現代中藥集團有限公司
Modern Chinese Medicine Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1643

ANNUAL REPORT 2020

Contents

Important:

This report has been prepared in both Chinese and English. In the event of any discrepancy between the two versions, the English version shall prevail.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Xie Wei (Chairman)
Ms. Zhang Hongli (Chief Executive Officer)
Mr. Li Jinglian
Mr. Jiang Zhendong

Independent non-executive Directors
Ms. Liu Ling
Mr. Leung Tsz Wing
Mr. Chan Kam Leung

Audit Committee
Mr. Leung Tsz Wing (Chairman)
Ms. Liu Ling
Mr. Chan Kam Leung

Remuneration Committee
Ms. Liu Ling (Chairlady)
Ms. Zhang Hongli
Mr. Chan Kam Leung

Nomination Committee
Mr. Chan Kam Leung (Chairman)
Mr. Jiang Zhendong
Ms. Liu Ling

COMPANY SECRETARY
Ms. Lau Ching Sze

AUTHORISED REPRESENTATIVES
Ms. Zhang Hongli
Ms. Lau Ching Sze

INDEPENDENT AUDITOR
Mazars CPA Limited
Certified Public Accountants
42nd Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

COMPLIANCE ADVISER
Soochow Securities International Capital Limited
Level 17, Three Pacific Place
1 Queen's Road East
Hong Kong

LEGAL ADVISER
King & Wood Mallesons
13th Floor Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKER
Bank of China Limited
Longhua Branch
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Longhua County, Chengde City
Hebei Province
PRC

REGISTERED OFFICE
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CORPORATE HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA
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Hebei Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS
Ogier Global (Cayman) Limited
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Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Tricor Investor Services Limited
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STOCK CODE
1643

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Modern Chinese Medicine Group Co., Ltd. (the "Company" and together with its subsidiaries collectively referred to as the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2020 for shareholder's review.

The Group is a well-established traditional Chinese medicine manufacturing group with a long history. It offers both over-the-counter and prescribed medicines intended for use by the middle-aged and the elderly. With strong support from all shareholders of the Company (the "Shareholders"), the shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 January 2021 (the "Listing"). The shares offered through the public offering received a positive response from the investment community. On behalf of the Board, I would like to express my sincere gratitude to all Shareholders and professional parties for their dedication and encouragement.

During the year ended 31 December 2020, the Group recorded a strong growth despite the headwinds caused by the downward pressure on the Chinese economy. The Group's revenue increased by about 41.1% to approximately RMB308.7 million as compared to that of approximately RMB218.8 million for the year ended 31 December 2019. The net profit of the Group increased to approximately RMB63.6 million, representing an increase of about 37.5% compared to that of the year ended 31 December 2019..

BUSINESS REVIEW

In 2020, the Group has been striving to enhance management of production to achieve higher efficiency as well as to provide foundation for its overall development in the future. Currently the production facilities are approaching its full production capacities and hence the Group aims to expand the production capacities by building a new workshop and establishing a new extraction line in order to meet the increasing demands.

In terms of sales, the Group actively broadened the sales network and optimised its sales channel structure with support of an effective marketing plan to increase the market penetration. When the COVID-19 outbreak occurred in early 2020, the Group has closely monitored the development of the pandemic and continued to pay attention on the impact on sales and many other aspects. The Group utilised its diversified product portfolio to produce certain proprietary Chinese medicine ("PCM") products, namely Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), which were believed to have the intended therapeutic effect for treatment of the symptoms of COVID-19 and/or similar illness. To this end, the Group has met the market demands and fulfilled the social responsibility as a pharmaceutical enterprise amidst a pandemic.

With innovation and research and development as the core driving factors, the Group focuses on maintaining its competitive edge and advantages by engaging external partners for the support of implementation of major projects and efforts in new product development. During the year ended 31 December 2020, the Group continued to increase the research and development expenses to approximately RMB10.2 million, representing an increase of about 22.9% as compared to that of approximately RMB8.3 million for the year ended 31 December 2019. In addition, the Group's marketing department have established an interactive and integrated system to evaluate the market demands and enhance product quality. It is believed that the Group is able to unleash further potential to achieve sustainable growth.

OUTLOOK AND PROSPECTS

2020 was a year of challenges and opportunities to the PCM industry of The People's Republic of China (the "PRC"). While the COVID-19 pandemic may have posed difficulties to the production and operation of some pharmaceutical companies, the industry overall is still experiencing solid growth with favourable support from various government policies of promoting PCM industry. The pandemic has also brought the outstanding contribution of the traditional Chinese medicine to the limelight; certain PCM products have been recommended by the PRC Government for the treatment of the symptoms of COVID-19 and/or similar illness.

The Group has confidence in the future prospects of the economy of the PRC as well as the PCM industry. We believe that new investments and consumption growth will bring opportunities to the PCM industry. Leveraging on our product expertise, established brand name and seasoned management team, and through our experienced sales and marketing team, we will continue to implement our long-term growth strategies, seize all the developmental opportunities arising from the promotion of inheritance and innovation of traditional Chinese medicine by the PRC Government and strive to consolidate the Group's market position, creating greater value for our Shareholders.

In addition, the COVID-19 pandemic has raised public awareness of healthcare, altered public's consumption pattern and shopping habits. The Group will continue to evaluate and consider the development of different online channels by identifying distributors with such capability. The Group aims to further strengthen its brand image and capture potential growth from online and offline integration.

Xie Wei
Chairman and Executive Director
Modern Chinese Medicine Group Co., Ltd.

26 March 2021

GENERAL OVERVIEW

The Group is principally engaged in the production of PCM, in particular over-the-counter and prescribed medicines intended for use by the middle-aged and the elderly in the PRC. The Group currently has about 60 types of PCM products, the major products of which include Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

The Group is considered as one of the leading companies engaged in the production of PCM in terms of the sales of Qi (氣)–deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC in 2019. Generally, the intended therapeutic effects of the Group's major products are for the treatment and/or alleviation of (i) Qi (氣)–deficiency and blood-stasis condition; (ii) cardio-cerebrovascular condition; (iii) digestive and gastrointestinal condition; and (iv) gynaecological condition. At the same time, some of the Group's major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

In view of the unfulfilled demand for Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) in Northeast and Huanan (華南) in the PRC, the Group has focused and broadened the distribution network in these regions since the year of 2015. Such move was proven to be successful as evidenced by the increase of approximately 239.1% in total revenue derived from Northeast and Huanan (華南) in the PRC over the four years' period from 2017 to 2020.

The Group has currently established a distribution network of over 70 distributors covering about 40 cities in the PRC, which are in turn served and administered by over 30 marketing staff members with relevant experience in the traditional Chinese medicine industry. It is believed that the Group's distribution network and distributorship model will continue to support further development of the Group's business operations in the foreseeable future. In addition, it is also considered that the distribution network would not only help to develop the business operations geographically from Northeast to other areas in the PRC, but also allow the Group to penetrate in reasonably extensive width and breadth in Northeast, the PRC, where the Group is strategically targeting at in view of the Group's established footprint and the large population there. For the year ended 31 December 2020 (the "Year 2020"), the revenue contribution from Northeast, the PRC was approximately 53.4% (2019: approximately 55.0%) of the Group's total revenue.

