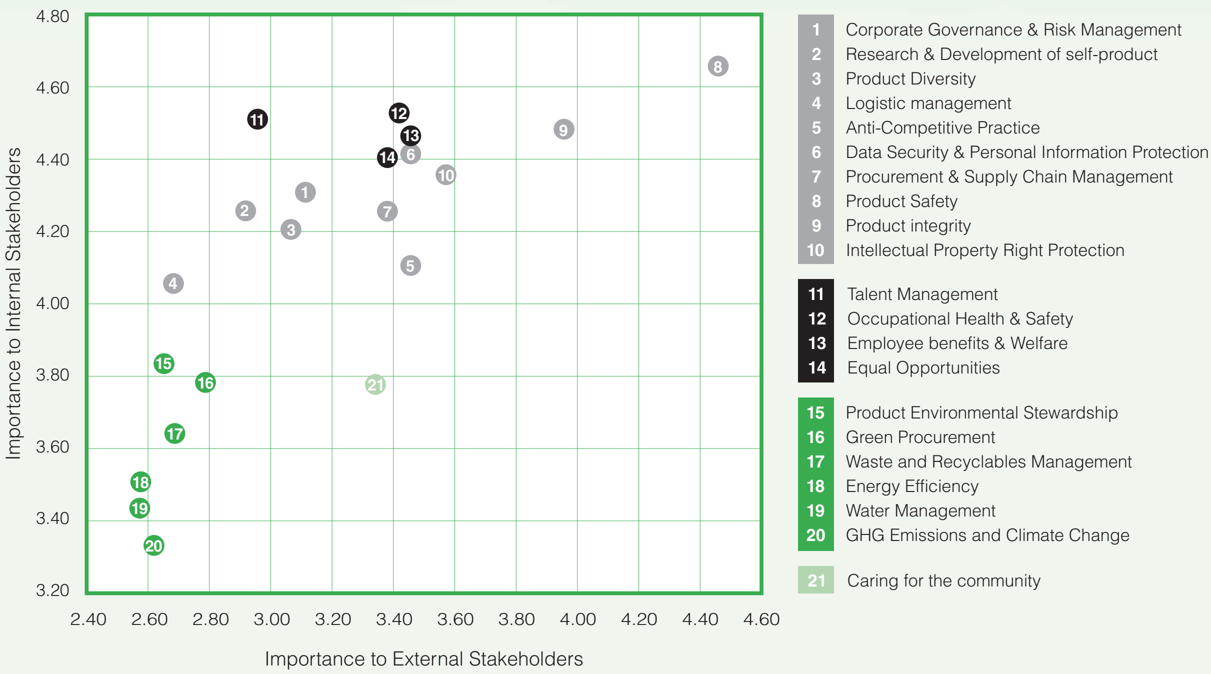
Corporate Governance

- Corporate governance and risk management

Community Engagement

- Caring for the Community

Materiality Matrix



Despite the following seven issues are the Group's least concerns, the Group will still disclose our achievements and basic management approaches in the report.

1. Logistic management
2. Green Procurement
3. Product Environmental Stewardship
4. Waste and Recyclables Management
5. Energy Efficiency
6. Water Management
7. Greenhouse gas ("GHG") Emissions and Climate Change

Tycoon's Responses

In terms of the materiality assessment in 2020, the Group concluded five main topics: product safety, product integrity, occupational health & safety, intellectual property rights protection, and employee benefits and welfare. The table below summaries the Group's responses regarding the top five concerned areas of stakeholders. Please refer to the corresponding section of the report for detailed actions and measures.

Top 5 Material Topics	Tycoon's responses
Product Safety	• AZO Cranberry also acquired "No. 1 Pharmacist Recommended Brand (Cranberry) 2020-2021". • Products of the Group, such as California Baby and Nordic Naturals, have attained many international awards and recognition. • The Group has a logistic and storage requirement to the delivery company, controlling the product quality along the logistic chain.
Product Integrity	• The Group fully respects all regulations and requirements without verbal and written complaints and non-compliance. • The Group closely communicates with distributors, promoters, and suppliers for the latest product knowledge.
Occupational health and safety	• Health and safety come first. A cross-branch safety committee is formed and oversee the health and safety issues of the Group. • The Group has adopted a series of COVID-19 safety measures to respect social-distancing policy and minimise cross-contamination risks.
Intellectual Property Rights Protection	• The Group has assigned the sales and marketing department to oversee the use, collection, and disclosure of trademarks and intellectual property rights. • The Group requires suppliers, business partners, and distributors to follow the same business ethics and attitude towards intellectual property rights. Any use and disclosure of trademarks, and logos must get prior approval and consent.
Employee Benefits and Welfares	• The Group offers benefits and welfare beyond the statutory requirements such as additional paid leave, upgraded medical plans, team-building activities, etc. The Group realises remuneration package enhancement is an ongoing process. Hence, the Group reviews the package from time to time and is preparing several enhancements in the coming year.

6 PRODUCT RESPONSBILITY

Product safety is the leading priority of the Group. The Group actively monitors the quality of our products with our internal control process, and maintains on-going communication with our customers and supplier in this regard. The Group has attained a wholesaler licence in proprietary Chinese medicines according to the Chinese Medicine Ordinance in Hong Kong and Licence for Firm for Import, Export and Wholesale of Pharmaceutical Products in Macao. Moreover, the Group's products, such as California Baby, Nordic Naturals and AZO Cranberry, has attained various international awards and recognition. Please visit the corresponding websites for information.

During the Reporting Period, the Group was not aware of any material non-compliance with any of the relevant laws and regulations concerning health and safety, advertising, labelling and privacy matters relating to products and services provided by the Group.

6.1 Quality Assurance

It is not expected that adverse reactions and overdose would occur in normal use. The Group strictly follows laws and regulations on product labelling. All of the product bears a label displaying ingredients, allergies and additives, nutritious values, brand name and contact information, best before date, volume, indications and dosage, and storage conditions. A medical prescription must present inside the packing. The labelling is fully compliant with Trade Descriptions Ordinance, Undesirable Medical Advertisements Ordinance, Consumer Goods Safety Regulation, and Food and Drugs (Composition and Labelling) Regulations in Hong Kong.

A stringent quality assurance process is implemented to ensure product quality from the conceptual stage to logistics and after-sales. All procured products must possess a product safety certification and proof of origin. Besides, suppliers and brand owners are required to provide testing reports, ISO 9001 and ISO 22000 certificates, permits, if applicable, to prove the legality, quality, benefits and risks of the products. The sales and marketing, and sourcing departments are responsible for safeguarding product safety. They randomly inspect the product quality such as heavy metal and microorganisms' contents, pesticide residues contents and nutritious values by commissioning the third-party testing and inspection quality assurance company. In 2020, all of the food-related products passed random inspections. All validated reports are well-documented and maintained.

Moreover, the logistic arrangement is a critical factor to maintain product in an optimal condition. The delivery team adheres to storage at below 25-degree Celsius and 65% humidity per suppliers' requirements. During the pandemic, additional temporary storage is available so that the storage operators conform to the same temperature and condition requirements from minimising the chance of denaturation and deactivation.

6.2 Product commitment

The sales and marketing department works closely with the technical team to design promotional materials. The technical team bases on the suppliers' supporting document and information to advise wording and descriptions in the material, so as to ensure that product commitment is correct and free of misleading information. Also, customers can reach the Group's customer service professionals through hotlines and promoters, and they can contact product distributors to arrange returns and refunds if necessary.

6.3 Research & Development of self-owned brand

For the self-owned brand, a team of technical professionals, including registered pharmacists and nutritionists, support on product design, market values, labelling and scientific analysis. The Group is bound by regional laws and international standards.

6.4 Product Diversity

PCM and health products are important to protect health, and the Group realises health protection for children and pregnant women is also significant. Therefore, the Group has introduced a self-owned brand, Boost & Guard, in 2020. Moreover, the Group has established different sourcing offices in different regions, such as a new office in Japan, which are responsible for identifying and sourcing other reliable and good quality products and bringing them to Hong Kong and all over the world.

6.5 Product Recall and Complaint Handling

Full care of consumers' health is the ultimate goal of the Group, so the Group is reliant on customer feedback to introduce, enhance, and promote the products. Any verbal and written feedback and even complaints have to be followed up in a timely manner and a comprehensive investigation should be launched immediately. The Group pays extra attention to the complaints about the drug efficacy, adverse reactions and other safety and health issues. In 2020, the Group was pleased that there were no product recalls for safety and health reasons.

6.6 Intellectual Property Rights

The Group has its own research and development team, and the Group owns self-owned brands. The Group takes intellectual property rights very seriously. With this in mind, the Group has 21 registered Private Label Products. The Group has also assigned the sales and marketing department to oversee the use, collection, and disclosure of trademarks and intellectual property rights. All usage of logos and certification marks are as per the brand owner's instructions. Similarly, the Group requires the third-party to uphold the same approach when they use the Group's logo.

6.7 Information security and personal data protection

Aside from the intellectual property rights protection, the Group also fully respects personal data privacy by establishing a protocol to guide employees to handle personal data and standardise the use, collection, and disclosure of data as per the operation areas' requirement. The Group must collect information lawfully and directly for a pre-defined purpose only. All storage and transmission of personal data must be encrypted and with up-to-date antivirus protection. The Group takes practicable steps to safeguard the personal data from unauthorised or accidental access, processing, erasure, loss or use by third parties. The Group discloses personal data, both internally and externally, on a need-to-know basis.

Only delegated personnel who are well-trained can access personal data. Regular data handling training is arranged and scheduled for the person to receive the latest updates and requirements. Individuals will be dismissed from the Group if found guilty of any wrongdoings. Meanwhile, the Group must notify the clients if their data is being disclosed, collected or used without authorisation.

Meanwhile, the COVID-19 pandemic has sped up the Group's transition from offline retail trade to online electronic business. Hence, the Group subscribed to premium plan of e-commerce platforms to provide many socialising features and advanced security data management.

7 EMPLOYMENT

Employees are the Group's assets and they are important to our business. Building an inclusive, safe and harmonious working environment can build up the employees' sense of belonging and facilitate co-operations, engagements and communication. During the Reporting Period, there was no non-compliance with any of the relevant laws and regulations reported relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

7.1 Occupational Health and Safety

The Group values the importance of employees' health and safety, and is committed to providing employees with a healthy, safe and comfortable working environment. We strive to eliminate potential workplace health and safety hazards, and safety management measures in all aspects are implemented to enhance employees' health and safety during work.

A cross-branch safety committee consisting of the human resources department and the sales and marketing department has been formed. The committee maintains the Group's occupational health and safety issues to identify potential risks in the workplace and establish safety measures as per the operation regions' recommendations and requirements. Routine occupational health and safety training such as cardiopulmonary resuscitation (CPR) training, Automated External Defibrillator (AED) instruction training, potential hazards in the workplace etc. are scheduled for all newcomers and existing employees. The office's property management arranges regular fire drills to refresh the memory of employees.

Since health and safety is the foundation and to strengthen safety awareness, the Group is pleased that there were no work-related fatalities in the past three years. In addition, the Group recorded zero lost days in 2020 due to work injury. However, the Group is continuing its unrelenting efforts to maintain safety and health in the working environment and operations. In case of accidents, the Group will provide prompt assistance to the injured and launch an intensive investigation to examine the root cause of the accidents. External consultants or professional parties may get involved in the investigation and develop an improvement plan if necessary.

In addition, the Group and the cross-brands safety committee responded immediately to establish COVID-19 safety measures in office and operation sites. First, the Group limited the cross-border travels only to necessary visits and with prior approval. The work-from-home policy also minimises individual movement. Second, the Group has monitored employees and visitors' travel history and health surveillance records, 14 days of self-quarantine was required and negative test result should be obtained before resumption of work. On the premises, the Group has rearranged the layout and setting of the office as much as possible by respecting social distancing policy. Reminders, notices and posters were placed prominently to remind personal hygiene etiquette and safe social distance. Mask-on policy, temperature checks, and gatherings as per local government requirements were in place to protect employees' health.

On-going scheduled cleaning and disinfection services were in place with increasing frequency. Additional schedules were arranged on request. The Group pays extra attention to the disinfectant's active ingredient, concentrations and contact time to ensure the disinfectant's efficacy and also closely communicate with the cleaning crew/property management on the cleaning and disinfection services. The Group also has sufficient stock of personal protective equipment (PPE) for usage.

The Group will arrange a deep cleaning service in office if there are confirmed cases, and the Group and employees will continue to pay attention to the office's hygiene conditions and monitor the pandemic situation.

During the Reporting Period, there was no non-compliance with any of the the health and safety related laws and regulations.

7.2 Employee Benefits, Welfares and Remuneration

The Group obeys and upholds the employees' rights by offering "Five Social Insurances and One Housing Fund" in Greater China and the Mandatory Provident Fund (MPF) scheme in Hong Kong. On top of that, all employees are entitled to have paid leaves such as annual leaves, maternity leave and marriage leave. Employees in the Hong Kong office can also enjoy medical plans as well as dental check-ups and body check.

The Group shows its care for the employees by organising a wide range of activities such as free Chinese soup, birthday celebrations, festival gatherings, happy hour meets/afternoon teas, monthly gatherings, quarterly leisure travels, and team building activities. The Group has been reviewing the pandemic situation and adjusting the activities from time to time. Moreover, the Group has a plan to enhance Hong Kong's and Greater China's office working environment in 2021, hoping to provide a more decent and spacious place for employees. The Group is also accessing the feasibility to offer the share award scheme for key employees with details to be confirmed. It is expected that the arrangement will be ready and released next year.

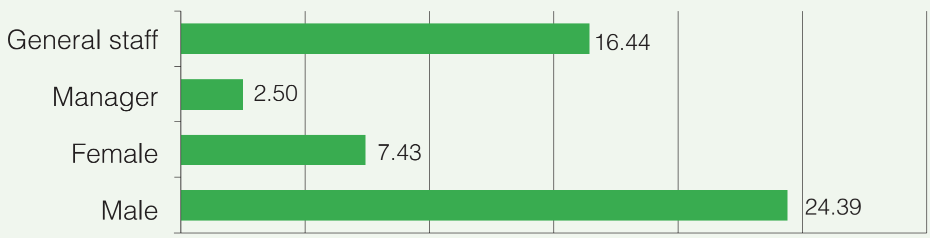
Employees can come and go as they please. The Group, however, puts in unrelentingly to improve the remuneration package by benchmarking salary against industry norms. Together with the benefit and welfares mentioned above, our competitive remuneration package can help the Group retain talents and maintain stable but outstanding product quality.

In light of the COVID-19 pandemic, the Group passed and received the first and second tranche financial supports of the Hong Kong Government's Employment Support Scheme (ESS). All employees in Hong Kong benefit from the scheme, which allows them to avoid being laid-off and salary adjustment. The Group continues to fulfil the corresponding requirements.

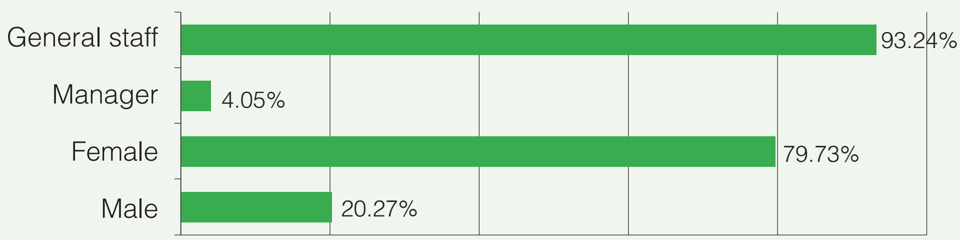
7.3 Talent Management

A rapidly changing market drives us to update ourselves with new technologies and technical knowledge. With that aim in mind, the human resources department of the Group has implemented a training plan to promoters and marketing teams on product knowledge. During the Reporting Period, there were 2,420 training hours offered to 74 employees. The percentage of trained employees and the average training hours by gender and employee category are shown below. The average training hours of the total trained employees were 33 hours in the Reporting Period.

