福森藥業有限公司

# FUSEN PHARMACEUTICAL COMPANY LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 1652

# ANNUAL REPORT 2020

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Cao Changcheng *(Chairman)*
Mr. Cao Zhiming
Mr. Hou Taisheng
Ms. Meng Qingfen
Mr. Chi Yongsheng

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sze Wing Chun
Mr. Lee Kwok Tung Louis
Mr. Ho Ka Chun (resigned on 10 July 2020)
Dr. To Kit Wa (appointed on 13 August 2020)

## AUDIT COMMITTEE

Mr. Sze Wing Chun *(Chairman)*
Mr. Ho Ka Chun (resigned on 10 July 2020)
Mr. Lee Kwok Tung Louis
Dr. To Kit Wa (appointed on 13 August 2020)

## NOMINATION COMMITTEE

Mr. Cao Changcheng *(Chairman)*
Mr. Ho Ka Chun (resigned on 10 July 2020)
Mr. Lee Kwok Tung Louis
Dr. To Kit Wa (appointed on 13 August 2020)

## REMUNERATION COMMITTEE

Mr. Lee Kwok Tung Louis *(Chairman)*
Mr. Cao Changcheng
Mr. Ho Ka Chun (resigned on 10 July 2020)
Dr. To Kit Wa (appointed on 13 August 2020)

## COMPANY SECRETARY

Mr. Pang Wai Ching (resigned on 29 January 2021)
Mr. Wong Tik Man (appointed on 29 January 2021)

## AUTHORISED REPRESENTATIVES

Mr. Cao Zhiming
Mr. Pang Wai Ching (resigned on 29 January 2021)
Mr. Wong Tik Man (appointed on 29 January 2021)

## INVESTOR RELATIONS

Mr. Cao Zhiming

## AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

## COMPLIANCE ADVISER

Dakin Capital Limited

## LEGAL ADVISOR

D. S. Cheung & Co.

## REGISTERED OFFICE

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Urban Industrial Zone
Xichuan County, Henan Province
China
(中國河南省淅川縣城區工業園區)

## PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

29/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## CAYMAN ISLANDS SHARE REGISTRAR

Ocorian Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

## PRINCIPAL BANKERS

Wing Lung Bank Ltd.
45 Des Voeux Road Central
Hong Kong

Bank of Pingdingshan Co., Ltd.
Zhengzhou Branch
1st Floor, Bank of Pingdingshan Building
No. 6 Fung Yi Road
Jinshui District, Zhengzhou City
Henan Province
China

China Construction Bank Corporation
Xichuan Branch
Middle Section, Jiefang Road
Chengguan Town, Xichuan County
Henan Province
China

## LISTING INFORMATION

Date of listing: 11 July 2018
Place of incorporation: Cayman Islands
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1652
Board lot: 1000 shares
Financial year end: 31 December

## COMPANY'S WEBSITE

www.fusenyy.com

# Financial Summary

## RESULTS

| | 2020<br>RMB'000 | 2019<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|---|---|
| Revenue | **486,854** | 407,388 | 462,061 | 452,580 | 441,988 |
| Cost of sales | **(220,787)** | (194,900) | (210,744) | (200,634) | (219,799) |
| Gross profit | **266,067** | 212,488 | 251,317 | 251,946 | 222,189 |
| Other net income | **4,734** | 25,194 | 23,641 | 5,918 | 10,888 |
| Selling and distribution expenses | **(107,407)** | (112,805) | (89,587) | (90,704) | (74,208) |
| General and administrative expenses | **(78,879)** | (58,729) | (49,304) | (44,980) | (40,277) |
| Impairment loss on goodwill and intangible assets | **(22,637)** | – | – | – | – |
| Profit from operations | **66,883** | 66,148 | 136,067 | 122,180 | 118,592 |
| Net finance costs | **(7,730)** | (6,869) | (12,253) | (5,844) | (3,824) |
| Share of profit of a joint venture | **24,252** | 4,535 | – | – | – |
| Profit before taxation | **78,405** | 63,814 | 123,814 | 116,336 | 114,768 |
| Income tax | **(15,737)** | (11,555) | (21,905) | (19,285) | (18,570) |
| Profit for the year | **62,668** | 52,259 | 101,909 | 97,051 | 96,198 |

## ASSETS AND LIABILITIES

| | 2020<br>RMB'000 | 2019<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|---|---|
| Total assets | **1,241,347** | 1,176,229 | 1,163,262 | 951,220 | 1,151,088 |
| Total liabilities | **583,098** | 494,689 | 547,163 | 768,443 | 1,024,479 |
| Total equity | **658,249** | 681,540 | 616,099 | 182,777 | 126,609 |

# Chairman's Statement

Dear Shareholders,

In the past 2020, the principal business and net profit of Fusen Pharmaceutical Company Limited (the "**Company**") and its subsidiaries (the "**Group**") both recorded significant growth year-on-year.

Driven by the COVID-19 pandemic, there was a significant increase in the shipment of the Company's core products especially the Shuanghuanglian Oral Solution in early 2020. Subsequently, the terminal sales of many fever and cold products was affected by the strengthening prevention measures for the COVID-19 pandemic across the country, such as restricting the mobility of individuals, strengthening personal protection and real-name registration for purchasing fever and cold medicines in pharmacies in some areas. The fluctuations and ever-changing nature of the market posed severe challenge to the operations and management of the Company. In response to the rapid changes in the market, the Company proactively adjusted its sales policies in a timely manner while continuing to optimise its sales systems, strengthening the business skills of sales personnel, reinforcing the analysis on data about product sales directions, and improving sales service quality. Leveraging the above means, the Company ceaselessly improved its abilities in developing and exploring terminal markets such as primary medical institutions and chain pharmacies. As the Company obtains higher acuity to market demands and adopts flexible, effective sales policies and pricing strategies, the Company is able to adapt to the ever-changing and adjusting market demands, thereby gradually achieving larger sales scale. In early 2021, the Company obtained the GSP qualification through the acquisition of Jiangxi Ruiyuan Pharmaceutical Co., Ltd.* (江西瑞源藥業有限公司) ("**Ruiyuan**"). The Company will leverage on the sales platform of Ruiyuan to expand its sales team, while focusing on filling the market presently without the presence of the Group, and seeking to be the sales agent of products with market potential.

As for product research and development, the Company increased investment mainly in areas including traditional Chinese medicine products, generic drugs, brand generic drugs and improved innovative drugs. In terms of traditional Chinese medicines, the Company focused on the secondary development of existing products and enhanced the research and development of classic formulas. In terms of generic drugs, Metformin Sustained-release Tablets, being the Company's proprietary product, has undergone the consistency evaluation review and we will apply for consistency evaluation review in respect of the Flunarizine Hydrochloride Capsules in 2021. In terms of brand generic drugs, the Company is making progress as scheduled in terms of its first approved generic Brivaracetam injection for the treatment of epilepsy. The product has also been included in the second batch of encouraged generic drugs catalogue released by the government. Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司) ("**Jiangxi Kangde**"), a joint venture of the Company and Nanjing Kangchuanji Pharmaceutical Technology Company Limited* (南京康川濟醫藥科技有限公司) are preparing for the establishment of a joint venture company, which will target at the research and development of the first generic drug for treating complications of heart failure and diabetes. And in this regard, it introduced an improved innovative drug project of docetacel (cyclodextrin) injection from Bika Biotechnology (Guangzhou) Company Limited* (比卡生物科技(廣州)有限公司). In addition, the Company intends to hold equity interest in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) to indirectly obtain approval of nearly 20 national exclusive traditional Chinese medicines, which will enrich the Company's product categories and expand its product categories from respiratory disease treatment to orthopedic disease and skin disease treatment, thereby laying a solid foundation for the Company's long-term development.

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Pharmaceutical products with stable quality and controllable production costs still have a wide range of market demands, which guarantees the profitability of the Company. The Company will continue to increase its investment in production and transform and upgrade its existing plants and equipment alike. In the future, while enhancing its product capacity, the Company will further improve its production quality.

Looking into the future, although the uncertainties caused by the COVID-19 pandemic remain persisted, the Company will continue to increase input in product research and development and merger and acquisition, increase its product categories though multiple channels. Meanwhile, the Company will keep on accelerating its market exploration, expand its sales team, put more efforts on the training of sales staff's business skills, and improve sales revenue from existing products.

I, hereby, would like to express my sincere gratitude on behalf of the board of directors of the Company (the "**Board**") to the shareholders of the Company (the "**Shareholders**"), customers, and strategic partners for their trust and support to the Company, and my heartfelt thanks to the management team and staffs for their hard work. We will move on with great efforts in order to deliver better results and performance for rewarding our Shareholders and investors.

**Cao Changcheng**
*Chairman of the Board*

# Management Discussion and Analysis

## Overview

2020 was a challenging year for the pharmaceutical industry. The spread of the COVID-19 pandemic has had a profound impact on the Group's business growth. At the beginning of 2020, sales of the Group's core products especially the Shuanghuanglian Oral Solutions increased significantly due to the COVID-19 pandemic; subsequently, the terminal sales of many fever and cold products was affected by the strengthening prevention measures for the COVID-19 pandemic in various parts of the country, such as restricting movement of persons, strengthening personal protection and real-name registration for purchasing fever and cold medicines in pharmacies in some areas. In response to the uncertain and rapid changes in the market, the Group not only adjusted its sales policies in a timely manner, but also continuously optimised its sales system, enhanced the business skills of the sales staffs and improved the quality of sales services.

As for product research and development ("**R&D**"), the Group increased investment mainly in four areas including traditional Chinese medicine products, generic drugs, brand generic drugs and improved innovative drugs. In terms of traditional Chinese medicines, the Group focused on the secondary development of existing products and enhanced the R&D of classic formulas. In terms of generic drugs, Metformin Sustained-release Tablets, being the Group's proprietary product, has undergone the consistency evaluation review and we will apply for consistency evaluation review in respect of the Flunarizine Hydrochloride Capsules in 2021. In terms of brand generic drugs, the Group is making progress as scheduled in terms of its first approved generic brivaracetam injection for treatment of epilepsy, which has also been included in the second batch of encouraged generic drugs catalogue released by the government. In early 2021, Jiangxi Kangde, a joint venture of the Company, established a joint venture company with NanJing Kangchuanji Pharmatech Technology Company Limited* (南京康川濟醫藥科技有限公司) focusing on the R&D of improved innovative drugs for the treatment of chronic heart failure and diabetic complication, and introduced an improved innovative drug project of docetacel (cyclodextrin) from Bi Ka Biotechnology (Guangzhou) Co.,Ltd* (比卡生物科技(廣州)有限公司).

## Business Review

The revenue and gross profit were approximately RMB486.9 million and RMB266.1 million for the year ended 31 December 2020, representing an increase of approximately 19.5% and 25.2% respectively as compared with the year ended 31 December 2019. The increase in revenue was mainly attributable to the increase in sales volume in the product named Shuanghuanglian Oral Solutions. The average gross profit margin slightly increased to approximately 54.7% for the year ended 31 December 2020 from approximately 52.2% for the year ended 31 December 2019 which was mainly attributable to the increase in proportion of the sales of Shuanghuanlian Oral Solutions with higher gross profit margin to the overall sales. The Group restructured the sales regime and optimised the distribution channels since 2019, thus the outcome of the reform has been showing positive improvement gradually. The selling and distribution expenses were approximately RMB107.4 million for the 2020, which was similar to approximately RMB112.8 million for that of 2019. The general and administrative expenses increased from approximately RMB58.7 million for the year ended 31 December 2019 to approximately RMB78.9 million for the year ended 31 December 2020, representing an increase of approximately 34.4%. The significant increase in the general and administrative expenses was mainly due to the financial impact arising from an extension of the granted option to grantees. The profit of a joint venture was attributable to the share of profit of a joint venture, Jiangxi Kangde. The Group has acquired the equity interest in Jiangxi Kangde since July 2019 and financial results of approximately five months were included in the Group in the year ended 31 December 2019, while the operation results of the whole year were accounted for in the year ended 31 December 2020.

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## OUTLOOK

The development of COVID-19 pandemic has brought far-reaching effects and changes to the pharmaceutical industry and there are not only crises and difficulties, but also potential opportunities. In early 2021, the Group obtained the GSP qualification through the acquisition of Ruiyuan. The Group will leverage on the platform of Ruiyuan to expand its sales team, while focusing on filling the gaps in the market, and it will also seek to be the sales agent of products with market potential. In terms of external acquisitions, the Group entered into the investment framework agreement on 31 December 2020, for the investment in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司). In the event that such transaction completes as agreed in the framework agreement in 2021, the Group will get benefit from obtained approval numbers of nearly 20 national exclusive traditional Chinese medicines. This will enrich the Group's product categories, lay a solid foundation for the Group's long-term development and expand its product categories from respiratory disease treatment to orthopedic disease and skin disease treatment. Looking forward, the Group will continue to increase investment in product R&D as well as merger and acquisition and diversify the product categories through various channels. It will also continue to enhance market expansion and improve the sales revenue of existing products.

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased by approximately RMB79.5 million, or 19.5%, from approximately RMB407.4 million for the year ended 31 December 2019 to approximately RMB486.9 million for the year ended 31 December 2020. The following table sets out a breakdown of the Group's revenue generated from principal products during the years ended 31 December 2020 and 2019:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | | 2019 | | |
| | **Revenue RMB'000** | **% of total** | Revenue RMB'000 | % of total | Growth rate % |
| Shuanghuanglian Oral Solutions (10 ml) | **219,781** | **45.1%** | 156,139 | 38.3% | 40.8% |
| Shuanghuanglian Oral Solutions (20 ml) | **75,460** | **15.5%** | 55,431 | 13.6% | 36.1% |
| Subtotal | **295,241** | **60.6%** | 211,570 | 51.9% | 39.5% |
| Shuanghuanglian Injections | **46,036** | **9.5%** | 64,585 | 15.9% | –28.7% |
| Compound Ferrous Sulfate Granules | **22,123** | **4.5%** | 23,229 | 5.7% | –4.8% |
| Flunarizine Hydrochloride Capsules | **18,844** | **3.9%** | 15,242 | 3.7% | 23.6% |
| Others products | **104,610** | **21.5%** | 92,762 | 22.8% | 12.8% |
| Subtotal | **191,613** | **39.4%** | 195,818 | 48.1% | –2.1% |
| Total | **486,854** | **100.0%** | 407,388 | 100.0% | 19.5% |

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The revenue increase of the Group was primarily driven by the increase in the sales of Shuanghuanglian Oral Solutions and Flunarizine Hydrochloride Capsules.

### Cost of sales

Cost of sales increased by approximately RMB25.9 million, or 13.3%, from approximately RMB194.9 million for the year ended 31 December 2019 to approximately RMB220.8 million for the year ended 31 December 2020. Such increase was generally in line with the increase in revenue.

### Gross profit and gross profit margin

Gross profit increased by approximately RMB53.6 million from approximately RMB212.5 million for the year ended 31 December 2019 to approximately RMB266.1 million for the year ended 31 December 2020. The Group's gross profit margin was approximately 52.2% and 54.7% for the years ended 31 December 2019 and 2020, respectively.

### Other net income

Our other net income in 2020 primarily consists of net material and scrap sales income, rental income, government grants, net realised and unrealised gains of listed trading securities on fair value through profit or loss ("**FVPL**"), unrealised net loss on derivative financial instruments and others. The other net income decreased by approximately RMB20.5 million to approximately RMB4.7 million for the year ended 31 December 2020 from that of 2019, primarily due to the fact that the Group wrote-off long-outstanding payables which only occurred in 2019.

### Selling and distribution expenses

Our selling and distribution expenses primarily consist of wages and salaries, logistics charges, advertisement expenses, commission fee, service fee, business travel expenses and other miscellaneous expenses. The selling and distribution expenses decreased by approximately RMB5.4 million, or 4.8%, from approximately RMB112.8 million for the year ended 31 December 2019 to approximately RMB107.4 million for the year ended 31 December 2020, mainly represented by the decrease of approximately RMB6.8 million in wages and salaries, and netting of the increase by the approximately RMB1.2 million in commission fees.

### General and administrative expenses

Our general and administrative expenses primarily consist of wages and salaries, consultant, research and development cost, depreciation and others. The increase of the general and administrative expenses by approximately RMB20.1 million, or 34.3%, from approximately RMB58.7 million for the year ended 31 December 2019 to approximately RMB78.9 million for the year ended 31 December 2020, was mainly due to the financial impact arising from an extension of the granted option to grantees.

### Impairment loss on goodwill and intangible assets

The impairment loss is due to goodwill and intangible assets identified from Beijing Sanye Mingming Pharmaceutical Technology Company Limited* (北京三也明明醫藥科技有限公司) ("**Sanye Mingming**"), an indirect non-wholly owned subsidiary acquired by the Group in 2019. The intangible assets represent the in-progress development projects on pharmaceutical products conducted by Sanye Mingming. The goodwill is allocated to the Group's cash-generating units ("**CGU**") identified in the acquisition. The recoverable amount of the CGU is determined based on value-in-use calculations. With the change in market and regulatory environment in 2020, the financial benefits of these in-progress development projects will not be realised as expected in 2019. The Group is of the opinion, based on value-in-use calculations, that the carrying amount of the intangible asset of approximately RMB15.5 million and the goodwill associated with Sanye Mingming of approximately RMB7.1 million were both impaired at 31 December 2020.

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During the Reporting Period, the Group recognised an impairment provision of approximately RMB7.1 million against the value of goodwill and approximately RMB15.5 million against intangible assets, which arose from the research and developments progress of the subsidiary, Sanye Mingming, and impact of changes in government procurement method on related products. Sanye Mingming suspended the follow-up studies and promotions of the mentioned products, considering changes in market environment and latest progress The Group recognised impairment losses arising from goodwill and intangible assets in the consolidated statement of profit or loss.

### Impairment losses on non-current assets

The Group performed impairment testing on assets annually or more frequently if events or change in circumstances indicate that the carrying amount may be impaired. An impairment loss is recognised when the carrying amount of the asset exceeds its recoverable amount, which is the higher of the fair value of an asset less costs to sell and value-in-use.

### Income tax expenses

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen Pharmaceutical Company Limited* (河南福森藥業有限公司) ("**Henan Fusen**"), our wholly-owned subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. Our effective tax rate was 20.1% and 18.1% in 2020 and 2019 respectively. The increase of effective tax rate is mainly due to the recognition of non-deductible share-based payment expenses.

### Profit and total comprehensive income for the year

As a result of the foregoing, the profit for the year increased by approximately RMB10.4 million, or 19.9%, from approximately RMB52.3 million for the year ended 31 December 2019 to approximately RMB62.7 million for the year ended 31 December 2020. The net profit margin which is calculated as the net profit divided by the revenue for the years ended 31 December 2020 and 2019 were approximately 12.9% and 12.8%, respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had net current assets of approximately RMB112.8 million (2019: RMB213.6 million) and cash and cash equivalents of approximately RMB297.0 million (2019: RMB331.0 million).

As at 31 December 2020, the Group's total equity attributable to owners of the Company amounted to approximately RMB659.4 million (2019: RMB673.4 million), and the Group's total debt amounted to approximately RMB198.5 million (2019: RMB210.0 million). The Directors have confirmed that the Group will have sufficient financial resources to meet its obligations as they fall due in the foreseeable future.

## GEARING RATIO

As at 31 December 2020, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 30.2% (2019: 30.8%). The total debt represents the interest-bearing bank and other loans as at the year end.

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## CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2020 and 2019 not provided for in the financial statements were as follows:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Contracted for | **103,617** | 131,938 |

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2020 (2019: Nil).

## INFORMATION ON EMPLOYEES

As at 31 December 2020, the Group employed 1,248 employees (2019: 1,214 employees). Employees are remunerated based on their qualifications, position and performance. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the year ended 31 December 2020, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits, share-based payment expenses) amounted to approximately RMB88.3 million (2019: RMB69.8 million).

## COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2018. The Group is implementing its business objectives and strategies as disclosed in the prospectus of the Company dated 28 June 2018 (the "**Prospectus**") and will strive to achieve the milestone events as stated in the Prospectus.

The following sets out a comparison of the business strategies as stated in the Prospectus with the Group's actual business progress and up to the date of this report.

| Business strategies as stated in the Prospectus | Actual business progress up to the date of this report |
|---|---|
| Establishment of production facilities, warehouse, processing facilities | The Group has further upgraded and optimised certain existing production facilities and equipment. |
| Advertising and marketing of our products | The Group has strengthened brand promotion through media channel such as TV and road side billboards to highlight its market reputation gained over the years. |
| Expansion of distribution and marketing network | The Group started to set up its own sales team to strengthen the development and management of medical institutions and chain pharmacies to gradually develop end-sales market. |
| Research and development activities | The Group continued to cooperate with scientific research institutions in the field of proprietary Chinese medicine products, focused on the mechanism of efficacy and effect. The Group also kept investing in generic drugs research and development. |
| Potential merger and acquisition | There was no merger and acquisition during 2020. On 31 December 2020, the Group entered into an investment framework agreement to purchase 34% of the equity interest of Weihai Rensheng Pharmaceutical Group Company Limited* ("**Weihai Rensheng**"). The details of the investment framework agreement are set out in the section headed "Event after the Reporting Period" of this report. |
| Acquisition of production permits of new types of products | The pharmaceutical industry in China is still relatively fragmented. Given the gradual implementation of marketing authorisation holder regime, there are lots of opportunities for acquisition and merger. The Group will take advantage of the post-listing capital platform to make greater efforts in acquisition. In terms of products selection, the Group will concentrate on clinical essential drugs and OTC products. During the Reporting Period, the Group did not enter into any formal acquisition agreement. |
| Working capital and general corporate purposes | Items for replenishment of working capital of the Group mainly represent the legal and professional service charge. |

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## USE OF PROCEEDS

The net proceeds from the Offering (after deducting the underwriting fees and other listing expenses borne by the Company) amounted to approximately HK$397.0 million (the "**Actual Net Proceeds**") which will be used for the intended purposes as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

The table below sets out an allocation and the actual use of the Actual Net Proceeds as follows:

| Business strategies as set out in the Prospectus | % | Actual Net Proceeds HK$ million | Actual use of the Actual Net Proceeds as at the date of this report HK$ million | Unutilised net proceeds as at date of this report HK$ million | Expected time of full utilisation of the balance |
|---|---|---|---|---|---|
| Establishment of production facilities, warehouse, processing facilities which are expected to be in full use in 2020 | 30% | 119.0 | 64.2 | 54.8 | December 2021 |
| Advertising and marketing of our products | 10% | 39.7 | 23.9 | 15.8 | December 2021 |
| Expansion of distribution and marketing network | 10% | 39.7 | 13.8 | 25.9 | December 2021 |
| Research and development activities | 10% | 39.7 | 29.4 | 10.3 | December 2021 |
| Potential merger and acquisition | 15% | 59.6 | 59.6 | – | |
| Acquisition of production permits of new types of products | 15% | 59.6 | – | 59.6 | December 2021 |
| Working capital and general corporate purposes | 10% | 39.7 | 39.7 | – | |
| | 100% | 397.0 | 230.6 | 166.4 | |

## TREASURY POLICY

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

## CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 31 December 2020, the Group's equity interest attributable to shareholders amounted to approximately RMB659.4 million (31 December 2019: approximately RMB673.4 million) in aggregate and total liabilities amounted to approximately RMB583.1 million (31 December 2019: approximately RMB494.7 million). The Group is committed to maintaining an appropriate combination of equity and debt, in order to maintain an effective capital structure and provide maximum returns for shareholders.

## CHARGE ON GROUP ASSETS

As at 31 December 2020 and 2019, certain bank borrowings of the Group were secured by the Group's property, plant and equipment and land use rights, which had an aggregate carrying amount of RMB158.8 million and RMB167.0 million as of 31 December 2020 and 2019, respectively.

## FOREIGN EXCHANGE EXPOSURE

The Group conducts business primarily in the PRC with most of its transactions denominated and settled in Renminbi. The Group has entered into certain cross-currency swap contract to mitigate the effect of its foreign currency exposure arising from the bank loans denominated in USD. The Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

## MATERIAL ACQUISITION AND DISPOSAL

During the year ended 31 December 2020 and up to the date of this report, the Group did not perform any material acquisition or disposal of subsidiaries and associates, except for those mentioned in our announcement dated 31 December 2020 and also as described below.