BUSINESS STRATEGIES AND IMPLEMENTATION PLAN

The shares (the "Shares") of the Company were listed on 15 January 2021 and therefore the proceeds from the issuance of 150,000,000 new ordinary shares of the Company of HK$0.01 each by way of global offering (the "Global Offering") were received subsequent to the Year 2020. Hence, the implementation plan for the business strategies as stated in the prospectus of the Company dated 31 December 2020 (the "Prospectus") has not yet commenced during the Year 2020. The net proceeds from the Global Offering, after deduction of the underwriting fees and commissions and expenses of the Company in connection with the Global Offering, amounted to approximately HK$114.1 million. The Group is in its preliminary stage of implementing its business strategies and intended to utilise the fund raised from the Global Offering in accordance with the purposes stated in the Prospectus. The table below sets out the planned allocations of the net proceeds:

Net proceeds from the Global Offering *(HK$)*	**Approximate % of use of proceeds**	**Intended use of proceeds**
51.7 million	45.3	Enhancing and expanding the production capacity to further produce the major prescribed medicine, in particular the major capsule products with the intended effect of treating/alleviating cardio-cerebrovascular (心腦血管) condition
19.7 million	17.3	Broadening the distribution network in Huanan (華南) and Huadong (華東) in the PRC
12.0 million	10.5	Raising the brand awareness through media marketing and promotion efforts
23.4 million	20.5	Further raising the research and development ("R&D") efforts, procuring quality management equipment and broadening the product portfolio
4.0 million	3.5	Upgrading the IT system
3.3 million	2.9	Increasing general working capital
114.1 million	100.0	

As disclosed in the Prospectus, the Group intends to apply approximately HK$51.7 million to enhance and expand the production capacity, and the relevant construction was intended to commence by the 1st quarter of 2021. As at the date of this annual report, the Group is applying necessary permit(s) to commence the said construction; notwithstanding the foregoing, the Group considers there is enough time to commence trial production by the 2nd quarter of 2022 as disclosed in the Prospectus. In any event, the Group will keep its Shareholders informed regarding the progress and will announce timely should there be any material delay of the same. The unused proceeds are currently placed into authorised financial institution(s) and/or licensed entity(ies). As at the date of this annual report, there was no change for the intended use of proceeds as disclosed in the Prospectus.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB308.7 million for the Year 2020, representing an increase of approximately RMB89.9 million or 41.1% as compared to the year ended 31 December 2019. The increase in revenue was primarily driven by the surge in revenue generated from the sales of two of our major products, namely Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) which were believed to have an intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) were the top selling products for both of the Year 2020 and the year ended 31 December 2019. These two products contributed approximately 38.3% and 40.8% of the Group's total revenue for the Year 2020 and the year ended 31 December 2019, respectively. This slight decrease in percentage of revenue derived from these two products in the Year 2020 is considered to be attributable to the surging demand of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

Other than Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), all of our other major products exhibited a decline in percentage of revenue for the Year 2020 as compared to the year ended 31 December 2019 due to the fact that relatively more resources were allocated to the production of these two products in the Year 2020. The percentage of revenue generated from Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) has outweighed such impact.

Details of the Group's revenue breakdown by geographic location are as follows:

	For the year ended 31 December			
	2020		2019	
	RMB'000	***Approximate % of total revenue***	*RMB'000*	*Approximate % of total revenue*
Northeast *(Note (i))*	**164,994**	**53.4**	120,252	55.0
Huadong (華東) *(Note (ii))*	**25,800**	**8.4**	24,885	11.4
Huanan (華南) *(Note (iii))*	**52,335**	**17.0**	33,500	15.3
Huabei (華北) *(Note (iv))*	**55,053**	**17.8**	33,178	15.2
Southwest *(Note (v))*	**6,267**	**2.0**	4,303	2.0
Northwest *(Note (vi))*	**4,243**	**1.4**	2,649	1.1
Total	**308,692**	**100.0**	218,767	100.0

Notes:

(i) Northeast represents Heilongjiang, Jilin, Liaoning, the PRC

(ii) Huadong (華東) represents Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong, the PRC

(iii) Huanan (華南) represents Henan, Hubei, Hunan, Guangxi, Guangdong, Hainan, the PRC

(iv) Huabei (華北) represents Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia, the PRC

(v) Southwest represents Chongqing, Sichuan, Guizhou, Yunnan, Tibet, the PRC

(vi) Northwest represents Shaanxi, Gansu, Qinghai, Ningxia Hui, Xinjiang, the PRC

Northeast remained as the largest contributor to the Group's total revenue for the Year 2020. It contributed over 50% of the Group's total revenue for both the Year 2020 and the year ended 31 December 2019. Sales performance for all other regions other than Northeast for the Year 2020 has, nevertheless, shown an increase in revenue over that of the year ended 31 December 2019. The increase in total revenue by approximately 41.1% for the Year 2020 as compared to that of the year ended 31 December 2019 was mainly due to the growth from Northeast, Huabei (華北) and Huanan (華南) by approximately RMB44.7 million, RMB21.9 million and RMB18.8 million, respectively.

For the Year 2020, the overall gross profit margin decreased slightly to approximately 44.3% as compared to approximately 45.3% for the year ended 31 December 2019. This was mainly due to the decrease in gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸), which resulted from the large increase in the purchase price of Deer Antler (鹿茸), one of the major raw materials for this product for the Year 2020.

For the Year 2020, Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) were two of the major products as they were believed to have the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness. They both had higher gross profit margins due to the surging demand and hence there was no monetary marketing incentives offered during the Year 2020. The higher gross profit margin of these two products have compensated the decrease in gross profit margins of some other major products, in particular, Vigour and Vitality Supplement Pill (補腎填精丸) and Heart Wellness Capsule (心安膠囊).

In any event, the Group manages the overall gross profit margin to ensure overall profitability of the Group while allowing flexible price adjustments for individual products.

OPERATING COSTS AND EXPENSES

Selling and distribution expenses of the Group increased by approximately 27.2% from approximately RMB8.1 million for the year ended 31 December 2019 to approximately RMB10.3 million for the Year 2020. This was mainly due to the increase in logistic expenses by approximately RMB1.0 million resulting from the increase in revenue in the Year 2020, and increase in advertising and promotions by approximately RMB0.9 million spent on the printed media promotion in the Year 2020.

Administrative and other operating expenses consist primarily of staff costs, legal and professional fees, other taxes, R&D costs and others. There was an increase of approximately 54.6% in the administrative and other operating expense for the Year 2020 in comparison with those of the year ended 31 December 2019. This was mainly due to (i) approximately RMB1.9 million increase in R&D costs for the development of a new product Stroke Prevention Capsule (耆丹禦風膠囊) and enhancement of the existing product Heart Wellness Capsule (心安膠囊); (ii) approximately RMB1.5 million increase in the legal and other professional fees; and (iii) increase in promotional expenses of approximately RMB2.7 million for the Company's branding.

Finance costs increased by approximately RMB0.2 million for the Year 2020, which was primarily due to drawdown of a new loan in late December 2019.