Average training hours by gender and employee category



Percentage of trained employees by gender and employee category



Trained employees	Number of trained employees	Average hours	Percentage of trained employee	Number of training hours
General staff	69	16.44	93.24%	2,334
Manager	3	2.50	4.05%	70
Female	59	7.43	79.73%	810
Male	15	24.39	20.27%	1610

7.4 Equal Opportunities

7.4.1 Recruitment, Dismissal, Equal Opportunity and Anti Discrimination

The Group complies with all the relevant legislations as per operation regions to recruit and employ candidates during the Reporting Period. Standardised and systematised recruitment process can ensure the employees respect the legislation and legally operated. The shortlisting criteria are based on candidates' experiences, abilities and business needs, regardless of race, gender, age, marital status, pregnancy, family status, sexual orientation, religion and nationality. Interviews, aptitude tests, written tests or any assessment format can provide subjective evidence for management to make comparable and justifiable decision-making. Meanwhile, the Group adheres to the dismissal rights and protection of employees as per operation regions. Every leaving employee will attend an exit interview with the human resource department to gain insight on their opinions and thoughts. The Group strives to improve and make changes whenever applicable.

Any employee who is intimidated, humiliated, bullied or harassed (including sexual harassment) may report to the employee's representative, or file complaints directly to the management representative or the general manager, and the Group will take a serious approach to resolve these issues upon receiving the said complaint.

7.4.2 Promotion

Employees have their key performance indicators and have to complete annual appraisal as subjective proofs to do promotion and salary review. All employees share an equal opportunity to enjoy rewards and appreciations. Only employees' capability, educational attainment, performance and business needs are being considered. Priority will be given to the well-equipped employees by internal transfer. Every candidate shares an equal opportunity to be chosen, and no one will be discriminated against by any means. Seats are always reserved for the capable.

Meanwhile, the Group is working hard with the human resource department to review department training needs and stipulate a training plan accordingly. Incorporating the training into the promotion mechanism encourages employees to keep up the changes and equip themselves.

7.4.3 Labour Practices

Employment laws and regulations specify clearly the minimum age for employment and corresponding employment rights and protection. The Group fully respects and complies, so the Group must go through an identity check by ensuring the candidates are at legal employment ages and can work legally. The employment contract will be terminated immediately when there is child labour or illegal workers. If necessary, the Group will seek assistance from relevant institutions to take care of the child as well as the worker. During the Reporting Period, there is no reported incident in this regard.

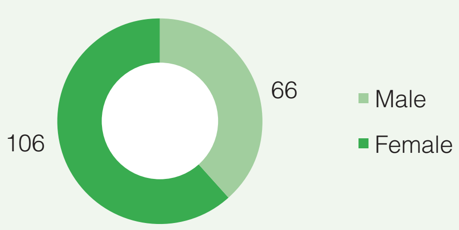
In daily operation, forced labour is not acceptable, and the Group recognises the importance of work-life balance. This is not only by ensuring productivity but also safeguarding employees' physical and mental fitness. Consequently, the Group has always been meticulous in the deployment plan and working schedules. If overtime work is necessary, prior approval from the management is required.

During the Reporting Period, there was no non-compliance with relevant laws and regulations reported relating to child and forced labour.

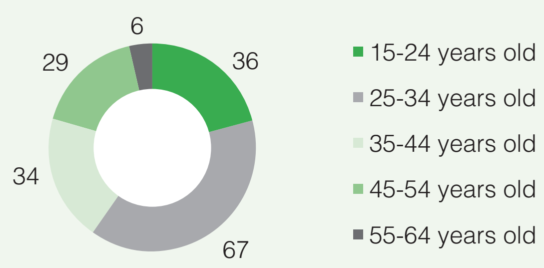
7.5 Team Structure

On 31 December 2020, the Group had 172 employees of which general staff accounted for around 81% (139), and all are full-time staff. The remaining 33 employees were the managers and directors. Detailed team structure by gender, age group, geographical region and employee category are shown below.

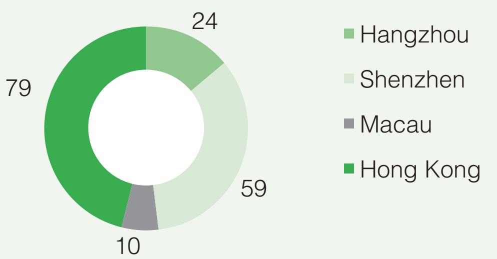
By gender



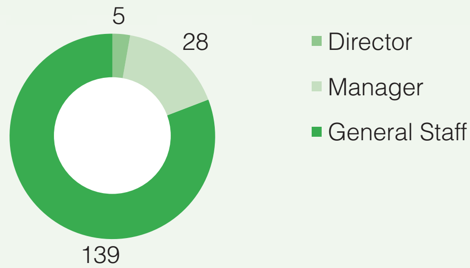
By age group



By geographical region

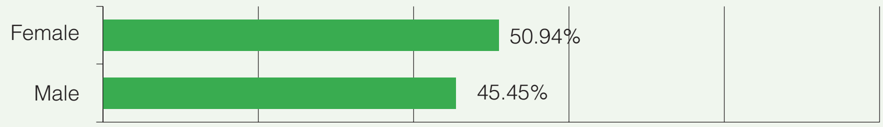


By employee category

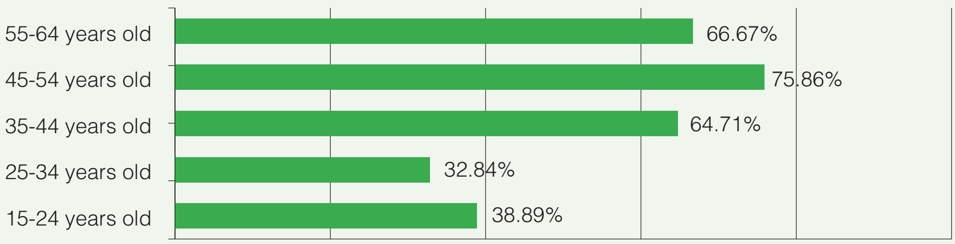


In the Reporting Period, the average turnover rate was 4.0%. For the turnover rate by gender, age group, and geographical region, please refer to the pie charts below.

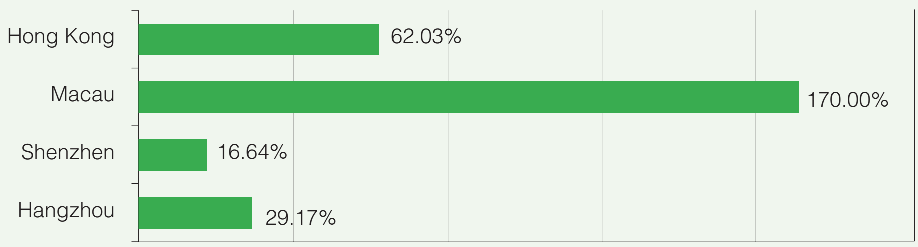
By gender



By age group



By geographical region



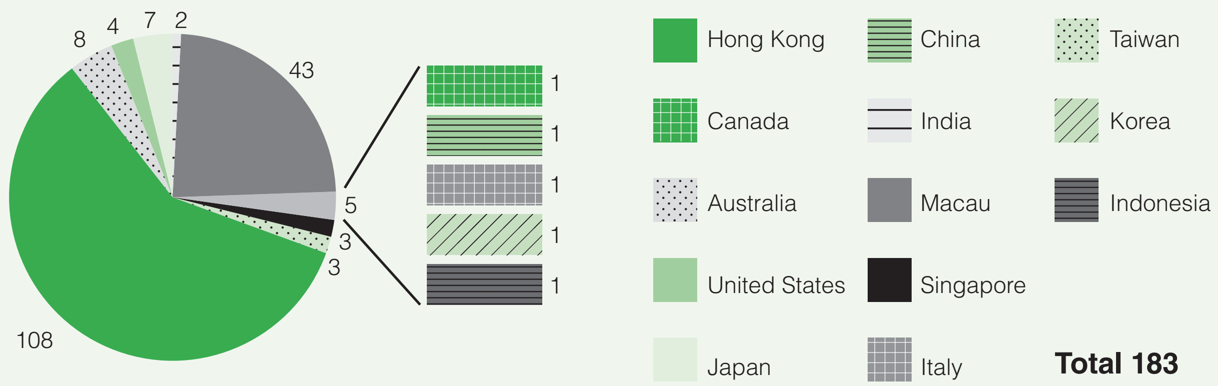
8 SUPPLY CHAIN MANAGEMENT

The Group highly regards reliable, honest, and mutual respect that brings suppliers and us together, building a long-term relationship. To make us in line with the same working principles and values, the supplier's code of conduct is disseminated to all service providers along the supply chain.

At first, the Group has set up a protocol to guide employees to select, assess and approve suppliers in a systematic way. Price, market potential and product uniqueness are some of the selection criteria. For key ingredients, test reports, as well as certifications, are required when applicable. In 2020, we had a total of 28 new suppliers, and 28 existing suppliers were being assessed. Meanwhile, green procurement has been increasingly important in the supply chain, even though this is a completely new concept. The Group started to assess suppliers' environmental and social responsibility. 14% of the existing suppliers possess environmental certifications. The Group also requires suppliers to complete an annual performance review. This is to monitor their performance and safeguard the product quality of the Group. Suppliers would be dismissed or disqualified from the approved supplier list if they failed the performance review.

The global COVID-19 outbreak has been putting much pressure on the supply chain. Many corporations were facing a temporary breakdown of the supply chain. Flexibility and resilience along the chain have become critical factor in business success. Thanks to the stable customer's profile of the Group and co-efforts made by suppliers and the Group, the Group is able to forecast one-year orders and demands in advance. Suppliers and the Group also communicate from time to time and adjust the demands accordingly whenever necessary. The long-term relationship between suppliers and the Group makes the responses efficiently and promptly. Temporary storage became a contingency plan of the Group in 2020 to further stabilise logistics and delivery.

Distribution of Suppliers by geographical region (as at 31 December 2020)



9 CORPORATE GOVERNANCE

9.1 Anti-Corruption

Integrity is crucial to the Group's business operations. Many of our success and regular suppliers and customers take credit for our integrity. Anti-corruption laws and regulations bound the Group and as updated from time to time. Any form of bribery, extortion, fraud and money laundering are prohibited to all levels of employees and directors. Newcomers have to access a code of conduct on their first day of employment, covering topics of anti-corruption and conflict of interest. Signed acknowledgement applies to all employees, including the executive director. Scheduled refresher online training for existing employees is also a way to refresh their memories of relevant practices and conduct. In 2020, all employees received at least one hour of anti-corruption training and about 0.75 hours of anti-corruption training to directors.

Moreover, the Group maintains channels to report any suspicious cases anonymously. A committee has been established to oversee the compliance levels of anti-corruption and business ethical practices of the Group. Once non-conformity is identified, the Group will take immediate actions to investigate and cooperate with law enforcement. The Group will not condone any unlawful acts and corruptions. There was no suspected case or confirmed case of bribery, extortion, fraud, and money laundering in the Reporting Period. The Group has complied with all the relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

10 CARING FOR THE COMMUNITY

The Group believes health makes a happy life, and this belief drives the Group committing to providing help to the underprivileged, particularly during the pandemic. The pandemic limited our volunteering work to 20 hours, but this evoked the Group to continue the journey of our voluntary work in an alternative way.

For example, the Group donated about 214,500 facial masks, 11,000 alcohol-based handrub gels and alcohol-based sprays, and 3,000 wet tissues to different walks of life in Hong Kong. Beneficiaries include Hong Kong Playground Association, Baptist Oi Kwan Social Service, Heep Hong Society, The Hong Kong Society for the Aged, Hong Kong Federation of Handicapped Youth and HK InnoVision. In addition to the Hong Kong community, the Group also donated 200,000 pieces of facial masks to the government of Osaka and Macao. The total amount of money contributed to the focus areas was approximately HK$1,000,000 .

11 ENVIRONMENT

The Group is an office-based business; therefore, the environmental impact is relatively insignificant compared to social involvement. The Group does, however, emit greenhouse gas emissions, consume electricity, water and generate wastes in daily operation. The environmental achievement section summarises the environmental achievement of the Group. During the Reporting Period, there was no environmental non-compliance with relevant laws and regulations reported relating to air and greenhouse emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

11.1 Emissions

The primary greenhouse gases ("**GHG**") emissions of the Group are Scope 1 (direct emissions from fossil fuel burning by company vehicles), Scope 2 (indirect emission by purchased electricity) and Scope 3 (cross-boundary travels).

Indicator (Note 1)	**Units**	**Total emissions in 2020**
Total GHG emission (Scopes 1, 2 and 3)	CO_2e tonnes	111.22
Scope 1 (Note 2)	CO_2e tonnes	6.92
Scope 2 (Note 3)	CO_2e tonnes	91.71
Scope 3 (Note 4)	CO_2e tonnes	12.59
Intensity of total GHG emission	CO_2e tonnes/sales quantity	0.000009
Air pollutants (Note 5)	Units	
Sulfur Oxides (SO_x)	kg	0.04

Notes:

1. The GHG emissions are presented in terms of carbon dioxide equivalent, which makes reference to the latest released emission factors by CLP Power Hong Kong Limited

2. Scope 1 refers to direct emissions from vehicles that the Group owns.

3. Scope 2 refers to indirect emissions resulting from the purchased electricity consumed by the Group.

4. Scope 3 refers to indirect emissions from business travel by employees and total disposal of office paper.

5. Vehicle fuel consumption was less significant during the Reporting Period as the COVID-19, therefore, no records on the total kilometres travelled by vehicles. No PM and NOx can be measured.

The business nature of the Group does not emit a significant amount of exhaust gas by vehicles. The Group strives to control the emissions, such as regular engine repair and maintenance. In the future, the Group strives to seek cleaner transport choices and promote a low-carbon living style.

11.2 Use of Resources

Energy Consumption

Energy consumption comprises a key part of the Group's environmental profile. The heating, ventilation and air conditioning (HVAC) system entails the largest energy in day-to-day operation. Company vehicles are another factor contributing to energy consumption. Aiming for the high energy efficiency objective, the Group has implemented the following measures:

- Replaced conventional lightings with LED lights or T5 fluorescent tube;
- Turned off lighting, personal computer and air-conditioners during non-office hours;
- Switched off idling equipment;
- Used video conferencing or phone calls for meetings;
- Maintained indoor room temperature at 24 to 26 Degrees Celsius at the office;
- Placed energy-saving reminders at the pantry, office areas and dormitory;
- Established an energy management centre to analyse and monitor energy usage regularly; and
- Limited unnecessary use of company vehicles.

Indicator	Units	Consumption	Total emissions Intensity (per sales quantity)
Total electricity purchased	kWh	183,414.37	0.015
Unleaded petrol consumption	Litres	2,555.23	0.0002

Water Consumption

The Group's business is not a water-intensive industry. Property management in Hong Kong manages the water consumption of the office and there were no difficulties of the Group to access clean water. Hence, the water-saving measures are limited to aspects that the Group can control. For example, water-saving reminders are placed at the pantry and toilet, using refillable water bottles/incoming water supplies; adopting water flow controllers and equipment with water-efficiency labels.

Indicator	Units	Total emissions 2020
Total water consumption	m^3	13.21
Water consumption Intensity (per employee)	Litres/sales quantity	0.000001

Waste management

Non-hazardous waste

For waste management, the Group upholds Reduce, Recycle and Reuse principles to manage waste. In general, most of the waste is household waste that is centrally collected, handled and disposed of by registered waste collectors. The remaining part of the waste is a non-hazardous waste but common recyclables such as paper and beverage bottle plastic. The office automation system and the Systems Applications and Products in Data Processing system can facilitate the Group transitioning to the electronic office and reduce office paper consumption. Duplex-printing and environmentally-friendly paper are adopted for necessary printing.