## EVENT AFTER THE REPORTING PERIOD

### Investment Framework Agreement

On 31 December 2020, Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) ("**Weihai Rensheng**"), Weihai Haoyang Health Technology Company Limited* (威海浩洋健康科技有限公司) ("**Weihai Haoyang**", having 43.35% equity interest in Weihai Rensheng), Mr. Miao Qizhuang* (苗其壯先生)("**Mr. Miao**", having 13.99% equity interests in Weihai Rensheng and 98.9% equity interests in Weihai Haoyang) and Henan Fusen entered into an investment framework agreement ("**Agreement**") for the acquisition of 34% of the equity interest of Weihai Rensheng by Henan Fusen from Weihai Haoyang.

Pursuant to the Agreement, Henan Fusen has agreed to (1) enter into a loan agreement, pursuant to which Henan Fusen will lend to Weihai Haoyang the loan with a principal amount of RMB90,000,000; and (2) enter into the sale and purchase agreement, pursuant to which Henan Fusen will conditionally acquire and Weihai Haoyang will conditionally sell 34% of the equity interest of Weihai Rensheng at a consideration of RMB153,000,000. The loan of RMB90,000,000 has been lent to Weihai Haoyang subsequent to year end. The acquisition of equity interests of Weihai Haoyang is yet to complete.

Weihai Rensheng is principally engaged in the production and sale of proprietary Chinese medicine in the PRC. The Group considers the Agreement an opportunity for the Group to leverage on the experience and expertise of Weihai Rensheng in the sales and production of proprietary Chinese medicine in the PRC to expand the existing product offering of the Group.

Upon completion of the sale and purchase agreement, Weihai Rensheng will be owned as to approximately 35.9%, 34.0%, 15.8% and 14.3% by Weihai Haoyang, Henan Fusen, Mr. Miao and the senior management of Weihai Rensheng, respectively.

Save as disclosed in this report, as at the date of this report, the Group has no significant events after the Reporting Period required to be disclosed.

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

# Biographical Details of Directors, Senior Management and Company Secretary

## DIRECTORS OF THE COMPANY

### Executive Directors

**Mr. Cao Changcheng (曹長城先生)**, aged 64, is an executive Director, the chairman of the Board and the founder of the Group. Mr. Cao is one of the Controlling Shareholders of the Company (as defined in the Listing Rules) and also a director of a wholly-owned subsidiary of the Company, Henan Fusen. Mr. Cao is primarily responsible for the formulation of overall business development strategy and major business decision of the Group. He has over 20 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Cao was the general manager of Henan Xichuan Pharmaceutical Group Company Limited (河南淅川製藥集團有限公司) ("**Henan Xichuan Pharmaceutical**"), a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from November 2000 to October 2003.

Under the leadership of Mr. Cao, Henan Fusen successfully developed Shuanghuanglian Oral Solutions and Shuanghuanglian Injections and they have become our major products since 2004. Henan Fusen also obtained the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Mr. Cao's innovation also led to the establishment of the Henan Province Microencapsulation Technology Research Centre (河南微囊化藥物工程技術研究中心) in 2012 and Henan Fusen was recognised by the Henan Department of Science and Technology (河南省科學技術廳) as a High New Technology Enterprise (高新技術企業) in 2015.

Mr. Cao obtained a graduation certificate of the major of Economic Administration from Northeastern University (東北大學) in July 2000 through long distance learning. He was awarded a Certificate of the completion of Advance Course in Business Development Strategy and Innovative Operation Skills (企業戰略與創新經營高級研修班) by Tsinghua University (清華大學) in October 2014 through long distance learning.

Mr. Cao has been a member of the 12th People's Congress of Henan Province (第12屆河南省人民代表大會委員) since January 2013.

Mr. Cao is the father of Mr. Cao Zhiming who is an executive Director and the chief executive officer of the Company.

**Mr. Hou Taisheng (侯太生先生)**, aged 58, is an executive Director of the Company. Mr. Hou joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Hou is primarily responsible for general management and overseeing the sales and marketing of the Group. He has over 19 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Mr. Hou was the deputy general manager of Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from March 2002 to October 2003.

He was also a sales representative in charge of the sales and marketing of our products in Nanyang city and Henan Province from 2003 to 2007. Under the leadership of Mr. Hou, Henan Fusen has developed extensive nationwide sales and distribution network covering each of the 31 provinces, autonomous regions and centrally administered municipalities in the PRC since 2016.

Mr. Hou obtained an Associate Degree of Business Administration from the Party School of the Henan Provincial Committee of CPC (河南省委黨校) in July 1982 through long distance learning.

**Mr. Chi Yongsheng (遲永勝先生)**, aged 59, is an executive Director. Mr. Chi joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Chi is primarily responsible for overseeing the financial operation of the Group. He has over 22 years of experience in the pharmaceutical industry in PRC. Prior to joining the Group, Mr. Chi worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1995 to October 2003. Mr. Chi was responsible for the audit work in Henan Xichuan Pharmaceutical and he was promoted to manage the finance department in 2000.

Mr. Chi obtained an Associate Degree of Business Management from the Henan Agricultural University (河南農業大學) in July 1994 through an off-the-job learning programme.

**Ms. Meng Qingfen (孟慶芬女士)**, aged 56, is an executive Director. Ms. Meng joined the Group in October 2003 as a director and vice president of Henan Fusen. Ms. Meng is primarily responsible for overseeing the research, development and quality control of our products and the production of the Group. She has over 26 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Ms. Meng worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1988 to October 2003 with her latest position as deputy general manager. Ms. Meng was the supervisor of the production line for extraction of traditional Chinese medicine (提取車間) in 1993 and she was also in charge of the quality control system in 1998 during her time in Henan Xichuan Pharmaceutical. Ms. Meng has been the head of the Group's production house since 2003 responsible for ensuring the safety and quality of the Group's products. With her help, Henan Fusen was able to obtain the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Ms. Meng has also been appointed as the head of our Group's research and development team in 2013 to strengthen our research and development effort and broaden our product offering.

Ms. Meng obtained a Diploma in Animal Husbandry from Zhengzhou Animal Husbandry and Veterinary College (鄭州畜牧獸醫專科學校) in July 1986 and an Associate Degree of Pharmacy from the Pharmaceutical College of Henan University (河南大學藥學院) in July 2006 through long distance learning.

**Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) (曹智銘先生) (前稱曹篤篤先生)**, aged 35, is an executive Director and the chief executive officer of the Company who is primarily responsible for the general management, supervising day-to-day operation, overseeing the investor relations and advising on corporate strategy of the Group. Mr. Cao Zhiming joined the Group in January 2013 as a Director of the Company and in March 2013 as an executive assistant of the chairman of the board of Henan Fusen. He has over 10 years of working experience in securities and corporate finance. Mr. Cao Zhiming's previous working experience includes the following:

| Name of companies | Principal business activities | Latest position | Period of services |
|---|---|---|---|
| Essence International Securities (Hong Kong) Limited (安信國際證券(香港)有限公司) | Dealing in and advising on securities | Licensed representative (dealing in securities and futures contracts) | July 2012– February 2013 |
| Haitong International Securities Group Limited (海通國際證券集團有限公司) (stock code: 665) | Dealing in and advising on securities; leveraged foreign exchange trading | Licensed representative (dealing in securities and futures contracts) | April 2010– June 2012 |
| Haitong Securities (HK) Brokerage Limited (海通證券(香港)經紀有限公司) | Dealing in and advising on futures contracts and securities | Licensed representative (dealing in securities and futures contracts) | March 2010– May 2011 |
| Okasan International (Asia) Limited (岡三國際(亞洲)有限公司) | Dealing in futures contracts and securities; advising on securities and corporate finance; asset management | Licensed representative (dealing in securities and futures contracts) | March 2009– December 2009 |
| Core Pacific-Yamaichi Securities (H.K.) Limited (京華山一國際(香港)有限公司) | Dealing in and advising on securities; advising in corporate finance; providing automated trading service; asset management | Licensed representative (dealing in securities and futures contracts) | August 2007– February 2009 |

Mr. Cao Zhiming obtained a Bachelor of Business Administration in Business Economics from the City University of Hong Kong (香港城市大學) in November 2007 and a master degree of Science in Finance from the Chinese University of Hong Kong (香港中文大學) in November 2012. Mr. Cao Zhiming had also obtained licenses for carrying on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO for his employers during the period from August 2007 to February 2013.

Mr. Cao Zhiming is the son of Mr. Cao Changcheng who is our executive Director and the chairman of the Board.

## Independent Non-Executive Directors

**Mr. Sze Wing Chun (施永進先生)**, aged 44, was appointed as our independent non-executive Director on June 14, 2018. Mr. Sze obtained a Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 1998. He has been a member of the Hong Kong Institute of Certified Public Accountants since October 2002 and became a fellow member in May 2017. He has also been a fellow member of the Association of Chartered Certified Accountants since October 2006. Mr. Sze worked at Deloitte Touche Tohmatsu, an international CPA firm from September 1998 to November 2011 and worked at Crowe Horwath (HK) CPA Limited, an international CPA firm from February 2012 to February 2017. He is currently a director of Ascenda Cachet CPA Limited, a CPA firm in Hong Kong. Mr. Sze has over 20 years of experience in auditing, accounting and taxation.

Mr. Sze is currently an independent non-executive director of Pangaea Connectivity Technology Limited (listed on the Main Board of the Stock Exchange, stock code: 1473),

**Mr. Lee Kwok Tung Louis (李國棟先生)**, aged 53, was appointed as an independent non-executive Director on 15 April 2019. Mr. Lee graduated from Macquarie University in Australia with a Bachelor of Economics in 1992. Mr. Lee was admitted as a Certified Practising Accountant of the CPA Australia in June 1996 and a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants ("**HKICPA**") in October 1999. Mr. Lee is currently a Fellow Certified Practising Accountant of the CPA Australia and a Fellow Certified Public Accountant of HKICPA. Mr. Lee has accumulated and possessed extensive experience with unlisted groups, listed groups and professional firms in finance, accounting and auditing since 1993.

Mr. Lee is currently an independent non-executive director of CGN Mining Company Limited (listed on the Main Board of the Stock Exchange, stock code: 1164), Windmill Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1850), Redsun Properties Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1996), Tus International Limited (listed on the Main Board of the Stock Exchange, stock code: 872) and Zonbong Landscape Environmental Limited (listed on the Main Board of the Stock Exchange, stock code: 1855).

Mr. Lee was also an independent non-executive director of Winto Group (Holdings) Limited (listed on GEM of the Stock Exchange, stock code: 8238) from January 2015 to May 2016, Zhong Ao Home Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1538) from November 2015 to July 2017, Worldgate Global Logistics Ltd. (listed on GEM of the Stock Exchange, stock code: 8292) from June 2016 to June 2019 and China Singyes New Materials Holdings Limited (listed on GEM of the Stock Exchange, stock code: 8073) from June 2017 to December 2019.

**Mr. Ho Ka Chun (何家進先生) (resigned on 10 July 2020)**, aged 40, was appointed as an independent non-executive Director on 14 June 2018. Mr. Ho has over 12 years of experience in professional auditing and is experienced in investors relationship management, mergers & acquisitions and overseas financing. Mr. Ho is currently an independent non-executive director of Bao Shen Holdings Limited (listed on GEM of the Stock Exchange, stock code: 8151) and Edensoft Holdings Limited (listed on the Main Board of the Stock Exchange stock code: 1147). Mr. Ho's previous working experiences include the following:

| Name of companies | Principal business activities | Latest position | Period of services |
|---|---|---|---|
| China Tontine Wines Group Limited (listed on the Main Board of the Stock Exchange, stock code: 389) | Manufacturing and sale of wine products | Chief financial officer | January 2016–July 2018 |
| Deloitte Touche Tohmatsu Certified Public Accountants LLP Guangzhou Branch | Professional accounting and auditing services | Senior manager | January 2013–December 2015 |
| Deloitte Touche Tohmatsu | Professional accounting and auditing | Manager | August 2004–December 2012 |

Mr. Ho obtained a Bachelor of Business Administration (Professional Accountancy) from the Chinese University of Hong Kong (香港中文大學) in 2004. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ho tendered his resignation as an independent non-executive Director with effect from 10 July 2020 due to his other personal commitments. He also ceased to be the member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company upon his resignation. Mr. Ho has confirmed that he has no matter relating to his resignation that needs to be brought to the attention of the Shareholders or the Stock Exchange.

**Dr. To Kit Wa (杜潔華博士)**, aged 47, obtained a Bachelor of Science in General Biology in 1996, a Master of Philosophy in 2002 and a Doctor of Philosophy in Cancer Biology in 2007 from The University of Hong Kong. She also received the Certificate and the Diploma of Marketing from HKU School of Professional and Continuing Education in 2000 and 2001 respectively.

Dr. To served as an account executive at ACI Group (Hong Kong) Limited from 1996 to 1998. She was a marketing executive at Tak Hing Manufacturing Company Limited from 1999 to 2000 and rejoined as an executive secretary from 2003 to 2004. She then worked as a senior secretary in Belief Wealth Management Co. in 2009. Thereafter, Dr. To joined Winsor (Hong Kong) Limited as an assistant manager to supervise a group of research assistants for the daily operation of a laboratory from 2010 to 2013. Dr. To conducted research in the Laboratory of Biomedical Imaging and Signal Processing in the Department of Electrical and Electronic Engineering, The University of Hong Kong from 2015 to 15 June 2020.

**Mr. Li Zhen (李鎮先生)**, aged 43, was appointed as the chief financial officer of the Company on 18 April 2019. He is responsible for overseeing the Group's overall financial accounting.

Mr. Li is a member of the Chinese Institute of Certified Public Accountants and Association of Chartered Certified Accountants. He obtained a Bachelor of Management in Accountancy from Central University of Finance and Economics (中央財經大學). Mr. Li has over 19 years of experience in accounting, auditing and finance. He started his career at KPMG Huazhen from September 2000 to April 2010 with his last position as Senior Manager. He had been the financial controller in Beijing BOE Vision-Electronic Technology Company Limited (北京京東方視迅科技有限公司) and the chief financial officer in Shenzhen Aishide Company Limited (深圳市愛施德股份有限公司). He had served as the chief financial officer in Evercare (Beijing) Holding Group Company Limited (伊美爾(北京)控股集團股份公司) from May 2016 to July 2017. Prior to joining our Group in April 2019, he served as an assistant financial controller in Dr. Peng Telecom & Media Company Limited (鵬博士電信傳媒集團股份有限公司) from July 2017 to April 2018.

**Mr. Fu Jiancheng (付建成先生)**, aged 62, is the vice president of the Company. Mr. Fu joined the Group in October 2003 as a supervisor of Henan Fusen. Mr. Fu is primarily responsible for the human resources and administrative management of the Group. He has over 17 years of experience in the pharmaceutical industry in PRC.

Mr. Fu obtained an Associate Degree of Sales Management from the Henan Institute of Coal Industry Management (河南煤炭管理幹部學院) in July 1980 through long distance learning.

## COMPANY SECRETARY

**Mr. Wong Tik Man (王迪民先生)**, aged 40, was appointed as our company secretary on 29 January 2021. Mr. Wong is responsible for overseeing the compliance and company secretarial matters of our Group. is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a Bachelor of Commerce from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 2005.

Mr. Wong has over 15 years of experience in accounting, auditing and company secretarial matters. Prior to joining the Company, Mr. Wong worked for various organisations and audit firms, including Ta Yang Group Holdings Limited (stock code: 1991) from April 2018 to December 2019 as a financial controller. He is currently a director of Windward CPA Limited.

**Mr. Pang Wai Ching (彭偉正先生) (resigned on 29 January 2021)**, aged 32, and was appointed as our company secretary on 18 April 2019. He is responsible for overseeing the compliance and company secretarial matters of our Group. Mr. Pang received a Bachelor of Business Administration in Accountancy from City University of Hong Kong in July 2010. He was admitted as a member of the HKICPA in March 2015. Mr. Pang joined KPMG in October 2010 and left the firm in November 2014, with his last position held as an assistant manager. He served as assistant manager of group internal audit department of Melco Services Limited between November 2014 and September 2015. Mr. Pang rejoined KPMG in October 2015 and left the firm in July 2017 with his last position held as a manager. He also worked as a financial controller of Golden Bright Hong Kong Group Limited from July 2017 to April 2018. Mr. Pang has been the company secretary of Orange Tour Cultural Holding Limited (stock code: 8627), a company listed on GEM, since June 2018. In addition, Mr. Pang has been appointed as an independent non-executive director of China Shenghai Food Holdings Company Limited (stock code: 1676), a company listed on the Main Board, since October 2019. He is currently the director of Techson Management Limited, a company primarily engaged in accounting and training services.

Mr. Pang Wai Ching was the Company Secretary of the Group until his resignation with effect from 29 January 2021.

# Corporate Governance Report

## CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

The Company has adopted the principles and code provisions stated in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules, save for the F.1.1 of the CG Code and please refer to the paragraph headed "Company Secretary" on page 31 of this report for details. Since the date of the listing of the Shares (the "**Listing**") on the Main Board of the Stock Exchange on 11 July 2018 (the "**Listing Date**") and up to the date of this report, the Company has fully complied with CG Code, except for the matters disclosed in our announcement dated 13 March 2020 and also disclosed in section "Connected Transactions" of the Report of Directors.

## THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealing as set out in the Model Code during the year ended 31 December 2020.

## NON-COMPETITION UNDERTAKING

During the year ended 31 December 2020, none of the Directors nor their respective associates (as defined in the Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

Each of Mr. Cao Changcheng and Full Bliss Holdings Limited (collectively referred to as the "**Controlling Shareholders**"), has confirmed to the Company of his or its compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 14 June 2018 (the "**Deed of Non-competition**"). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition had been complied with by the above-mentioned parties and duly enforced for the year ended 31 December 2020.

## ROLE AND FUNCTION OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company overseeing the Group's businesses, strategic decisions, risk management, internal control systems and performance. The Board is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors make decisions objectively in the interests of the Company and its Shareholders.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters 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.

## DIRECTORS' RESPONSIBILITIES

The Board takes the responsibility to oversee all major matters of the Company, including but not limited to formulating and approving the overall strategies and business performance of the Company, monitoring the financial performance and internal control as well as overseeing the risk management system of the Company and monitoring the performance of senior executives. The Board is also responsible for performing the corporate governance duties including the development and reviewing the Company's policies and practices on corporate governance.

Liability insurance for the Directors and senior management officers of the Company was maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties.

The Directors acknowledge their responsibility for preparing the Company's consolidated financial statements for the year ended 31 December 2020. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## COMPOSITION

The composition of the Board as at the date of this report is set out as follows:

### Executive Directors

Mr. Cao Changcheng *(Chairman)*
Mr. Cao Zhiming
Mr. Hou Taisheng
Ms. Meng Qingfen
Mr. Chi Yongsheng

### Independent Non-executive Directors

Mr. Sze Wing Chun
Mr. Lee Kwok Tung Louis
Mr. Ho Ka Chun (resigned on 10 July 2020)
Dr. To Kit Wa (appointed on 13 August 2020)

Biographical details of the Directors and the relationship between the Directors are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report.

The proportion of independent non-executive Directors complies with the requirement as set out in the Rules 3.10(1) and (2), and 3.10A of the Listing Rules whereby independent non-executive Directors of a listed issuer represent at least one-third of the board of directors. The three independent non-executive Directors represent one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. With the various experience of both the executive Directors and independent non-executive Directors and the nature of the Group's business, the Board considered that the Directors have a balance of skills and experience for the business of the Group.

Mr. Cao Changcheng is the father of Mr. Cao Zhiming. Save as disclosed, there was no financial, business, family or other material relationship among the Directors during the year ended 31 December 2020.

The Company has received an annual confirmation of independence from each independent non-executive Director and the Company considers such Directors to be independent in accordance with the criteria set out in Rule 3.13 of the Listing Rules.

## CHAIRMAN AND CHIEF EXECUTIVE

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. The positions of chairman and chief executive officer of the Company are held by Mr. Cao Changcheng and Mr. Cao Zhiming, respectively. The chairman provides leadership for the Board and is responsible for formulation of overall business development strategy and major business decision of the Group. The chief executive officer focuses on general management and day-to-day operation, oversees the investor relations and advise on corporate strategy of the Group. Their respective responsibilities are clearly defined and set out in writing.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

On 10 July 2020, Mr. Ho Ka Chun resigned as an independent non-executive Director and ceased to be the member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee due to his other personal commitments. On 13 August 2020, Dr. To Kit Wa ("**Dr. To**") was appointed by the Board as an independent non-executive Director, a member of each of the Audit Committee, the Nomination Committee and Remuneration Committee. Dr. To has entered into a service contract with the Company for an initial term of three years commencing from 13 August 2020 and ending on 12 August 2023 subject to re-election at the annual general meeting of the Company.

Save for Mr. Lee Kwok Tung Louis and Dr. To, each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company on 14 June 2018 for an initial term of three years commencing from the Listing Date on 11 July 2018 and ending on 10 July 2021. The service contracts of the Directors are subject to termination in accordance with their respective terms and may be renewed in accordance with the memorandum and articles of association of the Company and the applicable Listing Rules.

According to article 108 of the Company's memorandum and articles of association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Each of Mr. Cao Zhiming, Ms. Meng Qingfen, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa will retire from office as Directors at the forthcoming annual general meeting to be held on Wednesday, 26 May 2021 ("**AGM**"), Mr. Cao Zhiming, Ms. Meng Qingfen, Mr. Lee Kwok Tung Louis, and Dr. To Kit Wa, being eligible, will offer themselves for re-election at the forthcoming AGM.

According to the Listing Rules and the board diversity policy (the "**Board Diversity Policy**") adopted by the Company on 14 June 2018, the Nomination Committee will, among other things, undertake the nomination and selection of the independent non-executive Director candidates on the completion of his specified terms, and make relevant recommendations to the Board.

Furthermore, when changes to the members or composition of the Board or its Committees are required or when casual vacancies arise, the Nomination Committee shall adhere to the principles stated in the Board Diversity Policy and take into account the existing composition of the Board and its Committees, as well as the business requirements of the Group, and nominate potential candidates by reference to their capacity and the selection criteria to the Board for approval.

Mr. Lee Kwok Tung Louis and Dr. To Kit Wa has met the independence criteria under the Listing Rules. Moreover, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa has given confirmation of independence to the Company. With due consideration on the above factors, the Board believes that Mr. Lee Kwok Tung Louis and Dr. To Kit Wa are independent.

Biographical details of Mr. Cao Zhiming, Ms. Meng Qingfen, Mr. Lee Kwok Tung Louis, and Dr. To Kit Wa, are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report. Based on their diversified background including, but not limited to, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, length of service and other qualities of Directors, the Board believes that (i) Mr. Cao Zhiming, Ms. Meng Qingfen, Mr. Lee Kwok Tung Louis, and Dr. To Kit Wa, can contribute to the diversity of the Board; and (ii) their expertise will enable them to fulfill their roles as executive Director or independent non-executive Director effectively, and provide useful and constructive opinion and make contribution to the Board and the development of the Company.

Having considered the above aspects and in view of the contribution that Mr. Cao Zhiming, Ms. Meng Qingfen, Mr. Lee Kwok Tung Louis, and Dr. To Kit Wa, are able to make to the Board, their re-election will be in the best interests of the Company and its shareholders as a whole.

At the AGM, separate ordinary resolutions will be put forward to the Shareholders in relation to the proposed re-election of Mr. Cao Zhiming and Ms. Meng Qingfen as an executive Director and Mr. Lee Kwok Tung Louis and Dr. To Kit Wa as an independent non-executive Director, respectively.

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

In compliance with the code provision A.6.5 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they keep abreast of the current requirements. The Company has arranged regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

The Group has also provided reading materials including the CG Code, the Inside Information Provision (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to all Directors to develop and refresh the Directors' knowledge and skills.

The Group continuously updates the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, so as to ensure that the Directors are aware of their responsibilities and obligations as well as to maintain good corporate governance practices.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the year ended 31 December 2020 are summarised as follows:

| Directors | Type of training (Note) |
|---|---|
| **Executive Director** | |
| Mr. Cao Changcheng | A,B |
| Mr. Cao Zhiming | A,B |
| Mr. Hou Taisheng | A,B |
| Ms. Meng Qingfen | A,B |
| Mr. Chi Yongsheng | A,B |
| **Independent Non-executive Director** | |
| Mr. Sze Wing Chun | A,B |
| Mr. Lee Kwok Tung Louis | A,B |
| Mr. Ho Ka Chun (resigned on 10 July 2020) | A,B |
| Dr. To Kit Wa (appointed on 13 August 2020) | A,B |

Notes:

Types of training

A: Attending training sessions, including but not limited to, briefing, seminars, conferences, forums and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications relating to the latest development of the Listing Rules, other applicable regulatory requirements and directors' duties and responsibilities

## BOARD COMMITTEES

The Board has established three Board committees, namely, the audit committee (the "**Audit Committee**"), the nomination committee (the "**Nomination Committee**") and the remuneration committee (the "**Remuneration Committee**"), for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at "www.hkexnews.hk" and the Company's website at "www.fusenpharma.com". All Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out above.