OPERATING RESULTS

Profit before taxation increased by approximately 38.6% from approximately RMB65.3 million for the year ended 31 December 2019 to approximately RMB90.5 million for the Year 2020 which was primarily due to the increase in sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) during the Year 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The Shares were successfully listed on the Main Board of the Stock Exchange on 15 January 2021. There has been no change in the capital structure of the Group since then. The Group now funds its business and working capital requirements by using a balanced mix of internal resources, bank borrowings and the net proceeds from the Global Offering. The funding mix will be adjusted depending on the costs of funding and the actual needs of the Group.

As at 31 December 2020, the Group held total assets of approximately RMB209.3 million (31 December 2019: approximately RMB123.1 million), including bank balances and cash of approximately RMB73.2 million (31 December 2019: approximately RMB35.9 million).

As at 31 December 2020, the Group had total liabilities of approximately RMB74.4 million (31 December 2019: approximately RMB54.3 million) which comprises mainly of trade and other payables amounting to approximately RMB61.6 million (31 December 2019: approximately RMB40.0 million).

As at 31 December 2020, the gearing ratio, expressed as a percentage of total loans (including interest-bearing borrowings and lease liabilities) over total equity, was about 3.9% (31 December 2019: approximately 7.3%). This significant reduction was mainly resulted from the increase in total equity as at 31 December 2020.

Notwithstanding the outbreak of COVID-19, the Group considers its liquidity positions and working capital sufficiency have not been materially affected.

CONTINGENT LIABILITIES

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

The majority of the Group's business and borrowings are denominated and accounted for in RMB. The Group, therefore, does not have any significant exposure to foreign exchange fluctuation.

The Board does not expect the fluctuation of RMB exchange rate and other foreign exchange fluctuation will have any material impact on the business operations or financial results of the Group. However, the Group will closely monitor the foreign exchange market and take appropriate and effective measures from time to time to reduce any negative impact from exchange-rate risk to the furthest extent including establishment of a hedging policy.

CHARGES ON GROUP'S ASSETS

As at 31 December 2020, the Group had a bank loan of RMB5.0 million (31 December 2019: RMB5.0 million) secured by the legal charges over the Group's certain leasehold land and buildings with a total carrying value of approximately RMB0.8 million as at 31 December 2020 (31 December 2019: approximately RMB0.8 million);

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 172 employees (31 December 2019: 176). The total staff costs including directors' remuneration for the Year 2020 were approximately RMB13.6 million (2019: approximately RMB11.3 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses are offered with reference to our Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff member, which forms the basis of decisions with respect to salary rises and promotions.

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries, associated companies and joint ventures by the Group during the Year 2020.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2020.

CAPITAL EXPENDITURE

For the Year 2020, the Group spent approximately RMB0.5 million (2019: approximately RMB1.1 million) on capital expenditure, which was primarily related to the acquisition of plant and machinery.

DIVIDEND

The Board does not recommend the payment of any final dividend for the Year 2020.

CASH FLOWS

The Group reported net cash flows of approximately RMB42.8 million generated from operating activities for the Year 2020 compared to that of approximately RMB40.2 million generated from operating activities for the year ended 31 December 2019. The increase in net cash flows generated from operating activities was the combined effect of the increase in cash inflow from the operating profit, which was offset by a substantial increase in the trade and other receivables in the Year 2020.

Net cash used in investing activities was approximately RMB0.4 million (2019: RMB1.2 million) for the Year 2020. This reduction was mainly attributable to the decrease in the payment for purchase of property, plant and equipment by approximately RMB2.1 million, which was netted off by the decrease in proceeds from disposal of the non-core assets of approximately RMB1.3 million in the Year 2020.

Net cash used in financing activities was approximately RMB5.1 million for the Year 2020 (2019: RMB92.9 million). The reduction in net cash used in financing activities for the Year 2020 was mainly attributable to the decrease in payment of dividend amounted to approximately RMB103.3 million in the Year 2020 as compared to in the year ended 31 December 2019.

EXECUTIVE DIRECTOR

Mr. Xie Wei (謝偉)

Mr. Xie Wei, aged 47, is our executive Director, the chairman of the Board and controlling shareholder. He was appointed as our executive Director on 12 August 2019. Mr. Xie was appointed as a director of Chengde Yushi Jindan Pharmaceutical Co., Ltd.* (承德御室金丹藥業有限公司) ("Chengde Yushi") when he acquired the equity interest in Chengde Yushi through Yushi (Beijing) Holding Group Co., Ltd.* (御室(北京)控股集團有限公司) ("Beijing Yushi") in June 2014 and has been responsible for formulating corporate strategies and strategic planning of our Group.

Mr. Xie has over 14 years of sales experience in the PCM industry. Prior to joining our Group, Mr. Xie worked in the Heilongjiang Post Company Jiamusi Branch Company* (黑龍江省郵政公司佳木斯市分公司) from July 1995 to July 2005, where he was responsible for office support. Mr. Xie served as a business manager, responsible for product promotion in Duoduo Pharmaceutical Company Limited* (多多藥業有限公司), a company engaged in the production of pharmaceutical products, from July 2005 to October 2009. From October 2009 to March 2014, Mr. Xie served as the deputy general manager, responsible for sales and product promotion, in Heilongjiang Nongken Medicine Co., Ltd*, (黑龍江省農墾醫藥有限責任公司), a company engaged in the sales of pharmaceutical products and medical equipment. From March 2014 to June 2019, Mr. Xie served as a director, being responsible for the overall business operation, in Beijing Yushi.

Mr. Xie obtained an associate degree in business administration in The Open University of China (國家開放大學) through distance learning in January 2018 in the PRC.

Ms. Zhang Hongli (張宏麗)

Ms. Zhang Hongli, aged 56, is our executive Director and the chief executive officer of the Company (the "Chief Executive Officer"). She was appointed as our executive Director on 12 December 2019, responsible for overseeing the overall business operations of our Group. She is also the member of the remuneration committee of the Company (the "Remuneration Committee").

Ms. Zhang has over 29 years of experience in operation and business management in the pharmaceutical industry. From August 1986 to June 1990, Ms. Zhang served as a general worker in Jinghai Youyi Pharmaceutical Factory* (京海友誼製藥廠), the predecessor of Chengde Yushi. From July 1990 to February 2001, she worked as a finance staff member in Jinghai Youyi Pharmaceutical Factory* (京海友誼製藥廠), Chengde Yaoye Group Liuhe Pharmaceutical Factory* (承德藥業集團六合製藥廠) and Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company* (承德藥業集團六合製藥有限責任公司). From September 2001 to August 2012, Ms. Zhang served as an office supervisor in Chengde Yushi, responsible for human resources and administration, and was subsequently further promoted to executive vice president in September 2012 and general manager, responsible for the overall business operation, in December 2015, respectively.

Ms. Zhang attended Bright Chinese Medicine Correspondence College* (光明中藥函授學院) (currently known as Beijing Chinese Medicine School of Continuing Studies* (北京中醫藥進修學院)) in the PRC through distance learning and graduated in March 1990. Ms. Zhang was accredited by The Title Reform Leading Group Office of Chengde City (承德市職稱改革領導小組辦公室) as a Chinese medicine pharmacist in December 2005.