Hazardous waste

Some office-oriented waste is classified as hazardous waste requiring special cares, for instance, compact fluorescent lamps, exhausted cartridges and toners. The Group collects, handle, store, and hand-over to registered collectors in accordance with regulations as per operation regions. Proper and eye-catching labels are available to single out hazardous waste to avoid leakage and misuse. The Group assesses contractors' competency by checking permits.

Due to the business nature, the Group's non-hazardous waste and hazardous waste are centrally handled by the property management. This practice makes disposal data of the waste unavailable.

Packaging materials

The Group is a trading company principally engaged in distributing such products of third party brands and the Group's own brand (i.e. products developed and marketed under the brands of the Group and produced by external manufacturers engaged by the Group on an ODM basis) ("**Private Label Products**"). The packaging of Private Label Products has been outsourced to third-party factories. As a result, the operation of the Group did not involve any use of packaging materials. Hence, the Group can only passively recycle packaging materials whenever possible. However, in the Reporting Period, there were no packaging materials recycling programs in place.

11.3 The Environment and Natural Resources

The Group pursues the best practices for environmental protection and focuses on the Group's business impacts on the environment and natural resources. For the purpose of protecting the natural environment, as well as achieving environmental sustainability, the concepts of environmental protection and natural resource conservation have been integrated into our internal management and daily operations in addition to operating in compliance with relevant environmental laws and international standards. Although the core business of the Group only has a minor impact on the environment and natural resources, as an ongoing commitment to good corporate social responsibility, the Group is determined to minimise any negative environmental impacts in its business operations. The Group regularly assesses the environmental risks of its business and adopts preventive measures to reduce the risks and ensures compliance with relevant laws and regulations.

Support Short-dated Goods saving business

The Group agrees to the vision of short-dated goods saving; hence, the Group works with GreenPrice, a short-dated goods retailer in Hong Kong, to sell the product at significant discounts. Short-dated goods mean the pre-packaged goods approaching or even beyond the best before date, but are still of good quality and safe to eat given that the products are stored properly. By this participation, those short-dated goods can remain on the shelves and avoid being discarded. The cooperation is to promote a brand-new concept of sustainable living and to enable us to "rethink" the way we live every day.

11.4 CLIMATE CHANGE

The changing climate poses impacts on the Group's operation and everyone's life. The Chinese and Hong Kong governments have set a strategic carbon neutrality target by 2060 and 2050 respectively. The Group works gradually to reduce carbon footprint and GHG gases from unnecessary transportation, striving for a low-carbon operation. In 2020, the Group has established a climate change statement, so as to reinforce the concept to the Group and the employees.

First of all, the Group will work with different stakeholders to identify, assess and manage physical and transitional risks. Due to the business nature, the Group could be severely affected by abnormal and even extreme weather as this will cause supply chain collapse. Moreover, the GHG emissions along the supply chain is concerning by many stakeholders. Their expectations tend to be environmentally friendly driven. This may induce a policy-shift of government and the Group has to obey more stringent regulations in the near future.

Meanwhile, the Group investigates the feasibility to support Hong Kong's roadmap on the popularization of electric vehicles by any means. Also, the Group takes low-carbon emissions by heart and seeks environmentally responsibly choices while tendering, procuring and purchasing. During the Reporting Period, the Group was not aware of non-compliance with laws and regulations related to air and greenhouse gas ("GHG") emissions, including but not limited to the Air Pollution Control Ordinance (Cap. 311) of Hong Kong, which would have a significant impact on the Group's operation.

In which enhancing the reporting transparency and carbon emission disclosures are the main foci in the coming years. The Group will continue to influence the stakeholders by any means to achieve regional and local carbon neutrality targets. More than that, the Group will find ways to strengthen the cooperation with suppliers to recycle packaging and reduce GHG emissions across logistics.

Case Study of Supplier – California Baby

California Baby is the world-leading organic skincare manufacturer. Its mission is to create safe, pure and high-quality products for consumers and reduce its environmental impact. Hence, California Baby has adopted solar panels to provide up to 80% of energy to the manufacturing facility in California, USA. Also, California Baby realises the packaging is an environmental problem, as a result, it recycles the post-consumer plastic to replace conventional HDPE plastic bottles for the product. By doing so, energy and natural resources can be conserved and also GHG emissions are reduced. The post-consumer recycled packaging was fully launched in 2019. The transition to all product is processing.

Case Study of Supplier – Nordic Naturals

Nordic Naturals is a Norwegian fish oil company to provide its primary Omega-3 product all over the world. It is committed to conserving the health of the oceans. The headquarter in California is LEED gold certified. Nordic Naturals also utilises unused fats from the fish oil production process to generate power, supporting the electricity of the headquarter. Moreover, all omega-3 products are certified by the Friend of the Sea (FOS) to guarantee the products are from sustainable fisheries and minimise the impacts on the ecosystem. All the product containers and packaging are recyclable.

12 CONCLUSION/OUR COMMITMENT

In the quest for continuous improvement, the Group will continue to keep abreast of sustainable development and to track the ESG performance and progress regularly. Valuable feedback enables us to improve our performance. For any comments regarding this report, please feel free to contact us by email at info@tapgl.com.

Ernst & Young
22/F CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report
To the shareholders of Tycoon Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Tycoon Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 211, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision for inventories	
As at 31 December 2020, the Group had a gross inventory balance of HK$145,447,000 and an inventory provision in respect of obsolete and slow moving items of HK$20,111,000. In determining the provision, management applied significant judgements and estimates, which included assumptions that are affected by current and future market conditions, and which took into account factors such as the record of historical sales, ageing of inventory items and selling price. Related disclosures are included in notes 2.5, 3 and 22 to the consolidated financial statements.	Our audit procedures included, among others, evaluating management's assessment methodology based on the Group's circumstances, and evaluating the inputs and assumptions applied by management in performing the provision assessment by reviewing, on a sample basis, the ageing of inventory items, the record of historical sales, the post year-end sales, and the selling prices of inventories.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Purchase price allocation for a business combination	
In September 2020, the Group acquired an 80% equity interest in Jefferine Macau Limited ("**Jefferine**") from an independent third party. The acquisition of Jefferine constitutes a business combination. The accounting for this acquisition required significant management estimates in the fair value of the assets acquired and the liabilities assumed for the purchase price allocation as at the date of acquisition. To support the determination of fair values as at the acquisition date, management engaged an independent external valuer to perform valuations on the identifiable assets acquired and liabilities assumed for the purchase price allocation. Related disclosures are included in notes 2.5, 3 and 36 to the consolidated financial statements.	Our audit procedures included, among others, reviewing the acquisition agreement and purchase price allocation schedules prepared by management, discussing with management to understand their identification and measurement of the acquired assets and liabilities assumed, and evaluating the independent external valuer's competence, capabilities and objectivity. We also involved our internal valuation specialists to assist us to evaluate the valuation methodology, key assumptions and parameters applied in the fair value measurements of the acquired assets and liabilities by benchmarking comparable and normal market practice. We also assessed the adequacy of the Group's disclosures of the business combination.
Impairment of goodwill	
As at 31 December 2020, the carrying amount of goodwill was HK$26,139,000 and arose from the acquisition of the 80% equity interest in Jefferine. The Group performs an impairment test for goodwill on an annual basis. The impairment test is based on the recoverable amount of the cash-generating unit ("CGU") to which the goodwill is associated. Management's assessment process involves significant judgements and estimates, including the estimation of future cash flows and the use of other assumptions, such as the terminal growth rate and the discount rate applied, which are sensitive to expected future market or economic conditions and the relevant CGU's performance in the foreseeable future. Related disclosures are included in notes 2.5, 3 and 15 to the consolidated financial statements.	Our audit procedures included, among others, involving our valuation specialists to assist us in evaluating the methodologies and key assumptions used by management in the discounted cash flow projections, including the discount rate and terminal growth rate. We compared the projections prepared by management with the historical performance of the CGU. We also performed sensitivity analyses around key drivers of the cash flow forecasts, including revenue and the discount rate for the relevant CGU. We also assessed the adequacy of the disclosures relating to the assumptions used in the impairment assessment of goodwill.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investment in 49% equity interest in Hong Ning Hong Limited ("HNH")	
In June 2020, the Group acquired a 49% equity interest in an associate, HNH, at a cash consideration of HK$41,650,000. As at 31 December 2020, the carrying amount of the Group's investment in HNH was HK$39,846,000. Management assesses whether there are any indicators of impairment for the investment in HNH at the end of each reporting period, and performs an impairment assessment when an impairment indicator is identified. Management's impairment assessment process involves significant judgements and estimates, including the estimation of future cash flows and the use of other assumptions, such as the terminal growth rate and the discount rate applied, that are sensitive to expected future market or economic conditions and the performance of the CGU to which the 49% equity interest in HNH is associated in the foreseeable future. Related disclosures are included in notes 2.5, 3, 17 to the consolidated financial statements.	Our audit procedures included, among others, evaluating the Group's procedures in identifying impairment indicators, involving our valuation specialists to assist us in evaluating the methodologies and key assumptions used by management in the discounted cash flow projections, including the discount rate and terminal growth rate. We compared the projections prepared by management with the historical performance of the relevant CGU. We also performed sensitivity analyses around key drivers of the cash flow forecasts, including revenue and the discount rate for the relevant CGU.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Ka Wing.

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	505,991	700,755
Cost of sales		(422,165)	(509,614)
Gross profit		83,826	191,141
Other income and gains, net	5	6,599	397
Selling and distribution expenses		(58,737)	(62,295)
General and administrative expenses		(93,501)	(54,894)
Finance costs	6	(4,852)	(5,989)
Share of losses of associates		(1,804)	–
Share of losses of joint ventures		–	–
PROFIT/(LOSS) BEFORE TAX	7	(68,469)	68,360
Income tax	10	7,504	(13,844)
PROFIT/(LOSS) FOR THE YEAR		(60,965)	54,516
OTHER COMPREHENSIVE EXPENSES FOR THE YEAR			
Other comprehensive expenses that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(112)	(107)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR		(61,077)	54,409

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Equity holders of the Company		(61,134)	54,516
Non-controlling interests		169	–
		(60,965)	54,516
TOTAL COMPREHENSIVE INCOME/(EXPENSES) ATTRIBUTABLE TO:			
Equity holders of the Company		(61,246)	54,409
Non-controlling interests		169	–
		(61,077)	54,409
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	HK(8) cents	HK9 cents

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	63,271	57,292
Right-of-use assets	14	15,266	15,003
Goodwill	15	26,139	–
Intangible assets	16	6,621	1,449
Investments in associates	17	39,846	–
Investments in joint ventures	18	–	–
Financial assets at fair value through profit or loss	19	22,590	–
Derivative financial instrument	20	840	–
Prepayments and deposits	21	3,542	3,827
Deferred tax assets	31	9,946	3,318
Total non-current assets		188,061	80,889
CURRENT ASSETS			
Inventories	22	125,336	84,069
Amounts due from related parties	23	1,911	–
Trade receivables	24	124,116	117,161
Prepayments, deposits and other receivables	21	61,142	33,808
Cash and bank balances	25	119,344	50,437
Total current assets		431,849	285,475
CURRENT LIABILITIES			
Trade payables	26	66,484	34,635
Other payables and accruals	27	50,045	21,529
Interest-bearing bank borrowings	28	131,865	151,120
Loan from a related company	29	50,000	–
Amount due to the ultimate holding company	30	996	–
Lease liabilities	14	9,042	7,903
Tax payable		12,848	24,865
Total current liabilities		321,280	240,052
NET CURRENT ASSETS		110,569	45,423
TOTAL ASSETS LESS CURRENT LIABILITIES		298,630	126,312

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	14	7,413	7,592
Deferred tax liabilities	31	778	360
Total non-current liabilities		8,191	7,952
NET ASSETS		290,439	118,360
EQUITY			
Equity attributable to equity holder of the Company			
Issued capital	38	8,000	100
Reserves	33	280,157	118,260
		288,157	118,360
Non-controlling interests		2,282	–
TOTAL EQUITY		290,439	118,360

Wong Ka Chun Michael
Director

Li Ka Wa Helen
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Notes	Share capital HK$'000	Share premium account* HK$'000	Merger reserve* HK$'000	Share held under share award plan* HK$'000	Exchange reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company								
At 1 January 2020		100	–	(80)	–	(166)	118,506	118,360	–	118,360
Loss for the year		–	–	–	–	–	(61,134)	(61,134)	169	(60,965)
Other comprehensive expenses for the year:										
Exchange differences on translation of foreign operations		–	–	–	–	(112)	–	(112)	–	(112)
Total comprehensive expenses for the year		–	–	–	–	(112)	(61,134)	(61,246)	169	(61,077)
Issue of new shares pursuant to the Global Offering (as defined in note 1)	38	7,900	278,806	–	–	–	–	286,706	–	286,706
Share issue expenses	38	–	(31,839)	–	–	–	–	(31,839)	–	(31,839)
Purchase of shares held under the Share Award Scheme (as defined in note 39(b))	39(b)	–	–	–	(23,824)	–	–	(23,824)	–	(23,824)
Acquisition of a subsidiary	36	–	–	–	–	–	–	–	2,113	2,113
At 31 December 2020		8,000	246,967	(80)	(23,824)	(278)	57,372	288,157	2,282	290,439
At 1 January 2019		100	–	(80)	–	(59)	113,990	113,951	–	113,951
Profit for the year		–	–	–	–	–	54,516	54,516	–	54,516
Other comprehensive expenses for the year:										
Exchange differences on translation of foreign operations		–	–	–	–	(107)	–	(107)	–	(107)
Total comprehensive income/(expenses) for the year		–	–	–	–	(107)	54,516	54,409	–	54,409
Final 2018 dividend	11	–	–	–	–	–	(30,000)	(30,000)	–	(30,000)
Special 2019 dividend	11	–	–	–	–	–	(20,000)	(20,000)	–	(20,000)
Total dividends		–	–	–	–	–	(50,000)	(50,000)	–	(50,000)
At 31 December 2019		100	–	(80)	–	(166)	118,506	118,360	–	118,360

* These reserve accounts comprise the consolidated reserves of HK$280,157,000 (31 December 2019: HK$118,260,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Profit/(loss) before tax		(68,469)	68,360
Adjustments for:			
Finance costs	6	4,852	5,989
Share of losses of associates		1,804	–
Share of losses of joint ventures		–	–
Interest income		(124)	–
Depreciation of property, plant and equipment, including leasehold land	7	4,366	4,135
Depreciation of right-of-use assets	7	8,156	7,712
Impairment of property, plant and equipment	7	1,103	–
Impairment of right-of-use assets	7	4,961	–
Amortisation of intangible assets	7	242	–
Impairment of intangible assets	7	450	–
Gain on disposal of items of property, plant and equipment	7	(651)	–
Gain on disposal of subsidiaries	7	(109)	(18)
Fair value loss on a derivative financial instrument	5	60	–
Fair value gain on financial assets at fair value through profit or loss	5	(640)	–
Provision for inventories	7	20,111	–
Write-off of inventories	7	10,407	–
Gain on termination of lease	7	(4,423)	–
		(17,904)	86,178
Increase in inventories		(59,550)	(10,178)
Decrease/(increase) in trade receivables		(3,873)	28,241
Increase in prepayments, deposits and other receivables		(25,198)	(19,287)
Increase/(decrease) in trade payables		19,415	(11,685)
Increase/(decrease) in other payables and accruals		(2,934)	3,915
Decrease in amounts due to related companies		(1,911)	–
Increase in an amount due to the ultimate holding company		996	–
Cash generated from/(used in) operations		(90,959)	77,184
Hong Kong profits tax paid		(12,376)	–
Net cash flows from/(used in) operating activities		(103,335)	77,184

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment, including leasehold land		(11,443)	(5,225)
Purchase of financial assets at fair value through profit or loss		(20,000)	–
Proceeds from disposal of items of property, plant and equipment		1,000	–
Acquisition of a subsidiary	36	(2,858)	–
Proceeds from disposal of subsidiaries	37	–	8,400
Purchase of equity interests in associates	17	(41,650)	–
Purchase of intangible assets		–	(999)
Interests received		124	–
Advances to a director		–	(579)
Repayment from a director		–	579
Net cash flows from/(used in) investing activities		(74,827)	2,176
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Proceeds from issue of shares	38	286,706	–
Share issue expenses	38	(31,839)	–
Interest paid	34	(4,756)	(6,272)
New bank loans	34	350,064	537,834
Repayment of bank loans	34	(371,153)	(513,238)
Principal portion of lease payments	34	(7,997)	(7,771)
Purchase of shares held under the Share Award Scheme	39	(23,824)	–
Dividends paid	11	–	(50,000)
Repayment to a director	34	–	(49,731)
Advances from a director	34	–	1,167
Loan from a related company	34	50,000	–
Net cash flows from/(used in) financing activities		247,201	(88,011)
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES		69,039	(8,651)
Cash and bank balances at beginning of year		50,437	59,196
Effect of foreign exchange rate changes, net		(132)	(108)
CASH AND BANK BALANCES AT END OF YEAR		119,344	50,437

1. CORPORATE INFORMATION

Tycoon Group Holdings Limited (the "**Company**") is an exempted company incorporated in the Cayman Islands with limited liability on 14 June 2017. The registered address of the Company is Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 14, 8/F., Wah Wai Centre, 38-40 Au Pui Wan Street, Shatin, New Territories, Hong Kong.