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 Company established the Audit Committee on 14 June 2018 with written terms of reference (which had been amended and restated with effect from 1 January 2019) in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three independent non-executive Directors, Mr. Sze Wing Chun (being the chairman of the Audit Committee who has a professional qualification in accountancy), Mr. Lee Kwok Tung Louis and Dr. To Kit Wa (Mr. Ho Ka Chun resigned and Dr. To Kit Wa was appointed as a member of the Audit Committee on 13 August 2020). The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management system of the Group, to oversee the audit process, to develop and review the Group's policies and to perform other duties and responsibilities as assigned by the Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors. The written terms of reference of the Audit Committee are posted on the Stock Exchange's website and on the Company's website.

The work performed by the Audit Committee during the financial year ended 31 December 2020 included the following:

- The Group's consolidated financial statements for the year ended 31 December 2020 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2020 comply with applicable accounting standards and the Listing Rules and that adequate disclosures have been made;

- reviewing the accounting principles and practices adopted by the Group;

- reviewing the unaudited consolidated financial statements for the year ended 31 December 2020, and

- reviewing the unaudited financial results announcement of the Group for the year ended 31 December 2020.

### Nomination Committee

The Company established the Nomination Committee on 14 June 2018 with written terms of reference (had been amended and restated with effect from 1 January 2019) in compliance with the CG Code. The Nomination Committee comprises an executive Director, Mr. Cao Changcheng, (being the chairman of the Nomination Committee) and two independent non-executive Directors, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa (Mr. Ho Ka Chun resigned and Dr. To Kit Wa was appointed as a member of the Nomination Committee on 13 August 2020). The primary duties and responsibilities of the Nomination Committee are to review and assess the composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on appointment of new Directors. The nomination policy of the Company aims to lay down a formal, considered and transparent nomination procedure for new members of the Board to ensure orderly succession for appointments and that the Board consists of members who are balanced in skill, experience and diversity in perspectives and satisfy the business requirements of the Company.

In selecting new directors or filling casual vacancies, the Nomination Committee will consider the candidate's professional qualification and skill, integrity and reputation, achievement and experience in the industry in which the Company operates, as well as his time commitment. The Nomination Committee will nominate candidates it considers appropriate with reference to the standards of the Board Diversity Policy, including but not limited to, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, lengths of service, other qualities and factors relating to its own business model and specific needs from time to time. The ultimate decision of all Board appointments should be based on meritocracy and the likely contributions that the selected candidates will bring to the Board. For details of the Board Diversity Policy, please refer to the paragraph headed "Board Diversity Policy" in this section.

According to the Company's nomination procedure, a Nomination Committee meeting will be convened and Board members will be invited to nominate candidates, while candidates recommended by senior management or controlling shareholder of the Company will also be considered. Suitable candidates will then be recommended by the Nomination Committee to the Board for consideration and approval. Directors appointed by the Board will retire and are eligible for re-election at the forthcoming annual general meeting after their appointment. A circular containing information of the directors to be re-elected will be sent to shareholders for their reference in relation to their voting as required by Rule 13.51(2) of the Listing Rules.

The work performed by the Nomination Committee during the year ended 31 December 2020 included the following:

- reviewing the structure, size, composition and diversity of the Board;
- assessing the independence of the independent non-executive Directors;
- considering the qualification of Dr. To Kit Wa as an independent non-executive Director and making recommendation to the Board on the appointment; and
- considering the qualifications of the retiring Directors, namely Mr. Cao Zhiming, Ms. Meng Qingfen, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa, standing for re-election at the forthcoming AGM.

The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board was maintained. For details of the appointment and re-election of Directors, please refer to paragraph headed "Appointment and Re-election of Directors" in this section.

### Remuneration Committee

The Company established the Remuneration Committee on 14 June 2018 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises two independent non-executive Directors, Mr. Lee Kwok Tung Louis (being the chairman of the Remuneration Committee) and Dr. To Kit Wa (Mr. Ho Ka Chun resigned and Dr. To Kit Wa was appointed as a member of the Remuneration Committee on 13 August 2020) and an executive Director, Mr. Cao Changcheng. The primary duties and responsibilities of the Remuneration Committee are to make recommendations to the Board on the appropriate policy and structure for all aspects for the Directors' and senior management's remuneration. The written terms of reference of the Remuneration Committee are posted on the Stock Exchange's website and the Company's website.

The work performed by the Remuneration Committee since its establishment and up to the date of this report included the following:

- considering the proposed remuneration of Dr. To Kit Wa as an independent non-executive Director;
- reviewing the Company's emolument policy and structure for all Directors and senior management of the Company; and
- determining the policy for the remuneration of executive Directors, assessing performance of executive Directors and approving the terms of executive directors' service contracts.

The Remuneration Committee has reviewed the remuneration packages and emoluments of the Directors and senior management and considered that they are fair and reasonable during the year ended 31 December 2020. No Director nor any of his associates is involved in deciding his own remuneration.

The Remuneration Committee has adopted the manner set out under the code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration package of individual executive Director and senior management.

Details of the Director's remuneration and five individuals with highest emoluments are set out in Notes 9 and 10 to the consolidated financial statements.

## ATTENDANCE RECORDS OF MEETINGS

The Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

Seven Board meetings and three Audit Committee meetings, two Remuneration Committee meetings and two Nomination Committee meetings were held during the year ended 31 December 2020. The individual attendance records of the meetings are set out as follows:

| | No. of meetings attended during the year ended 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | General meeting |
| *Executive Directors* | | | | | |
| Mr. Cao Changcheng | 8/9 | – | 1/1 | 1/1 | 1/1 |
| Mr. Cao Zhiming | 9/9 | – | – | – | 1/1 |
| Mr. Hou Taisheng | 8/9 | – | – | – | 1/1 |
| Ms. Meng Qingfen | 8/9 | – | – | – | 1/1 |
| Mr. Chi Yongsheng | 8/9 | – | – | – | 1/1 |
| *Independent non-executive Directors* | | | | | |
| Mr. Sze Wing Chun | 9/9 | 5/5 | – | – | 1/1 |
| Mr. Lee Kwok Tung Louis | 9/9 | 5/5 | 1/1 | 1/1 | 1/1 |
| Mr. Ho Ka Chun (resigned on 10 July 2020) | 4/9 | 3/5 | 1/1 | 1/1 | 1/1 |
| Dr. To Kit Wa (appointed on 13 August 2020) | 3/9 | 1/5 | N/A | N/A | N/A |

Under the code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. The Directors consider that they have met regularly for the year ended 31 December 2020.

## BOARD DIVERSITY POLICY

The Board recognises and embraces the benefits of having a diverse Board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. The Board also sees diversity as an essential element in maintaining a competitive advantage and contributing to the attainment of the strategic objectives and sustainable development of the Company. Therefore, the Company has adopted a board diversity policy on 14 June 2018 to ensure that the Company will, when determining the composition of the Board, consider board diversity in terms of the selection criteria (the "**Selection Criteria**") based on a range of diversity perspectives including, among other things, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, length of service and other qualities of Directors. All appointments by the Board will be based on meritocracy, and candidates will be considered against the Selection Criteria.

As at the date of this report, the Board comprises eight Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service.

### Company secretary

Mr. Wong Tik Man was appointed as the company secretary of the Company on 29 January 2021. He is an external service provider to the Company and his primary corporate contact person is Mr. Li Zhen, the chief financial officer of the Company, for the purpose of code provision of F.1.1 of the CG code. The biographical details of Mr. Wong are set out under the section headed "Biographical Details of Directors, Senior Management and Company Secretary".

In accordance with Rule 3.29 of the Listing Rules. Mr. Wong has taken no less than 15 hours of relevant professional training during the year ended 31 December 2020.

## CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies and practices on corporate governance and code of conduct applicable to employees and the Directors, reviewing and monitoring training and continuous professional development of the Directors and senior management and the Company's policies and practices on compliance with legal and regulatory requirements, as well as reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## INDEPENDENT AUDITORS' REMUNERATION

During the year ended 31 December 2020, the remuneration paid and payable to the external auditors of the Company, KPMG, in respect of the audit services was as follow:

| Services rendered | Remuneration paid/payable RMB'000 |
|---|---|
| Audit services | 3,800 |

## SHAREHOLDERS' RIGHT

As one of the measures to safeguard Shareholders' interest and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the Stock Exchange's website and the Company's website after the relevant Shareholders' meeting.

### Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary general meetings may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

### Putting Forward Enquiries to the Board

Shareholders may send written enquiries or requests in respect of their rights to the Company's principal business address in Hong Kong.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board continuously supervises the effectiveness of the Company's risk management and internal control system with the assistance of the Audit Committee, so as to protect the Company's assets and the interests of Shareholders. The Company's risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Company's risk management and internal control system on an annual basis and reporting the results to the Audit Committee. In addition to the internal audit function, all employees are accountable for risk management and internal control within their business scope. Business departments actively cooperate with internal control and internal audit functions, report to the management team on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks.

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. In addition, the Company has set up the internal control framework, which relates to business processes such as procurement, sales, human resources and payroll, capital, intellectual property rights, financial reporting and disclosure. The Board has conducted review of the effectiveness of the internal control system of the Company and its subsidiaries and has planned to further develop the risk management and internal control system to ensure its effective operation.

For the year ended 31 December 2020, the Company has collected information and carried out investigations in respect of risk management and internal control issues for its subsidiaries. Save as disclosed in Provision of Financial Assistance to Fusen Chinese Medicine in Report of the Directors of this report, no material deviation in the compliance guidance on risk management and internal controls by the subsidiaries was reported; all subsidiaries have complied with the relevant laws and industry regulations in respect of financial reporting and legal compliance; and no material non-compliance of rules or material litigation risk was reported, nor was there any fraud or corruption issue.

### Internal control on connected transaction

As a general control, the Group maintained a list of connected persons and entities for the monitoring and identification of connected transaction.

In additional, the risk management and internal control of the Group were reviewed by the external professional consultants for the year ended 31 December 2020. Where appropriate, their recommendations are adopted and enhancements to the risk management and internal controls will be made.

The Board and the Audit Committee considered that (i) the risk management and internal control system of the Company was adequate and efficient; and (ii) the resources allocated, staff qualifications and experience in respect of the accounting, internal auditing and financial reporting functions of the Company as well as training programs and budget were adequate and sufficient.

### Independent non-executive directors' view on internal control for connected transactions

The management and independent non-executive Directors will continue monitor connected transactions of the Company. The management and independent non-executive Directors consider that information provided by the Company's management to assist independent non-executive Directors in their annual review of connected transaction is fair and sufficient. The independent non-executive Directors also made regular enquiries upon whether there is any continuing connected transaction exceeding the proposed annual caps to ensure that continuing connected transaction was identified timely. The independent non-executive Directors have not encountered any challenges or difficulties in their annual review of connected transaction of the Company.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted shareholders communication policy with the objective of ensuring that the Shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

According to CG Code Provision E.1.2, the chairman of the Board and all board committees should attend the annual general meeting. The chairman of the board, along with all board committees, have attended the annual general meeting held on 30 June 2020.

The Company has established several channels to communicate with the Shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website and the Company's website;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website;

(iv) annual and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

## CONSTITUTIONAL DOCUMENTS

Since the Listing Date, there was no change to the Company's memorandum and articles of association.

## DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision.

The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;

- the Group has strictly prohibited unauthorised use of confidential or inside information; and

- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the Company Secretary and the head of investor relations of the Company are authorised to communicate with parties outside the Group.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

This is the 2020 Environmental, Social and Governance Report ("**this Report**") released by Fusen Pharmaceutical Company Limited (the "**Group**", the "**Company**", "**we**" or "**us**"; stock code: 01652.HK) to the general public. This is the third Environmental, Social and Governance Report issued by the Company, which covers the period from 1 January 2020 to 31 December 2020 (the "**Reporting Period**"). This Report, prepared under the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), complies with the "comply or explain" principle and represents the disclosure or explanation of the Company's sustainable operation activities for the year ended 31 December 2020 with reference to the Company's actual situation.

## ABOUT FUSEN PHARMACEUTICAL

- **Business Overview**

  As a leading Shuanghuanglian-based cold medicine manufacturer in China, in addition to providing our core product, Shuanghuanglian-based cold medicine, we engage in the research and development, production and sales of various proprietary Chinese medicine and western medicine products for treating cold, fever, gynecological diseases and anemia. Embracing our corporate philosophy, "Health is blessing" and adhering to our service tenet of being dedicated to the public health, we are committed to improving and enhancing the health and life quality of Chinese nationals.

- **Sustainable Development Strategy**

  As a medicine manufacturer and supplier, we believe that ensuring medicine safety and on-going operation is of utmost importance. We take a bottom-up approach, from product quality to actively building a pharmaceutical brand with green and environmental protection concept, to provide safe medicine to consumers. It is our goal to secure the health of Chinese nationals and explore more efficient therapeutic formulation. Besides, maintaining solid and effective cooperation with stakeholders is an important factor for the Company's sustainable development. We focus on providing consumers with quality medicine and sincere service as well as providing employees with a safe and comfortable working environment, fair and open career development opportunities and a comprehensive remuneration system, through which their legal rights are protected. Close cooperation with suppliers gives rise to a green supply chain system and a win-win situation. Also, the Company actively responds to the opinions and suggestions of other interest groups such as government authorities and community groups. Strongly advocating social and community activities and paying attention to environmental protection, the Company establishes a win-win development relationship with society. A sound environmental, social and governance structure is of great importance to the development of the Company. In addition to its commitment to pursue growth in business results, the Company also seeks constant perfection in environmental protection, social responsibility and corporate governance. Meanwhile, the Company aims at improving its operation transparency so as to realise and enhance social responsibility.

- **Communication with Stakeholders**

  The confirmed stakeholders of the Company mainly include employees, consumers, suppliers, distributors, shareholders and investors, government and market regulators, and in broader terms, communities and the general public. To facilitate a better understanding of the performance of the Company's social responsibility, diversified communication channels, including official WeChat account, official website, email account, annual general meeting and extraordinary general meeting etc., have been established and optimised continuously for the stakeholders. The Company will continue to optimise its communication platforms and mechanism, collect opinions and suggestions from, and communicate with stakeholders in respect of the environment, society and governance issues. We believe that considering opinions from stakeholders will allows us to assess the Company's performance in respect of the environment, society and governance in a more objective and comprehensive way, thereby promoting a sustainable and healthy development of the Company and contributing to the positive development of the wider society.

## ENVIRONMENT

The Company strictly adheres to various national and local laws and regulations such as the *Environmental Protection Law of the People's Republic of China*. On the basis of extensive understanding of and active compliance with the national environmental protection laws and regulations, we have taken initiatives to actively establish system and formulate strategy in respect of environmental protection. We strive to promote the sustainability of environment and society by implementation of a series of environmental protection measures.

- **Emission Reduction**

  As a responsible corporate citizen, we strictly comply with the relevant laws and regulations in respect of exhaust gas, waste water and solid waste promulgated by the state and local official environmental protection authorities, including but not limited to requirements under *Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China* and *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes*. We strive to prevent and deal with the emission of exhaust gas and waste water and the disposal of solid waste directly or indirectly relating to manufacturing and operation activities to effectively protect the environment while developing our business. The Company has established an environmental management account to conduct monthly inspections on environmental management work such as boiler monitoring, boiler equipment maintenance, sewage discharge, and environmental accidents. In August 2020, we have obtained the new *Pollutant Discharge Permit* (《排污許可證》) issued by the Ministry of Ecology and Environment of the People's Republic of China and printed by the Nanyang City Ecological Environment Bureau of Henan Province to regulate the emission of various pollutants such as air pollutants and water pollutants. During the Reporting Period, there was no accident regarding environmental pollution by the Company.

  Emissions from the Company's production process mainly include:

  — emission of exhaust gas: nitrogen oxides ($NO_x$), sulfur oxides ($SO_x$), particulate matter (PM)

  — emission of waste water: major pollutant represents chemical oxygen demand (COD)

  — disposal of solid waste

### Emission of Exhaust Gas

Exhaust gas generated by the Company mainly arises from the process of waste water treatment and manufacturing. In 2020, we issued the *Environmental Protection Management System* (《環境保護管理制度》), which stipulates that air pollutants generated by the Company during the production and the transfer and storage of volatile materials as well as the treatment of construction dust at various construction sites shall be in compliance with the *Comprehensive Emission Standard for Air Pollutants (GB37823-2019)* (《大氣污染物綜合排放標準(GB37823–2019)》), and the concentration of air pollutants discharged by boilers meets the *Emission Standard of Air Pollutants for Boiler (GB13271-2014)* (《鍋爐大氣污染物排放標準(GB13271–2014)》). For the year ended 31 December 2020, the Company's total exhaust gas emission was 50,839,200 cubic metres, representing 788.74 cubic metres of gas emission for each RMB10,000 of output value in average. Emissions of each element are illustrated as below:

| Types of element | Nitrogen oxides ($NO_x$) | Sulfur oxides ($SO_x$) | Particulate matter (PM) | Total |
|---|---|---|---|---|
| Emission (tons) | 1.17 | 0.05 | 0.18 | 1.40 |

In addition, we use natural gas, which is a relatively clean fuel, to control air pollutants such as $SO_2$ and smoke generated by fuel combustion from the source, and gasify the gas before use for clean utilisation; we also adopt NBR low-nitrogen clean combustion technology to minimise air pollutants. At the same time, the Company commissions a third-party inspection agency with relevant qualifications to conduct exhaust gas detection for factors such as $SO_2$, $NO_x$ and PM on a quarterly basis to continuously monitor its exhaust gas emissions.

### Emission of Greenhouse Gas

The Company's emission of greenhouse gas mainly arises from usage of fuel (coal, oil, natural gas) as well as electricity and steam converted from fossil fuel. For the year ended 31 December 2020, the Company's total greenhouse gas emission was zero ton.

### Emission of Waste Water

Waste water generated by the Company mainly arises from the cleaning of materials and equipment during the production. Our *Environmental Protection Management System*(《環境保護管理制度》) stipulates that the discharged sewage from each production plant is stored and treated in sewage station through the special sewage network, and the treatment standard of sewage is in accordance with the *Discharge standard of water pollutants for pharmaceutical industry Chinese traditional medicine category (GB 21906-2008)* (《中藥類製藥工業水污染物排放標準(GB 21906–2008)》). At the same time, the Company has formulated a management system of sewage treatment station and the duties and operating procedures of sewage treatment related positions, and conducts daily operation inspection and maintenance for the main equipment of the sewage treatment station to ensure its normal operation. In addition, we conduct step-by-step treatment of waste water, and commission a third-party inspection agency to monitor external waste water at the waste water monitoring point of the main outfall of the sewage treatment station on a quarterly basis. It is strictly prohibited to discharge of untreated or treated but substandard waste water. Discharging waste liquid into pools, manholes and garbage dumps prohibited for the purpose of avoiding pollution of the surface water system. For the year ended 31 December 2020, total waste water discharged by the Company was 137,900 tons and there was no record of exceedance of discharge standard of waste water.

**Disposal of Solid Waste**

Solid waste mainly arises from the general rubbish produced in offices and waste products from workshops. According to the *Environmental Protection Management System* (《環境保護管理制度》) of the Company, the waste shall be stored in a designated place according to the classification of recyclables and non-recyclables. Toxic and harmful waste must be stored separately in covered or completely closed containers to prevent re-contamination, and hazardous waste must be stored in special warehouse. The storage of flammable waste should pay comply with fire prevention measures and fire-fighting equipment should be set up when necessary. In addition, the transportation and disposal of the Company's hazardous waste are carried out by qualified suppliers, and we have signed a hazardous waste disposal service contract with the supplier. In 2020, the Company generated 0.03 ton of hazardous waste and 365 tons of non-hazardous waste in total.

- **Resources Utilisation**

  Our production, operation and employee's living involve resource consumption. Resources consumed by the Group in the production process primarily include water, electricity, steam, coal and natural gas, etc., which are mainly purchased externally. In order to enhance resource management, reduce resource wastage and enhance efficiency in usage of resources, the Company has formulated the *Energy Management System* (《能源管理制度》) in accordance with the national energy policies and energy management standards and with reference to the actual situation of production and material consumption, which is applicable to all departments and staff quarters, under which refined management for electricity, water, gas and energy consumption has been implemented. Meanwhile, as required by the *Energy Management System*, a two-level management is adopted for the Company and workshops. An energy conservation and management leadership team has been set up at the Company level as the management team for the Company's energy conservation and management; while energy conservation managers have been designated to workshops and related departments. By incorporating energy management into performance assessment, setting up corresponding reward and punishment scheme, the production department with low energy utilisation rate will be subject to quota management and more effort will be devoted to auditing work to establish an energy management network across the Company.

  As required by the *Energy Management System*, the production department of the Company should make reasonable adjustments to the production of the Company by adopting centralised production model for heavy electricity consuming equipment and strictly controlling operation hours to increase mechanical loading rate and reduce unit power consumption. The use of incandescent lights is prohibited in workshops, and we are gradually switching to high-efficiency energy-saving lights. At the same time, the Company prohibits all units and employees from using domestic electric stoves, or unauthorised connection of electric wires, and electricity stealing through external wiring. We check and maintain the main parts and components of electrical facilities and equipment and their test run every month to ensure the normal operation and reasonable energy consumption of related facilities and equipment. On such basis, total electricity consumption by the Company in 2020 was 6,213,200 kwh, representing 96.39 kwh of electricity consumption for each RMB10,000 of output value in average.

Water resource consumed by the Company is mainly used for production and manufacturing, operation and office activities, a small part of which is used for environmental management and emergency and fire service purposes. We do not have any problem with sourcing water that is fit for purpose. In order to reduce waste of water resource, the Company regularly checks and maintains water pipes and taps of the Company to prevent water wastage such as drip and leakage. The measures of water for multiple purposes, such as used water for plant irrigation, were adopted to improve the water reuse rate. Besides, we educated our staff about water conservation. In 2020, total water consumption by the Company was 35,599 tons, representing 0.55 ton of water consumption for each RMB10,000 of output value in average.

In addition, natural gas, steam, coal, diesel and office paper consumption during production process were 2,100,672 cubic metres, 23,888 cubic metres, 0 ton, 4.27 tons and 2.7 tons, respectively. Besides, we used glass, plastics, paper, PVC and aluminum foil as packaging materials and during the Reporting Period, total packaging materials consumption was 2,588.36 tons, representing 0.04 ton of packaging materials for each RMB10,000 of output value in average.

- **Environment and Natural Resources**

  We pay attention to environmental protection, waste discharge and resources conservation, and take concrete management measures in daily operation and management as well as production and manufacturing. The Company implements strict management measures in its production and operation process to identify pollutants discharged and factors that create potential impact to the environment while continuously taking initiatives to mitigate the impact of discharged pollutants to the environment. Moreover, the Company promotes energy efficiency, actively carries out education and training on environmental protection and resource conservation to its employees, and strives to reduce resource waste in order to save resources, energy and water. In case of environmental accident, the Company stipulates that the relevant personnel on the scene of the accident should immediately report to the person in charge of the business unit. Upon receipt of the report, the person-in-charge of the business unit shall, within one hour, report to the environmental protection department and other relevant authorities of the people's government at or above the county level in the place where the accident occurred. After receiving the accident report, the person-in-charge of the business unit to which the accident attributes shall immediately initiate the environmental protection accident emergency plan or take effective measures to prevent the spread of the accident. There is no material adverse impact to the environment and natural resources from our operation activities, yet the Company keeps seeking practical solutions and production methods for preventing pollution, reducing discharge and energy conservation in order to fulfil our social responsibility.

## SOCIETY

- **Employment and Labour Practices**

The Company attaches great importance to protecting the personal rights and interests of employees. Our staff recruitment and treatment standards strictly comply with relevant laws and regulations of the PRC including *the Labour Law of the People's Republic of China*, *the Labour Contract Law of the People's Republic of China and the Social Insurance Law of the People's Republic of China*, adhering to equal employment and providing employees with protection and rights in accordance with the law. The Company have entered into the *Collective Contract* (《集體合同書》) with the labour union committee, regulating remuneration, working hours, rest time and holidays, insurance and benefits for our labours, in order to establish harmonious labour relations and protect the legal rights and interests of employees.