Mr. Li Jinglian (栗景連)

Mr. Li Jinglian (formerly known as Li Jinglian (栗景蓮)), aged 41, is our executive Director and the chief operating officer. He was appointed as our executive Director on 7 January 2020, responsible for overseeing sales and marketing of our Group. Mr. Li joined Chengde Yushi in August 2014 as marketing and sales director of our Group.

Mr. Li has over 15 years of experience in sales and marketing in the traditional Chinese medicine industry. From August 1998 to December 2003, Mr. Li served as a houseman in Changchun Shuangyang District Hospital* (長春市雙陽區醫院). From January 2004 to January 2007, Mr. Li served as a salesperson in Changchun Baohua Pharmaceutical Company Limited* (長春寶華醫藥有限公司), a company engaged in the sales of pharmaceutical products. From February 2007 to April 2010, Mr. Li served as a store manager in Changchun Yuxintang Pharmacy* (長春市玉信堂藥房), a company engaged in the sales of pharmaceutical products. From May 2010 to July 2014, Mr. Li served as a sales director in Liaoning Deshan Pharmaceutical Company Limited* (遼寧德善藥業股份有限公司), a company engaged in the production of pharmaceutical products and Chinese medicine.

Mr. Li graduated from Shuangyang Health Workers Secondary Specialised School* (雙陽衛生職工中等專業學校) in the community medicine specialist (社區醫士專業) in July 1998. Mr. Li was qualified as a physician by Changchun Shuangyang District Personnel Labour and Social Security Bureau* (長春市雙陽區人事勞動和社會保障局) in January 2001. He completed the Jilin Province Commerce Association Chairman EMBA President Course* (吉林省首屆商協會會長 EMBA 總裁班) organised by Dalian City Ganjingzi District Mingshi Business Administration Training School* (大連市甘井子區名仕工商管理培訓學校) and Advanced Research Course in Leadership of Medicine Chain Corporations* (醫藥連鎖企業卓越領導高級研修項目) organised by Tsinghua University Association of Senior Scientists and Technicians (清華大學老科學技術工作者協會) in May 2019 and July 2019, respectively.

Mr. Jiang Zhendong (姜振東)

Mr. Jiang Zhendong, aged 38, is our executive Director and deputy general manager. He was appointed as our executive Director on 7 January 2020. Mr. Jiang joined Chengde Yushi in January 2019 as a chief production officer and has been responsible for overseeing the production, R&D, procurement and inventory management of our Group. He is also the member of the nomination committee of the Company (the "Nomination Committee").

Mr. Jiang has over 14 years of experience in the pharmaceutical production and management industry. Prior to joining our Group, Mr. Jiang served as a technician, responsible for production compliance and quality assurance, in Jiamusi Luling Pharmaceutical Limited* (佳木斯鹿靈製藥有限公司), a company engaged in the production of pharmaceutical products, from July 2005 to March 2006. From March 2006 to January 2011, Mr. Jiang worked in Heilongjiang Wusulijiang Pharmaceutical Limited* (黑龍江省烏蘇里江製藥有限公司), a company engaged in the production of pharmaceutical products. His last position in the company was the chief pharmaceutical engineer. From January 2011 to December 2018, Mr. Jiang worked in Heilongjiang Baitai Pharmaceutical Co., Limited* (黑龍江百泰藥業有限公司), a company engaged in the manufacturing of western medicine tablets and capsules, first as the chief engineer, responsible for overseeing the technical aspects of production and development of new product and was then promoted to quality manager in December 2015, and further promoted as general manager and director of such company, responsible for the overall operation in March 2016.

Mr. Jiang obtained a bachelor's degree in pharmacy at Jiamusi University (佳木斯大學) in the PRC in June 2005. Mr. Jiang was awarded by the Heilongjiang Human Resources Bureau (黑龍江省人事廳) as an assistant engineer and a pharmaceutical engineer in September 2008 and September 2018, respectively. Mr. Jiang, as part of the research team, was awarded the Technical Achievement Award* (科技成果獎) by the Heilongjiang Provincial Department of Science and Technology* (黑龍江省科學技術廳) in September 2011 in respect of their studies in the technology of "Injection treatment of fibrocystic breast changes"* (一種用於治療乳腺小葉增生症的注射液). Mr. Jiang was awarded as the Heilongjiang Province Best Ten Integrity Manager (黑龍江省十佳誠信經理人) by the Heilongjiang Province Integrity Citizens Engaging in Business Assessment Committee (黑龍江省誠信經營百姓評價組委會) and Heilongjiang Credit Investigation Corporate Credit Assessment Centre (黑龍江省檢信核信企業信用評估中心) in November 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Liu Ling (劉凌)

Ms. Liu Ling, aged 60, was appointed as our independent non-executive Director on 18 December 2020. She is also the chairlady of the Remuneration Committee and a member of the audit committee of the Company (the "Audit Committee") and Nomination Committee.

Ms. Liu has more than 30 years of experience in the field of food engineering. From 1982 to 2000, Ms. Liu worked at Zhengzhou Light Industry School* (鄭州輕工業學院) (currently known as Zhengzhou University of Light Industry (鄭州輕工業大學) and her last position at Zhengzhou Light Industry School* was associate professor with specialisation in food engineering. Ms. Liu had been the deputy director of food engineering research and development, a director of high-tech research centre and a research institute deputy chief engineer of China National Research Institute of Food and Fermentation Industries (中國食品發酵工業研究院) from September 2000 to December 2017, responsible for development of new technology and products. Ms. Liu obtained a bachelor's degree in engineering from Tianjin University of Light Industry* (天津輕工業學院) (currently known as Tianjin University of Science and Technology (天津科技大學)) in July 1982. She further obtained the degree of Doctor of Philosophy from the University of Tokyo, Graduate School of Agricultural and Life Sciences in October 1999.

From April 2013 to April 2018, Ms. Liu served as an independent director of Sino Grandness Food Industry Group Limited (SGX: T4B), a company listed on the Singapore Exchange Limited which principally engages in the manufacture and distribution of juices and canned fruits and vegetables. Since May 2018 and up to the date of this report, Ms. Liu had not held any position in any company or organisation.

Mr. Leung Tsz Wing (梁子榮)

Mr. Leung Tsz Wing, aged 37, was appointed as our independent non-executive Director on 18 December 2020. He is also the chairman of the Audit Committee.

Mr. Leung joined Avantfaire Investment Management Limited, a licensed corporation authorised by the SFC conducting regulated activities of advising on securities and asset management in Hong Kong, in December 2017 and is currently its managing partner. Mr. Leung started his career at Deloitte Touche Tohmatsu in August 2005 and left as a senior associate in July 2010. He was the vice president of Fortune Investment Capital Limited from September 2010 to February 2012, responsible for private equity investments. He was the head of internal audit of USI Partners Limited from March 2012 to September 2014. From October 2014 to March 2015, Mr. Leung was a financial controller of Tibet Development Holdings Company Limited. From April 2015 to July 2015, he was the vice president of Simsen International Financial Group Limited, a subsidiary of Huarong International Financial Holdings Limited (stock code: 993), a company listed on the Stock Exchange, responsible for strategic investments. He was the vice president of Imperial Pacific International Limited (stock code: 1076), a company listed on the Stock Exchange, responsible for strategic investments from August 2015 to March 2017. From March 2017 to October 2017, Mr. Leung was the investment director of HX Innovation Capital Management Co. Limited. Since November 2018, he has been an independent non-executive director of Bisu Technology Group International Limited (stock code: 1372), a company on the Stock Exchange.