During the year, the Company made an offer to the public for subscription of its new shares (the "**Global Offering**") in connection with the listing of the Company's shares (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Dealings in the Company's shares on the Stock Exchange commenced on 15 April 2020.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the distribution and retail of health and well-being related products.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Company is Tycoon Empire Investment Limited, which is incorporated in the British Virgin Islands (the "**BVI**").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tycoon Capital Investment Ltd.	British Virgin Islands ("**BVI**")/Hong Kong	United States dollar ("**US$**") 1 ordinary	100	–	Investment holding
Tycoon Asia Pacific Group Limited	Hong Kong	HK$10,000 ordinary	–	100	Distribution business
Tycoon Asia Pacific (Singapore) Pte. Limited	Singapore	US$100,000 ordinary	–	100	Distribution business
Titita Trading Co., Limited ("**Titita**") (Note (a))	Hong Kong/Hong Kong and Mainland China	HK$10,000 ordinary	–	100	Retail business

1. CORPORATE INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ establishment and business	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Tycoon (Shenzhen) E-commerce Company Limited (Note (b))	People's Republic of China ("**PRC**")/ Mainland China	HK$6,000,000 (2019: HK$1,000,000)	–	100	Provision of operational and marketing support services
Great Smart Asia Pacific Limited (Note (c))	Hong Kong	HK$1 ordinary	–	50	Distribution business
Fancy Summit Inc. (Note (c))	BVI/Hong Kong	US$1 ordinary	–	50	Investment holding
Tycoon Asia Pacific Group (Macau) Company Limited	Macau	Macau Pataca ("**MOP**") 25,000 ordinary	–	100	Distribution and retail business
Jefferine Macau Limited ("**Jefferine**") (Note (d))	Macau	MOP25,000 ordinary	–	80	Distribution business
Million Effort Holdings Limited	BVI/Hong Kong	US$1 ordinary	–	100	Investment holding
Million Effort Investment Limited	BVI/Hong Kong	US$1 ordinary	–	100	Investment holding
Profit Lead Limited	Hong Kong	HK$1 ordinary	–	100	Distribution business
Fame Bloom Trading Limited	Hong Kong	HK$10,000 ordinary	–	100	Investment holding
Billion Crown (China) Limited	Hong Kong/Hong Kong and Mainland China	HK$1 ordinary	–	100	Investment holding

Notes:

(a) On 25 April 2019, the Group acquired the entire equity interest in Titita, which holds the operation rights of an online store at an e-commerce channel from an independent third party. The purchase consideration of HK$999,000 was accounted for as the cost of intangible assets on 25 April 2019.

1. CORPORATE INFORMATION (continued)

Information about subsidiaries (continued)

Notes: (continued)

(b) This entity is a wholly-foreign-owned company established under PRC law. During the current year, the registered capital of this entity increased from HK$1,000,000 to HK$6,000,000.

(c) On 2 June 2020, Fancy Summit Inc. allotted and issued 1 new ordinary share to Fame Bloom Trading. On 15 June 2020, 1 ordinary share, representing 50% of the shareholding, of Fancy Summit Inc. was sold to JBM (PCM) Limited, a non-wholly-owned subsidiary of Jacobson Pharma Corporation Limited ("**Jacobson Pharma**"), at a consideration of US$1. Jacobson Pharma is a shareholder of the Company, which held a 6.71% and a 7.07% equity interest in the Company upon the completion of the Global Offering and as at 31 December 2020, respectively. After the aforementioned transactions, the Group's equity interest in Fancy Summit Inc. changed from 100% to 50% and became a joint venture of the Group. Accordingly, the Group's effective equity interest in Great Smart Asia Pacific Limited, the wholly-owned subsidiary of Fancy Summit Inc., changed from 100% to 50%, and it also became a joint venture of the Group.

(d) On 30 September 2020, the Group acquired an 80% of equity interest in Jefferine. Further details of this acquisition are included in note 36 to the consolidated financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinances. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and derivative financial instrument which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Coronavirus Disease 2019 ("**COVID-19**") pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has elected to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the year ended 31 December 2020. The lease modification did not have significant impact on the financial position and performance of the Group.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform-Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group had certain interest-bearing bank borrowings and loan from a related company denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and prime rate as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Annual Improvements to *HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its derivative financial instrument and financial assets at fair value through profit or loss at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	4% or over the lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	$33^1/_3$%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets with finite useful lives represent exclusive distribution rights of certain brands of proprietary Chinese medicine and pharmaceutical products which are stated at cost less any impairment losses and are amortised on the straight line basis over their estimated useful lives of 2 to 9 years.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	20 to 30 years
Buildings	2 to 4 years
Motor vehicles	2 to 5 years

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(a) Right-of-use assets (continued)

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivatives and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integrated to the contractual terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, interest-bearing bank borrowings, a loan from a related company, and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit and loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sale of goods provide customers with sales rebates and other deductions. The rights of return and target rebates give rise to variable consideration.

(i) Sales rebates

Retrospective sales rebates may be provided to certain customers once the sales amounts of products purchased during the period exceed a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the expected value method is used as it best predicts the amount of variable consideration. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

Sale of goods (continued)

(ii) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(iii) Other deductions

Other deductions include discounts. Other deductions are offset against amounts payable by the customers. To estimate the variable consideration for the expected deduction, the expected value method is used as it best predicts the amount of variable consideration. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected deduction is recognised.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Staff benefits are also provided to the staff working in other countries according to the respective countries' statutory requirements.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Special dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare special dividends. Consequently, special dividends are recognised immediately as a liability when they are proposed and declared.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 39 to the consolidated financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

Certain contracts for the sale of products include sales rebates and discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of products with sales rebates and discounts, given the large number of customer contracts that have similar characteristics. The selected method that better predicts the amount of variable consideration related to sales rebates and discounts.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and ageing analysis of trade receivables as well as other quantitative and qualitative information, and the Group calculated the lifetime ECLs based on historical credit loss experience, and on management's judgement and assessment of the forward-looking information. Significant judgement and estimates are required in assessing the ultimate realisation of these receivables, based on the current creditworthiness, the past collection history and subsequent settlements of each customer. If the financial conditions of customers of the Group are to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required. Further details are disclosed in note 24 to the consolidated financial statements.

Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of the reporting period.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Variable consideration for sales rebates and discounts

The Group estimates variable consideration to be included in the transaction price for the sale of products with sales rebates and discounts.

The Group developed a statistical model for forecasting sales rebates and discounts. The model used the historical data of sales rebates and discounts of each product to come up with the expected rebate and other deduction percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to the historical sales rebates and discounts pattern will impact the expected sales rebates and discount percentages estimated by the Group.

The Group's expected sales rebates and discounts and other deductions are analysed on a per customer basis. Determining whether a customer will likely be entitled to a rebate and discounts depends on the customer's historical rebate and other deduction entitlement and accumulated purchases to date.

The Group updates its assessment of expected sales rebates and discounts at the end of each reporting period and the refund liabilities are adjusted accordingly. Estimates of expected sales rebates and discounts are sensitive to changes in circumstances and the Group's past experience regarding rebates and discount entitlements may not be representative of customers' actual rebates and discount entitlements in the future. As at 31 December 2020, the amount recognised as refund liabilities including the expected sales rebates and discounts was HK$3,747,000 (2019: HK$9,804,000).

Business combinations and goodwill

When the Group completes a business combination, the identifiable assets acquired and the liabilities assumed are recognised at their fair value. Management estimation is required to determine the fair values of the assets acquired, the liabilities assumed, and the purchase consideration, and on the allocation of the purchase consideration to the identifiable assets and liabilities. The fair values of the identifiable assets acquired and the liabilities assumed are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable market where possible but where this is not feasible, a degree of judgement and estimation is required in establishing fair values. Management must estimate the expected future cash flows and discount rate in order to calculate the fair value. Further details are given in note 36.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was HK$26,139,000 (2019: Nil). Further details are given in note 15.

Estimation of fair value of the derivative financial instrument

When the fair value of the derivative financial instrument recorded in the consolidated statement of financial position cannot be derived from active markets, the fair value is determined using valuation techniques including the binominal options pricing model. The inputs to the model, such as the equity value, estimated volatility and risk-free rate, are taken from observable markets when possible, but when this is not feasible, a degree of judgement is required in establishing fair value. The judgements include considerations of inputs such as the equity value and estimated volatility. Changes in assumptions about these factors could affect the reported fair value of the derivative financial instrument.

Estimation of fair value of contingent consideration receivable

When the fair value of the contingent consideration receivable recorded in the consolidated statement of financial position cannot be derived from active markets, the fair value is determined using valuation techniques including the Monte Carlo simulation method. The inputs to the model, such as the equity value, estimated volatility and cost of equity, and guaranteed profits are taken from observable markets when possible, but when this is not feasible, a degree of judgement is required in establishing fair value. The judgements include considerations of inputs such as the equity value, estimated volatility and cost of equity. Changes in assumptions about these factors could affect the reported fair value of the contingent consideration receivable.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Useful lives of intangible assets with finite useful lives

The Group determines the estimated useful lives and consequently the related amortisation charges for its intangible assets with finite useful lives. These estimates are based on the historical experience of the actual useful lives of intangible assets with finite useful lives of a similar nature and functions and made by considering the current market environment and estimations of future changes. Management will increase the amortisation charges where useful lives are less than previously estimated lives and, it will write off or write down technically obsolete assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and, therefore, amortisation expenses in future years.

4. OPERATING SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Operating segments are reported in a manner consistent with the internal reporting to the Group's key management personnel as follows:

(a) the distribution segment, which includes the operation of distributing products to chain retailers, non-chain retailers and traders;

(b) the e-commerce segment, which includes the operation of online stores and distribution to e-commerce customers; and

(c) the retail stores segment, which includes the operation of retail stores.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax.

The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that the gain/loss on disposal and write-off of items of property, plant and equipment and subsidiaries, fair value gain/loss on derivative financial instrument and financial assets at fair value through profit or loss, foreign exchange differences, net, interest income, finance costs (other than interest on lease liabilities), share of profits and losses of associates, share of profits and losses of joint ventures, and other unallocated head office and corporate expenses are excluded from such measurement.

4. OPERATING SEGMENT INFORMATION (continued)

Segment assets exclude investments in joint ventures, cash and bank balances, deferred tax assets, financial assets at fair value through profit or loss, derivative financial instrument, amounts due from related parties and other unallocated corporate assets as these assets are managed on a group basis. Segment liabilities exclude interest-bearing bank borrowings, loan from a related company, amount due to the ultimate holding company, tax payables and deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

During the year, the management changed its reporting segments to (a) distribution segment; (b) e-commerce segment as a result of the growing importance of the e-commerce segment to the operation of the Group; and (c) retail stores segment. The corresponding information for the year ended 31 December 2019 has been re-presented accordingly.

4. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results

The following table presents revenue and results for the Group's reportable segments:

	Distribution HK$'000	E-commerce HK$'000	Retail stores HK$'000	Total HK$'000
2020				
Segment revenue (note 5)				
Sales to external customers	274,267	224,687	7,037	505,991
Intersegment sales	19,879	–	–	19,879
Total	294,146	224,687	7,037	525,870
Reconciliation:				
Elimination of intersegment sales				(19,879)
Revenue				505,991
Segment results	(35,657)	4,322	(6,700)	(38,035)
Reconciliation:				
Gain on disposal of items of property, plant and equipment				651
Gain on disposal of subsidiaries				109
Fair value loss on derivative financial instrument				(60)
Fair value gain on financial assets at fair value through profit or loss				640
Interest income				124
Share of losses of associates	(265)	–	(1,539)	(1,804)
Share of losses of joint ventures				–
Foreign exchange differences, net				(969)
Corporate and other unallocated expenses				(24,934)
Finance costs				(4,191)
Loss before tax				(68,469)
Income tax				7,504
Loss for the year				(60,965)

4. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

The following table presents revenue and results for the Group's reportable segments: (continued)

	Distribution HK$'000	E-commerce HK$'000	Retail stores HK$'000	Total HK$'000
2019				
Segment revenue (note 5)				
Sales to external customers	646,859	35,362	18,534	700,755
Intersegment sales	11,214	–	–	11,214
Total	658,073	35,362	18,534	711,969
Reconciliation:				
Elimination of intersegment sales				(11,214)
Revenue				700,755
Segment results	86,949	(3,855)	(5,435)	77,659
Reconciliation:				
Gain on disposal of a subsidiary				18
Foreign exchange differences, net				64
Finance costs				(5,989)
Corporate and other unallocated expenses				(3,392)
Profit before tax				68,360
Income tax				(13,844)
Profit for the year				54,516

4. OPERATING SEGMENT INFORMATION (continued)

Segment assets and liabilities

The following table presents the total assets and liabilities for the Group's reportable segments:

	Distribution HK$'000	E-commerce HK$'000	Retail stores HK$'000	Total HK$'000
Segment assets				
31 December 2020	345,534	36,247	1,980	383,761
Investments in associates	1,322	–	38,524	39,846
Investments in joint ventures				–
Unallocated				196,303
Total				619,910
31 December 2019	273,061	17,578	18,900	309,539
Unallocated				56,825
Total				366,364
Segment liabilities				
31 December 2020	(84,281)	(12,593)	(81)	(96,955)
Unallocated				(232,516)
Total				(329,471)
31 December 2019	(61,004)	(186)	(9,063)	(70,253)
Unallocated				(177,751)
Total				(248,004)

4. OPERATING SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

	Distribution HK$'000	Retail stores HK$'000	E-commerce HK$'000	Unallocated HK$'000	Total HK$'000
2020					
Other segment information					
Depreciation of property, plant and equipment, including leasehold land	2,839	1,018	282	227	4,366
Depreciation of right-of-use assets	4,929	1,864	637	726	8,156
Capital expenditure*	10,629	397	188	229	11,443
2019					
Other segment information					
Depreciation of property, plant and equipment, including leasehold land	2,852	1,047	210	26	4,135
Depreciation of right-of-use assets	4,670	2,750	–	292	7,712
Capital expenditure*	11,679	2,058	24	156	13,917

* Capital expenditure consists of additions to property, plant and equipment (including leasehold land) and intangible assets.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 HK$'000	2019 HK$'000
Hong Kong	234,636	636,952
Mainland China	224,053	15,150
Macau	46,675	46,649
Singapore	627	2,004
Total revenue from contracts with customers	505,991	700,755

The revenue information of operations above is based on the location of the customers.