We place great importance on the diversity of our people. On the basis of our corporate values, we uphold the principles of fairness, justice and openness in terms of compensation and employment, recruitment and dismissal, promotion and employee benefits, in order to avoid discrimination or injustice of any form in the areas of race, colour, nationality, ethnicity, religion, region, language, age, sex, marital status, disability, and to provide equal opportunities to all employees and job applicants.

We protect the legal interests of the minors and strictly prohibit the employment of child labour. The Company has formulated the *Documents on Policies and Procedures to Prevent Employment of Child Labour* (《防止僱傭童工政策及程序文件》), which requires the human resources team to check and verify the authenticity of the identity information, account information and the relevant information provided during the recruitment process and onboarding formalities will be carried out only when recruitment conditions are met. To ensure that the Company does not employ any child labour, we do not employ any applicant who is under age. In order to prevent fraudulent use of another person's identity documents for onboarding formalities, the aforementioned Documents also requires the head of the department taking new employees to re-examine the identity documents. According to the *Documents on Policies and Procedures to Prevent of Employment of Child Labour*, department managers shall immediately report to the office for any minor under the age of 16 found in the department, the office shall seek such individual's opinions according to the relevant requirements and escort him/her back to his/her original place of residence and his/her parents or guardian's signed confirmation upon the minor's arrival is required. During the Reporting Period, we were not aware of any case of hiring child labour. We fully comply with relevant rules and regulations regarding child labour.

The Company pays great attention to the welfare of female employees. We provide protection for female employees in accordance with the *Regulations Concerning the Labour Protection of Female Staff and Workers* (《女職工勞動保護規定》) issued by the State Council. In accordance with the laws, we protect the interests of female employees and safeguard the rights of female employees to enjoy health and equal employment opportunities. The Company has entered into the *Contract on Protection of the Rights of Female Staff and Workers* (《女職工權益保護專項合同》) with the labour union committee, which requires the Company to provide special labour protection to female employees during pregnancy and postpartum confinement period. Work breaks are provided to female employees who are pregnant for 7 months or above and adequate maternity leaves and postpartum confinement leaves are provided. The said contract also states that the proportion of female employee representatives in staff representatives meetings and general meetings of labour union members shall not be lower than that of female employees and there should be female employee representatives among the employee representatives in the consultation panel participating in equal consultations, thereby to have a better understanding of the opinion of female employees.

Remuneration of employees is determined based on their experience, qualifications, position level and individual performance. In 2020, we implemented salary reform to adjust post salary, job salary and job skill salary. After the reform, the salary is mainly composed of four parts, namely post salary, job salary, job skill salary and seniority salary. Front-line technical staff and operators in key positions (such as electricians, mechanical and electrical maintenance workers, furnace workers, sewage treatment workers, etc.) are also entitled to job subsidies, while ordinary undergraduates and junior college graduates are also entitled to academic allowances. The Company newly promulgated the *Personnel Recruitment, Management Measures and Relevant Remuneration Regulations* in 2020 (《人事招聘、管理辦法及有關待遇規》), pursuant to which, the Company will provide rent-free apartments for new employees after joining the Company, while middle and senior management members, high-end talents, graduates with master degree or above and practical talents can each enjoy an apartment, so as to help employees live and work in peace and contentment. In addition, we offer tuition discounts or subsidies to the children of middle and senior management members, employees with a bachelor's degree or above, marketing staff, and employees in special key positions.

As of 31 December 2020, we had 1,248 working employees with 602 male employees and 646 female employees, with a male to female ratio of approximately 0.9:1. All employees are full-time employees with no employment of part-time workers and contract workers. Most of our employees are located in Henan Province, accounting for 98% of the total number of employees. During the Reporting Period, the Company recorded 62 cases of staff turnover in total, representing a relatively stable workforce.

- **Health and safety**

We are committed to providing a safe, healthy and comfortable working environment for all employees, and we are committed to caring for employees' physical and mental health, actively taking measures to reduce their exposure to occupational hazards, and ensuring the safety and health of employees in the workplace, labor and production processes. The *Safety and Management System* promulgated by the Company in 2020 clearly regulates the production safety, operational safety, fire safety, electricity safety, gas safety, traffic safety and equipment safety, and also sets out targeted safety management prevention and control key points as well as safety prevention and control requirements for each workshop. As for fire safety management, the Company stipulates that smoking is strictly prohibited in production areas and warehouses, and a corresponding number of fire-fighting equipment should be equipped and kept properly.

We train our employees on production safety and fire safety on a regular basis. Important aspects of production safety training include safety production regulations, safe operation procedures and labor discipline, while fire safety training mainly includes fire risk descriptions, introduction to fire-fighting facilities and equipment, fire-extinguishing methods and safe escape route, etc. New employees are required to receive education on business skills and safety knowledge in workshops and groups before taking up their jobs. Meanwhile, our special operation staff with responsibilities (including electrical work, welding and thermal cutting operations, driving motor vehicles in the factory, etc.) must pass relevant professional examinations and obtain special operation qualifications before they can be arranged for work.

In addition, the Company has entered into the *Collective Contract for Occupational Health and Safety* (《勞動衛生安全專項集體合同》) with the labour union committee, which regulates the production safety management, supervision and inspection to strengthen the management and supervision of production safety and safeguard the legal rights of health and safety of staff. According to the *Collective Contract for Occupational Health and Safety*, we are required to carry out safety and health education and training for employees, including the education on enterprise safety production management system, enterprise safe operation rules, occupational disease prevention and all kinds of industrial accidents in production, toxic and harmful chemical substances protection and dangerous chemical application; no employee who has not passed the education and training on safe production is allowed to work. Moreover, we attach great importance to providing labour protective equipment on a monthly or quarterly basis according to the types of work and requirements of various positions.

Meanwhile, we carry out hidden danger investigation for safety management issues. The production equipment safety management department of the Company carries out routine inspection on the on-site management of safety and fire in the production workshop every month, and makes internal notification on the inspection and treatment. We also engage out safety, production, construction, fire protection, security, labor union and other departments to carry out comprehensive safety and fire control inspection on each department every month. As of 31 December 2020, the Company has not had any major safety accidents and major fire accidents, nor any employee injury or death attributable to our service.

We also care about the physical and mental health of our employees. We hold a variety of cultural and sports activities to enhance their physical fitness and enrich their spiritual life, such as organising staff sports meeting, participating in the TV evening column "Spring in the Pear Garden", holding the Mid-Autumn Festival group party, etc.. In addition together with Nanyang Federation of Trade Unions, Henan, we held the Company's special lecture on psychological care about production safety.


- **Development and Training**

With a focus on the development requirements and career planning of our staff, we have established an assessment system and promotion mechanism integrating training, use and evaluation of talents, in order to build a sound career-development platform for employees. The virtuous cycle of talent cultivation, utilisation and identification lays a solid foundation for and provides a strong impetus to the Company's sustainable development and the selfgrowth of employees. Depending on the research and development progress of new products and the actual situation of the promulgation of relevant state pharmaceutical policy, we organise internal and external trainings, for our staff including department training, industry forum, summit, etc. As for sales staff, our trainings focus on the topics of marketing, cultivation of communication skills as well as pharmaceutical policy; as for production and technical staff, our trainings focus on the promotion and implementation of medicine, environmental protection and safety regulations and GMP management standards; as for logistics staff, our trainings focus on the knowledge of cost and financial management. Training forms the Company's long-term and systematic talent cultivation strategy. In order to improve our training management and quality, the Company also establishes a training leadership group to strengthen management enforcement in the organisation.

According to the *Pre-job Training and Learning Plan for Talents* (《儲備人才崗前培訓學習方案》) formulated and issued in June 2019, we are required to conduct pre-job training and learning for talents to enable the staff in training to fully and comprehensively understand the Company's development history, development vision, culture and concepts, directions and objectives, rules and regulations as well as entry requirements. On such basis, they can understand our corporate culture, establish a sense of belonging and integrate into the enterprise. According to the *Pre-job Training and Learning Plan for Talents*, the pre-job training period is for 3 months and is divided into three stages, namely the observation stage, the study stage and the adaption stage; and assessments are set for each stage of the training. After each stage of training, the pre-job training assessment team will assess the staff in training to determine whether the staff in training can proceed to the next stage of training as well as their remunerations. In addition to training for talents, we organised training on good manufacturing of pharmaceutical products in 2020, as well as intellectual property rights training primarily focusing on patent basic knowledge and creative evaluation, to further improve the business skills and professional qualities of the relevant employees.

In addition, in order to actively promote the construction of a learning enterprise, we encourage our staff to use their spare time to actively participate in on-the-job education in addition to the titles and qualifications required by their position, such as participating in the self-study examination for undergraduate or higher, and national professional and technical titles declaration, etc. If employees' academic qualification enhancement and professional and technical titles declaration are related to their own work, or the shortage of professional/title to support the development of the Company's business, their salary and benefits during the period of study and examination remain unchanged after an application is submitted and is reviewed and approved by the Company, and expenses incurred in the study or review will be reimbursed by the Company. Employees who have completed their studies and obtained a bachelor or higher degree are entitled to the corresponding academic allowance. Besides, employees who have obtained intermediate title or above recognised by the state are also entitled to professional title subsidy.



- **Supply Chain Management**

The Company is committed to establishing a stable cooperative relationship with suppliers to meet the requirements of social, environmental, legal and moral standards. Therefore, the Company also expects our suppliers to meet the relevant laws and regulations on occupational health and safety, anti-discrimination, environmental protection and anti-corruption.

In order to regulate supplier and procurement business management, we have formulated and issued the *Supplier and Procurement Management System* (《供貨商及採購管理制度》) in strict compliance with the requirements of the *Pharmaceutical Administration Law of the People's Republic of China*, *Good Manufacturing Practice for Pharmaceutical Products* ("**GMP**") and other relevant laws and regulations, with an aim to specify supplier admittance, periodic evaluation, auditing and evaluation standards, and material quality evaluation standards. We have also established a standardised supplier evaluation system to implement strict selection on suppliers. As required by the *Supplier and Procurement Management System*, before including a qualified supplier in our list, the Company should determine the material safety level based on quality risk of manufactured pharmaceutical product, amount of materials used and the degree of impact of the supplied materials on the quality of pharmaceutical products, and require suppliers of materials with different safety levels to provide corresponding qualification proofs to ensure the qualifications of the suppliers meet the requirements. On such basis, quality control department cooperates with material supply department and production department to conduct a preliminary assessment on the quality management level of suppliers. Finally, by conducting qualification auditing and/or on-site auditing on the suppliers that passed the preliminary evaluation based on the material safety level, we guarantee product quality and safety at source. We only purchase materials from qualified suppliers under our review and assessment. The audit standards we rely on mainly include:

— *Good Manufacturing Practice for Pharmaceutical Products* as the standard for active pharmaceutical ingredients

— *Good Manufacturing Practices for Pharmaceutical Excipients* as the standard for pharmaceutical excipients

— *Pharmaceutical Administration Law of the People's Republic of China* as the standard for Chinese herbal medicine

— *Management Approach of pharmaceutical packaging materials* as the standard for pharmaceutical packaging materials

The *Supplier and Procurement Management System* requires the Company to establish supplier quality files for all qualified suppliers (including IT suppliers) and implements regular quality assessment system. The system also stipulates that the Company to conduct comprehensive assessment and grading for all suppliers in respect of various factors, including qualification rate of product inspected, product price, on-time delivery rate, credit period and suitability every two years. On-site inspections are conducted as required, and for those who fail to meet the requirements, their supplier qualifications will be canceled accordingly. The Company communicates with and collects feedbacks from suppliers with continued cooperation, and supervises them to carry out the necessary quality improvement and consider adopting the strategy of pre-emptive right to procure materials from suppliers with outstanding assessment results for two consecutive years. During the Reporting Period, there was no material or significant dispute between the Group and its suppliers.

- **Product Responsibility**

  The Company values continuous and strict compliance with the requirements of the *Pharmaceutical Administration Law of the People's Republic of China, Regulations for the Implementation of Drug Administration Law of the People's Republic of China, Good Manufacturing Practice for Pharmaceutical Products, Product Quality Law of the People's Republic of China, Law of the People's Republic of China on Protection of Consumer Rights and Interests* and other relevant laws and regulations, and by adhering to our service philosophy of "Health is blessing", it strives to ensure product quality and safety to provide consumers with safe and reliable medicines. The production equipment safety management department of the Company pays attention to the production compliance and the quality assurance department is responsible for quality supervision of the entire production process.

  In the entire production process of pharmaceutical products, we comply with the GMP to implement strict quality control and ensure the adaptability among our staff, facilities, equipment and scale of product production; and quality supervision has been exercised during the process of purchasing raw material, production, storage and transportation of finished goods. Production can proceed to the next stage only after all of the previous production phases meet the standards. The *Supplier and Procurement Management System* provides that, during the process of raw materials procurement and acceptance inspection, the Company has to apply a rigorous audit management and admittance approval to suppliers and enter into quality assurance agreements with the cooperating suppliers. Acceptance inspection, sampling, testing and release of arriving raw materials are carried out by inspectors and quality assurance personnel and any storage of unqualified raw materials is prohibited.

  In terms of quality assurance, a specialised precision instrument room and testing equipment are in place for quality control and test over annual production of small volume parenteral solutions, large volume parenteral solutions, oral solutions, capsules, tablets, granules, traditional Chinese medicine extract powder, received raw and auxiliary materials, medicine packaging materials, printing packaging materials, intermediate products and unpacked products. Medicines are produced under the registration standards and specifications, after which the quality of the products would be checked, recorded and graded by the quality assurance department of the Company. All finished goods have gone through statutory quality standards tests and can only be delivered after passing the tests. The Company has established a separate GMP management office for pharmaceutical products to complete self-checks on quality with the quality inspection department.

To further strengthen the quality management of pharmaceutical products, enhance the quality awareness of all staff and comprehensively improve the level of implementation of GMP, we launched an action to strengthen the management of GMP in 2020 and set up a leading group and an office under the action to thoroughly investigate the issues in the implementation of GMP in our company. With reference to the GMP and production process, we have been rectifying and improving the defective items in the plant and hardware such as facilities and equipment, and conducting regular inspections of the six management categories on the production site to further improve the product manufacturing environment. In addition, the Company conducted quality reviews and market sampling checks on the Company's drugs in production, and organised quarterly self-inspections regarding to the entire drugs production process among relevant personnel from the production, quality and material management departments, and the Quality Assurance Department conducts product inspections in the early, mid and late part of each month. Under the GMP training and learning programme, the Company also invited industry experts to conduct training on quality management of pharmaceutical products in relation to weaknesses in the implementation of GMP. During the Reporting Period, no products were returned to the Company for reasons of product quality, safety or health, and no complaints were received in relation to products or services.

The Company has developed and promulgated an *Intellectual Property Management System* (《知識產權管理制度》), which regulates the management of patents, trademarks, copyrights and their neighboring rights, technical and trade secrets, corporate trade names and various service marks, and provides for the integration of intellectual property management into the management of all aspects of our research and development and operations. In addition, the Company's skills and innovation department is responsible for the identification, application, registration, registration and evaluation of intellectual property rights, as well as the coordination and resolution of disputes and controversies relating to intellectual property rights. We formulate an annual plan for intellectual property management by taking into account the actual situation of our company, and link it effectively with other enterprise specific management plans, and make an annual summary of intellectual property in a timely manner. Meanwhile, the Company invites external intellectual property agency firms to teach relevant knowledge on site to strengthen training and education on intellectual property laws and regulations, and enhance the awareness and ability of enterprises to protect intellectual property.

- **Anti-corruption**

We have always governed the operations of the various departments in compliance with relevant laws and regulations to prevent bribery, fraud and corruption. The Company has enacted and promulgated the *Anti-Fraud, Corruption, Anti-Commercial Bribery and Reporting Management System* (《反欺詐腐敗反商業賄賂與報告管理制度》) applicable to the directors, senior management, all employees and all business partners (including suppliers, distributors or other associates). The system clearly stipulates the concept of fraud, corruption and commercial bribery, the scope of application of the system, the attribution of responsibilities, prevention and control measures, punishment, complaint reporting channels and other aspects. Our Board leads the Company's efforts against fraud, corruption and commercial bribery, and supervises the management to establish the corresponding control environment within the Company. The board of supervisors supervises the establishment and improvement of a healthy internal control system. The system also designates the corporate management department to be responsible for receiving, investigating, reporting and handling reports of fraud, corruption and commercial bribery.

The Company has set up a reporting mechanism to provide anonymous reporting channels. Anyone may report potential violations of internal policies or unlawful acts to the corporate management department by telephone or letter. We emphasise that all employees should abide by the Company's code of conduct, code of ethics and national and industry laws and regulations, and should report any fraud, corruption or commercial bribery through proper channels. In case of fraud, corruption and commercial bribery, the Company will publicly notify the internal after investigation, and punish those responsible. This can warn the majority of employees of the harmfulness of the incident and have a deterrent effect. At the same time, the Company has stipulated the code of conduct for employees in the *Employee Handbook*. It clearly prohibits malpractice under the guise of power, publicises the Company's corporate values of honesty and integrity to employees, emphasises the importance of abiding by national laws and regulations and the Company's rules and regulations, advocates the importance of integrity and professional ethics to constantly enhance the sense of self-discipline and anti-corruption of all our staffs.

In addition, all suppliers with whom we have business relations have signed the *Anti-Corruption Agreement* (《廉政協議書》) with us when entering into their contracts. The agreement stipulates that both parties shall not violate business ethics, disrupt the policy and market competition order, disclose trade secrets of the other party, damage the use and corporate image of the other party, exclude other operators from unfair competition, or seek improper interests by taking advantage of their positions or work. According to the agreement, suppliers and their employees are obliged to report to our discipline inspection department if they find any of our employees have taken bribes or demanded bribes, engaged in malpractice for personal gains, abused power or other violations of the rules and regulations. We will disqualify suppliers who violate the *Anti-Fraud and Anti-Corruption Commitment* (《反欺詐反腐敗承諾書》). In addition, the marketing inspection department of the Company conducts monthly inspections on the sales channels, sales prices, marketing activities and training of the products of the marketing center. During the Reporting Period, there have been no corruption related cases brought and concluded against the Group, its subsidiaries or its employees, and we are not aware of any violations of laws and regulations relating to bribery, corruption, extortion, fraud and money laundering.

- **Social Investment**

  The Company can only achieve sustainable development with the support from all parties in society. While striving to provide efficient and high quality medicines to consumers, we always focus on integrating social responsibilities into our operational development and actively make contributions to social welfare and charity work to fulfill our responsibility as a corporate citizen. During the year ended 31 December 2020, the Company took initiative to participate in social welfare and charity activities in different areas.

Since the outbreak of COVID-19 in January 2020, the prevention and control of COVID-19 has been going on throughout the country. The Company paid close attention to the latest developments related to the epidemic in real time. In January 2020, we donated Shuanghuanglian Oral Solutions and other pharmaceutical products to the Red Cross Society of Hubei Province for the forefront in fighting against COVID-19; In March 2020, the Company organised employees to donate money to the Red Cross Society of Xichuan County, Nanyang City, to raise funds for the prevention and control of the pandemic.




In addition, We proactively take care of the needy in society and step up our efforts to develop charitable works. During the year, the Company organised employees to visit and handout living necessities including food and medicines to villagers in Wudian Village, Jiuchong Town, Xichuan County, Nanyang City, Henan Province. We will continue to put the idea of public welfare into action, fulfill our corporate social responsibility, and continue to pay attention to the development of the pandemic.

# Report of the Directors

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 18 January 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Group is principally engaged in manufacturing and sale of pharmaceutical products.

## DIVIDEND POLICY

The Company may distribute dividends by way of cash or by other means that the Company considers appropriate. The Directors currently intend to declare a dividend of no less than 10% of the Company's distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that the Company must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- the Group's result of operations;
- the Group's cash flows;
- the Group's financial condition;
- the Group's Shareholders' interests;
- general business conditions and strategies of the Group;
- the Group's capital requirements;
- the payment by the Company's subsidiaries of cash dividends to the Company; and
- other factors the Board may deem relevant.

Such declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rule and regulations and the articles of association of the Company.

## RESULTS AND DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.46 cents per ordinary share for the year ended 31 December 2020 (equivalent to HK$0.54 cents by adopting the prevailing exchange rate on 31 March 2021 set by the People's Bank of China) (2019: RMB0.37 cents) to the shareholders of the Company whose names appear on the register of Members of the Company on Tuesday, 15 June 2021.

The said final dividend will be paid in cash on 16 July 2021, subject to: (i) the approval of the shareholders of the Company at the AGM to be held on Wednesday, 26 May 2021 and (ii) the audited annual results of the Group for the year ended 31 December 2020 upon completion of the audit process being consistent in all material respects with the annual results set out herein. Details of dividend for the year ended 31 December 2020 are set out in Note 12 to the financial statements of the Company contained in this report.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

### (a) for determining eligibility to attend and vote at the AGM:

| | |
|---|---|
| Latest time to lodge transfer documents for registration: | 4:30 p.m., Tuesday, 18 May 2021 |
| Closure of register of members: | Thursday, 20 May 2021 to Wednesday, 26 May 2021 (both days inclusive) |
| Record date: | Wednesday, 26 May 2021 |

### (b) for determining entitlement to the proposed final dividend:

| | |
|---|---|
| Latest time to lodge transfer documents for registration: | 4:30 p.m., Wednesday, 9 June 2021 |
| Closure of register of members: | Thursday, 10 June 2021 to Tuesday, 15 June 2021 (both days inclusive) |
| Record date: | Tuesday, 15 June 2021 |

In order to be eligible to attend and vote at the AGM and to qualify for the proposed final dividend, all transfer of share(s), accompanied by the relevant share certificate(s) with the properly completed transfer from(s) either overleaf of separately, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than the respective latest dates and time set out above.

## BUSINESS REVIEW

The review of the business of the Group during the year ended 31 December 2020 and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. The description of principal risks and uncertainties faced by the Group and key financial performance indicators are set out in the section headed "Management Discussion and Analysis" of this report. The financial risk management objectives and policies of the Group are set out in the consolidated financial statements of this report.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for each of the five financial years ended 31 December 2020 is set out on page 4 of this report. Such summary does not form part of the audited consolidated financial statements of the Group.

## 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 14 to the consolidated financial statements of this report.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Group did not have other plans for material investments or capital assets as at 31 December 2020.

## SHARE CAPITAL

Details of the Company's share capital is set out in Note 30 to the consolidated financial statements of this report.

## SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 14 June 2018 ("**Share Option Scheme**") in which certain participants, including any employee (full-time or part-time), director, consultant, adviser or substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, may be granted options to subscribe for the ordinary shares in the share capital of the Company with a nominal value of HK$0.10 each ("**Share(s)**"). The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to above parties and to promote the success of the business of the Group. The Share Option Scheme shall expire at the close of business on 13 June 2028 unless terminated earlier by the Shareholders in general meeting. The Directors believe that the Share Option Scheme is important for the recruitment and retention of quality executives and employees.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and

(iii) the nominal value of a Share on the date of grant of the option.

The maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of this Company (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue as at the Listing Date. Therefore, the Company may grant options in respect of up to 80,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 80,000,000 Shares from time to time) to the participants under the Share Option Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer is made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.0. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The following table discloses movements in the Company's share options outstanding under the Share Option Scheme during the year ended 31 December 2020:

| Name/category of participants | At 31 December 2019 | Date of grant of share options | Exercised during the year | Granted during the year | Lapsed during the year | Canceled during the year | At 31 December 2020 | Vesting period of share options | Exercise period (both days inclusive) | Exercise price of share options HK$ per share | Closing price of shares immediately before date of grant HK$ per share |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Two employees of the Group** | 16,000,000 | 19 July 2019 | – | – | – | – | 16,000,000 in total | All of the share options granted have been vested on 19 October 2019 | 19 October 2019– 13 June 2028 | 3.098 | 3.04 |

During the year ended 31 December 2020, no share options were granted under the Share Option Scheme.

As at the date of approval of this financial report, there were 16,000,000 outstanding share options granted under the Share Option Scheme, representing approximately 2.07% of the issued share capital of the Company.

In order to encourage long-term commitment to the Company and to align the interests of the eligible grantees with the Company's development, the Board proposed to extend the exercise period of the outstanding options granted under the Share Option Scheme, such that those options may be exercised over a period of not more than 10 years from the date of grant. The Annual General Meeting held on 30 June 2020 approved the proposed amendment of terms of share options granted, extending the exercise period of the outstanding options for the period from the current expiry date, being 19 July 2020, to 13 June 2028. The modification took effect on 30 June 2020.