Mr. Leung obtained a Bachelor of Business Administration (Accounting & Finance) from the Hong Kong University of Science and Technology. He is a member of the Hong Kong Institute of Certified Public Accountants since 2009 and a fellow member since 2016. He also holds Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) designations.

Mr. Chan Kam Leung (陳錦良)

Mr. Chan Kam Leung, aged 46, was appointed as our independent non-executive Director on 18 December 2020. He is also the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee.

Mr. Chan has extensive experience in Chinese medicine research. He was employed at the School of Chinese Medicine in the Chinese University of Hong Kong as a research assistant from August 1999 to October 2000, a technician from November 2000 to January 2008, an instructor from February 2008 to July 2012, and a lecturer since August 2012.

Mr. Chan obtained a Bachelor degree in science in December 1997 and a Master Degree in Philosophy in December 1999 from the Chinese University of Hong Kong respectively. He then obtained a diploma in Chinese medicine from the School of Chinese Medicine in the Chinese University of Hong Kong in July 2003. He further obtained a Doctor degree in Philosophy in Chinese medicine from the Chinese University of Hong Kong in December 2007.

He was awarded a silver medal in the "2nd Beijing-Tianjin-Hebei-Guangdong-Hong Kong-Macao" Youth Innovation and Entrepreneurship Competition* (第二屆 "京津冀–粵港澳" 青年創新創業大賽) by the academic affairs office of Tsinghua University and The China High School Innovation and Entrepreneurship Education Alliance* (中國高校創新創業教育聯盟) in October 2019. He was also awarded a certificate of commendation from the Secretary for Home Affairs' for contributing to the promotion of community health care in December 2019.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. Li Wen Tao (李文韜)

Mr. Li Wen Tao, aged 38, joined our Group in January 2020 as the chief financial officer (the "Chief Financial Officer") and is responsible for overseeing the finance management and regulatory compliance of our Group. Mr. Li was admitted as an associate of Institute of the Chartered Accountants in England and Wales in February 2013 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants in May 2011. He was further admitted as a fellow of the Hong Kong Institute of Certified Public Accountants in July 2018.

Mr. Li obtained his Bachelor of Business Administration (Major in Accountancy) from Lingnan University in June 2004.

Mr. Li is currently a director of NOVA CPA Limited and the company secretary of JiaChen Holding Group Limited (stock code: 1937), a company listed on the Stock Exchange.

Mr. Li's major roles in NOVA CPA Limited include overseeing the quality of auditing practices and monitoring compliance with relevant accounting and auditing standards, which only consumes Mr. Li minimal amount of time. His responsibilities in NOVA CPA Limited are shared by the members of his team. In performing his role as the company secretary of JiaChen Holding Group Limited, Mr. Li is also supported by other professional staff of Nova CPA Limited. As such, Mr. Li confirms that his acting as a director of NOVA CPA Limited and the company secretary of JiaChen Holding Group Limited will not affect him in performing his responsibilities in the Group as the Chief Financial Officer.

Ms. Lau Ching Sze (劉靜詩)

Ms. Lau Ching Sze was appointed as our company secretary in January 2020. She is responsible for company secretarial and legal compliance matters. She is currently a manager of corporate services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Lau has over 15 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies.

Ms. Lau is a Chartered Secretary, and an associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. Lau holds a Bachelor of Business Administration (Honours) in Business Management from City University of Hong Kong and a Master degree in Corporate Governance from The Hong Kong Polytechnic University.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to formulating and implementing corporate governance practices appropriate to the Company's needs. The Company has adopted the principles and code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the basis of the Company's corporate governance practices.

The Shares have been listed on the Stock Exchange since 15 January 2021 ("Listing date"). As the Company was not listed as of 31 December 2020, the CG Code does not apply to the Company during the Year 2020 but has applied to the Company since the Listing. In the opinion of the Directors, throughout the period from the Listing date to the date of this annual report, the Company has complied with all applicable code provisions as set out in the CG Code save for the deviations from code provision A.1.1 which is explained in the relevant paragraph of this Corporate Governance Report.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code. Key corporate governance principles and practices of the Company are summarised below.

THE BOARD

Responsibilities, Accountabilities and Contributions of the Board

The direction and control of the Company business are vested in the Board. The Board establishes policies, strategies and plans for the development of the Company business, and provides leadership in the creation of value for Shareholders. All Directors have carried out their duties in good faith, have been in compliance with applicable laws and regulations, have taken decisions objectively and have acted in the interests of the Company and its Shareholders at all times. The Directors shall disclose to the Company details of other offices held by them.

The Board takes responsibility for all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (particularly those involving conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

All Directors have timely access to all relevant information as well as the advice and services of the company secretary and senior management members of the Company, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Any Director may seek independent professional advice in appropriate circumstances at the Company's expenses, upon reasonable request made to the Board.

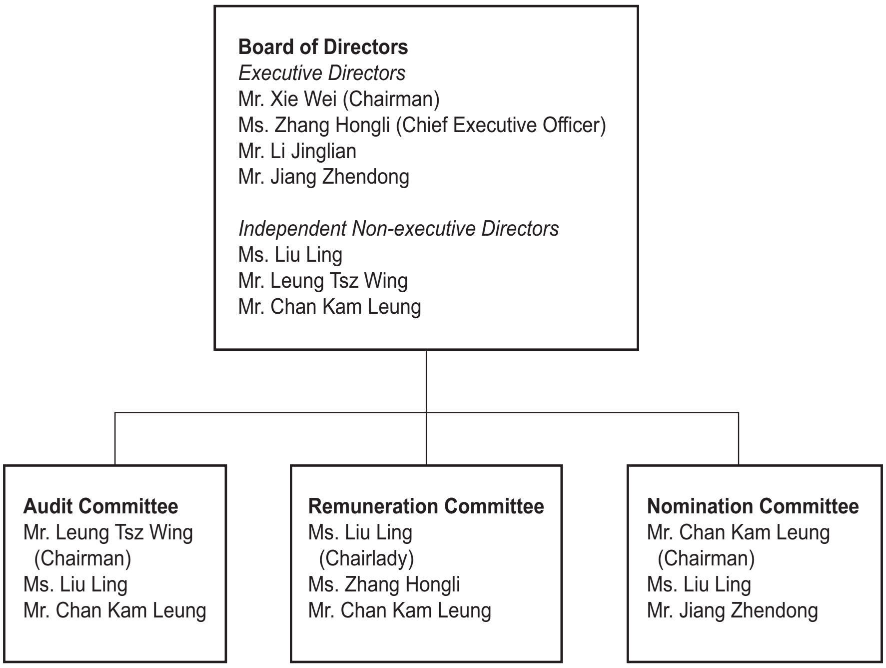
The day-to-day management, administration and operation of the Company are led by the Board of Directors and senior management members of the Company. The Board has delegated a schedule of responsibilities to the management for implementing Board decisions, and directing and coordinating the daily operation and management of the Company. The Board reviews the delegated functions and work tasks regularly. The management has to obtain Board approval prior to entering into any significant transactions.