(b) Non-current assets

	2020 HK$'000	2019 HK$'000
Hong Kong	92,200	46,560
Macau	21,582	24,032
Mainland China	9,562	1,932
Singapore	273	786
Australia	310	601
Malaysia	1,077	–
	125,004	73,911

The non-current asset information is based on the location of the assets and excludes deferred tax assets and financial instruments.

4. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year is set out below:

	2020 HK$'000	2019 HK$'000
Distribution		
Customer A	**115,211**	427,063
E-commerce		
Customer B*	**101,853**	N/A

For the year ended 31 December 2020, revenue from the major customers included sales to a group of entities which are known to be under common control with those customers.

* Sales to Customer B during the year ended 31 December 2019 amounted to less than 10% of the total revenue of the Group during the respective year. Accordingly, no disclosure is presented above.

5. REVENUE AND OTHER INCOME AND GAINS, NET

An analysis of the Group's revenue is as follows:

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers		
Sale of goods	505,991	700,755

Revenue from contracts with customers

(i) Disaggregated revenue information

	2020 HK$'000	2019 HK$'000
Geographical markets		
Hong Kong	234,636	636,952
Mainland China	224,053	15,150
Macau	46,675	46,649
Singapore	627	2,004
Total revenue from contracts with customers	505,991	700,755
Timing of revenue recognition		
Goods transferred at a point in time	505,991	700,755

5. REVENUE AND OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers		
External customers		
Distribution	274,267	646,859
E-commerce	224,687	35,362
Retail stores	7,037	18,534
Intersegment sales		
Distribution	19,879	11,214
	525,870	711,969
Intersegment adjustments and elimination	(19,879)	(11,214)
Total revenue from contracts with customers	505,991	700,755

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon the transfer of promised goods or services (that is an asset) to a customer and payment is generally due within 30 to 120 days from such transfer. Some contracts provide customers with volume rebates and other deductions which give rise to variable consideration subject to constraint.

As the remaining performance obligations (unsatisfied or partially satisfied) as at 31 December 2020 and 2019 are part of contracts that have an original expected duration of one year or less, the transaction price allocated to such is not separately determined, as permitted by the practical expedient in HKFRS 15.

5. REVENUE AND OTHER INCOME AND GAINS, NET (continued)

Other income and gains, net

	2020 HK$'000	2019 HK$'000
Gain on disposal of items of property, plant and equipment	651	–
Government grants*	5,678	–
Gain on disposal of subsidiaries (note 37)	109	18
Exchange gain/(loss), net	(969)	64
Fair value loss on a derivative financial instrument (note 36)	(60)	–
Fair value gain on contingent consideration receivable (note 36)	640	–
Others	550	315
	6,599	397

* Government grants of HK$5,678,000 (2019: Nil) were granted by governmental authorities in Hong Kong, Singapore and Macau to subsidise stable employment provided by enterprises during the year ended 31 December 2020. There are no unfulfilled conditions and other contingencies attached to the receipts of those grants. There is no assurance that the Group will continue to receive such grants in the future.

6. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest on bank borrowings	4,095	5,267
Interest on lease liabilities	661	722
Interest on a loan from a related company (note 40(a)(iv))	96	–
	4,852	5,989

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2020 HK$'000	2019 HK$'000
Cost of inventories sold	422,165	509,614
Depreciation of property, plant and equipment, including leasehold land (note 13)	4,366	4,135
Depreciation of right-of-use assets – properties (note 14)	8,156	6,882
Depreciation of right-of-use assets – motor vehicles (note 14)	–	830
Amortisation of intangible assets (note 16)	242	–
Auditor's remuneration	2,390	345
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):		
Wages and salaries	35,913	40,319
Pension scheme contributions (defined contribution scheme)	1,395	1,905
	37,308	42,224
Expenses under short-term leases (note 14)	2,708	1,268
Gain on disposal of items of property, plant and equipment	(651)	–
Gain on disposal of subsidiaries (note 37)	(109)	(18)
Provision for inventories*	20,111	–
Write-off of inventories*	10,407	–
Impairment of property, plant and equipment* (note 13)	1,103	–
Impairment of right-of-use assets* (note 14)	4,961	–
Impairment of intangible assets* (note 16)	450	–
Gain on termination of lease (note 14)	(4,423)	–
Foreign exchange differences, net	969	(64)
Listing expenses	11,447	12,422
Fair value loss on a derivative financial instrument (note 5)	60	–
Fair value gain on contingent consideration receivable (note 5)	(640)	–

* The provision for inventories, write-off of inventories, impairment of property, plant and equipment, impairment of right-of-use assets, and impairment of intangible assets for the year, among others, are included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 HK$'000	2019 HK$'000
Fees	129	324
Other emoluments:		
Salaries, allowances and benefits in kind	1,119	2,089
Pension scheme contributions (defined contribution scheme)	22	36
	1,141	2,125
	1,270	2,449

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2020 HK$'000	2019 HK$'000
Mr. Wong Yuk Woo Louis	–	–
Mr. Chung Siu Wah	–	–
Ms. Chan Ka Lai Vanessa	–	–
	–	–

The independent non-executive directors were appointed on 20 January 2020. During the year, all of the independent non-executive directors waived emoluments in aggregate of HK$256,000 (2019: Nil).

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2020				
Executive directors				
Mr. Wong Ka Chun, the controlling shareholder of the Company, (the "**Controlling Shareholder**", or "**Mr. Wong**")	10	255	10	275
Mr. Chan Fan Shing (resigned on 28 August 2020)	79	864	12	955
Non-executive directors				
Ms. Chong Yah Lien	10	–	–	10
Mr. Yao Qingqi	10	–	–	10
Mr. Ng Wang Yu Gary	10	–	–	10
Ms. Li Ka Wa Helen	10	–	–	10
	129	1,119	22	1,270
2019				
Executive directors				
Mr. Wong	54	650	18	722
Mr. Chan Fan Shing	54	1,439	18	1,511
Non-executive directors				
Ms. Chong Yah Lien	54	–	–	54
Mr. Yao Qingqi	54	–	–	54
Mr. Ng Wang Yu Gary	54	–	–	54
Ms. Li Ka Wa Helen	54	–	–	54
	324	2,089	36	2,449

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

During the year, five of the directors waived emoluments in aggregate of HK$950,000 (2019: Nil).

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2019: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 HK$'000	2019 HK$'000
Salaries, allowances and benefits in kind	3,841	3,885
Performance-related bonuses	–	410
Pension scheme contributions	64	54
	3,905	4,349

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020 HK$'000	2019 HK$'000
Nil to HK$1,000,000	3	1
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	–	1

During the year, no remuneration was paid by the Group to any of the non-director, non-chief executive and highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong for each of the reporting periods, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2020 HK$'000	2019 HK$'000
Current – Hong Kong		
Charge for the year	–	15,809
Overprovision in prior years	(432)	(381)
Current – elsewhere	120	–
Deferred (note 31)	(7,192)	(1,584)
Total tax charge/(credit) for the year	(7,504)	13,844

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rate is as follows:

	2020 HK$'000	2019 HK$'000
Profit/(loss) before tax	(68,469)	68,360
Tax at the statutory tax rate at 16.5%	(11,297)	11,279
Effect of tax rate differences in other jurisdictions	2,177	231
Income not subject to tax	(871)	(12)
Adjustment in respect of current tax of previous periods	(432)	(381)
Tax loss not recognised	479	378
Losses attributable to associates	298	–
Losses attributable to joint ventures	–	–
Expenses not deductible for tax	2,163	2,160
Others	(21)	189
Tax charge/(credit)	(7,504)	13,844

11. DIVIDENDS

	2020 HK$'000	2019 HK$'000
Dividends paid during the year:		
Final dividend in respect of the year ended 31 December 2018 (Note)	–	30,000
Special dividend in respect of the year ended 31 December 2019 (Note)	–	20,000
Proposed special dividend:		
Special dividend in respect of the year ended 31 December 2020 – HK2 cents per ordinary share	16,000	–

Note:

During the year ended 31 December 2019 and after the completion of the Reorganisation as defined in the Company's prospectus dated 30 March 2020, the Company declared a final dividend of HK$30,000,000, being 10,000,000 ordinary shares at a dividend of HK$3 per ordinary share, to the then shareholders of the Company in respect of the financial year ended 31 December 2018. A special dividend of HK$20,000,000, being 10,000,000 ordinary shares at a dividend of HK$2 per ordinary share, was also declared to the then shareholders of the Company during the year ended 31 December 2019.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share attributable to ordinary equity holders of the Company is based on the loss for the year attributable to ordinary equity holders of the Company of HK$61,134,000 (2019: profit of HK$54,516,000) and the weighted average number of ordinary shares of 732,940,000 (2019: 607,580,000) in issue during the year, on the assumption that the capitalisation issue in connection with the listing of the Company had been completed on 1 January 2019 for calculating the basic earnings/(loss) per share amount.

No adjustment has been made to the basic earnings/(loss) per share presented for years ended 31 December 2020 and 2019 as the Group had no potentially dilutive ordinary shares in issue during those years.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2020						
At 1 January 2020:						
Cost	53,797	6,220	2,218	438	1,668	64,341
Accumulated depreciation	(3,518)	(1,587)	(729)	(161)	(1,054)	(7,049)
Net carrying amount	50,279	4,633	1,489	277	614	57,292
At 1 January 2020, net of accumulated depreciation	50,279	4,633	1,489	277	614	57,292
Additions	10,434	336	669	4	–	11,443
Acquisition of a subsidiary (note 36)	–	67	27	16	224	334
Disposals	–	–	–	–	(349)	(349)
Depreciation provided for the year (note 7)	(2,290)	(1,170)	(509)	(80)	(317)	(4,366)
Impairment (note 7)	–	(811)	(292)	–	–	(1,103)
Exchange realignment	(3)	8	16	(1)	–	20
At 31 December 2020, net of accumulated depreciation	58,420	3,063	1,400	216	172	63,271
At 31 December 2020:						
Cost	64,229	6,963	2,988	472	1,902	76,554
Accumulated depreciation and impairment	(5,809)	(3,900)	(1,588)	(256)	(1,730)	(13,283)
Net carrying amount	58,420	3,063	1,400	216	172	63,271

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2019						
At 1 January 2019:						
Cost	51,606	4,253	1,406	183	853	58,301
Accumulated depreciation	(1,637)	(433)	(288)	(80)	(476)	(2,914)
Net carrying amount	49,969	3,820	1,118	103	377	55,387
At 1 January 2019, net of accumulated depreciation	49,969	3,820	1,118	103	377	55,387
Additions	2,191	1,967	812	255	–	5,225
Transfer from right-of-use assets	–	–	–	–	815	815
Depreciation provided for the year (note 7)	(1,881)	(1,154)	(441)	(81)	(578)	(4,135)
At 31 December 2019, net of accumulated depreciation	50,279	4,633	1,489	277	614	57,292
At 31 December 2019:						
Cost	53,797	6,220	2,218	438	1,668	64,341
Accumulated depreciation	(3,518)	(1,587)	(729)	(161)	(1,054)	(7,049)
Net carrying amount	50,279	4,633	1,489	277	614	57,292

The total additions with respect to leasehold land were HK$8,505,000 (2019: Nil) for the year ended 31 December 2020.

The total depreciation with respect to leasehold land was HK$1,890,000 (2019: HK$1,591,000) for the year ended 31 December 2020.

The carrying amounts of leasehold land was HK$48,139,000 (2019: HK$41,524,000) as at 31 December 2020.

The total cash outflows with respect to leasehold land were HK$8,505,000 (2019: Nil) for the year ended 31 December 2020.

At 31 December 2020, certain of the Group's leasehold land and buildings with a net carrying amount of approximately HK$58,420,000 (2019: HK$50,279,000), were pledged to secure bank loans granted to the Group (note 28).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2020, the Group's management identified certain retail stores which continued to underperform and the estimated corresponding recoverable amounts of their property, plant and equipment. Based on these estimates, an impairment loss of HK$1,103,000 was recognised to write down the carrying amounts of these items of property, plant and equipment to their recoverable amount of nil as at 31 December 2020. The recoverable amount of the items of property, plant and equipment is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied for the cash flow projection was 12%.

14. LEASES

The Group as a lessee

The Group has lease contracts for buildings and motor vehicles and other equipment used in its operations. Leases of buildings generally have lease terms between 1 and 4 years, while motor vehicles generally have lease terms of around 4 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets excluding leasehold land and the movements during the year are as follows:

	Buildings HK$'000	Motor vehicles HK$'000	Total HK$'000
As at 1 January 2019	14,192	1,645	15,837
Additions	7,693	–	7,693
Depreciation charge (note 7)	(6,882)	(830)	(7,712)
Transfer to property, plant and equipment	–	(815)	(815)
As at 31 December 2019 and 1 January 2020	**15,003**	**–**	**15,003**
Additions	**13,259**	**–**	**13,259**
Acquisition of a subsidiary (note 36)	**481**	**–**	**481**
Depreciation charge (note 7)	**(8,156)**	**–**	**(8,156)**
Lease modification	**(360)**	**–**	**(360)**
Impairment	**(4,961)**	**–**	**(4,961)**
As at 31 December 2020	**15,266**	**–**	**15,266**

14. LEASES (continued)

The Group as a lessee (continued)

(a) Right-of-use assets (continued)

In addition to the right-of use assets disclosed above, the carrying amount of the Group's right-of-use assets included leasehold land and buildings as disclosed in note 13 and the movements during the year are as follows:

	Leasehold land HK$'000
Carrying amount at 1 January 2019	43,115
Depreciation	(1,591)
Carrying amount at 31 December 2019 and 1 January 2020	**41,524**
Additions	**8,505**
Depreciation	**(1,890)**
Carrying amount at 31 December 2020	**48,139**

The total cash outflows with respect to leasehold land were HK$8,505,000 (2019: Nil).

As at 31 December 2020, the Group's management identified certain retail stores which continued to underperform and the estimated corresponding recoverable amounts of their right-of-use assets. Based on these estimates, an impairment loss of HK$4,961,000 was recognised to write down the carrying amounts of these items of right-of-use assets to their recoverable amount of nil as at 31 December 2020. The recoverable amount of the items of right-of-use assets is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied for the cash flow projection was 12%.

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 Lease liabilities HK$	2019 Lease liabilities HK$
Carrying amount at 1 January	15,495	15,573
Additions	13,259	7,693
Acquisition of a subsidiary (note 36)	481	–
Accretion of interest recognised during the year	661	722
Lease modification	(360)	–
Payments	(8,658)	(8,493)
Termination	(4,423)	–
Carrying amount at 31 December	16,455	15,495

The lease liabilities based on their maturities are as follows:

	2020 HK$'000	2019 HK$'000
Analysed into:		
Within one year	9,042	7,903
In the second year	4,510	5,992
In the third to fifth years, inclusive	2,903	1,600
	16,455	15,495

14. LEASES (continued)

The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 HK$'000	2019 HK$'000
Depreciation charge of right-of-use assets – buildings (note 7)	8,156	6,882
Depreciation charge of right-of-use assets – motor vehicles (note 7)	–	830
Interest on lease liabilities (note 6)	661	722
Expense relating to leases of short-term leases (note 7)	2,708	1,268
Impairment of right-of-use assets (note 7)	4,961	–
Gain on termination of lease (note 7)	(4,423)	–
	12,063	9,702

(d) Extension options

Extension options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

(e) The total cash outflow for leases is disclosed in note 34 to the consolidated financial statements.