As it is expected that the proposed extension of exercise period would induce and incentivise the holders of the outstanding options to contribute to the growth, development and success of the Group, the Board considers that the proposed extension of exercise period of the outstanding options is in line with the objective of the Share Option Scheme, which also closely aligns the interests of such holders with that of the Shareholders to promote the long-term development and financial performance of the Company.

Please refer to Note 13 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

## RESERVES

Details of movements in the reserves of the Company and the Group are set out in Note 30 to the consolidated financial statements of this report and in the consolidated statement of changes in equity, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's memorandum and articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

## CONNECTED TRANSACTIONS

### (1) Non-Exempt Continuing Connected Transaction

As disclosed in the Prospectus, upon the Listing, the following non-exempt continuing connected transactions have been entered into and will continue to be carried out between the Group and Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (淅川縣福森中藥材種植開發有限公司) ("**Fusen Chinese Medicine**"), details of which are set out below:

#### Master Chinese Medicine Purchase Agreement

On 14 June 2018, a master purchase agreement (the "**Master Chinese Medicine Purchase Agreement**") was entered into between Henan Fusen as purchaser and Fusen Chinese Medicine as supplier whereby the Group will purchase and Fusen Chinese Medicine will supply lonicera japonica and baikal skullcap root (黃芩) as raw materials (the "**Relevant Materials**") for production of the Group's Shuanghuanglian-based cold medicine products. The term of the Master Chinese Medicine Purchase Agreement will commence on the Listing Date, 11 July 2018, and expire on 31 December 2020. The purchase price for the purchase transactions will be determined with reference to the prevailing comparable market price. Specific terms of the transactions will be determined on order-by-order basis and separate agreements will be entered into by the parties.

Fusen Chinese Medicine is a company incorporated in the PRC with limited liability and principally carries on the business of trading of medicinal herbs. As at the date of this report, Fusen Chinese Medicine was wholly-owned by Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) ("**Fusen Shiye**") which was a connected person of the Company due to the fact that it was owned as to 50% by Mr. Cao Changcheng, an executive Director, the chairman of the Board and a Controlling Shareholder. Fusen Chinese Medicine is therefore a close associate of Mr. Cao Changcheng and a connected person of the Company. Consequently, transactions between the Group and Fusen Chinese Medicine will constitute continuing connected transactions for the Group after the Listing.

**Proposed Annual Caps**

For the years ended 31 December 2018, 2019 and 2020, the annual caps of the purchase price payable by the Group to Fusen Chinese Medicine in respect of the purchase of the Relevant Materials were RMB30.0 million, RMB33.0 million and RMB36.0 million respectively.

**Renewal of Master Chinese Medicine Purchase Agreement**

As the Master Chinese Medicine Purchase Agreement has expired on 31 December 2020 and the transactions contemplated thereunder shall continue to be entered into on a recurring basis, on 4 December 2020, Henan Fusen and Fusen Chinese Medicine entered into the renewed master Chinese medicine purchase agreement (the "**Renewed Master Chinese Medicine Purchase Agreement**"), pursuant to which the parties agreed to continue the existing cooperation as disclosed above with each other for a term of three years commencing from 1 January 2021. The annual caps for the three years ending 31 December 2023 are approximately RMB40.0 million, RMB44.0 million and RMB48.0 million respectively. The Renewed Master Chinese Medicine Purchase Agreement (together with the proposed annual caps) had been approved by the Directors (including the independent non-executive Directors) and the independent Shareholders at the extraordinary general meeting of the Company held on 20 January 2021.

**Listing Rules Implications**

Fusen Chinese Medicine is a connected person of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Master Chinese Medicine Purchase Agreement constitute continuing connected transactions for the Company under the Listing Rules after Listing. Pursuant to Rule 14A.105 of the Listing Rules, the Company applied for and the Stock Exchange had granted a waiver from strict compliance with the announcement, circular and independent Shareholders' approval requirements under the Listing Rules for the Master Chinese Medicine Purchase Agreement subject to the conditions that (i) the annual aggregate amount payable by the Group pursuant to the Master Chinese Medicine Purchase Agreement will not exceed the proposed annual caps stated above for each of the financial years ended 31 December 2018, 2019 and 2020; and (ii) the Company will comply with the reporting and annual review requirements under Chapter 14A of the Listing Rules. For the year ended 31 December 2020, purchases by the Group from Fusen Chinese Medicine were within the proposed annual caps and amounted to approximately RMB34.4 million.

**Confirmation from Directors in relation to Continuing Connected Transactions**

The Independent non-executive Directors of the Company have reviewed these transactions and Rule 14A.55 of the Listing Rules and confirmed that the continuing connected transactions have been 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 agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that the Company has complied with the reporting and annual review requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions set out above. The Company confirms that it has followed the policies and guidelines as set out in the Stock Exchange's Guidance Letter GL73-14 during the year ended 31 December 2020.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions above and the annual caps are fair and reasonable, and that such transactions have been entered into and will be carried out in the ordinary and usual course of the business of the Group, on normal commercial terms, are fair and reasonable, and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions disclosed above in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), Assurance Engagements 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 their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

**(2) Provision of Financial Assistance to Fusen Chinese Medicine**

During the period from March 2019 to November 2019, Henan Fusen, a wholly-owned subsidiary of the Company, had made advances (the "**Advances**") to Fusen Chinese Medicine in a number of tranches, details of which are as follows:

| Month/year | Amount of the Advances made by Henan Fusen to Fusen Chinese Medicine RMB |
|---|---|
| March 2019 | 100,000,000 |
| April 2019 | 52,000,000 |
| May 2019 | 75,480,000 |
| June 2019 | 1,790,000 |
| July 2019 | 25,510,000 |
| September 2019 | 1,100,000 |
| November 2019 | 1,690,000 |
| **Total amount of the Advances to Fusen Chinese Medicine** | 257,570,000 |

An interest equivalent to 5.22% per annum was charged on the Advances. Such interest was determined with reference to prevailing market rates. The Advances were unsecured with no fixed term of repayment. The provision of the Advances were financed by the internal resources of the Group and no part of the proceeds from the Listing had been applied for the provision of the Advances.

As at 25 December 2019, the principal amount of the Advances was repaid by Fusen Chinese Medicine to the Group and the Group has since then ceased to provide further financial assistance to Fusen Chinese Medicine. The interest for the Advances in the total sum of RMB1,697,032.21 was repaid by Fusen Chinese Medicine to the Group on 12 March 2020.

The Directors are of the view that the provision of Advances to Fusen Chinese Medicine did not have any material adverse effect on the financial position of the Group.

**Implications under the Listing Rules**

Since Fusen Chinese Medicine is a close associate of Mr. Cao Changcheng and a connected person of the Company, the provision of the Advances constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Advances, on an aggregate basis, are more than 5% but less than 25% and the total value of the Advances is more than HK$10,000,000, the provision of the Advances were subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios in respect of the Advances, on an aggregate basis, are more than 5% but less than 25%, the Advances also constituted discloseable transactions for the Company and were subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

In addition, the Advances constituted advances to an entity under Rule 13.13 of the Listing Rules. In March 2019, the asset ratio for providing an initial advance of RMB100,000,000 to Fusen Chinese Medicine had exceeded 8% and therefore the provision of such Advance were subject to the announcement requirement under Rule 13.13 of the Listing Rules.

Furthermore, as at April 2019, the asset ratio for the Advances, when aggregated with the previous tranches of Advances made to Fusen Chinese Medicine, increased by over 3%. Hence, the Advances made in April 2019 were subject to the announcement requirement under Rule 13.14 of the Listing Rules.

However, the Company has failed to comply with the aforementioned Listing Rules as it had failed to make timely disclosure on the Advances and seek independent shareholders' approval at a general meeting pursuant to the relevant requirements under the Listing Rules as described above.

**Reasons for the Non-Compliance of the Listing Rules**

Based upon the Group's internal investigation, it is discovered that during the period between March 2019 and November 2019, the general manager of Fusen Chinese Medicine instructed its accounting staff to make requests to the accounting department of the Group for certain advances to Fusen Chinese Medicine to meet its funding needs for purchasing materials and agricultural machinery on urgent and temporary basis. Such requests were processed by the accounting staff of Henan Fusen and approved by the finance manager of Henan Fusen. The relevant accounting staff of the Group had mistakenly treated the fund transfers for the Advances as if they were prepayments for purchases of materials under the Master Purchase Agreement. At the material time, no meeting was held nor had any written resolutions been adopted by the Board in respect of the provisions of the Advances. The Directors considered that due to oversight and inadvertent misunderstanding of the Listing Rules by the relevant accounting staff involved in the provision of financial assistance to Fusen Chinese Medicine, such financial assistance were not reported to the Board at the material time and hence the Company did not make timely disclosure on the Advances and did not seek independent shareholders' approval as required under the Listing Rules.

In mid-February 2020, during the preparation of the annual results for the year ended 31 December 2019, the management of the Company noted that the fund transfers between Henan Fusen and Fusen Chinese Medicine might constitute discloseable and connected transactions for the Company under the Listing Rules.

**Remedial Measures**

Since (i) the principal amount of the Advances and the interest had been fully repaid by Fusen Chinese Medicine; and (ii) such transactions cannot be reversed, the Company intends not to put forward a resolution at a general meeting to ratify the entering into and the provision of the Advances.

Details of the above financial assistance and remedial measures were published in the Company's announcement dated 23 March 2020.

In addition, all of the continuing connected transactions of the Company disclosed above constitute related party transactions set out in Note 33 to the consolidated financial statements of this report. Save as disclosed above and the exempt connected transactions as disclosed in the Prospectus, all other related party transactions as described in Note 33 to the financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transaction and connected transaction as disclosed above, and the exempt connected transactions as disclosed in the Prospectus, during the year ended 31 December 2020, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions. The Company has complied with applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## DISTRIBUTABLE RESERVES

Please refer to Note 30 to the consolidated financial statements of this report for details of the Company's distributable reserve as at 31 December 2020.

## MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

During the year ended 31 December 2020, the percentage of the Group's aggregate revenue attributable to the Group's largest customer was approximately 5.72%, while the percentage of the Group's total revenue attributable to the five largest customers in aggregate was approximately 22.05%.

During the year ended 31 December 2020, the percentage of the Group's largest supplier was approximately 16.21% of the total cost of sales for the year, while the percentage of the Group's five largest suppliers accounted for approximately 41.95% of the total cost of sales.

Save as disclosed in this report, none of the Directors, or any of their close associates or Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or suppliers.

## DIRECTORS

The Directors during the year ended 31 December 2020 were as follows:

### Executive Directors

Cao Changcheng (曹長城) *(Chairman)* (appointed on 20 November 2016)
Hou Taisheng (侯太生) (appointed on 7 April 2017)
Chi Yongsheng (遲永勝) (appointed on 7 April 2017)
Meng Qingfen (孟慶芬) (appointed on 7 April 2017)
Cao Zhiming (曹智銘) *(Chief Executive Officer)*
(appointed on 18 January 2013)

### Independent non-executive Directors

Sze Wing Chun (施永進) (appointed on 14 June 2018)
Lee Kwok Tung Louis (李國棟) (appointed on 15 April 2019)
Ho Ka Chun (何家進) (resigned on 10 July 2020)
To Kit Wa (杜潔華) (appointed on 13 August 2020)

In accordance with the Company's memorandum and articles of association, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Accordingly, Mr. Cao Zhiming, Ms. Meng Qingfen, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa will retire by rotation pursuant to article 108 of the Company's memorandum and articles of association, and being eligible, will offer themselves for re-election as Directors at the forthcoming AGM.

## PERMITTED INDEMNITY PROVISION

Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers in order to meet its immediate and long-term goals. During the year under review, there was no material or significant dispute between the Group and its suppliers and customers.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and independent non-executive Directors has signed a service agreement with the Company for an initial term of three years (subject to termination in certain circumstances as stipulated in the relevant service agreement).

None of the Directors who are proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report.

## EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five individuals with highest emoluments are set out in Note 9 and Note 10 to the consolidated financial statements of this report.

## EMOLUMENT POLICY

The Company's remuneration policy comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes discretionary bonus and other merit payments), considering other factors such as their experience, level of responsibility, individual performance, the profit performance of the Group and general market conditions.

The emoluments paid or payable to members of senior management were within the following bands:

| | **2020 Number of employees** | 2019 Number of employees |
|---|---|---|
| HKD Nil — HKD1,000,000 | **2** | 3 |

The Remuneration Committee will meet at least once for each year to discuss remuneration related matters (including the remuneration of Directors and the senior management) and review the remuneration policy of the Group. It has been decided that the Remuneration Committee would determine, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the Prospectus and in this report, neither the Company nor any of its subsidiaries had entered into any contract of significance with the Controlling Shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or their subsidiaries, during the year ended 31 December 2020.

## DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

Save as the related party transactions disclosed in Note 33 to the consolidated financial statements of this report, no Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## MANAGEMENT CONTRACTS

As at 31 December 2020, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below, at no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2020, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules, were as follows:

### Long position in the Shares

| Name of Director | Capacity/Nature | Number of Shares held/ interested | Percentage of interest |
|---|---|---|---|
| Mr. Cao Changcheng (Notes 1, 2 and 3) | Interest of a controlled corporation | 487,200,000 | 62.94% |
| Mr. Cao Zhiming (Note 2) | Interest of a controlled corporation | 126,840,000 | 16.39% |
| Mr. Hou Taisheng (Note 4) | Beneficiary of a trust | 13,399,165 | 1.73% |
| Ms. Meng Qingfen (Note 4) | Beneficiary of a trust | 11,809,433 | 1.53% |
| Mr. Chi Yongsheng (Note 4) | Beneficiary of a trust | 12,944,956 | 1.74% |

Notes:

1. Full Bliss Holdings Limited ("**Full Bliss**") is wholly-owned by Mr. Cao Changcheng. As Mr. Cao Changcheng beneficially owns 100% of the issued shares of Full Bliss, Mr. Cao Changcheng is deemed to be interested in 180,180,000 Shares held by Full Bliss pursuant to the SFO.

2. Mr. Cao Zhiming is the beneficial owner of the entire issued share capital of One Victory Investments Limited ("**One Victory**") and is therefore deemed to be interested in the 126,840,000 Shares held by One Victory pursuant to the SFO. Furthermore, pursuant to a deed of confirmation dated 18 August 2017 entered into between Mr. Cao Changcheng, Mr. Cao Zhiming and One Victory, Mr. Cao Changcheng is entrusted to exercise all voting rights attaching to the Shares owned by One Victory and direct One Victory to vote accordingly.

3. Mr. Cao Changcheng is the protector of a trust established by a deed of settlement dated 14 June 2013. Mr. Cao Zhiming, who was acting on behalf of and under the authorisation and instructions of Mr. Cao Changcheng, is the settlor and Vistra Trust (Hong Kong) Limited is the trustee which is entrusted to hold the entire shareholding of Rayford Global Limited on trust for certain individual Shareholders as the beneficiaries ("**Fusen Trust**") who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng is also the investment manager of the Fusen Trust, who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford Global Limited ("**Rayford**") and direct the trustee of the Fusen Trust to vote accordingly. Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, is therefore interested in an aggregate of 487,200,000 Shares, representing 62.94% of the issued share capital of the Company upon completion of the Global Offering and the Capitalization Issue under the SFO.

4. Each of Mr. Hou Taisheng, Mr. Chi Yongsheng, and Ms. Meng Qingfen, who is an executive Director, is a beneficiary under the Fusen Trust.

Save as disclosed above, as at 31 December 2020, none of the Directors nor chief executive of the Company has registered an interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required 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 were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as the Directors are aware, as at 31 December 2020, the following persons (not being Directors or chief executive of the Company) have or are deemed or taken to have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

### The Company

| Name | Capacity/Nature | Number of Shares held/interested | Percentage of interest |
|---|---|---|---|
| Full Bliss | Beneficial owner | 180,180,000 | 23.28% |
| Rayford | Beneficial owner | 180,180,000 | 23.28% |
| Vistra Trust (Hong Kong) Limited (Note 1) | Interest of a trustee | 180,180,000 | 23.28% |
| Ms. Quan Xiufeng (Note 2) | Interest of spouse | 487,200,000 | 62.94% |
| One Victory | Beneficial owner | 126,840,000 | 16.39% |
| Ms. Zhou Rui (Note 3) | Interest of spouse | 126,840,000 | 16.39% |

Notes:

1. Vistra Trust (Hong Kong) Limited is a trustee of the Fusen Trust, whereby Mr. Hou Taisheng, Ms. Meng Qingfen, Mr. Fu Jiancheng, Mr. Chi Yongsheng and 43 other individuals are the beneficiaries under the Fusen Trust. As Vistra Trust (Hong Kong) Limited holds 100% of the issued shares of Rayford in the capacity of a trustee, Vistra Trust (Hong Kong) Limited is deemed to be interested in 180,180,000 Shares held by Rayford pursuant to the SFO.

2. Ms. Quan Xiufeng is Mr. Cao Changcheng's spouse and is deemed to be interested in the 487,200,000 Shares in which Mr. Cao Changcheng is interested for the purpose of the SFO.

3. Ms. Zhou Rui is Mr. Cao Zhiming's spouse and is deemed to be interested in the 126,840,000 Shares in which Mr. Cao Zhiming is interested for the purpose of the SFO.

Save as disclosed above, as at the date of this report, none of the substantial shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

During the year ended 31 December 2020, the Company repurchased a total of 29,566,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK$105.1 million. Among those repurchased shares, 6,602,000 Shares, 7,404,000 Shares, 7,531,000 Shares, 3,362,000 shares and 1,089,000 shares were cancelled during the year ended 31 December 2020 on 2 June 2020, 17 June 2020, 31 August 2020, 7 September 2020 and 30 December 2020, respectively, and 3,578,000 Shares were not yet cancelled as at 31 December 2020. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of Shares during the year ended 31 December 2020 were disclosed in note 30(c).

## COMPETING BUSINESS

During the year ended 31 December 2020, none of the Directors or the Controlling Shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

### Non-Competition Undertakings

In order to avoid any possible future competition between the Group and the Controlling Shareholders, Mr. Cao Changcheng and Full Bliss Holdings Limited (each a "**Covenantor**" and collectively the "**Covenantors**") have entered into the Deed of Non-competition on 14 June 2018. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for and on behalf of its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if any of he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall (and he/ it shall procure his/its associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether the Group will exercise the right of first refusal or not.

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

During the year ended 31 December 2020, the Company had not received any information in writing from any of the Controlling Shareholders in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to be the knowledge of the Controlling Shareholders or their associates (other than any member of the Group), and the Company has received an annual written confirmation from each Covenantor that he/it has complied with the undertakings under the Deed of Non-competition. The independent non-executive Directors have also reviewed and were satisfied that each of the Controlling Shareholders had complied with the Deed of Non-competition.

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this report.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial conditions, results of operations, business and prospects would be affected by a number of risks and uncertainties including market risks, credit risks and liquidity risks. A summary of major risks and uncertainties of the Company's risk is set out as below and also in Note 31 to the consolidated financial statements of this report.

### 1. Research and Development Risk

The Group's future prospect is dependent upon the continuous development and successful commercialisation of new products or progress of milestones achievement of projects. As one of its expansion strategies, the Group intends to form strategic alliances with suitable partners or candidates that would offer the Group access to promising research projects. The success of biopharmaceutical product development and progress of milestones achievement are highly unpredictable. Products that appear to be promising at the early phases of R&D may fail to reach the market for numerous reasons, including the discovery of harmful side effects in pre-clinical tests and clinical trials, unsatisfactory results in clinical trials and the failure of obtaining the necessary regulatory approvals. Consequently, the corresponding R&D expenditure incurred would have to be expensed, which will have an adverse impact on the profitability of the Group.

### 2. Pharmaceutical Pricing Policies in the PRC

The drug pricing system in the PRC is controlled by the government, and it affects the pharmaceutical industry, drug price setting and regulation. Under the government intervention, price reduction across therapeutic categories was common during the last 20 years, which may exert a downward pressure against the price of pharmaceutical products and our market share, revenue and profitability may be adversely affected.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is devoted to promote and maintain the environmental and social sustainable development and has implemented a wide variety of green measures. The Group's operations has complied in all material respects with currently applicable PRC environmental protection laws and regulations during the year under review. Details of the Group's environmental, social and governance practices are set out in the section headed "Environmental, Social and Governance Report" of this report.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied with the relevant laws and regulations that may cause a significant impact on the business and operations of the Group during the year under review.

## EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed above in this report, no equity-linked agreements were entered into by the Company during the year ended 31 December 2020.

## COMPLIANCE ADVISER'S INTERESTS

As notified by the Company's compliance adviser, Dakin Capital Limited (the "**Compliance Adviser**"), as at 31 December 2020, except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 12 January 2018, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

## SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information available in the public domain concerning the Company, at least 25% of the Company's issued share capital was held by the public as at the date of this report.

## RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the Shareholders by reason of them holding the Shares.

## EVENT AFTER THE REPORTING PERIOD

Details of event after the Reporting Period are set out in the section headed "Management Discussion and Analysis" in this report.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

## INDEPENDENT AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by KPMG. A resolution will be proposed at the AGM to re-appoint KPMG as the auditors of the Company.

ON BEHALF OF THE BOARD
**Fusen Pharmaceutical Company Limited**
**Cao Changcheng**
*Chairman and Executive Director*

Hong Kong, 31 March 2021

# Independent Auditor's Report

KPMG

**Independent auditor's report to the shareholders of Fusen Pharmaceutical Company Limited**

*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Fusen Pharmaceutical Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 76 to 156, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 ended 31 December 2020 in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), 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 Hong Kong Institute of Certified Public Accountants ("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"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS *(Continued)*

### Revenue recognition

*Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(w).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| Revenue of the Group mainly comprises sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections to a large number of customers.<br><br>The Group enters into distribution agreements with most of its customers including the terms of delivery and policies for sales rebates. Purchase orders are then placed with the Group for each purchase by the customers, which specify the terms of sales relating to pricing, return and the location of delivery.<br><br>Once the products delivered are accepted by the customers, control over the goods is considered to have been transferred to the customers and revenue is recognised accordingly.<br><br>We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations. | Our audit procedures to assess the timing of revenue recognition included the following:<br><br>• obtaining an understanding of and assessing the design and, effectiveness of implementation of management's key internal controls in relation to revenue recognition;<br><br>• inspecting agreements and purchase orders with customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and/or acceptance and any sales return arrangements to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;<br><br>• comparing the revenue recorded during the financial year, on a sample basis, to the purchase orders, goods delivery notes, customers' acknowledge of receipt and delivery records, where applicable;<br><br>• comparing the quantity of goods delivered during the year to the record of a third party pharmaceutical products tracking system;<br><br>• inspecting goods delivery notes and/or delivery records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end date have been recognised in the appropriate financial period on the basis of the terms of sale as set out in the purchase orders; and<br><br>• inspecting underlying documentation for adjustments relating to revenue raised during the year which met specific risk-based criteria. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

The directors 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. This 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 March 2021

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020 (Expressed in RMB'000 unless otherwise indicated)

| | Note | Year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Revenue** | 4 | **486,854** | 407,388 |
| Cost of sales | | **(220,787)** | (194,900) |
| **Gross profit** | | **266,067** | 212,488 |
| Other net income | 5 | **4,734** | 25,194 |
| Selling and distribution expenses | | **(107,407)** | (112,805) |
| General and administrative expenses | | **(78,874)** | (58,729) |
| Impairment loss on goodwill and intangible assets | 16&17 | **(22,637)** | – |
| **Profit from operations** | | **61,883** | 66,148 |
| Finance income | | **1,429** | 3,663 |
| Finance costs | | **(9,159)** | (10,532) |
| Net finance costs | 6 | **(7,730)** | (6,869) |
| Share of profit of a joint venture | | **24,252** | 4,535 |
| **Profit before taxation** | 7 | **78,405** | 63,814 |
| Income tax | 8 | **(15,737)** | (11,555) |
| **Profit for the year** | | **62,668** | 52,259 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **70,131** | 53,434 |
| Non-controlling interests | | **(7,463)** | (1,175) |
| **Profit for the year** | | **62,668** | 52,259 |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

For the year ended 31 December 2020 (Expressed in RMB'000 unless otherwise indicated)

| | Note | Year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Other comprehensive income for the year (after tax)** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| — Exchange differences on translation of financial statements of the Company and overseas subsidiaries | | **(2,072)** | 5,230 |
| **Other comprehensive income for the year** | | **(2,072)** | 5,230 |
| **Total comprehensive income for the year** | | **60,596** | 57,489 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **68,059** | 58,664 |
| Non-controlling interests | | **(7,463)** | (1,175) |
| **Total comprehensive income for the year** | | **60,596** | 57,489 |
| **Earnings per share** | 11 | | |
| Basic (RMB cents) | | **9** | 7 |
| Diluted (RMB cents) | | **9** | 7 |

The notes on pages 83 to 156 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 12.