If a Director has any potential conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the relevant Directors shall abstain from voting and a Board meeting attended by independent non-executive Directors who have no material interest in the matter shall be held to discuss and vote on the same.

The Company has arranged appropriate insurance coverage on Directors' liabilities in respect of any legal actions taken against Directors arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Board Composition

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



The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The biographical details of the Directors of the Board are disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report. To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

During the period from the Listing and up to the date of this annual report, the Board at all times met the requirement of the Listing Rules of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The composition of the Board reflects the necessary balance of skills and experience appropriate for the business requirement and objectives of the Group and for the exercise of independent judgement.

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

Appointment and Re-election of Directors

Each of the executive Directors of the Company has entered into a service contract with the Company for a term of three years. The Company has also issued a letter of appointment to each of the independent non-executive Directors of the Company for a term of one year. Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

Pursuant to the provisions of the Articles of Association, Mr. Xie Wei, Ms. Zhang Hongli and Ms. Liu Ling shall retire at the forthcoming annual general meeting ("AGM") and, being eligible, will offer themselves for re-election at the AGM. The Board recommended the re-election of the above retiring directors at the AGM. The Company's circular, sent together with this annual report, contains detailed information of such retiring Directors as required by the Listing Rules.

Training and Continuing Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes and of the conduct, business activities and development of the Company in order to perform effectively their responsibilities.

Every newly appointed Directors of the Company has received a comprehensive, formal and tailored induction on his/her appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction is normally supplemented with meetings with the senior management team of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Continuing briefings and professional development for the Directors are arranged whenever necessary. In addition, reading materials relating to the Company's business or Directors' duties and responsibilities, updates on salient laws, corporate governance, regulations applicable to the Group are provided to the Directors from time to time for their studying and reference. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors. During the period from the Listing and up to the date of this annual report, the Company organised a training session conducted by a Hong Kong law firm and attended by all the Directors, namely Mr. Xie Wei, Ms. Zhang Hongli, Mr. Li Jinglian, Mr. Jiang Zhendong, Ms. Liu Ling, Mr. Leung Tsz Wing and Mr. Chan Kam Leung. The training session covered a wide range of relevant topics including Directors' duties and responsibilities, corporate governance and updates on Listing Rule amendments. In addition, relevant reading materials have been provided to the Directors for their studying and reference.

Directors' Securities Transactions

The Company has adopted the Model Code as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, all Directors confirmed that they have complied with the provisions of the Model Code during the period from the Listing and up to the date of this annual report.

The Company has also adopted the Model Code as the standard of dealings in the Company's securities by the relevant employees who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Model Code by the employees was noted by the Company.

In case the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

As the Shares were only listed on the Main Board of the Stock Exchange from 15 January 2021, no meeting was held by the Board and Board committees for the Year 2020. At least four regular Board meetings involving active participation, either in person or through electronic means of communication, of a majority of Directors will be held at approximately quarterly intervals during the year ending 31 December 2021 to comply with code provision A.1.1 of the CG Code. A Board meeting was held on 26 March 2021.

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to the Directors in advance. Notice of a regular Board meeting is served to all the Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

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

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

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

The secretary of the meetings is responsible for taking and keeping minutes of all Board meetings and committee meetings.

Draft minutes are normally circulated to all the Directors for comment within a reasonable time after each meeting. Final versions of the minutes are sent to the Directors for their records and are open for their inspection.

Attendance Records of Directors and Committee Members

The attendance records of each Director at the Board and Board committees meetings of the Company held during the period from the Listing and up to the date of this annual report are set out in the table below:

Name of Director	Attendance/Number of Meetings Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Xie Wei	1/1	–	–	–
Ms. Zhang Hongli	1/1	–	1/1	–
Mr. Li Jinglian	1/1	–	–	–
Mr. Jiang Zhendong	1/1	–	–	1/1
Ms. Liu Ling	1/1	1/1	1/1	1/1
Mr. Leung Tsz Wing	1/1	1/1	–	–
Mr. Chan Kam Leung	1/1	1/1	1/1	1/1

In addition, Mr. Xie Wei, the chairman of the Board, held a meeting with the independent non-executive Directors without the presence of other executive Directors during the period from the Listing and up to the date of this annual report.

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

The Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. The Board committees have sufficient resources to execute their requisite duties. All the Board committees should report to the Board on their decisions or recommendations made. The written terms of reference of the three committees are posted to Stock Exchange's website at www.hkexnews.hk and the Company's website at www.cdysjdyy.com.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Leung Tsz Wing (Chairman), Ms. Liu Ling and Mr. Chan Kam Leung. Mr. Leung Tsz Wing possesses the appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the relationship with the external auditors by referencing to the work performed by the external auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors; (iii) review the Company's financial controls, internal control and risk management systems; and (iv) establish a whistleblowing policy and system for employees and those who deal with the Company to raise concerns in confidence about possible improprieties in any matter related to the Company.

During the period from the Listing and up to the date of this annual report, one Audit Committee meeting was held on 26 March 2021 during which the Audit Committee reviewed the annual financial results and reports for the Year 2020, major audit findings, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and re-appointment of external auditors, and continuing connected transactions. The external auditors were invited to attend the Audit Committee meeting without the presence of executive Directors to discuss with the Audit Committee issues arising from the audit and financial reporting matters. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditors.

Remuneration Committee

The Remuneration Committee comprises one executive Director and two independent non-executive Directors, namely Ms. Liu Ling (Chairlady), Ms. Zhong Hongli and Mr. Chan Kam Leung.

The main duties of the Remuneration Committee are to (i) assess performance of executive Directors and approve the terms of executive Directors' service contracts; (ii) review and approve performance-based remuneration by referencing to corporate goals and objectives; (iii) make recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of Directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted); and (iv) establish a formal and transparent procedure for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which will be determined with reference to the performance of the individual and the Group as well as market practice and conditions.

During the period from the Listing and up to the date of this annual report, one Remuneration Committee meeting was held on 26 March 2021 during which the Remuneration Committee reviewed and discussed the remuneration policy and structure and the remuneration packages of the Directors and senior management members of the Group.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of senior management by band for the Year 2020 is set out below:

	Number of individuals
HK$0 to HK$1,000,000	2

Details of the remuneration of each director of the Company for the Year 2020 are set out in note 7 to the consolidated financial statements contained in this annual report.

Nomination Committee

The Nomination Committee comprises one executive Director and two independent non-executive Directors, namely, Mr. Chan Kam Leung (Chairman), Mr. Jiang Zhendong and Ms. Liu Ling.

The main duties of the Nomination Committee are to (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and recommend any changes to the Board to complement the Company's corporate strategy; (ii) identify qualified and suitable individuals to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors, having regard to the requirements under the Listing Rules; and (iv) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive of the Company.

The Company also recognises and embraces the benefits of having a diverse Board to enhance its performance and has adopted a board diversity policy aiming to set out the approach to achieve diversity on the Board. The implementation of the policy is monitored by the Nomination Committee. In designing the Board's composition, board diversity has been considered from a number of measurable objectives, including but not limited to gender, age, cultural and educational background, and professional experience. The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board. The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained during the period from the Listing and up to the date of this annual report.