15. GOODWILL

	HK$'000
Cost at 1 January 2019, 31 December 2019 and 1 January 2020	–
Acquisition of a subsidiary (note 36)	26,139
Cost and net carrying amount at 31 December 2020	26,139
At 31 December 2020:	
Cost	26,139
Accumulated impairment	–
Net carrying amount	26,139

Impairment testing of goodwill

Goodwill allocated to individual cash-generating unit ("CGU")

Goodwill of HK$26,139,000 (2019: Nil) arose from the acquisition of an 80% equity interest in Jefferine (note 36) during the year, and is allocated to a CGU (the "**Jefferine CGU**"), which is included in the components of the distribution segment for impairment testing.

The recoverable amount of the Jefferine CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the Jefferine CGU beyond the five-year period is 3%. The discount rate applied to the cash flow projections is 23.0%.

Assumptions were used in the value-in-use calculation of the Jefferine CGU for 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake an impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, and increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

15. GOODWILL (continued)

In the opinion of the Company's directors, any reasonably possible change in any of these assumptions would not cause the CGU's recoverable amount to fall below its carrying amount. The values assigned to the key assumptions on discount rates are consistent with external information sources.

16. INTANGIBLE ASSETS

	Licences HK$'000 (Note a)	Operating rights HK$'000 (Note b)	Exclusive distribution rights HK$'000 (Note c)	Total HK$'000
Cost and net carrying amount:				
At 31 December 2018 and 1 January 2019	450	6,202	–	6,652
Disposals	–	(6,202)	–	(6,202)
Additions (note 1(a))	–	999	–	999
At 31 December 2019	450	999	–	1,449
At 31 December 2019 and 1 January 2020	450	999	–	1,449
Acquisition of a subsidiary (note 36)	–	–	5,864	5,864
Impairment during the year (note 7)	(450)	–	–	(450)
Amortisation during the year (note 7)	–	–	(242)	(242)
At 31 December 2020	–	999	5,622	6,621

Notes:

(a) The licences for the trading of pharmaceutical products in Macau are stated at historical cost. The licences are regarded as having an indefinite useful life and are not amortised as there is no foreseeable limit to the years over which the assets are expected to generate economic benefits for the Group. The Group needs to apply to the relevant local authority for the renewal of the licences each year and the Group considers that there are no practical difficulties in the renewal for minimal cost. As at 31 December 2020, the Group's management identified certain retail stores which continued to underperform and the estimated corresponding recoverable amounts of their intangible assets. Based on these estimates, an impairment loss of HK$450,000 was recognised to write down the carrying amounts of these items of intangible assets to their recoverable amount of nil as at 31 December 2020. The recoverable amount of the items of intangible assets is determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied for the cash flow projection was 12%.

16. INTANGIBLE ASSETS (continued)

Notes: (continued)

(b) The operating rights are the rights granted for an online store at an e-commerce service portal to the Group that enable the Group to sell its products through the internet online platform. These operating rights are stated at historical cost. The operating rights are regarded as having an indefinite useful life and are not amortised as there is no foreseeable limit to the years over which the assets are expected to generate economic benefits for the Group. The Group needs to apply to the e-commerce service providers for the renewal of the operating rights each year and the Group considers that there are no practical difficulties in the renewal for minimal cost.

(c) The rights are the exclusive distribution rights of certain brands of proprietary Chinese medicine and pharmaceutical products in Macau arising from the acquisition of Jefferine. These rights are stated at cost and are regarded as having finite useful lives and are amortised to the years over which the assets are expected to generate economic benefits for the Group.

Impairment testing of intangible assets as at 31 December 2020 and 2019

Included in intangible assets are the operating rights held in Titita granted by e-commerce service providers, which have been regarded as one CGU for impairment testing.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management, with cash flows beyond the five-year period being extrapolated using a growth rate of 3% (2019: 3%). The growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The discount rate applied to the cash flow projections is 13.3% (2019: 17.7%).

Assumptions were used in the value-in-use calculation of the CGU for 31 December 2020 and 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of intangible assets:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

16. INTANGIBLE ASSETS (continued)

Impairment testing of intangible assets as at 31 December 2020 and 2019 (continued)

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on discount rates are consistent with external information sources.

17. INVESTMENTS IN ASSOCIATES

	2020 HK$'000	2019 HK$'000
Share of net assets	10,034	–
Goodwill on acquisition	29,812	–
	39,846	–

The Group's balances with an associate are disclosed in notes 23, 24, 26 and 40(b) to the consolidated financial statements.

The Group acquired a 49% equity interest in Hong Ning Hong Limited ("**HNH**") at cash consideration of HK$41,650,000 during the year ended 31 December 2020.

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
HNH	Ordinary shares	Hong Kong	49%	Retail and distribution of pharmaceutical products and proprietary medicine

17. INVESTMENTS IN ASSOCIATES (continued)

As at 31 December 2020, the above investment is held through a wholly-owned subsidiary of the Company.

The associate has a financial year ending 31 March, which is not coterminous with that of the Group. The consolidated financial statements of the Group were prepared with reference to the financial information of HNH for the period ended 31 December.

HNH, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the retail and distribution of pharmaceutical products and proprietary medicine and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of HNH:

	2020 HK$'000
Current assets	58,358
Non-current assets	313
Current liabilities	(38,194)
Net assets	20,477
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	49%
Group's share of net assets of the associate, excluding goodwill	10,034
Goodwill on acquisition	29,812
Carrying amount of the investment	39,846
Revenue	124,512
Loss for the year	(3,682)

At 31 December 2020, all of the Group's shares in HNH were pledged to secure a loan from a related company granted to the Group, further details of which are included in note 29 to the consolidated financial statements.

18. INVESTMENTS IN JOINT VENTURES

	2020 HK$'000	2019 HK$'000
Share of net assets	–	–

The Group's balance due from the joint ventures are disclosed in note 23 to the consolidated financial statements.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2020 HK$'000
Share of the joint ventures' profit for the year	–
Share of the joint ventures' total comprehensive income	–
Aggregate carrying amount of the Group's investments in the joint ventures	–

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2020 HK$'000	2019 HK$'000
Unlisted equity investments in Hong Kong, at fair value	(a)	20,000	–
Contingent consideration receivable	36	2,590	–
		22,590	–

Note:

(a) Pursuant to the subscription agreement dated 27 July 2020 entered into among the Group, JBM Group (BVI) Limited and JBM (Healthcare) Limited (a subsidiary of Jacobson Pharma, "**JBM Healthcare**", together with its subsidiaries, the "**JBM Group**"), the Group subscribed 20,000,000 shares of JBM Healthcare. The above equity investment was classified as a financial asset at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

20. DERIVATIVE FINANCIAL INSTRUMENT

	2020 HK$'000	2019 HK$'000
Call Option (as defined in note 36)	840	–

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2020 HK$'000	2019 HK$'000
Prepayments		44,630	25,718
Deferred listing fees		–	5,752
Deposits		13,083	5,792
Other receivables	(i)	6,971	373
		64,684	37,635
Less: Prepayments and deposits classified as non-current assets		(3,542)	(3,827)
		61,142	33,808

Prepayments, deposits and other receivables mainly represent rental deposits and prepayments to suppliers. As at 31 December 2020, included in deposits was HK$550,000 (2019: HK$540,000) for rental deposits placed with the Controlling Shareholder in relation to leasing properties from the Controlling Shareholder for warehouse and carpark uses. Expected credit losses for financial assets included in prepayments, deposits and other receivables are estimated by applying the general approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Since there was no recent history of default and the financial assets were considered to be of low credit risk with a minimal loss rate, management considered that the loss allowance of financial assets included in prepayments, deposits and other receivables was assessed to be minimal as at 31 December 2020 and 2019.

Note:

(i) Included in the balance were right-of-return assets of HK$2,090,000 related to sales returns as at 31 December 2020.

22. INVENTORIES

	2020 HK$'000	2019 HK$'000
Finished goods	125,336	84,069

23. AMOUNTS DUE FROM RELATED PARTIES

Included in the balance are amounts due from an associate of HK$36,000 (2019: Nil) and joint ventures of HK$1,875,000 (2019: Nil), which are unsecured, interest free and repayable on demand. The maximum amount outstanding during the year for the amounts due from an associate and joint ventures was HK$36,000 and HK$1,875,000, respectively.

24. TRADE RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	124,116	117,161

The Group's trading terms with its customers are mainly on credit. The credit period ranges from 30 to 120 days. Each customer has a maximum credit limit and the credit limit is reviewed regularly. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management.

There are certain concentrations of credit risk. The total trade receivables from the five largest customers at 31 December 2020 accounted for 57% (2019: 82%) of the total trade receivables, while 20% (2019: 51%) of the total trade receivables were due from the largest customer at 31 December 2020. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables were amounts due from related parties and an associate of the Group of HK$11,492,000 (2019: HK$8,782,000) and HK$6,987,000 (2019: Nil), respectively, at 31 December 2020, which is repayable on credit terms similar to those offered to the major customers of the Group.

24. TRADE RECEIVABLES (continued)

An ageing analysis of the trade receivables based on the invoice date is as follows:

	2020 HK$'000	2019 HK$'000
Trade receivables:		
Within 90 days	116,191	106,942
91 to 180 days	4,977	10,147
Over 180 days	2,948	72
	124,116	117,161

As part of its normal business, the Group entered into invoice discounting arrangements (the "**Arrangements**") and transferred certain trade receivables (the "**Factored Trade Receivables**") to the banks. In the opinion of the directors, the Group retained the substantial risks and rewards, which included default risks relating to such Factored Trade Receivables, and accordingly, it continued to recognise the full carrying amounts of the Factored Trade Receivables and the associated liabilities. The Group is not exposed to default risks of the trade debtors after the settlement of the Factored Trade Receivables by the customers. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The carrying amount of the assets that the Group continued to recognise as at 31 December 2020 was HK$210,000 (2019: HK$51,179,000), and that of the associated liabilities as at 31 December 2020 was HK$168,000 (2019: HK$24,281,000). These financial assets are carried at amortised cost in the consolidated financial statements.

An impairment analysis was performed at the end of each of the reporting periods. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by geographical region, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

24. TRADE RECEIVABLES (continued)

The Group has applied the simplified approach to provide impairment for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for impairment of all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information. Given (i) the majority of customers of the Group are mainly well-known chain retailers and there was no history of default in prior years, the directors of the Company considered that the default rate of financial assets is minimal; and (ii) there was no significant change in credit terms and repayment patterns of these customers despite the temporarily worsened business environment caused by COVID-19, management considered that the expected credit loss rates of customers were minimal for all ageing bands as at 31 December 2020 and 2019. As a result, no loss allowance for impairment of trade receivables was considered necessary for the years ended 31 December 2020 and 2019.

25. CASH AND BANK BALANCES

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the reporting periods, based on the invoice date, is as follows:

	2020 HK$'000	2019 HK$'000
Within 30 days	23,026	13,505
31 to 60 days	19,715	12,640
61 to 120 days	22,974	7,891
Over 120 days	769	599
	66,484	34,635

26. TRADE PAYABLES (continued)

Trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 120 days.

Included in the Group's trade payables were amounts due to the related parties and an associate of the Group of HK$21,857,000 (2019: HK$296,000) and HK$2,187,000 (2019: Nil), respectively, at 31 December 2020, which is repayable on credit terms similar to those offered to the major suppliers of the Group.

27. OTHER PAYABLES AND ACCRUALS

	2020 HK$'000	2019 HK$'000
Accruals	11,881	11,364
Refund liabilities	6,803	9,804
Interest payables	96	–
Other payables	31,265	361
	50,045	21,529

Other payables are non-interest-bearing and repayable on demand.

28. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2020		As at 31 December 2019	
	Contractual interest rate (%)	HK$'000	Contractual interest rate (%)	HK$'000
Current				
Bank loans – secured	Prime – 2.75 to HIBOR + 3.00	53,158	Prime – 2.75 to Prime +1.00	111,862
Bank loans – secured	4.00	1,672	–	–
Bank loans – unsecured	HIBOR + 2.40	39,000	–	–
Invoice financing loans – secured	HIBOR + 1.20 to HIBOR + 3.00	37,867	HIBOR + 2.50 to HIBOR + 3.25	14,977
Invoice discounting loans – secured	HIBOR + 2.00	168	HIBOR + 2.50	24,281
Total		131,865		151,120
Analysis into:				
Bank loans repayable:				
On demand*		131,865		151,120

* As further explained in note 43 to the consolidated financial statements, all of the Group's interest-bearing bank borrowings as at 31 December 2020 and 2019, containing an on-demand clause, have been classified as current liabilities. For the purpose of the above analysis, the interest-bearing bank borrowings are included within current interest-bearing bank borrowings and analysed into interest-bearing bank borrowings repayable on demand.

28. INTEREST-BEARING BANK BORROWINGS (continued)

Ignoring the effect of any repayment on demand clause and based on the maturity terms of the interest-bearing bank borrowings, the amounts repayable in respect of the interest-bearing bank borrowings are as follows:

	2020 HK$'000	2019 HK$'000
Analysed into:		
Interest-bearing bank borrowings repayable:		
Within one year	118,321	136,086
In the second year	1,302	2,941
In the third to fifth years, inclusive	2,445	4,246
Beyond five years	9,797	7,847
	131,865	151,120

At 31 December 2020 and 2019, the Group's interest-bearing bank borrowings were secured by:

(a) Mortgages over the properties owned by the Group situated in Hong Kong and Macau (note 13);

(b) Guarantees provided by the Controlling Shareholder of Nil (2019: HK$155,508,000);

(c) Guarantees provided by the Company of HK$81,453,000 (2019: Nil);

(d) Guarantees provided by the Government of the Hong Kong Special Administrative Region to the Group of Nil, (2019: HK$13,200,000), under the Small and Medium Enterprises Financing Guarantee Scheme;

(e) Factored Trade Receivables of HK$210,000 (2019: HK$51,179,000); and

(f) Guarantees provided by the non-controlling shareholder of Jefferine, a subsidiary of the Group, of HK$2,136,000 (2019: Nil).

28. INTEREST-BEARING BANK BORROWINGS (continued)

Except for the Group's interest-bearing bank borrowings of HK$11,412,000 (2019: HK$10,176,000) as at 31 December 2020, that were denominated in MOP, the Group's interest-bearing bank borrowings are all denominated in Hong Kong dollars.

29. LOAN FROM A RELATED COMPANY

The balance is a loan from a wholly-owned subsidiary of Jacobson Pharma. As at 31 December 2020, the balance was secured by all shares in HNH held by the Group (note 17), bore interest at HIBOR + 2.5% (2019: Nil) per annum and was repayable on 26 March 2021. Subsequent to the end of the reporting period, the entire amount of the loan had been fully settled.

30. AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

The balance is unsecured, interest-free and repayable on demand.

31. DEFERRED TAX

Deferred tax liabilities

The deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustments arising from acquisition of a subsidiary HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2019	–	233	233
Deferred tax charged to profit or loss during the year	–	127	127
At 31 December 2019 and 1 January 2020	–	360	360
Acquisition of a subsidiary (note 36)	982	–	982
Deferred tax credited to profit or loss during the year	(204)	(360)	(564)
As at 31 December 2020	778	–	778

31. DEFERRED TAX (continued)

Deferred tax assets

The deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Loss available for offsetting against future taxable profits HK$'000
At 1 January 2019	1,607
Deferred tax credited to profit or loss during the year	1,711
At 31 December 2019 and 1 January 2020	**3,318**
Deferred tax credited to profit or loss during the year	**6,628**
At 31 December 2020	**9,946**

Apart from the tax losses for which deferred tax assets had been recognised above, the Group had estimated unutilised tax losses subject to agreement of relevant tax authorities of approximately HK$2,203,000 (2019: HK$1,835,000) as at 31 December 2020 in Hong Kong and other jurisdictions that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

32. BALANCE WITH A DIRECTOR

Particulars of an amount due from a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Name	1 January 2019 HK$'000	Maximum amount outstanding during the year HK$'000	31 December 2019 HK$'000	**Maximum amount outstanding during the year HK$'000**	**31 December 2020 HK$'000**
Mr. Wong	–	579	–	**–**	**–**

The balance with a director is non-trade in nature, unsecured, interest-free and repayable on demand.

33. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Merger reserve

The merger reserve of the Group represents the issued capital of the companies now comprising the Group before the completion of the Reorganisation and deemed distribution to the Controlling Shareholder by issuance of the Company's shares pursuant to the Reorganisation.

34. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Amount due to a director HK$'000	Other payables and accruals HK$'000	Loan from a related company HK$'000	Interest-bearing bank loans HK$'000	Lease liabilities HK$'000
At 1 January 2020	–	–	–	151,120	15,495
Changes from financing cash flows					
Interest paid	–	(4,095)	–	–	(661)
New bank loans	–	–	–	350,064	–
Repayment of bank loans	–	–	–	(371,153)	–
New loan from a related company	–	–	50,000	–	–
Principal elements of lease payments	–	–	–	–	(7,997)
Other changes					
Acquisition of a subsidiary	–	–	–	1,834	481
Effective interest expenses	–	4,191	–	–	661
Additions to lease liabilities	–	–	–	–	13,259
Gain on termination of lease	–	–	–	–	(4,423)
Lease modification	–	–	–	–	(360)
At 31 December 2020	–	96	50,000	131,865	16,455
At 1 January 2019	48,564	283	–	126,524	15,573
Changes from financing cash flows					
Interest paid	–	(5,550)	–	–	(722)
New bank loans	–	–	–	537,834	–
Repayment of bank loans	–	–	–	(513,238)	–
Principal elements of lease payments	–	–	–	–	(7,771)
Repayment to a director	(49,731)	–	–	–	–
Advances from a director	1,167	–	–	–	–
Other changes					
Effective interest expenses	–	5,267	–	–	722
Additions to lease liabilities	–	–	–	–	7,693
At 31 December 2019	–	–	–	151,120	15,495

34. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Major non-cash transactions

(i) The Group had additions to right-of-use assets and lease liabilities as detailed in note 14.

(ii) During the year ended 31 December 2019, HK$815,000 was transferred from right-of-use assets to property, plant and equipment.

(iii) During the year ended 31 December 2020, the Group had payables of HK$31,440,000 (note 36) in relation to the acquisition of Jefferine and included in "Other payables and accruals".

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2020 HK$'000	2019 HK$'000
Within operating activities	3,369	1,990
Within financing activities	7,997	7,771
	11,366	9,761

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2020
Percentage of equity interest held by non-controlling interests:	
Jefferine	20%

	2020 HK$'000
Profit for the year allocated to non-controlling interests:	
Jefferine	169
Accumulated balances of non-controlling interests at the reporting date:	
Jefferine	2,282

The following tables illustrate the summarised financial information of the above subsidiary for the period from the Acquisition Date (defined in note 36) to 31 December 2020. The amounts disclosed are before any inter-company eliminations:

2020	Jefferine HK$'000
Revenue	17,191
Total expenses	(16,347)
Profit	844
Total comprehensive income	844
Current assets	24,918
Non-current assets	689
Current liabilities	(21,176)
Non-current liabilities	(252)
Net cash flows from operating activities	3,055
Net cash flows used in financing activities	(262)
Net increase in cash and bank balances	2,793

36. BUSINESS COMBINATION

On 15 September 2020, a wholly-owned subsidiary of the Company entered into a sales and purchase agreement ("**Sales and Purchase Agreement**") pursuant to which the Group agreed to acquire an 80% equity interest in Jefferine, a company incorporated in the Macau Special Administrative Region, from a vendor (the "**Vendor**"), an independent third party. The acquisition was completed on 30 September 2020 (the "**Acquisition Date**"). Jefferine is engaged in the import and distribution of pharmaceuticals, proprietary Chinese medicine and healthcare products in Macau. The acquisition was made as part of the Group's strategy to expand its business and increase its market share, as a provider of a wide range of health and well-being related products, and to enhance the efficiency of market penetration of its products. The consideration was in the form of cash, with HK$6,000,000 paid at the Acquisition Date and the remaining HK$31,440,000 to be paid on or before 31 December 2021. Further details of the above were set out in the Company's announcement dated 15 September 2020.

The Group has elected to measure the non-controlling interests in Jefferine at the non-controlling interests' proportionate share of Jefferine's identifiable net assets.

The fair values of the identifiable assets and liabilities of Jefferine as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	13	334
Right-of-use assets	14	481
Intangible assets	16	5,864
Trade receivables		3,082
Prepayments, deposits and other receivables		1,851
Inventories		12,235
Cash and bank balances		3,142
Trade payables		(12,434)
Other payables and accruals		(23)
Tax payable		(671)
Lease liabilities	14	(481)
Interest-bearing bank borrowings		(1,834)
Deferred tax liabilities	31	(982)
Total identifiable net assets at fair value		10,564
Less: Non-controlling interests		(2,113)
Net assets attributable to equity owners of Jefferine		8,451
Goodwill on acquisition		26,139
		34,590

36. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Jefferine as at the date of acquisition were as follows: (continued)

	HK$'000
Satisfied by:	
Cash	37,440
Less: contingent consideration receivable	(1,950)
Less: Call Option (as defined below)	(900)
	34,590

The acquisition consideration of HK$6,000,000 was paid by the Group in 2020, and the remaining consideration of HK$31,440,000 was recorded in "Other payables and accruals" in the consolidated statement of financial position as at 31 December 2020.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$3,082,000 and HK$1,851,000, respectively. The gross contractual amounts of the trade receivables and other receivables were HK$3,082,000 and HK$1,851,000, respectively, none of which is expected to be uncollectible.

The Group incurred transaction costs of HK$294,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

Included in the goodwill of HK$26,139,000 recognised above are customer relationships, which are not recognised separately, because in the opinion of the directors, they are not adequately quantifiable and the cost of the asset cannot be measured reliably, and therefore they do not meet the criteria for recognition as intangible assets under HKAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the leases relative to market terms.

36. BUSINESS COMBINATION (continued)

Pursuant to the Sales and Purchase Agreement, in the event that Jefferine has recorded a loss for the three months ended 31 December 2020, the Vendor shall pay, in cash or an immediately available fund, to the Group a sum as equal to such loss on or before 28 February 2021; and in the event that the aggregate of the net profit of the Jefferine ("**Actual PAT**") for the year ending 31 December 2021 and the year ending 31 December 2022 is less than HK$14,000,000, the Vendor shall pay, in cash or in immediately available fund, to the Group within 14 calendar days after a statement showing the amount of the Actual PAT and its calculation are made available to the Group a sum ("**2021-2022 Shortfall Compensation**") calculated according to terms set out in the agreement with a cap of HK$15,000,000. The fair value of the contingent consideration receivable was HK$1,950,000 at the Acquisition Date based on a valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professionally qualified valuers. As at 31 December 2020, the fair value of the contingent consideration receivable was HK$2,590,000.

The movement of contingent consideration receivable was as follows:

	2020 HK$'000
At 1 January	–
Acquisition of a subsidiary	1,950
Fair value change	640
At 31 December	2,590

In addition, pursuant to the Sales and Purchase Agreement, the Vendor has granted to the Group the option ("**Call Option**"), in consideration of the payment of HK$1.0 by the Group to the Vendor, to purchase the remaining 20% of the equity interest in Jefferine on 15 September 2020, at the purchase price of HK$9,360,000. The exercise period date will commence from the day that the audited financial statements of Jefferine for the year ending 31 December 2022 are made available to the Group and up to 31 December 2023. Further details of the above were set out in the Company's announcement dated 15 September 2020. The Call Option is accounted for as a derivative financial instrument in the consolidated statement of financial position. At the Acquisition Date, the fair value of the Call Option was approximately HK$900,000, based on a valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professionally qualified valuers. As at 31 December 2020, the fair value of the Call Option was HK$840,000.

36. BUSINESS COMBINATION (continued)

The movement of Call Option was as follows:

	2020 HK$'000
At 1 January	–
Acquisition of a subsidiary	900
Fair value change	(60)
At 31 December	840

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(6,000)
Cash and bank balances acquired	3,142
Net outflow of cash and bank balances included in cash flows from investing activities	(2,858)
Transaction costs of the acquisition included in cash flows from operating activities	(294)
	(3,152)

Since the acquisition, Jefferine contributed HK$17.2 million to the Group's revenue and HK$0.8 million profit to the consolidated loss for the year ended 31 December 2020.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been HK$523.2 million and HK$60.0 million, respectively.

37. DISPOSAL OF SUBSIDIARIES

	Note	2020 HK$'000	2019 HK$'000
Net assets/liabilities disposed of:			
Intangible assets	16	–	6,202
Prepayments, deposits and other receivables		–	2,180
Other payables and accruals		(109)	–
		(109)	8,382
Gain on disposal of subsidiaries		109	18
		–	8,400
Satisfied by:			
Cash		–	8,400

An analysis of the net inflow of cash and bank balances in respect of the disposal of a subsidiary is as follows:

	2020 HK$'000	2019 HK$'000
Cash consideration and net inflow of cash and bank balances in respect of the disposal of subsidiaries	–	8,400

38. ISSUED CAPITAL

Shares

The Company is a limited liability company incorporated in the Cayman Islands on 14 June 2017. The authorised share capital of the Company upon its incorporation was HK$380,000 divided into 38,000,000 shares of HK$0.01 each. The authorised share capital of the Company was increased to HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each on 23 March 2020.

	2020 HK$'000	2019 HK$'000
Issued and fully paid:		
800,000,000 (2019: 10,000,000) ordinary shares of HK$0.01 each	8,000	100

The movements in share capital were as follows:

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000
Authorised:		
At 31 December 2019 and 1 January 2020 (note (i))	38,000,000	380
Increase in authorised share capital on 23 March 2020 (note (iii))	9,962,000,000	99,620
At 31 December 2020	10,000,000,000	100,000
Issued and fully paid:		
At 31 December 2019 and 1 January 2020 (notes (i) and (ii))	10,000,000	100
Capitalisation issue of shares (note (iv))	597,580,000	5,976
Issue of new shares pursuant to the Global Offering (note (v))	192,420,000	1,924
At 31 December 2020	800,000,000	8,000

38. ISSUED CAPITAL (continued)

Shares (continued)

Notes:

(i) On 14 June 2017, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. Upon incorporation, 1 nil-paid ordinary share of HK$0.01 was issued and allotted by the Company to its then shareholder.

(ii) Pursuant to a written resolution passed on 30 November 2018, 9,999,999 ordinary shares of HK$0.01 each were allotted, issued and credited as fully paid to the Company's then sole shareholder and the one nil-paid share held by such sole shareholder was also credited as fully paid.

(iii) Pursuant to the written resolutions of the shareholders of the Company passed on 23 March 2020, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 shares of a par value of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each, by the creation of an additional 9,962,000,000 shares with a par value of HK$0.01 each.

(iv) Pursuant to the authority given by the resolutions in writing of the then shareholders of the Company passed on 23 March 2020, an aggregate amount of approximately HK$5,976,000 standing to the credit of the share premium of the Company was approved to be capitalised and applied in paying in full at par of 597,580,000 ordinary shares of HK$0.01 each for allotment and issue to the then shareholders of the Company on 15 April 2020.

(v) In connection with the Global Offering, 192,420,000 ordinary shares of par value of HK$0.01 each were issued at a price of HK$1.49 per share for a total cash consideration, before share issue expenses of HK$31,839,000, of approximately HK$286,706,000. Dealings in the shares of the Company on the Stock Exchange commenced on 15 April 2020.

Share options

Details of the Company's share option scheme are included in note 39 to the consolidated financial statements.

39. SHARE-BASED COMPENSATION

(a) SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") pursuant to the shareholders' written resolution passed on 23 March 2020. The purposes of the Share Option Scheme are to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

39. SHARE-BASED COMPENSATION (continued)

(a) SHARE OPTION SCHEME (continued)

Eligible persons include (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds an equity interest; (b) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of any member of the Group or any Invested Entity; (e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (f) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and (g) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants.

The maximum number of shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time. The initial total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Group) to be granted under the Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the shares in issue on the listing date. The total number of shares issued and which may fall to be issued upon exercise of the options to be granted under the Share Option Scheme and any other share option schemes of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of the options to be granted to such participant must be fixed before shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under the Listing Rules.

39. SHARE-BASED COMPENSATION (continued)

(a) SHARE OPTION SCHEME (continued)

An offer of the grant of the option may be accepted by a participant within 21 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the directors to each grantee. The period may commence on the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for shares under the Share Option Scheme will be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. A nominal consideration of HK$1.0 is payable on acceptance of the grant of an option.

No share options were granted, exercised or cancelled under the Share Option Scheme during the current and prior year.

(b) SHARE AWARD SCHEME

On 25 May 2020, the board of directors of the Company (the "**Board**") adopted a share award scheme as means to recognise the contributions by certain eligible persons and giving incentives thereto in order to retain them for the continuing operation and development of the Group and attract suitable personnel for further development of the Group (the "**Share Award Scheme**").

39. SHARE-BASED COMPENSATION (continued)

(b) SHARE AWARD SCHEME (continued)

Subject to any early termination as may be determined by the Board in accordance with the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on 25 May 2020 (the "**Adoption Date**"), provided that no further settlement of the reference amount ("**Reference Amount**") shall be made by the Company on or after the 10th anniversary of the Adoption Date. Subject to compliance with all applicable laws, codes or regulations including without limitation those imposed by the Listing Rules from time to time, the Board shall cause the Company to instruct the trustee (the "**Trustee**") to purchase the awarded shares. In each case, the purchase shall be made on the open market with the Reference Amount from the funds of the Group. The shares purchased shall be held by the Trustee until they are vested in the selected grantees. The Trustee shall not exercise any voting rights in respect of any shares held under the trust.

The aggregate number of shares to be awarded pursuant to the Share Award Scheme shall not exceed 5% of the total issued share capital of the Company as at the Adoption Date (i.e. 40,000,000 shares). The maximum number of shares which may be awarded to a selected grantee at any one time shall not exceed 0.50% of the total number of issued shares as at the Adoption Date. If and whenever there shall be an alteration to the nominal value of the shares as a result of consolidation or subdivision ("**Capital Reorganisation**") and the effective date of such Capital Reorganisation falls on a day when the Share Award Scheme remains in effect, the maximum number of the shares referred to above shall be adjusted proportionally. Such adjustment shall automatically become effective on the date on which the Capital Reorganisation takes effect.

Awarded shares held by the Trustee upon the trust and which are referable to a selected grantee shall vest to that selected grantee in accordance with a vesting schedule determined at the discretion of the Board, provided that the selected grantee remains at all times after the grant of the award and on each relevant vesting date an eligible person and the transfer documents and any other relevant documents as prescribed by the Trustee to effect the transfer have been duly executed by the selected grantee.

During the year, the Company repurchased 20,000,000 ordinary shares of the Company at an average price of HK$1.19 per share at an aggregate consideration of HK$23,824,000 through the Trustee for the Share Award Scheme.

As at 31 December 2020, no awarded shares have been granted.

40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions.