# Consolidated Statement of Financial Position

As at 31 December 2020 (Expressed in RMB'000 unless otherwise indicated)

| | Note | As at 31 December | |
|---|---|---|---|
| | | **2020** | 2019 |
| | | **RMB'000** | RMB'000 |
| **Non-current assets** | | | |
| Investment property | 14 | **18,713** | 19,821 |
| Other property, plant and equipment | 14 | **238,002** | 124,676 |
| Right-of-use assets | 15 | **247,926** | 253,980 |
| Intangible assets | 16 | **883** | 16,666 |
| Goodwill | 17 | **–** | 7,054 |
| Interest in a joint venture | 19 | **67,648** | 72,103 |
| Deferred tax assets | 29(b) | **5,709** | 5,408 |
| Other assets | | **2,099** | 2,126 |
| | | **580,980** | 501,834 |
| **Current assets** | | | |
| Trading securities | 20 | **15,489** | – |
| Inventories | 21 | **105,415** | 88,404 |
| Trade receivables | 22 | **183,930** | 170,164 |
| Prepayments and other receivables | 23 | **58,495** | 84,783 |
| Cash and cash equivalents | 24 | **297,038** | 331,044 |
| | | **660,367** | 674,395 |
| **Current liabilities** | | | |
| Trade and bills payables | 25 | **108,585** | 68,898 |
| Contract liabilities | 26 | **13,581** | 3,796 |
| Accruals and other payables | 27 | **242,514** | 194,614 |
| Bank and other loans | 28 | **178,500** | 190,000 |
| Current taxation | 29(a) | **1,665** | 3,498 |
| Other financial liabilities | | **2,761** | – |
| | | **547,606** | 460,806 |
| **Net current assets** | | **112,761** | 213,589 |
| **Total assets less current liabilities** | | **693,741** | 715,423 |

# Consolidated Statement of Financial Position *(Continued)*

As at 31 December 2020 (Expressed in RMB'000 unless otherwise indicated)

| | Note | As at 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income | | **8,359** | 6,752 |
| Bank and other loans | 28 | **20,000** | 20,000 |
| Deferred tax liabilities | 29(b) | **7,133** | 7,131 |
| | | **35,492** | 33,883 |
| **Net assets** | | **658,249** | 681,540 |
| **Capital and reserves** | | | |
| Share capital | 30(b) | **6,513** | 6,732 |
| Reserves | 30(c) | **652,929** | 666,713 |
| Total equity attributable to equity shareholders of the Company | | **659,442** | 673,445 |
| Non-controlling interests | | **(1,193)** | 8,095 |
| **Total equity** | | **658,249** | 681,540 |

Approved and authorised for issue by the board of directors on 31 March 2021 and signed on behalf of the board by:

**Cao Changcheng**
*Director*

**Cao Zhiming**
*Director*

The notes on pages 83 to 156 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020 (Expressed in RMB'000 unless otherwise indicated)

| | | Attributable to equity shareholders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 (Note 30(b)) | Share premium RMB'000 (Note 30(c)(i)) | Treasury shares reserve RMB'000 (Note 30(c)(iii)) | Capital redemption reserve RMB'000 (Note 30(c)(iii)) | Statutory surplus reserves RMB'000 (Note 30(c)(ii)) | Share option reserve RMB'000 (Note 30(c)(iv)) | Other reserves RMB'000 (Note 30(c)(v)) | Exchange reserve RMB'000 (Note 30(c)(vi)) | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2019** | | 6,732 | 384,263 | – | – | 54,071 | – | (12,769) | 12,430 | 169,208 | 613,935 | 2,164 | 616,099 |
| Profit for the year | | – | – | – | – | – | – | – | – | 53,434 | 53,434 | (1,175) | 52,259 |
| Other comprehensive income | | – | – | – | – | – | – | – | 5,230 | – | 5,230 | – | 5,230 |
| Total comprehensive income for the year | | – | – | – | – | – | – | – | 5,230 | 53,434 | 58,664 | (1,175) | 57,489 |
| Acquisition of non-controlling interests in a subsidiary | | – | – | – | – | – | – | 143 | – | – | 143 | (174) | (31) |
| Acquisition of a subsidiary | | – | – | – | – | – | – | – | – | – | – | 7,322 | 7,322 |
| Equity settled share-based transactions | 13 | – | – | – | – | – | 9,023 | – | – | – | 9,023 | – | 9,023 |
| Dividends declared | 12 | – | (8,320) | – | – | – | – | – | – | – | (8,320) | – | (8,320) |
| Distribution to non-controlling interests | | – | – | – | – | – | – | – | – | – | – | (42) | (42) |
| **Balance at 31 December 2019 and 1 January 2020** | | **6,732** | **375,943** | **–** | **–** | **54,071** | **9,023** | **(12,626)** | **17,660** | **222,642** | **673,445** | **8,095** | **681,540** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **70,131** | **70,131** | **(7,463)** | **62,668** |
| Other comprehensive income | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,072)** | **–** | **(2,072)** | **–** | **(2,072)** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,072)** | **70,131** | **68,059** | **(7,463)** | **60,596** |
| Acquisition of non-controlling interests in a subsidiary | | **–** | **–** | **–** | **–** | **–** | **–** | **1,495** | **–** | **–** | **1,495** | **(1,825)** | **(330)** |
| Equity settled share-based transactions | 13 | **–** | **–** | **–** | **–** | **–** | **17,632** | **–** | **–** | **–** | **17,632** | **–** | **17,632** |
| Dividends declared | 12 | **–** | **(6,396)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(6,396)** | **–** | **(6,396)** |
| Purchase of own shares | 30(c)(iii) | **–** | **(94,544)** | **(249)** | **–** | **–** | **–** | **–** | **–** | **–** | **(94,793)** | **–** | **(94,793)** |
| Cancellation of treasury shares | 30(c)(iii) | | | | | | | | | | | | |
| — Par value | | **(219)** | **–** | **219** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| — Transfer between reserves | | **–** | **(219)** | **–** | **219** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Balance at 31 December 2020** | | **6,513** | **274,784** | **(30)** | **219** | **54,071** | **26,655** | **(11,131)** | **15,588** | **292,773** | **659,442** | **(1,193)** | **658,249** |

Note: The capital redemption reserve comprises the par value of the cancelled shares of the Company transferred from share premium pursuant to Companies Law (2020 Revision) of the Cayman Islands.

The notes on pages 83 to 156 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2020 (Expressed in RMB'000 unless otherwise indicated)

| | Note | Year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **78,405** | 63,814 |
| Adjustments for: | | | |
| Depreciation and amortisation | 7(b) | **22,457** | 21,232 |
| Realisation of deferred income | | **(615)** | (690) |
| Net finance costs | | **5,632** | 5,528 |
| Recognition/(reversal) of credit losses on trade and other receivables | 7(b) | **4,961** | (769) |
| Net loss on disposal of assets | | **181** | 11 |
| Share of profit of a joint venture | | **(24,252)** | (4,535) |
| Equity settled share-based transactions | 13 | **17,632** | 4,421 |
| Impairment loss on goodwill and intangible assets | | **22,637** | – |
| Net realised and unrealised gains of listed trading securities on fair value through profit or loss ("FVPL") | | **(2,966)** | – |
| Unrealised net loss on derivative financial instruments | | **2,761** | – |
| Changes in working capital | | | |
| (Increase)/decrease in inventories | | **(17,011)** | 52,383 |
| Increase in trade receivables | | **(12,314)** | (48,643) |
| (Increase)/decrease in prepayments and other receivables | | **(2,565)** | 16,899 |
| Increase/(decrease) in trade and bills payables | | **39,687** | (68,725) |
| Increase/(decrease) in accruals and other payables | | **24,439** | (13,885) |
| Increase/(decrease) in contract liabilities | | **9,785** | (2,369) |
| Increase in deferred income | | **2,222** | 2,970 |
| Decrease in restricted deposits, net | | **–** | 13,707 |
| Cash generated from operations | | **171,076** | 41,349 |
| Income tax paid | 29 | **(17,869)** | (20,959) |
| Net cash generated from operating activities | | **153,207** | 20,390 |

# Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2020 (Expressed in RMB'000 unless otherwise indicated)

| | Note | Year ended 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Advances to related parties | 33 | – | (257,570) |
| Repaid by related parties | 33 | – | 257,570 |
| Payment for the purchase of property, plant and equipment | | **(58,645)** | (57,817) |
| Payment for the addition of right-of-use assets | | – | (142,453) |
| Payment to acquire interest of a joint venture | | – | (62,966) |
| Proceeds from sales of property, plant and equipment | | **82** | 30 |
| Acquisition of subsidiary, net of cash acquired | | – | (12) |
| Interest received | | **2,889** | 1,966 |
| Purchases of trading securities | | **(76,456)** | – |
| Proceeds from sale of trading securities | | **63,933** | – |
| Net cash used in investing activities | | **(68,197)** | (261,252) |
| **Financing activities** | | | |
| Proceeds from bank and other loans | 24(b) | **210,873** | 120,000 |
| Repayments of bank and other loans | 24(b) | **(220,000)** | (100,000) |
| Borrowing costs paid | 24(b) | **(8,935)** | (9,168) |
| Dividends paid | 12 | **(3,145)** | (5,313) |
| Acquisition of non-controlling interests in a subsidiary | | **(330)** | (31) |
| Distribution to non-controlling interests | | – | (42) |
| Payment for purchase of own shares | | **(94,793)** | – |
| Net cash (used in)/generated from financing activities | | **(116,330)** | 5,446 |
| Net decrease in cash and cash equivalents | | **(31,320)** | (235,416) |
| Cash and cash equivalents at the beginning of the year | 24(a) | **331,044** | 561,108 |
| Effect of foreign exchange rate changes | | **(2,686)** | 5,352 |
| Cash and cash equivalents at the end of the year | 24(a) | **297,038** | 331,044 |

The notes on pages 83 to 156 form part of these financial statements.

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

Fusen Pharmaceutical Company Limited (the "Company") was incorporated in the Cayman Islands on 18 January 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, "the Group") are principally engaged in manufacturing and sale of pharmaceutical products. Details of the subsidiaries are set out in Note 18.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The functional currency of the Company is Hong Kong dollars (HKD). The Company's primary subsidiaries were established in the People's Republic of China (the "PRC") and the subsidiaries considered Renminbi (RMB) as their functional currency. As the operations of the Group are within the PRC, the Group determined to present these financial statements in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost except for derivatives which are stated at fair value as explained in the accounting policy (see Note 2(g)).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements *(Continued)*

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

### (c) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendment to IAS 1 and IAS 8, *Definition of Material*
- Amendments to IFRS 16, *Covid-19-Related Rent Concessions*

None of these amendments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in these consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. In particular, the Group does not take advantage of the practice expedient available under the amendments to IFRS 16, *Covid-19-related Rent Concessions* on lease modifications.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2(r) or (s) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment losses (see Note 2(m)).

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Joint ventures

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 2(f) and (m)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated other comprehensive income in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture (after applying the ECL model to such other long-term interests where applicable (see Note 2(m)(i)).

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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, when the Group ceases to have significant influence over joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in joint venture are stated at cost less impairment losses (see Note 2(m)), unless classified as held for sale (or included in a disposal Group that is classified as held for sale).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (g) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

### (h) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 31(f). These investments are subsequently accounted for as follows, depending on their classification.

**Equity investments**

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(w)(v).

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses (see Note 2(m)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives ranging 20 years. Rental income from investment properties is accounted for as described in Note 2(w)(iv).

When an item of property, plant and equipment is transferred to investment property evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, its cost at the date of reclassification becomes its cost for accounting purposes.

### (j) Other property, plant and equipment

The items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| — Buildings and infrastructure | Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion |
| — Machinery and equipment | 5–10 years |
| — Motor vehicles | 5–10 years |
| — Others | 5 years |

Both the useful life of assets and its residual value, if any, are reviewed annually.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Other property, plant and equipment *(Continued)*

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated at cost less impairment losses (see Note 2(m)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction periods, to the extent that these are regarded as an adjustment to borrowing costs (see Note 2(y)).

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

### (k) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Technological know-how consists of rights to technological know-how for the development and production of general pharmaceutical products which are amortised on a straight-line basis over the estimated economic lives of 10 years commencing in the year when the rights are available for use.

### (l) Leased assets

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Leased assets *(Continued)*

#### (i) As a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(m)(ii)). Right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the unexpired term of lease.

Land use rights, which are leasehold land located in Mainland China, have lease terms of 40–50 years.

#### (ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(w)(iv).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments and contract assets *(Continued)*

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments and contract assets *(Continued)*

*Significant increases in credit risk (Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(w)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

*Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Credit losses and impairment of assets *(Continued)*

#### (ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— investment property;

— other property, plant and equipment;

— right-of-use assets;

— intangible assets;

— goodwill;

— investments in subsidiaries in the Company's statement of financial position; and

— other assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Credit losses and impairment of assets *(Continued)*

#### (ii) Impairment of other non-current assets *(Continued)*

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(m)(i) and (ii)).

### (n) Inventories and other contract costs

#### (i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Inventories and other contract costs *(Continued)*

#### (ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory, property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. The Group takes advantage of practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining a contract as an expense if the amortisation of the asset is less than one year.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(w).

### (o) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(p)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(w)).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(m)(i)).

### (q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(m)(i).

### (r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(y)).

### (s) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Employee benefits

#### (i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as expenses in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

#### (ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the binomial tree model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained earnings).

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (v) Provisions and contingent liabilities

#### (i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Provisions and contingent liabilities (Continued)

#### (ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 2(v)(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 2(v)(i).

### (w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, 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 with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

#### (i) Sale of products

Revenue is recognised when the products delivered are accepted by the customers and control over the goods is considered to have been transferred to the customers. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Revenue and other income *(Continued)*

#### (ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

#### (iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and are recognised in profit or loss over the useful life of the asset as other income.

#### (iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

#### (v) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the year in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (z) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

a. has control or joint control over the Group;

b. has significant influence over the Group; or

c. is a member of the key management personnel of Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

a. The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

c. Both entities are joint ventures of the same third party.

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

e. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

f. The entity is controlled or jointly controlled by a person identified in Note 2(z)(i).

g. A person identified in Note 2(z)(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).

h. 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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set out in Note 2. Other key sources of estimation uncertainty in the preparation of the financial statements are as follows:

### (a) Impairment of non-financial assets

The Group tests whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2(m)(ii). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and the Group's results would be significantly affected. Such impairment losses are recognised in the statement of profit or loss and other comprehensive income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

### (b) Allowance for credit losses

Management estimates credit loss allowance using a provision matrix based on the Group's historical credit loss experience, included customer credit-worthiness, and historical write-off experience, and adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. If the financial conditions of the customers were to deteriorate, additional allowance may be required.

## 4 REVENUE AND SEGMENT REPORTING

### (a) Revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Shuanghuanglian Oral Solutions | **295,241** | 211,570 |
| Shuanghuanglian Injections | **46,036** | 64,585 |
| Others | **145,577** | 131,233 |
| | **486,854** | 407,388 |

Revenue is recognised at a point in time.

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's consolidated revenue in each of financial year ended 31 December 2020 and 2019. Details of concentrations of credit risk are set out in Note 31(a).

No remaining performance obligation under existing contracts has been disclosed as performance obligations under the Group's existing contracts that has an original expected duration of one year or less, thus the Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts.

### (b) Segment information

The Group has one reportable segment. The Group's revenue is substantially generated from the sales of Shuanghuanglian Oral Solutions, Shuanghuanglian Injections and other pharmaceutical products to customers in the PRC. The Group's operating assets and non-current assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

## 5 OTHER NET INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Material and scrap sales income, net | **1,458** | 1,557 |
| Rental income | **601** | 655 |
| Government grants | **2,993** | 3,872 |
| Net realised and unrealised gains of listed trading securities on FVPL | **2,966** | – |
| Unrealised net loss on derivative financial instruments | **(2,761)** | – |
| Write-off of long-term outstanding payables | **–** | 18,883 |
| Others | **(523)** | 227 |
| | **4,734** | 25,194 |

## 6 NET FINANCE COSTS

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Interest income on bank deposit | **1,429** | 1,966 |
| Interest income on advances to a related party | **–** | 1,697 |
| Finance income | **1,429** | 3,663 |
| Interest on bank loans | **9,434** | 9,191 |
| Foreign exchange (gain)/loss, net | **(275)** | 1,341 |
| Finance costs | **9,159** | 10,532 |
| Net finance costs | **(7,730)** | (6,869) |

## 7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

### (a) Staff costs

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Salaries and wages | **55,836** | 49,757 |
| Contributions to defined contribution retirement schemes* | **724** | 7,372 |
| Bonuses and other benefits | **14,108** | 12,699 |
| Share-based payment expenses | **17,632** | – |
| | **88,300** | 69,828 |

* Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees. According to the Notice on Periodic Reduction and Exemption of Corporate Social Insurance (Ren She Bu Fa [2020] No.11) issued by Ministry of Human Resources and Social Security of PRC, Ministry of Finance of PRC and State Taxation Administration of PRC, some subsidiaries of the Group enjoyed a reduction of social insurance payment ranged from 50% to 100% for the period from 1 February 2020 to 31 December 2020.

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

### (b) Other items

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Cost of inventories* | **221,873** | 195,750 |
| Research and development costs | **11,493** | 11,408 |
| Depreciation of investment property and other property, plant and equipment | **16,203** | 15,934 |
| Depreciation of right-of-use assets | **6,054** | 5,098 |
| Amortisation of intangible assets | **200** | 200 |
| Auditors' remuneration — audit services | **3,800** | 4,300 |
| Recognition/(reversal) of credit losses on trade and other receivables | **4,961** | (769) |

* Cost of inventories includes RMB49,515,000 in 2020 (2019: RMB40,732,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

## 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### (a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Current tax — PRC Enterprise Income Tax | | |
| Provision for the year | **17,766** | 12,270 |
| Over-provision in respect of previous years | **(1,730)** | (1,690) |
| | **16,036** | 10,580 |
| Deferred tax | | |
| Origination and reversal of temporary differences | **(299)** | 975 |
| | **15,737** | 11,555 |

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The Group has no assessable profit in Hong Kong for 2020 (2019: Nil) and is not subject to any Hong Kong Profits tax. Hong Kong Profits tax rate of 2020 is 16.5% (2019: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law of the PRC ("the Income Tax Law"), enterprise income tax rate for the Group's PRC subsidiaries for 2020 is 25% (2019: 25%).

According to the Income Tax Law, the Company's subsidiary, Henan Fusen Pharmaceutical Company Limited ("Henan Fusen") was certified as a New and High Technology Enterprise in Henan since 2012, and is entitled to a preferential income tax rate of 15% (2019: 15%). The current certification of New and High Technology Enterprise held by Henan Fusen will be expired on 12 September 2021.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. Cloud Dollar Investments Limited and Wealth Depot (Hong Kong) Limited, subsidiaries of the Company, are subject to PRC dividend withholding tax at 10% on dividends receivables from PRC subsidiaries and investees.

## 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

### (b) Reconciliation between income tax and accounting profit at applicable tax rates:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Profit before taxation | **78,405** | 63,814 |
| Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions | **19,601** | 15,954 |
| Tax effect of | | |
| Preferential income tax rates applicable to a PRC subsidiary | **(11,240)** | (7,726) |
| Non-deductible expenses | **7,956** | 1,596 |
| Share of profit of a joint venture | **(6,063)** | (1,134) |
| Unused tax losses not recognised | **3,315** | 3,011 |
| Over-provision in respect of previous years | **(1,730)** | (1,690) |
| PRC dividends withholding tax | **3,898** | 1,544 |
| Income tax | **15,737** | 11,555 |

## 9 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Retirement scheme contributions RMB'000 | 31 December 2020 total RMB'000 |
|---|---|---|---|---|---|
| **Chairman and executive director** | | | | | |
| Mr. Cao Changcheng ("Mr. Cao") | – | 51 | – | – | 51 |
| **Executive directors** | | | | | |
| Mr. Hou Taisheng | – | 68 | – | – | 68 |
| Mr. Chi Yongsheng | – | 61 | – | – | 61 |
| Ms. Meng Qingfen | – | 69 | – | – | 69 |
| Mr. Cao Zhiming | – | 1,103 | 434 | 31 | 1,568 |
| **Independent non-executive directors** | | | | | |
| Mr. Ho Ka Chun | 91 | – | – | – | 91 |
| Mr. Lee Kwok Tung, Louis | 156 | – | – | – | 156 |
| Mr. Sze Wing Chun | 156 | – | – | – | 156 |
| Dr. To Kit Wa | 39 | – | – | – | 39 |
| | 442 | 1,352 | 434 | 31 | 2,259 |

## 9 DIRECTORS' EMOLUMENTS *(Continued)*

| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Retirement scheme contributions RMB'000 | 31 December 2019 total RMB'000 |
|---|---|---|---|---|---|
| **Chairman and executive director** | | | | | |
| Mr. Cao Changcheng | – | 36 | – | 1 | 37 |
| **Executive directors** | | | | | |
| Mr. Hou Taisheng | – | 40 | – | 6 | 46 |
| Mr. Chi Yongsheng | – | 40 | – | 6 | 46 |
| Ms. Meng Qingfen | – | 40 | – | 6 | 46 |
| Mr. Cao Zhiming | – | 516 | – | 32 | 548 |
| **Non-executive director** | | | | | |
| Mr. Wang Jianhang | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. Ho Ka Chun | 159 | – | – | – | 159 |
| Mr. Shang Lei | 53 | – | – | – | 53 |
| Mr. Lee Kwok Tung, Louis | 106 | – | – | – | 106 |
| Mr. Sze Wing Chun | 159 | – | – | – | 159 |
| | 477 | 672 | – | 51 | 1,200 |

Mr. To Kit Wa was appointed on 15 August 2020. Mr. Ho Ka Chun resigned on 20 July 2020.

Mr. Lee Kwok Tung Louis was appointed on 15 April 2019. Mr. Shang Lei and Mr. Wang Jianhang resigned on 15 April 2019 and 19 July 2019, respectively.

All of the directors were key management personnel of the Group during the reporting periods and their emoluments disclosed above include those for services rendered by them as the key management personnel.

## 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2019: one) of them is director whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the four individuals are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Salaries and allowances | **970** | 1,162 |
| Bonuses and other benefits | **100** | 154 |
| Contributions to pension schemes | **1** | 23 |
| | **1,071** | 1,339 |

The emoluments of the four (2019: four) individuals with the highest emoluments are within the following band:

| | Year ended 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **Number of individuals** | Number of individuals |
| HKD Nil–HKD1,000,000 | **4** | 4 |

## 11 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB70,131,000 (2019: RMB53,434,000) and the weighted average of 786,075,000 ordinary shares (2019: 800,000,000 shares) in issue during the year, calculated as follows:

**Weighted average number of ordinary shares**

| | **2020**<br>**'000** | 2019<br>'000 |
|---|---|---|
| Issued ordinary shares at 1 January | **800,000** | 800,000 |
| Effect of repurchase of shares (Note 30(c)(iii)) | **(13,925)** | – |
| Weighted average number of ordinary shares at 31 December | **786,075** | 800,000 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB70,131,000 (2019: RMB53,434,000) and the weighted average number of issued ordinary shares of 790,163,000 (2019: 802,948,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, calculated as follows:

**Weighted average number of ordinary shares (diluted)**

| | **2020**<br>**'000** | 2019<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares at 31 December | **786,075** | 800,000 |
| Effect of deemed issue of shares under the Company's share option scheme (Note 13) | **4,088** | 2,948 |
| Weighted average number of ordinary shares (diluted) at 31 December | **790,163** | 802,948 |

16,000,000 shares were granted on 19 July 2019 under share option scheme of the Company adopted on 14 June 2018 (the "Share Option Scheme"). On 30 June 2020, the exercise period for the outstanding options was extended and not yet exercised by the grantees as at 31 December 2020.