The Company has also adopted the Procedures for the Nomination Committee to Nominate to the Board a Person as Director which sets out the criteria and process of selection and performance evaluation, and provides guidance to the Board on nomination and appointment of directors of the Company. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing better Board effectiveness and diversity as well as in compliance with the applicable rules and regulations.

In identifying and selecting suitable candidates for directorship, the Nomination Committee would consider the candidate's character including integrity, honesty and fairness, backgrounds and qualifications including professional qualifications, skills, knowledge, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, and referral by other members of the management and external recruitment agents.

During the period from the Listing and up to the date of this annual report, one Nomination Committee meeting was held on 26 March 2021 during which the Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group; reviewed the Board diversity policy; considered and recommended the re-election of the retiring Directors standing for re-election at the AGM; and assessed the independence of the independent non-executive Directors.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board shall review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the Company's compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the consolidated financial statements of the Company for the Year 2020.

The Board is responsible for presenting a balanced, clear and understandable assessment of interim and annual reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Board is fully responsible for evaluating and determining the nature and extent of the risks it is willing to take to achieve the Company's strategic objectives, and for establishing and maintaining appropriate and effective risk management and internal control systems to safeguard Shareholders' investments and the Group's assets.

The Audit Committee assists the Board in overseeing the design and implementation of the risk management and internal control systems. The Company has developed and adopted different risk management procedures and guidelines. Self-evaluation would be conducted each year to confirm that the Company has properly complied with the risk management and internal control policy. All divisions would conduct internal control assessment to identify risks factors with potential impact on the Group's business. The management would assess the likelihood of risk occurrence, monitor the progress of risk management and report to the Board and the Audit Committee on the findings and effectiveness of the systems.

The Group has developed its disclosure policy to provide a general guide to the Company's directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

The Company has engaged external professional firm for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit function examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as assisted by the Audit Committee and the management, has reviewed the report from the management and the internal audit findings, and reviewed the risk management and internal control systems of the Group, including the financial, operational and compliance controls for the Year 2020. The annual review also covered areas on the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions. The Board considered that such systems are adequate and effective and ongoing review of the same nature would be conducted in subsequent years.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the Company's consolidated financial statements for the Year 2020 is set out in the section headed "Independent Auditor's Report" in this annual report.

The external auditor of the Company will be invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report and auditor's independence.

The remuneration paid/payable to the Company's external auditor, Mazars CPA Limited ("Mazars"), is set out below:

Nature of Services	Amount of Fee (HK$)
Annual audit services for the Year 2020	1,600,000
Professional services in connection to the Listing as the reporting accountant (Note)	4,700,000
Total:	**6,300,000**

Note: The amount represents the total fee for the entire professional services as the reporting accountant for the Listing. Such professional fees have been/will be recognised in various accounting periods.

COMPANY SECRETARY

Ms. Lau Ching Sze was appointed as the Company Secretary in January 2020. During the Year 2020, Ms. Lau Ching Sze, has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

The Company maintains a website at "www.cdysjdyy.com" as a communication platform with Shareholders and investors, where information and updates on the Group's business operations, developments and financial information are available for public access. Shareholders and investors may send written enquiries or requests to the Company using the below contact details:

Address: No. 88 Jinwei Road, Chengde City, Hebei Province, PRC
Email: IR@cdysjdyy.com

The annual general meetings of the Company provide an opportunity for communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, and, in their absence, other members of the respective committees, are available to answer questions at general meetings. The chairman of a meeting will provide the detailed procedures for conducting a poll and answer any questions from the Shareholders on voting by poll. A notice to Shareholders is sent by the Company at least 20 clear business days before the annual general meeting and at least 10 clear business days in all other general meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments.

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a Shareholders' Communication Policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a Dividend Policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, interim, special, final dividends and any distribution of net profits that the Board may deem appropriate may be proposed and/or declared by the Board for a financial year or period. Any final dividend for a financial year will be subject to the Shareholders' approval.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings pursuant to the Company's Articles of Association as follows:

(i) Any 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 carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

(ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's corporate headquarters in the PRC or the Company's Hong Kong branch share registrar (i.e. Tricor Investor Services Limited) at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

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

During the year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cdysjdyy.com).

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange and the Company immediately after the relevant general meetings.

CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the Shareholders passed on 18 December 2020, the Articles of Association was adopted with effect from the Listing. Save as disclosed above, from the Listing date and up to the date of this report, there was no significant change in the Articles of Association. The Articles of Association is available on the websites of the Stock Exchange and the Company.

INTRODUCTION

As a leading manufacturer of proprietary Chinese medicine, the Group is pleased to present this Environmental, Social and Governance ("ESG") report. The objective of the report is to provide our stakeholders with a comprehensive understanding of the ESG performances and practices of the Group, and to illustrate the long-standing commitment to position the Group as an environmentally, socially, and economically sustainable business.

SCOPE OF REPORT

The report mainly focused on the social and environmental performance of the Group's core business which is the production of proprietary Chinese medicine for the middle-aged and elderlies in the PRC. The information compiled in the report spans from 1 January 2020 to 31 December 2020 (the "Reporting Period"). The report was prepared based on the Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ANALYSIS

The Group thrives on a sustainable business strategy which is driven by the strong connection with respective stakeholders. The Group takes into account of every stakeholder to enhance the Group's relationship with the employees, Shareholders, suppliers, customers, government authorities and society as a whole. Through a transparent platform, the Group proactively engaged with key stakeholder groups in different ways to understand their concerns and to provide follow-up actions to remediate the issues raised. Continuous improvements to these communication channels have been conducted periodically to maintain a long-lasting relationship with each stakeholder.