	Notes	2020 HK$'000	2019 HK$'000
Sale of products:			
Associate:			
– Hong Kong Han Lam Tong Medicine Limited ("**Han Lam Tong**", a wholly-owned subsidiary of HNH)	(i)	**24,084**	–
Related parties:			
– China Resources Pharmaceutical Group Limited ("**CR Pharmaceutical**") and its subsidiaries (together, the "**CR Pharmaceutical Group**")	(ii)	**27,052**	45,875
Purchase of products:			
Associate:			
– Han Lam Tong	(i)	**12,247**	–
Related parties:			
– The CR Pharmaceutical Group	(ii)	**3,246**	6,926
– Jacobson Pharma and its subsidiaries (together, the "**Jacobson Group**")	(iii)	**43,952**	–
Interest expense:			
Related party:			
– Jacobson Group	(iv)	**96**	–

40. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

During the year, the Group leased properties from Mr. Wong for warehouse and carpark use. The monthly lease payable was determined on a basis mutually agreed by both parties with reference to the prevailing market rent of similar properties located at the surrounding area available to independent third parties. Right-of-use assets of HK$3,149,000 (2019: HK$6,142,000) and lease liabilities of HK$3,246,000 (2019: HK$6,180,000) in respect of the leases were recognised in the consolidated statement of financial position as at 31 December 2020. During the year, depreciation of right-of-use assets of HK$3,110,000 (2019: HK$768,000) and an interest expense on the lease liabilities of HK$231,000 (2019: HK$80,000) was charged to the consolidated statement of profit or loss and other comprehensive income.

Pursuant to the Company's announcement dated 1 June 2020, the Group has acquired 49% of equity interest in HNH at a cash consideration of HK$41,650,000 during the year ended 31 December 2020 from the Jacobson Group.

Notes:

(i) The sales to and purchase from Han Lam Tong, a wholly-owned subsidiary of HNH, an associate of the Company, were made at a mutually agreed price.

(ii) The sales to and purchase from the CR Pharmaceutical Group, were made at mutually agreed prices. CR Pharmaceutical is a shareholder of the Company which had a 25% equity interest in the Company since February 2019. Upon the completion of the Global Offering, the shareholding of CR Pharmaceutical became 18.99%.

(iii) The purchases from the Jacobson Group, were made at mutually agreed prices.

(iv) The interest was charged on a mutual agreed basis.

40. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Notes	2020 HK$'000	2019 HK$'000
Trade and other receivables			
Trade receivables due from			
– The CR Pharmaceutical Group	(i)	11,492	8,782
– Han Lam Tong	(i)	6,987	–
		18,479	8,782
Amounts due from			
– Han Lam Tong	(i)	36	–
– Joint ventures	(i)	1,875	–
– Controlling Shareholder	(i)	550	540
		2,461	540
Trade and other payables			
Trade payable due to			
– The CR Pharmaceutical Group	(i)	–	296
– The Jacobson Group	(i)	21,857	–
– Han Lam Tong	(i)	2,187	–
		24,044	296
Loan			
Loan from			
– The Jacobson Group	(ii)	50,000	–

Note:

(i) Balances were unsecured, interest-free and repayable on demand.

(ii) The balance was secured by all of the Group's shares in HNH (note 17), bore interest at HIBOR + 2.5% (2019: Nil) per annum and was repayable on 26 March 2021.

40. RELATED PARTY TRANSACTIONS (continued)

(c) The compensation of key management personnel of the Group during the year represented the executive directors' and the chief executive's emoluments as disclosed in note 9 to the consolidated financial statements.

(d) The Group had banking facilities guaranteed by the Controlling Shareholder amounting to Nil (2019: HK$155,508,000), as at 31 December 2020, as further detailed in note 28 to the consolidated financial statements.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

Financial assets:

	Financial assets at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Mandatorily designated as such HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
31 December 2020				
Trade receivables	–	–	124,116	124,116
Financial assets included in prepayments, deposits and other receivables	–	–	17,964	17,964
Financial assets at fair value through profit and loss	20,000	2,590	–	22,590
Derivative financial instrument	–	840	–	840
Amounts due from related parties	–	–	1,911	1,911
Cash and bank balances	–	–	119,344	119,344
	20,000	3,430	263,335	286,765

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets: (continued)

	Financial assets at fair value through profit or loss			
	Designated as such upon initial recognition HK$'000	Mandatorily designated as such HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
31 December 2019				
Trade receivables	–	–	117,161	117,161
Financial assets included in prepayments, deposits and other receivables	–	–	6,165	6,165
Cash and bank balances	–	–	50,437	50,437
	–	–	173,763	173,763

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities:

	Financial liabilities at amortised cost HK$'000
31 December 2020	
Trade payables	66,484
Financial liabilities included in other payables and accruals	31,361
Interest-bearing bank borrowings	131,865
Loan from a related company	50,000
Lease liabilities	16,455
Amount due to the ultimate holding company	996
	297,161
31 December 2019	
Trade payables	34,635
Financial liabilities included in other payables and accruals	361
Interest-bearing bank borrowings	151,120
Lease liabilities	15,495
	201,611

42. FAIR VALUE MEASUREMENT

Management has assessed that the fair values of cash and bank balances, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, balances and loan with related parties and the ultimate holding company, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial assets included in prepayments and deposits have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the non-performance risk for the above non-current portion financial instruments as at 31 December 2020 was assessed to be insignificant.

The fair value of unlisted equity investments designated at fair value through profit or loss in Level 2 have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price to earnings ("**P/E**") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

42. FAIR VALUE MEASUREMENT (continued)

The fair values of the contingent consideration receivable and Call Option are based on a valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professionally qualified valuers using Monte Carlo simulation method and the binomial options pricing model, respectively.

The carrying amounts of the Group's financial instruments reasonably approximate to fair values.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Assets				
Financial assets at fair value through profit or loss	–	20,000	2,590	22,590
Derivative financial instrument	–	–	840	840
	–	20,000	3,430	23,430

The movements in fair value measurements in Level 3 during the year are disclosed in note 36 to the consolidated financial statements.

42. FAIR VALUE MEASUREMENT (continued)

The fair values of the contingent consideration receivable as at 30 September 2020 and 31 December 2020 were estimated, using a Monte Carlo simulation model, taking into account the following key significant unobservable inputs:

	30 September 2020	31 December 2020
Cost of equity (%)	35	33
Expected volatility (%)	38	37
Equity value of 100% interest (HK$'000)	43,238	42,513

The fair values of the Call Option as at 30 September 2020 and 31 December 2020 were estimated, using a binomial options pricing model, taking into account the following key significant unobservable inputs to the model used:

	30 September 2020	31 December 2020
Expected volatility (%)	36	37
Equity value of 20% interest (HK$'000)	6,529	6,419

42. FAIR VALUE MEASUREMENT (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020:

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Contingent consideration receivable	Monte Carlo simulation	Cost of equity	33% (2019: Nil)	5% (2019: Nil) increase/decrease in cost of equity would result in decrease/increase in fair value by HK$630,000/HK$880,000 (2019: Nil)
		Expected volatility	37% (2019: Nil)	5% (2019: Nil) increase/decrease in expected volatility would result in increase/decrease in fair value by HK$320,000/HK$360,000 (2019: Nil)
		Related equity value (HK$'000)	42,513 (2019: Nil)	5% (2019: Nil) increase/decrease in equity value would result in decrease/increase in fair value by HK$320,000/HK$380,000 (2019: Nil)
Call Option	Binomial options pricing model	Expected volatility	37% (2019: Nil)	5% (2019: Nil) increase/decrease in expected volatility would result in increase/decrease in fair value by HK$200,000/HK$190,000 (2019: Nil)
		Related equity value (HK$'000)	6,419 (2019: Nil)	5% (2019: Nil) increase/decrease in equity value would result in increase/decrease in fair value by HK$150,000/HK$140,000 (2019: Nil)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include interest-bearing bank borrowings, lease liabilities, balances with related parties, financial assets included in prepayments, deposits and other receivables, trade receivables, trade payables, financial liabilities included in other payables and accruals and cash and bank balances. Details of these financial instruments are disclosed in the respective notes to the consolidated financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risk relates principally to the Group's bank borrowings which are based on the prime rate and HIBOR. The Group mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Group has not used any interest rate swap to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) after tax (through the impact on floating rate bank borrowings).

	Increase in interest rate (basis points)	Decrease in profit/increase in loss after tax of the Group HK$'000
31 December 2020	50	546
31 December 2019	50	633

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the reporting periods. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
31 December 2020					
Trade receivables*	–	–	–	124,116	124,116
Financial assets included in prepayments, deposits and other receivables					
– Normal**	17,964	–	–	–	17,964
Amounts due from related parties					
– Normal**	1,911	–	–	–	1,911
Cash and bank balances					
– Not yet past due	119,344	–	–	–	119,344
	139,219	–	–	124,116	263,335
31 December 2019					
Trade receivables*	–	–	–	117,161	117,161
Financial assets included in prepayments, deposits and other receivables					
– Normal**	6,165	–	–	–	6,165
Cash and bank balances					
– Not yet past due	50,437	–	–	–	50,437
	56,602	–	–	117,161	173,763

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 24 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables and amounts due from related parties is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Concentrations of credit risk

Management monitors the creditworthiness and payment patterns of each debtor closely and on an ongoing basis.

The following table demonstrates the concentrations of credit risk of the total trade receivables which were due from the Group's largest external customer and the Group's five largest external customers, respectively.

	2020 HK$'000	2019 HK$'000
Percentage of total trade receivables due from:		
The Group's largest external customer	20%	51%
The Group's five largest external customers	57%	82%

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the consolidated financial statements.

All of the current portion of the other receivable balances are expected to be recovered within one year.

Liquidity risk

The Group's policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. In addition, banking facilities have been put in place for contingency purposes.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The following table details the remaining contractual maturities at the end of each of the reporting periods of the Group's financial liabilities, which were based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date that the Group could be required to repay.

	Within one year or on demand HK$'000	In the second year HK$'000	In the third to fifth years, inclusive HK$'000	Total HK$'000
31 December 2020				
Trade payables	66,484	–	–	66,484
Financial liabilities included in other payables and accruals	31,361	–	–	31,361
Interest-bearing bank borrowings*	131,865	–	–	131,865
Loan from a related company	50,327	–	–	50,327
Lease liabilities	9,484	4,955	3,361	17,800
Amount due to the ultimate holding company	996	–	–	996
	290,517	4,955	3,361	298,833
31 December 2019				
Trade payables	34,635	–	–	34,635
Financial liabilities included in other payables and accruals	361	–	–	361
Interest-bearing bank borrowings*	151,120	–	–	151,120
Lease liabilities	8,298	6,606	1,852	16,756
	194,414	6,606	1,852	202,872

* All interest-bearing bank borrowings containing a repayment on demand clause give the lender the unconditional right to call the loan at any time, and therefore, for the purpose of the above maturity profile, these amounts are classified as "on demand".

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Notwithstanding the above repayment on demand clause, the directors do not believe that the bank loans would be called in their entirety within 12 months, and they considered that the bank loans would be repaid in accordance with the maturity dates as set out in the respective agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the consolidated financial statements; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of bank loans, the maturity terms of the contracted undiscounted cash flows at 31 December 2020 and 2019 were as follows:

	2020 HK$'000	2019 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	118,539	141,498
In the second year	1,646	3,052
In the third to fifth years, inclusive	3,291	4,394
Beyond five years	12,058	8,043
	135,534	156,987

Capital management

The primary objective of the Group's capital management policy is to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The directors of the Company review the capital structure on a periodical basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital and will balance the Group's overall capital structure through new share issues as well as raising new debts or repaying existing debts.

No changes were made in the objectives, policies or processes for managing capital during the year.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total sum of equity attributable to equity holders of the Company ("**Capital**") plus net debt. Net debt includes interest-bearing bank borrowings, loan from a related company, trade payables, financial liabilities included in other payables and accruals, lease liabilities less cash and bank balances. Total capital comprises ordinary equity holders' equity as stated in the consolidated statement of financial position. The gearing ratios as at the end of the years ended 31 December were as follows:

	2020 HK$'000	2019 HK$'000
Interest-bearing bank borrowings	131,865	151,120
Loan from a related company	50,000	–
Trade payables	66,484	34,635
Financial liabilities included in other payables and accruals	31,361	361
Lease liabilities	16,455	15,495
Less: Cash and bank balances	(119,344)	(50,437)
Net debt	176,821	151,174
Capital	288,157	118,360
Capital and net debt	464,978	269,534
Gearing ratio	38.03%	56.09%

44. IMPACT OF COVID-19

The outbreak of COVID-19 (the "**Outbreak**") has spread to various other countries and regions, including Hong Kong, Macau and Singapore in early 2020. It has brought about additional uncertainties to the Group's operating environment and may impact the Group's operations and financial position. However, it is not possible to estimate the full impact of the Outbreak's short-term and long-term effects up to the date of this report. The Group will continue to monitor the development of these events and respond proactively to mitigate the impact of the Outbreak to the Group's financial position and financial performance.

45. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation. In the opinion of the directors of the Company, this presentation would better reflect the financial performance of the Group.

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Investment in subsidiaries	(i)	480,000	480,000
Prepayments		61	–
		480,061	480,000
CURRENT ASSETS			
Prepayments, deposits and other receivables		3,890	152
Due from subsidiaries		282,553	47,690
Cash and bank balances		1,159	350
Total current assets		287,602	48,192
CURRENT LIABILITIES			
Other payables and accruals		178	73
Interest-bearing bank borrowings		39,000	50,000
Amount due to the ultimate holding company		1,000	–
Amount due to a subsidiary		8,016	–
Total current liabilities		48,194	50,073
NET CURRENT ASSETS/(LIABILITIES)		239,408	(1,881)
TOTAL ASSETS LESS CURRENT LIABILITIES		719,469	478,119
NET ASSETS		719,469	478,119
EQUITY			
Issued capital	38	8,000	100
Reserves	(ii)	711,469	478,019
TOTAL EQUITY		719,469	478,119

Notes:

(i) Details of the principal subsidiaries are disclosed in note 1.

(ii) A summary of the Company's equity is as follows:

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

31 December 2020 (continued)

Company

	Share premium account HK$'000 (Note)	Contribution surplus HK$'000	Share held under share award scheme HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2019	–	479,899	–	(446)	479,453
Profit for the year	–	–	–	48,566	48,566
Final 2018 dividend (note 11)	–	–	–	(30,000)	(30,000)
Special 2019 dividend (note 11)	–	–	–	(20,000)	(20,000)
As at 31 December 2019 and 1 January 2020	–	479,899	–	(1,880)	478,019
Profit for the year	–	–	–	10,307	10,307
Issue of new shares pursuant to the Global Offering	278,806	–	–	–	278,806
Share issue expenses	(31,839)	–	–	–	(31,839)
Purchase of shares held under the Share Award Scheme	–	–	(23,824)	–	(23,824)
As at 31 December 2020	246,967	479,899	(23,824)	8,427	711,469

Note:

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange thereof. Pursuant to the Cayman Islands company law, a company may make distributions to its members out of the contributed surplus in certain circumstances.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 26 March 2021.

Financial Summary

	Year ended 31 December			
	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	505,991	700,755	693,326	366,478
GROSS PROFIT	83,826	191,141	210,299	108,491
PROFIT/(LOSS) BEFORE TAX	(68,469)	68,360	123,679	76,795
PROFIT/(LOSS) FOR THE YEAR	(60,965)	54,516	100,900	63,926
PROFIT/(LOSS) ATTRIBUTABLE TO:				
Equity holders of the Company	(61,134)	54,516	100,900	63,926
Non-controlling interests	169	–	–	–

	As at 31 December			
	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS				
Non-current assets	188,061	80,889	81,532	27,741
Current assets	431,849	285,475	296,968	215,014
Total assets	619,910	366,364	378,500	242,755
LIABILITIES				
Current liabilities	321,280	240,052	255,073	67,198
Non-current liabilities	8,191	7,952	9,476	52,435
Total liabilities	329,471	248,004	264,549	119,633
NET ASSETS	290,439	118,360	113,951	123,122