## 12 DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the year:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Interim dividend declared of RMB0.45 cents (equivalent to HKD0.51 cents) per ordinary share (2019: RMB0.30 cents (equivalent to HKD0.33 cents) per ordinary share) | **3,488** | 2,400 |
| Final dividend proposed after the end of the reporting period of RMB0.46 cents (equivalent to HKD0.54 cents) per ordinary share (2019: RMB0.37 cents (equivalent to HKD0.40 cents) per ordinary share) | **3,525** | 2,960 |

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved during the year, of RMB0.37 cents (equivalent to HKD0.40 cents) per share (2019: RMB0.74 cents (equivalent to HKD0.86 cents) per share) | **2,908** | 5,920 |

During the year ended 31 December 2020, the dividends of RMB3,145,000 were paid to the equity shareholders of the Company (2019: RMB5,313,000).

(Expressed in RMB'000 unless otherwise indicated)

## 13 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 14 June 2018 (the "Adoption Date"), the Company adopted the Share Option Scheme whereby the Board are authorised, at their discretion, to invite employees, director, consultant, adviser and distributor, contractor, business partner or service provider of the Group, to take up options subscribe for shares of the Company. The Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless terminated earlier by the Shareholders in general meeting. The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of 800,000,000 share.

On 19 July 2019, the Company granted 16,000,000 share options to eligible persons (the "Grantees") under the Share Option Scheme. The options vest after three months from the date of grant and are then exercisable within a period of nine months. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

In order to encourage long-term commitment to the Company and to align the interests of the eligible grantees with the Company's development, the Board proposed to extend the exercise period of the outstanding options granted under the Share Option Scheme, such that those options may be exercised over a period of not more than 10 years from the date of grant. The Annual General Meeting held on 30 June 2020 approved the proposed amendment of terms of share options granted, extending the exercise period of the outstanding options for the period from the current expiry date, being 19 July 2020, to 13 June 2028 ("Modification"). The modification took effect on 30 June 2020 ("Modification Date"). Details for the terms and conditions of the grants are set out in Note 13(a).

For the year ended 31 December 2020, the Group recognised share-based payment expenses and other reserve of RMB17,632,000 (2019: Nil). The expenses recognised are the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the Modification Date.

### (a) The terms and conditions of the grants are as follows:

| | | | Number of shares | | |
|---|---|---|---|---|---|
| Date of grant | Vesting date | Expiry date | granted | modified | vested |
| 19 July 2019 | 19 October 2019 | 19 July 2020 | 16,000,000 | (16,000,000) | – |
| 19 July 2019 | 19 October 2019 | 13 June 2028 | – | 16,000,000 | 16,000,000 |
| | | | 16,000,000 | – | 16,000,000 |

The exercise period of the share options granted is from 19 October 2019 to 19 July 2020, after the Modification, the modified options being from 19 July 2019 to 13 June 2028.

(Expressed in RMB'000 unless otherwise indicated)

## 13 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

### (b) The number and weighted average exercise prices of share options are as follows:

No share options mentioned above has been exercised, forfeited or expired during the year of 2020 (2019: Nil).

The options outstanding at 31 December 2020 had an exercise price of HKD3.098 and a weighted average remaining contractual life of seven years and six months.

### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. The fair value of the original and the modified share options, both estimated as at the Modification Date, are summarised below.

**Fair value of share options and assumptions**

| | **The modified share option measured at the Modification Date** | The original share option measured at the Modification Date |
|---|---|---|
| Fair value at measurement date | **HKD1.439** | HKD0.233 |
| Share price | **HKD3.280** | HKD3.280 |
| Exercise price | **HKD3.098** | HKD3.098 |
| Expected volatility (expressed as weighted average volatility used in the modelling under binomial tree model) | **45.90%** | 41.81% |
| Option life (expressed as weighted average life used in the modelling under binomial tree model) | **to 13 June 2028** | to 19 July 2020 |
| Expected dividends | **0.20%** | 0.20% |
| Risk-free interest rate | **0.47%** | 0.10% |

The expected volatility is based on the average historic volatility of the comparable companies (calculated based on the remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on average historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

## 14 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT

### (a) Reconciliation of carrying amount

| | Buildings and infrastructure RMB'000 | Machinery and equipment RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures, and other equipment RMB'000 | Construction in progress RMB'000 | Sub-total RMB'000 | Investment property RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 January 2019 | 172,786 | 78,245 | 10,168 | 5,504 | 3,803 | 270,506 | – | 270,506 |
| Additions | 172 | 3,150 | – | 33 | 2,669 | 6,024 | – | 6,024 |
| Transfers from construction in progress | 2,323 | – | – | – | (2,323) | – | – | – |
| Transfers to investment property | (23,330) | – | – | – | – | (23,330) | 23,330 | – |
| Disposals | – | – | (165) | – | – | (165) | – | (165) |
| At 31 December 2019 and 1 January 2020 | **151,951** | **81,395** | **10,003** | **5,537** | **4,149** | **253,035** | **23,330** | **276,365** |
| Additions | **238** | **7,392** | **–** | **1** | **121,109** | **128,740** | **–** | **128,740** |
| Transfers from construction in progress | **756** | **–** | **–** | **–** | **(756)** | **–** | **–** | **–** |
| Disposals | **–** | **(2,959)** | **(1,312)** | **(7)** | **–** | **(4,278)** | **–** | **(4,278)** |
| At 31 December 2020 | **152,945** | **85,828** | **8,691** | **5,531** | **124,502** | **377,497** | **23,330** | **400,827** |
| **Accumulated amortisation, depreciation and impairment:** | | | | | | | | |
| At 1 January 2019 | (63,216) | (43,637) | (6,683) | (2,525) | – | (116,061) | – | (116,061) |
| Charge for the year | (7,284) | (7,213) | (708) | (175) | – | (15,380) | (554) | (15,934) |
| Transfers to investment property | 2,955 | – | – | – | – | 2,955 | (2,955) | – |
| Written back on disposals | – | – | 127 | – | – | 127 | – | 127 |
| At 31 December 2019 and 1 January 2020 | **(67,545)** | **(50,850)** | **(7,264)** | **(2,700)** | **–** | **(128,359)** | **(3,509)** | **(131,868)** |
| Charge for the year | **(6,872)** | **(7,345)** | **(641)** | **(237)** | **–** | **(15,095)** | **(1,108)** | **(16,203)** |
| Written back on disposals | **–** | **2,706** | **1,246** | **7** | **–** | **3,959** | **–** | **3,959** |
| At 31 December 2020 | **(74,417)** | **(55,489)** | **(6,659)** | **(2,930)** | **–** | **(139,495)** | **(4,617)** | **(144,112)** |
| **Net book value:** | | | | | | | | |
| At 31 December 2020 | 78,528 | 30,339 | 2,032 | 2,601 | 124,502 | 238,002 | 18,713 | 256,715 |
| At 31 December 2019 | **84,406** | **30,545** | **2,739** | **2,837** | **4,149** | **124,676** | **19,821** | **144,497** |

## 14 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (a) Reconciliation of carrying amount *(Continued)*

Notes:

(i) All property, plant and equipment owned by the Group are located in the PRC.

(ii) Certain of the Group's bank borrowings were secured by the Group's property, plant and equipment, which had an aggregate carrying amount of RMB44,190,000 and RMB48,779,000 as of 31 December 2020 and 2019, respectively.

(iii) Construction in progress mainly comprises of costs incurred on establishment of production facilities and warehouse as of 31 December 2020 and 2019.

### (b) Investment property

The Group leases out its self-owned properties in May 2019. The leases run for 3 years.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Within 1 year | **1,682** | 1,682 |
| After 1 year but within 2 years | **701** | 1,682 |
| After 2 years but within 3 years | **–** | 701 |
| | **2,383** | 4,065 |

The fair value of investment property is determined based on the observable quoted price for the similar items in an active market, amounted RMB20,620,000 as at 31 December 2020 (2019: RMB19,874,000). The fair value measure falls into level 3 of the fair value hierarchy.

## 15 RIGHT-OF-USE ASSETS

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2019 | 125,096 |
| Additions | 142,453 |
| At 31 December 2019 and 31 December 2020 | **267,549** |
| **Accumulated amortisation, depreciation and impairment:** | |
| At 1 January 2019 | (8,471) |
| Charge for the year | (5,098) |
| At 31 December 2019 | **(13,569)** |
| Charge for the year | **(6,054)** |
| At 31 December 2020 | **(19,623)** |
| **Net book value:** | |
| At 31 December 2020 | **247,926** |
| At 31 December 2019 | 253,980 |

Notes:

(i) Right-of-use assets represent lump sum payments prepaid upfront to purchase land use rights from the government in the PRC for finite periods and there are no ongoing payments to be made under the terms of the land lease. As at 31 December 2020, the remaining periods of the land use rights ranged from 35 to 49 years (2019: ranged from 36 to 50 years).

In March 2019, the Group paid RMB138,131,000 to obtain land use right in the PRC for 40 years through public land auction. As at 31 December 2020, the Group has acquired the relevant certification.

(ii) As at 31 December 2020 and 2019, certain of the Group's bank borrowings were secured by the Group's land use rights, which had an aggregate carrying amount of RMB114,630,000 and RMB118,202,000, respectively.

(iii) Details of total cash outflow for leases are set out in Note 24(c).

(iv) For the year ended 31 December 2020, expense relating to short-term leases were amounted RMB200,000 (2019: RMB200,000), which are recorded in profit or loss as incurred.

## 16 INTANGIBLE ASSETS

| | Note | Technological know-how RMB'000 | In-progress research and development projects RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2019 | | 2,000 | – | 2,000 |
| Acquisition of a subsidiary | | – | 15,583 | 15,583 |
| At 31 December 2019, 1 January 2020 and 31 December 2020 | | **2,000** | **15,583** | **17,583** |
| **Accumulated amortisation:** | | | | |
| At 1 January 2019 | | (717) | – | (717) |
| Charge for the year | | (200) | – | (200) |
| At 31 December 2019 | | **(917)** | **–** | **(917)** |
| Charge for the year | | **(200)** | **–** | **(200)** |
| At 31 December 2020 | | **(1,117)** | **–** | **(1,117)** |
| **Provision for impairment:** | | | | |
| At 1 January 2019 and 31 December 2019 | | – | – | – |
| Impairment loss | (i) | – | (15,583) | (15,583) |
| At 31 December 2020 | | **–** | **(15,583)** | **(15,583)** |
| **Net book value:** | | | | |
| At 31 December 2020 | | **883** | **–** | **883** |
| At 31 December 2019 | | 1,083 | 15,583 | 16,666 |

The amortisation charge is included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

## 16 INTANGIBLE ASSETS (Continued)

Note:

(i) This item represents the in-progress development projects on pharmaceutical products conducted by Beijing Sanye Mingming Pharmaceutical Technology Company Limited ("Sanye Mingming"), a subsidiary acquired by the Group in 2019.

The Group originally anticipated that there would be broad market prospects and good profitability of these in-progress pharmaceutical products. With change of market and regulatory environment in the current year, these projects were resolved to be terminated by the Group, resulting in the benefit of Sanye Mingming will not be realised as previously expected. The directors of the Company are of the opinion, based on value-in-use calculations, that the carrying amount of this intangible asset of RMB15,583,000 and the goodwill associated with Sanye Mingming of RMB7,054,000 were both fully impaired at 31 December 2020.

## 17 GOODWILL

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2019 | – |
| Additions | 7,054 |
| At 31 December 2019 and 31 December 2020 | **7,054** |
| **Accumulated impairment losses:** | |
| At 1 January 2019 and 31 December 2019 | **–** |
| Impairment loss | **(7,054)** |
| At 31 December 2020 | **(7,054)** |
| **Carrying amount:** | |
| At 31 December 2020 | **–** |
| At 31 December 2019 | 7,054 |

## 17 GOODWILL *(Continued)*

### Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified as follows:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Sanye Mingming | – | 7,054 |

Details of impairment loss on goodwill are set out in Note 16(i).

In 2019, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated at 0% growth rate. The cash flows are discounted using a pre-tax discount rate of 33%. Based on the value-in-use calculations, management considered the goodwill was not impaired as at 31 December 2019.

(Expressed in RMB'000 unless otherwise indicated)

## 18 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Company name | Place of incorporation/ establishment and operations and nature of legal entity | Particulars of issued and paid-up capital | Group's effective interest | Held by the Company | Held by subsidiaries | Principal activities |
| Jinli International Limited | British Virgin Islands | 1 ordinary share | 100% | 100% | – | Investing holding company |
| Wealth Depot (Hong Kong) Limited | Hong Kong | 500,000 ordinary shares | 100% | – | 100% | Investing holding company |
| Cloud Dollar Investments Limited | Hong Kong | 1 ordinary share | 100% | – | 100% | Investing holding company |
| Nanyang Hengsheng Enterprise Management Services Limited* 南陽衡盛企業管理服務有限公司 | The PRC limited liability company | USD8,000,000 | 100% | – | 100% | Investing holding company |
| Henan Fusen Pharmaceutical Company Limited* 河南福森藥業有限公司 | The PRC limited liability company | RMB76,759,800 | 100% | – | 100% | Manufacturing and sale of pharmaceutical products |
| Henan Xichuan Fushan Medicinal Packaging Company Limited* 河南省淅川伏山藥用包材有限責任公司 | The PRC limited liability company | RMB2,280,000 | 87% | – | 87% | Manufacturing and sale of pharmaceutical package materials |
| Beijing Sanye Mingming Pharmaceutical Technology Company Limited* 北京三也明明醫藥科技有限公司 | The PRC limited liability company | RMB3,000,000 | 50%** | – | 50% | Research and development of pharmaceutical products |
| Shanghai Shengkuang Business Management & Consulting Co., Ltd.* 上海盛匡企業管理咨詢有限公司 | The PRC limited liability company | RMB1,000,000 | 100% | – | 100% | Business Management & Consulting |
| Fusen (Shenzhen) Biomedical R & D Co., Ltd.* 福森(深圳)生物醫藥研發有限公司 | The PRC limited liability company | RMB15,000,000 | 100% | – | 100% | Research and development of pharmaceutical products |

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

** The Group is eligible to appoint majority of directors of the Board and direct the relevant activities of Sanye Mingming, and the Group obtained control over Sanye Mingming.

## 18 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to Sanye Mingming, the only subsidiary acquired by the Group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination, for the year ended 31 December 2020 and the period from the acquisition date to 31 December 2019.

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| NCI percentage | **50%** | 50% |
| | | |
| Current assets | **964** | 1,313 |
| Non-current assets | **977** | 15,583 |
| Current liabilities | **(4,327)** | (462) |
| Non-current liabilities | **–** | (3,897) |
| Net assets | **(2,386)** | 12,537 |
| Carrying amount of NCI | **(1,193)** | 6,269 |
| | | |
| Revenue | **–** | – |
| Loss for the year/period | **(14,925)** | (2,105) |
| Total comprehensive income | **(14,925)** | – |
| Loss allocated to NCI | **(7,463)** | (1,053) |
| | | |
| Cash flows from operating activities | **(356)** | (9,704) |
| Cash flows from investing activities | **(734)** | – |
| Cash flows from financing activities | **923** | 8,681 |

(Expressed in RMB'000 unless otherwise indicated)

## 19 INTEREST IN A JOINT VENTURE

Jiangxi Yongfeng Kangde Pharmaceutical Company Limited ("Jiangxi Kangde"), the only joint venture in which the Group participates, is incorporated in the PRC with limited liability and unlisted whose quoted market price is not available. Jiangxi Kangde is principally engaged in importing and sale of a medicine named Kefadim (chemical name: Ceftazidime for injection) in the PRC market.

Details of the Group's interest in the joint venture are as follows:

| Name of the joint venture | Form of business structure | Place of incorporation and business | Particulars of issued and paid-up capital | Proportion of ownership interest: Group's effective interest | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by subsidiaries | Principal activities |
|---|---|---|---|---|---|---|---|
| Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* 江西永豐康德醫藥有限公司 | Incorporated | The PRC | Registered capital RMB14,265,335 | 35.8% | – | 35.8% | Sale of pharmaceutical products |

On 24 December 2019, a capital injection agreement was entered into among Jiangxi Kangde, the Group, the other two individual shareholders and a third party, Hubei Zhongbang Hengtai Pharmaceutical Technology Company Limited* (湖北眾邦恒泰醫藥科技有限公司, "the Investor"), pursuant to which the Investor agreed to inject capital of RMB50,180,000 to Jiangxi Kangde for the subscription of 29.9% equity interest of Jiangxi Kangde. Payment of the capital injection has been settled in June 2020, with Jiangxi Kangde's share capital and capital reserves increased by RMB4,265,000 and RMB45,915,000 respectively. The transaction was completed in late June 2020, with the Group's equity interests in Jiangxi Kangde diluted from 51% to 35.8% since the completion date.

Summarised financial information of Jiangxi Kangde, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

## 19 INTEREST IN A JOINT VENTURE *(Continued)*

### Gross amounts of Jiangxi Kangde

| | **As at 31 December 2020 RMB'000** | As at 31 December 2019 RMB'000 |
|---|---|---|
| Current assets | **198,470** | 135,286 |
| Non-current assets | **77,779** | 85,760 |
| Current liabilities | **(95,807)** | (85,484) |
| Non-current liabilities | **(17,734)** | (20,439) |
| Equity | **162,708** | 115,123 |
| Included in the above assets and liabilities | | |
| Cash and cash equivalents | **81,801** | 68,324 |

| | **For the year ended 31 December 2020 RMB'000** | For the period from 31 July 2019 to 31 December 2019 RMB'000 |
|---|---|---|
| Revenue | **504,209** | 193,120 |
| Profit from continuing operations | **53,693** | 8,893 |
| Total comprehensive income | **53,693** | 8,893 |
| Included in the above profit: | | |
| Depreciation and amortisation | **8,428** | 3,898 |
| Interest income | **(57)** | (25) |
| Income tax | **18,596** | 7,107 |

## 19 INTEREST IN A JOINT VENTURE *(Continued)*

### Reconciled to the Group's interests in Jiangxi Kangde

| | As at 31 December 2020 RMB'000 | As at 31 December 2019 RMB'000 |
|---|---|---|
| Gross amounts of Jiangxi Kangde's net assets | **162,708** | 115,123 |
| Group's effective interest | **35.8%** | 51.0% |
| Group's share of Jiangxi Kangde's net assets | **58,249** | 58,713 |
| Goodwill arisen on the investment | **9,399** | 13,390 |
| Carrying amount in the Group's interest | **67,648** | 72,103 |

## 20 TRADING SECURITIES

| | As at 31 December | |
|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 |
| Equity securities at FVPL (Note 31(f)) | | |
| — listed in Hong Kong | **15,489** | – |

## 21 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 |
| Raw materials | **37,811** | 46,199 |
| Work in progress | **9,430** | 8,750 |
| Finished goods | **58,174** | 33,455 |
| | **105,415** | 88,404 |

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

| | As at 31 December | |
|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 |
| Carrying amount of inventories sold | | |
| — charged to cost of sales | **220,787** | 194,900 |
| — charged to other net income | **1,086** | 850 |
| Cost of inventories | **221,873** | 195,750 |

## 22 TRADE RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Bills receivable* | **133,529** | 102,517 |
| Trade debtors | **53,958** | 72,656 |
| Less: allowance for credit loss | **(3,557)** | (5,009) |
| | **50,401** | 67,647 |
| | **183,930** | 170,164 |

* At 31 December 2020, the Group's bills receivable of RMB46,346,000 (2019: RMB23,974,000) were endorsed to suppliers. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

### Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 12 months.

As of the end of the year, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Current to 3 months | **42,580** | 57,691 |
| 3 to 6 months | **4,589** | 7,746 |
| 6 to 12 months | **2,813** | 1,855 |
| Over 12 months | **419** | 355 |
| | **50,401** | 67,647 |

Trade debtors and bills receivable are due within 1 month to 6 months from the date of billing. No interests are charged on the trade receivables. Further details on the Group's credit policy are set out in Note 31(a).

## 23 PREPAYMENTS AND OTHER RECEIVABLES

| | Note | As at 31 December | |
|---|---|---|---|
| | | **2020** | 2019 |
| | | **RMB'000** | RMB'000 |
| Dividends receivable | | **28,707** | – |
| Amounts due from related parties | 33 | **736** | 2,197 |
| Prepayments to related parties | 33 | **–** | 99 |
| Prepayments for construction | | **–** | 49,687 |
| Prepayments for raw material and service charges | | **2,088** | 4,645 |
| Others | | **26,964** | 28,155 |
| | | **58,495** | 84,783 |

## 24 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise of:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Bank deposits | **297,038** | 331,044 |

## 24 CASH AND CASH EQUIVALENTS *(Continued)*

### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

| | Bank and other loans RMB'000 (Note 28) | Amounts due to related parties RMB'000 | Interests payable RMB'000 (Note 27) | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2019** | 190,000 | 1,606 | 1,263 | 192,869 |
| **Changes from financing cash flows:** | | | | |
| Proceeds from bank loans | 120,000 | – | – | 120,000 |
| Repayment of bank loans | (100,000) | – | – | (100,000) |
| Borrowing costs paid | – | – | (9,168) | (9,168) |
| Total changes from financing cash flows | 20,000 | – | (9,168) | 10,832 |
| **Other change** | | | | |
| Interest on bank loans (Note 6) | – | – | 9,191 | 9,191 |
| Total other change | – | – | 9,191 | 9,191 |
| **At 31 December 2019 and 1 January 2020** | **210,000** | **1,606** | **1,286** | **212,892** |
| **Changes from financing cash flows:** | | | | |
| Proceeds from bank and other loans | **210,873** | **–** | **–** | **210,873** |
| Repayment of bank and other loans | **(220,000)** | **–** | **–** | **(220,000)** |
| Borrowing costs paid | **–** | **–** | **(8,935)** | **(8,935)** |
| Total changes from financing cash flows | **(9,127)** | **–** | **(8,935)** | **(18,062)** |
| **Other changes** | | | | |
| Interest on bank loans (Note 6) | **–** | **–** | **9,434** | **9,434** |
| Foreign exchange gain, net | **(2,373)** | **–** | **–** | **(2,373)** |
| Total other changes | **(2,373)** | **–** | **9,434** | **7,061** |
| **At 31 December 2020** | **198,500** | **1,606** | **1,785** | **201,891** |

## 24 CASH AND CASH EQUIVALENTS (Continued)

### (c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Within operating cash flows | **200** | 200 |
| Within investing cash flows | **–** | 142,453 |
| | **200** | 142,653 |

## 25 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

| | Note | **As at 31 December** | |
|---|---|---|---|
| | | **2020 RMB'000** | 2019 RMB'000 |
| Trade payables | | | |
| Third parties | | **104,688** | 67,290 |
| Amounts due to related parties | 33 | **3,897** | 1,608 |
| | | **108,585** | 68,898 |

### Ageing analysis

The ageing analysis of trade and bills payables, based on the date of goods or services that have been acquired in the ordinary course of business from suppliers, is as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 |
| Current to 3 months | **77,174** | 48,454 |
| 3 to 6 months | **18,533** | 4,864 |
| 6 to 12 months | **4,454** | 5,959 |
| Over 12 months | **8,424** | 9,621 |
| | **108,585** | 68,898 |

All trade and bills payables are expected to be settled within one year.

For the information of trade payables settled by endorsement of bills receivable, please refer to Note 22.

## 26 CONTRACT LIABILITIES

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Receipts in advance from customers | **13,581** | 3,796 |

Receipts in advance from customers primarily represent advances made by customers for purchases of products before the Group satisfying performance obligations. The Group normally requires certain customers to pay 30%–100% deposits upfront. It would be recognised as revenue upon the delivery of products.

The amount of RMB2,237,000 that was included in the contract liabilities at the beginning of the year has been recognised as revenue in 2020 (2019: RMB6,165,000). All the balances of the contract liabilities at 31 December 2020 are expected to be recognised as revenue within one year.

## 27 ACCRUALS AND OTHER PAYABLES

| | | As at 31 December | |
|---|---|---|---|
| | Note | **2020** | 2019 |
| | | **RMB'000** | RMB'000 |
| Rebate payables | | **31,914** | 22,862 |
| Accrued charges | | **33,449** | 27,931 |
| Amounts due to related parties | 33 | **2,006** | 1,806 |
| Dividends payable | | **9,029** | 6,391 |
| Other tax payables | | **33,897** | 37,278 |
| Salary, bonus and welfare payable | | **63,688** | 55,764 |
| Payables to contractors and equipment suppliers | | **28,574** | 8,193 |
| Deposits from sale staff | | **4,697** | 5,434 |
| Interests payable | | **1,785** | 1,286 |
| Housing fund collected from staff | | **4,296** | 4,300 |
| Fund from local finance bureau* | | **5,887** | 5,887 |
| Others | | **23,292** | 17,482 |
| | | **242,514** | 194,614 |

* These are interest-free and repayable on demand.

All the accruals and other payables are expected to be settled or recognised as profit or loss within one year or are repayable on demand.

## 28 BANK AND OTHER LOANS

| | Note | **2020** Effective interest rate | **2020** RMB'000 | 2019 Effective interest rate | 2019 RMB'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Borrowings from banks | | | | | |
| — secured | (i) | **4.79%** | **95,000** | 4.79% | 100,000 |
| — unsecured | | | | | |
| USD denominated | (ii) | **4.50%** | **46,196** | N/A | – |
| RMB denominated | | **4.79%** | **30,000** | N/A | – |
| Add: current portion of non-current borrowings | | **–** | **–** | 5.15% | 90,000 |
| Other borrowings | | **6.20%** | **7,304** | – | – |
| Total | | | **178,500** | | 190,000 |
| **Non-current** | | | | | |
| Borrowings from banks | | | | | |
| — secured | (i) | **6.98%** | **20,000** | 6.98% | 20,000 |
| Total | | | **20,000** | | 20,000 |

Notes:

(i) As at 31 December 2020, these borrowings were secured by the Group's property, plant and equipment and right-of-use assets. The borrowings at the end of year 2019 were secured by the Group and a related party's property, plant and equipment and right-of-use assets.

(ii) Unless otherwise indicated, the bank and other loans are denominated in RMB.

The borrowings were repayable as follows:

| | As at 31 December **2020** RMB'000 | As at 31 December 2019 RMB'000 |
|---|---|---|
| Within 1 year or on demand | **178,500** | 190,000 |
| After 1 year but within 5 years | **20,000** | 20,000 |
| | **198,500** | 210,000 |

## 29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Current taxation in the consolidated statement of financial position represents:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| At 1 January | **3,498** | 13,877 |
| Provision for PRC Income Tax for the year | **17,766** | 12,270 |
| Over-provision in respect of previous years | **(1,730)** | (1,690) |
| PRC Income Tax paid during the year | **(17,869)** | (20,959) |
| At 31 December | **1,665** | 3,498 |

### (b) Movement of each component of deferred tax assets and liabilities:

(i) The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | Government grants | Allowance of credit loss | Depreciation and amortisation | Impairment for property, plant and equipment | Others | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2019 | 34 | 928 | 2,155 | 72 | 1,651 | 4,840 |
| Credited/(charged) to profit or loss | 977 | (186) | (215) | (72) | 64 | 568 |
| At 31 December 2019 and 1 January 2020 | 1,011 | 742 | 1,940 | – | 1,715 | 5,408 |
| Credited/(charged) to profit or loss | 240 | (202) | (215) | – | 478 | 301 |
| At 31 December 2020 | 1,251 | 540 | 1,725 | – | 2,193 | 5,709 |

## 29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

### (b) Movement of each component of deferred tax assets and liabilities: *(Continued)*

(ii) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | PRC dividend withholding tax RMB'000 | Fair value adjustment in respect of net assets acquired in business combination RMB'000 | Total RMB'000 |
|---|---|---|---|
| Deferred tax arising from: | | | |
| At 1 January 2019 | 1,692 | – | 1,692 |
| Acquisition of a subsidiary | – | 3,896 | 3,896 |
| Charged to profit or loss | 1,543 | – | 1,543 |
| At 31 December 2019 and 1 January 2020 | 3,235 | 3,896 | 7,131 |
| Charged/(credited) to profit or loss | 3,898 | (3,896) | 2 |
| At 31 December 2020 | 7,133 | – | 7,133 |

The above recognised deferred tax assets and liabilities cannot be offset.

## 29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

### (c) Deferred tax assets not recognised

As at 31 December 2020, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB9,763,000 (2019: RMB19,072,000) as it is not probable that future taxable profits against which the losses can be utilised will be available.

Tax losses of RMB1,053,000 and RMB8,611,000 will expire in 2024 and 2025, respectively. The remaining unused tax losses do not expire under current tax legislation.

### (d) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends declared to foreign investors from its PRC subsidiaries.

As at 31 December 2020, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted RMB352,158,000 (2019: RMB272,230,000), comprised retained earnings of RMB297,962,000 (2019: RMB218,034,000) and statutory surplus reserve of RMB54,196,000 (2019: RMB54,196,000).

The Company controls the dividend policy of these subsidiaries and it has been determined that 85% of the profit for the year ended 31 December 2020 (2019: 85%) will not be distributed in the foreseeable future. Also, the Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised relating to the profits resolved not to be distributed in the foreseeable future as mentioned above.

## 30 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Note | Share capital RMB'000 | Share premium RMB'000 | Treasury shares reserve RMB'000 | Capital redemption reserve RMB'000 | Share option reserve RMB'000 | Exchange reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | | 6,732 | 384,263 | – | – | – | 13,568 | (9,737) | 394,826 |
| Loss for the year | | – | – | – | – | – | – | (5,046) | (5,046) |
| Other comprehensive income | | – | – | – | – | – | 9,505 | – | 9,505 |
| Equity settled share-based transactions | 13 | – | – | – | – | 9,023 | – | – | 9,023 |
| Dividends declared | 12 | – | (8,320) | – | – | – | – | – | (8,320) |
| Balance at 31 December 2019 and 1 January 2020 | | 6,732 | 375,943 | – | – | 9,023 | 23,073 | (14,783) | 399,988 |
| Loss for the year | | – | – | – | – | – | – | (11,009) | (11,009) |
| Other comprehensive income | | – | – | – | – | – | (23,106) | – | (23,106) |
| Equity settled share-based transactions | 13 | – | – | – | – | 17,632 | – | – | 17,632 |
| Dividends declared | 12 | – | (6,396) | – | – | – | – | – | (6,396) |
| Purchase of own shares | | – | (94,544) | (249) | – | – | – | – | (94,793) |
| Cancellation of treasury shares | | | | | | | | | |
| — Par value | | (219) | – | 219 | – | – | – | – | – |
| — Transfer between reserves | | – | (219) | – | 219 | – | – | – | – |
| Balance at 31 December 2020 | | 6,513 | 274,784 | (30) | 219 | 26,655 | (33) | (25,792) | 282,316 |

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (b) Share capital

**Company**

| | **2020** No. of shares | **Amount RMB'000** | 2019 No. of shares | Amount RMB'000 |
|---|---|---|---|---|
| Authorised-ordinary shares of HKD0.01 each: | | | | |
| At 1 January and 31 December | **2,000,000,000** | **16,354** | 2,000,000,000 | 16,354 |
| Ordinary shares, issued and fully paid: | | | | |
| At 1 January | **800,000,000** | **6,732** | 800,000,000 | 6,732 |
| Cancellation of treasury shares (Note 30(c)(iii)) | **(25,988,000)** | **(219)** | – | – |
| At 31 December | **774,012,000** | **6,513** | 800,000,000 | 6,732 |

The holders of ordinary shares as at 31 December 2020 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (c) Reserves

#### (i) Share premium

Share premium represented the difference between the par value of shares issued and the amount of net proceeds received from its shareholders of the Company.

#### (ii) Statutory surplus reserves

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory surplus reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory surplus reserve must be made before distribution of dividends to shareholders. The statutory surplus can be utilised to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

#### (iii) Treasury shares reserve and capital redemption reserve

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares. The par value of treasury shares purchased is debited to a reserve called "treasury shares reserve" and the premium to par value is shown as an adjustment to share premium. The cancellation of the shares shall be transferred to a reserve called the "capital redemption reserve", with share premium adjusted accordingly.

| Month/year | Number of shares repurchased | Highest price paid per share HKD | Lowest price paid per share HKD | Aggregate price paid HKD'000 | Number of shares cancelled | Number of treasury shares |
|---|---|---|---|---|---|---|
| May 2020 | 7,701,000 | 3.53 | 3.27 | 26,349 | – | 7,701,000 |
| June 2020 | 10,423,000 | 3.47 | 3.21 | 35,037 | (14,006,000) | 4,118,000 |
| July 2020 | 6,775,000 | 3.51 | 3.14 | 22,506 | – | 10,893,000 |
| August 2020 | – | N/A | N/A | – | (7,531,000) | 3,362,000 |
| September 2020 | 991,000 | 4.64 | 3.81 | 4,349 | (3,362,000) | 991,000 |
| October 2020 | 98,000 | 3.70 | 3.58 | 359 | – | 1,089,000 |
| December 2020 | 3,578,000 | 4.68 | 4.49 | 16,533 | (1,089,000) | 3,578,000 |
| | 29,566,000 | | | 105,133 | (25,988,000) | |

The total amount paid on the repurchased shares was paid wholly out of share premium. As at 31 December 2020, the Group held 3,578,000 of the Company's shares (2019: Nil).

Treasury shares are recognised as deduction from equity in the Group's consolidated statement of financial position.

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (c) Reserves *(Continued)*

#### (iv) Share option reserve

The share option reserve represents the cumulative value of the equity settled share-based transactions granted to employees recognised in accordance with the accounting policy adopted for share-based payments in Note 2(t)(ii).

#### (v) Other reserves

Other reserves as at the end of the reporting period mainly included contributions by the shareholders and the difference between the considerations paid by the Group and the share of net assets value of the subsidiary acquired from the non-controlling interests.

#### (vi) Exchange reserve

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in Note 2(x).

### (d) Distributability of reserves

At 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as determined under the Companies Law of the Cayman Islands, was RMB275,614,000 (2019: RMB393,256,000).

### (e) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and bank deposits. Adjusted capital comprises all components of equity.

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (e) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratio at 31 December 2020 and 2019 was as follows:

| | Note | As at 31 December<br>2020<br>RMB'000 | <br>2019<br>RMB'000 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Bank and other loans | 28 | **178,500** | 190,000 |
| **Non-current liabilities:** | | | |
| Bank and other loans | 28 | **20,000** | 20,000 |
| Total debt | | **198,500** | 210,000 |
| Less: Cash and cash equivalents | | **297,038** | 331,044 |
| **Adjusted net debt** | | **(98,538)** | (121,044) |
| Total equity | | **658,249** | 681,540 |
| **Adjusted net debt-to-equity ratio** | | **N/A** | N/A |

Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT

Exposure to credit, liquidity, interest rate, currency and equity price risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from amount due from related parties, other receivables and bank deposits is limited because the counterparties are related parties, banks and financial institutions, for which the Group considers having low credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 0% (2019: 3.8%) and 4.6% (2019: 6.2%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally requires certain customers to pay 30%- 100% deposits upfront and the remaining trade receivables are normally due within 1 to 6 months from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (a) Credit risk *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

| | 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
| Current | **0.8%** | **39,182** | **300** |
| 1–3 months past due | **2.9%** | **9,450** | **276** |
| 4–6 months past due | **13%** | **1,662** | **208** |
| 7–12 months past due | **31%** | **863** | **265** |
| More than 1 year past due | **90%** | **2,801** | **2,508** |
| | | **53,958** | **3,557** |

| | 2019 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
| Current | 0.9% | 31,256 | 281 |
| 1–3 months past due | 3.8% | 33,416 | 1,281 |
| 4–6 months past due | 17% | 4,424 | 752 |
| 7–12 months past due | 36% | 920 | 331 |
| More than 1 year past due | 90% | 2,640 | 2,364 |
| | | 72,656 | 5,009 |

Expected loss rates are based on historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (a) Credit risk *(Continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Balance at 1 January | **5,009** | 6,186 |
| Reversal during the year | **(1,452)** | (1,177) |
| Balance at 31 December | **3,557** | 5,009 |

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, 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 longer term.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (b) Liquidity risk *(Continued)*

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are 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 the Group can be required to pay:

| | As at 31 December 2020 contractual undiscounted cash outflow | | | | | Carrying amounts in the consolidated statement of financial position |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | RMB'000 |
| Bank and other loans | **182,312** | **20,854** | **–** | **–** | **203,166** | **198,500** |
| Trade and bills payables | **108,585** | **–** | **–** | **–** | **108,585** | **108,585** |
| Accruals and other payables | **242,514** | **–** | **–** | **–** | **242,514** | **242,514** |
| Total | **533,411** | **20,854** | **–** | **–** | **554,265** | **549,599** |

| | As at 31 December 2019 contractual undiscounted cash outflow | | | | | Carrying amounts in the consolidated statement of financial position |
|---|---|---|---|---|---|---|
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | RMB'000 |
| Bank loans | 196,193 | 1,397 | 20,854 | – | 218,444 | 210,000 |
| Trade and bills payables | 68,898 | – | – | – | 68,898 | 68,898 |
| Accruals and other payables | 194,614 | – | – | – | 194,614 | 194,614 |
| Total | 459,705 | 1,397 | 20,854 | – | 481,956 | 473,512 |

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT (Continued)

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank and other loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's net interest-bearing liabilities at the end of the year:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Effective interest rate** | **RMB'000** | Effective interest rate | RMB'000 |
| **Fixed rate borrowings:** | | | | |
| Bank loans | **4.50–4.79%** | **76,196** | 6.98% | 20,000 |
| Other borrowings | **6.20%** | **7,304** | N/A | – |
| **Variable rate borrowings:** | | | | |
| Bank loans | **4.79%** | **95,000** | 4.79–5.15% | 190,000 |
| Total | | **178,500** | | 210,000 |

#### (ii) Sensitivity analysis

Increases in interest rates will increase the cost of borrowing, and therefore could have an adverse effect on the Group's financial position. For the year ended 31 December 2020 and 2019, if interest rates on the short-term fixed rate borrowings had increased/decreased 50 basis points while all other variables are held constant, the effect on profit after taxation is approximately RMB404,000 and RMB892,500 respectively.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (d) Currency risk

The Group mainly operates in the PRC and is exposed to foreign currency risk, primarily from cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relates. The currencies giving rise to this risk is primarily USD.

The following table details the Group's major exposure as at 31 December 2020 to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | Exposure to foreign currencies (expressed in RMB) | | | |
|---|---|---|---|---|
| | **As at 31 December 2020** | | As at 31 December 2019 | |
| | **HKD** | **USD** | HKD | USD |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| Cash and cash equivalents | **20,253** | **21,648** | 1 | 24,458 |
| Bank loans | **–** | **(46,196)** | – | – |
| Gross exposure arising from recognised assets and liabilities | **20,253** | **(24,548)** | 1 | 24,458 |
| Notional amounts of a cross-currency swap contract entered | **–** | **(2,761)** | – | – |
| Net exposure | **20,253** | **(27,309)** | 1 | 24,458 |

The Group has entered into certain cross-currency swap contract to mitigate the effect of its foreign currency exposure arising from the bank loans denominated in USD, in which the Group agrees to exchange, at specific intervals, USD principal and interest of the bank loans into Renminbi.

As at 31 December 2020, it is estimated that a general increase/decrease of 5% in foreign exchange rates of HKD to RMB and USD to RMB, with all other variables held constant, would have increased/decreased the Group's profit after taxation and retained profits by approximately RMB(1,013,000) and RMB1,365,000, respectively (2019: RMB Nil and RMB1,039,000).

### (e) Equity price risk

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk in equity securities is mainly concentrated on equity instruments issued by companies operating in pharmaceutical industry sector listed on the Stock Exchange of Hong Kong Limited. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (e) Equity price risk *(Continued)*

**Sensitivity analysis**

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective listed equity instruments increased/(decreased) of 10% (2019: N/A), the Group's other comprehensive income after tax and other components of consolidated equity would have increased/decreased by approximately RMB1,549,000 (2019: N/A) as a result of the increase/decrease in fair value of equity securities.

### (f) Fair values measurement

**Financial assets and liabilities measured at fair value**

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

| | Fair value at 31 December 2020 | Fair value measurements as at 31 December 2020 categorised into | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Listed equity securities | 15,489 | 15,489 | – | – |
| Capped cross currency swap | (2,761) | – | (2,761) | – |

Valuation techniques and inputs used in Level 2 fair value measurements. The fair value of capped cross currency swap is the estimated amount that the Group would receive or pay to transfer the swap at the end of the reporting period, taking into account the spot exchange rate as at the year end.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2020 and 2019.

## 32 COMMITMENTS

Capital commitments outstanding at 31 December 2020 and 2019 not provided for in the financial statements were as follows:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Contracted for | **103,617** | 131,938 |

## 33 MATERIAL RELATED PARTY TRANSACTIONS

In 2020 and 2019, transactions with the following parties are considered as related party transactions:

| Name of party | Relationship with the Group |
|---|---|
| Mr. Cao | Controlling shareholder of the Company |
| Ms. Quan Xiufeng | Mr. Cao's spouse |
| Mr. Cao Zhiming | Executive director and Mr. Cao's son |
| Nanyang Fusen Magnesium Powder Limited<br>南陽福森鎂粉有限公司 | Controlled by Mr. Cao |
| Henan Fusen Organic Forestry and Fruit Limited<br>河南福森有機農林果業有限公司 | Controlled by Mr. Cao |
| Xichuan Fusen Goods and Materials Limited<br>淅川縣福森物資有限公司 | Controlled by Mr. Cao |
| Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited<br>淅川縣福森中藥材種植開發有限公司 | Controlled by Mr. Cao |
| Henan Fusen Great Health Industry Limited<br>河南福森大健康產業有限公司 | Controlled by Mr. Cao |
| Henan Xichuan Rural Commercial Bank Company Limited<br>河南淅川農村商業銀行股份有限公司 | Significant influence exercised by Mr. Cao |

Note: The English translation of the names of the above entities is for reference only. The official names of these entities are in Chinese.

## 33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### (a) Transactions with related parties

In addition to the transactions disclosed elsewhere in the financial statements, the Group has entered into the following material related party transactions during the year:

| | Note | As at 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Purchase of goods | (i) | **37,006** | 29,786 |
| Receiving ancillary services | (ii) | **290** | 270 |
| Advances to related parties | (iii) | **–** | 257,570 |
| Repayment of advances by related parties | (iii) | **–** | 257,570 |
| Interest receivable on advances to a related party | (iii) | **–** | 1,697 |
| Interest paid on loan from a related party | (iv) | **1,420** | 481 |
| (Withdrawal of)/net deposits with a related party | (v) | **(18,570)** | 25,213 |

Notes:

(i) Mainly represent medicinal herbs (lonicera japonica and baikal skullcap root) purchased from Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (淅川縣福森中藥材種植開發有限公司) and Henan Fusen Organic Forestry and Fruit Limited (河南福森有機農林果業有限公司) and steams purchased from Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司).

(ii) Represent amounts paid and payable to Nanyang Fusen Magnesium Powder Limited (南陽福森鎂粉有限公司) and Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司) in respect of ancillary services such as short-term leases of premises and other services.

(iii) Represent advances to Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (淅川縣福森中藥材種植開發有限公司). Certain advances bore interest with rate of 5.22% for the year ended 31 December 2019.

(iv) In August 2019, the Group borrowed a loan from Henan Xichuan Rural Commercial Bank Company Limited (河南淅川農村商業銀行股份有限公司) of RMB20,000,000 with a maturity period of 3 years and interest rate of 6.98% per annum. The loan was secured by the Group's property, plant and equipment and land use rights. In September 2019, Henan Xichuan Rural Commercial Bank Company Limited becomes a related party of the Group. The interest expenses for the period from September 2019 to December 2019 were disclosed as related party transactions

(v) Represent net deposits placed in Henan Xichuan Rural Commercial Bank Company Limited.

## 33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Salaries and wages | **2,246** | 2,054 |
| Retirement benefits | **31** | 57 |
| Bonuses and other benefits | **434** | – |
| | **2,711** | 2,111 |

Total remuneration is disclosed in "staff costs" (see Note 7(a)).

### (c) Balances with related parties

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Prepayment and other receivables | **736** | 2,296 |
| Trade and bills payables | **3,897** | 1,608 |
| Accruals and other payables | **2,006** | 1,806 |
| Cash and cash equivalents | **28,516** | 47,086 |
| Bank loans | **20,000** | 20,000 |

Except for bank loans, other amounts due to or from related parties are unsecured, interest-free and repayable or receivable on demand.

## 33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Financial guarantees with related parties

Financial guarantees and pledges provided to the Group in respect of banking facilities

| | As at 31 December | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Pledges | – | 45,494 |

When the borrowings are guaranteed by related parties and secured by related parties' property, plant and equipment and land use rights simultaneously, the pledges provided by related parties is based on the appraised amount of relevant assets on the pledge contracts.

### (e) Applicability of the Listing Rules relating to connected transactions

During the year, the related party transactions in respect of purchase of medicinal herbs from and advances to Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (淅川縣福森中藥材種植開發有限公司) as mentioned in Note 33(a)(i) constitute continuing connected transactions and connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Report of the Directors.

The loans from and the deposits placed in the financial institution — Henan Xichuan Rural Commercial Bank Company Limited (河南淅川農村商業銀行股份有限公司) as disclosed in Note 33(a)(iv) and Note 33(a)(v) do not constitute connected transactions as the directors considered that Henan Xichuan Rural Commercial Bank Company Limited was not a connected person of the Group as defined in Chapter 14A of the Listing Rules.

Except for the above, the directors considered all other transactions in 2020 disclosed in Note 33(a) are exempted according to 14A.76(1)(c) of the Listing Rules.

## 34 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2020, the directors consider the immediate parent of the Company to be Full Bliss Holdings Limited and the ultimate controlling party of the Company to be Mr. Cao Changcheng.

## 35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | **225,946** | 220,385 |
| **Current assets** | | | |
| Prepayments and other receivables | | **31,934** | 45,943 |
| Trading securities | | **15,489** | – |
| Cash and cash equivalents | | **18,483** | 140,051 |
| | | **65,906** | 185,994 |
| **Current liabilities** | | | |
| Accruals and other payables | | **9,536** | 6,391 |
| **Net current assets** | | **56,370** | 179,603 |
| **Total assets less current liabilities** | | **282,316** | 399,988 |
| **Net assets** | | **282,316** | 399,988 |
| **Capital and reserves** | | | |
| Share capital | 30(b) | **6,513** | 6,732 |
| Reserves | 30(c) | **275,803** | 393,256 |
| **Total equity** | | **282,316** | 399,988 |

(Expressed in RMB'000 unless otherwise indicated)

## 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | Effective for years beginning on or after |
|---|---|
| Amendments to IFRS 3, Reference to the Conceptual Framework | 1 January 2022 |
| Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use | 1 January 2022 |
| Amendments to IAS 37, Onerous Contracts — Cost of Fulfilling a Contract | 1 January 2022 |
| Annual Improvements to IFRSs 2018–2020 Cycle | 1 January 2022 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## 37 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

### (a) Proposed dividend

After the end of the reporting period, the Board of Directors proposed a final dividend for 2020. For detail, please refer to Note 12.

### (b) Investment Framework Agreement

On 31 December 2020, Weihai Rensheng Pharmaceutical Group Company Limited ("Weihai Rensheng"), Weihai Haoyang Health Technology Company Limited ("Weihai Haoyang", having 43.35% equity interest in Weihai Rensheng), Mr. Miao Qizhuang*("Mr. Miao", having 13.99% in Weihai Rensheng and also 98.9% in Weihai Haoyang) and Henan Fusen entered into an investment framework agreement ("Agreement") for the acquisition of 34% of the equity interest of Weihai Rensheng by Henan Fusen from Weihai Haoyang.

Pursuant to the Agreement, Henan Fusen has agreed to (1) enter into a loan agreement, pursuant to which Henan Fusen will lend to Weihai Haoyang the loan with a principal amount of RMB90,000,000; and (2) enter into the sale and purchase agreement, pursuant to which Henan Fusen will conditionally acquire and Weihai Haoyang will conditionally sell 34% of the equity interest of Weihai Rensheng at a consideration of RMB153,000,000. The loan of RMB90,000,000 has been lent to Weihai Haoyang subsequent to year end. The acquisition of equity interests of Weihai Haoyang is yet to complete.

Weihai Rensheng is principally engaged in the production and sale of proprietary Chinese medicine in the PRC. The Group considers the Agreement an opportunity for the Group to leverage on the experience and expertise of Weihai Rensheng in the sales and production of proprietary Chinese medicine in the PRC to expand the existing product offering of the Group.

Upon completion of the Sale and Purchase Agreement, Weihai Rensheng will be owned as to approximately 35.9%, 34.0%, 15.8% and 14.3% by Weihai Haoyang, Henan Fusen, Mr. Miao and the senior management of Weihai Rensheng, respectively.

## 38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 31 March 2021.