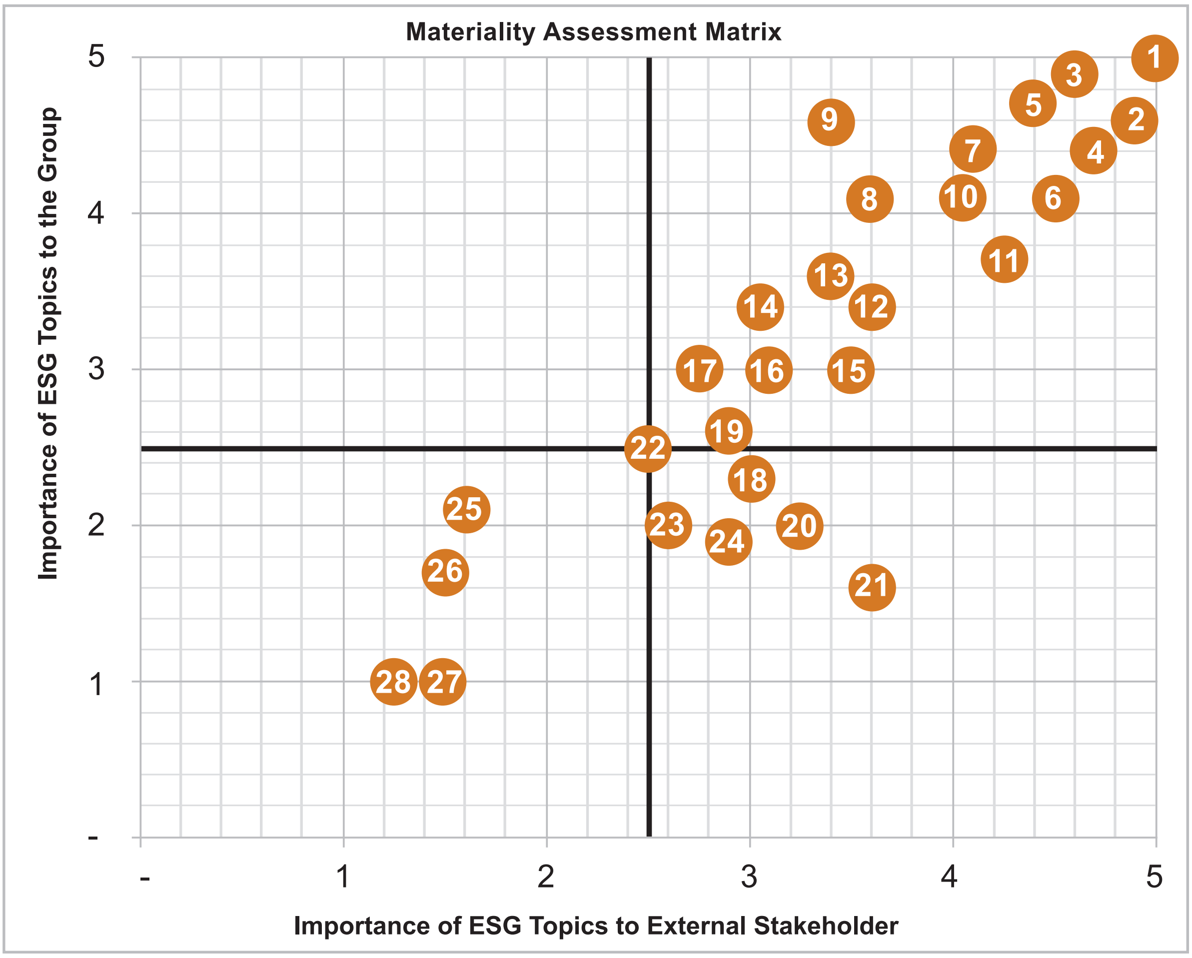
Throughout the year, the Group engaged with the following stakeholders and identified their main concerns:

Major Stakeholder Engaged		**Major Communication Channels**	**Major Concerns**
Internal Stakeholder	Employees	• Employee Activities • Meetings and Briefings • Performance Appraisals	• Health & Safety Work Environment • Career Development and Training Opportunities
	Shareholders and Investors	• Annual General Meetings • Shareholder Meetings • Investor information session • Annual, Interim and Other Published Reports • Email and telephone enquiries	• protection of Shareholders' rights and interests • Risk Management • Economic Performance and Financial Stability • Disclosure of Interest and Information Transparency

Major Stakeholder Engaged		Major Communication Channels	Major Concerns
External Stakeholder	Government and Supervisory Institutions	• Policy Consultation • Onsite Visits and Face to Face Meetings	• Corporate Governance • Compliance with law and regulations • Environmental Standards • Anti-Corruption Measures
	Suppliers	• Tendering Meetings • Onsite Visits • Phone Calls and Emails • Annual Supplier Evaluation System • Industry Seminars	• Transparent and Fair Supplier Selection Procedure • Long term Partnership
	Public Community	• Community Events • Voluntary activities	• Environmental Impact • Corporate Social Responsibilities • Community Involvements
	Customers	• Customer Service Hotlines • Customer Satisfaction Surveys • Emails • Marketing Seminars	• Product Quality • Privacy Measures

A group of stakeholders has been selected based on their dependence and impact of the Group. They were invited to share their perspectives on the Group's ESG performance in an electronic questionnaire. After compiling the data, a materiality assessment was performed to identify the key areas that the Group should focus on. This stakeholder engagement approach, in the view of the Group, would ensure that the stakeholders' expectations and perspectives are fully understood to enable the Group to define and further develop its sustainable business strategy.

Determination of Key ESG Areas



Item	ESG Topic	Item	ESG Topic
1.	Occupational health and safety	15.	Air emissions
2.	Hazardous waste production	16.	Mitigation measures to protect environment and natural resources
3.	Water use	17.	Employee development and training
4.	Product health and safety	18.	Cultivation of local employment
5.	Observing and protecting intellectual property rights	19.	Customer satisfaction
6.	Product and service labelling	20.	Selection and monitoring of suppliers
7.	Number of concluded legal cases regarding corrupt practices, e.g. bribery, extortion, fraud and money laundering	21.	Marketing communications (e.g. advertisement)
		22.	Preventing child and forced labour
8.	Energy use (e.g. electricity, gas, fuel)	23.	Employee remuneration, benefits and rights (e.g. working hours, rest periods, working conditions)
9.	Customer information and privacy		
10.	Anti-corruption training provided to directors and staff	24.	Environmental risks (e.g. pollution) and social risks (e.g. monopoly) of the suppliers
11.	Anti-corruption policies and whistle-blowing procedure		
12.	Non-hazardous waste production	25.	Greenhouse gas emissions
13.	Environmentally preferable products and services	26.	Climate change
14.	Use of materials (e.g. paper, packaging, raw materials)	27.	Diversity and equal opportunity of employees
		28.	Community support (e.g. donation, volunteering)

According to the materiality matrix, the issues located at the top right corner are the relatively more important ESG areas. These issues are ‘occupational health and safety’, ‘hazardous waste production’, ‘water use’ and ‘product health and safety and observing’. The aforementioned issues will be prioritised as the key drivers for the Group’s sustainable business development and will be further elaborated in the sections below.

STAKEHOLDERS’ FEEDBACK

The Group welcomes all stakeholders’ feedback on the ESG issues in particular for the important areas identified in the materiality assessment. Interested parties can reach the Group to share their views and suggestions through any channel listed below:

Email: IR@cdysjdyy.com
Website: www.cdysjdyy.com
Address: No. 88 Jinwei Road, Longhua County, Chengde City, the PRC
Telephone Number: +86-0314-7162222
Fax Number: +86-0314-7162969

A. ENVIRONMENTAL ASPECTS

With the increasing problem of environment degradation and climate change around the globe, the Group has incorporated sustainable environmental protection measures as part of the business development strategy. The group has devised an environmental protection management system which is committed to identifying, monitoring and mitigating the environmental risks. This system is periodically reviewed to maintain its relevance, effectiveness and compliance to the environment related laws. As a group that upholds the core value to promote high environmental standard, it strives to align its environmental goals with international standards and contribute to the global initiatives that address environmental related issues.

As the production facilities and headquarters of the Group are located in Chengde City of the Hebei Province, the PRC, it is required to comply with relevant rules and regulations related to pollutant emissions in the Heibei Province. Supervisions by independent third parties and government authorities have been conducted to ensure that the Group's production facilities are in compliance with the applicable law. In 2020, the Group adheres to the environmental protection rules and regulations including but not limited to the:

1. Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)
2. Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法)
3. Law of the People's Republic of China on Conserving Energy (中華人民共和國節約能源法)

Emissions

As the Group operates with a high environmental standard, all the production facilities have obtained a pollutant emission permit from the government and established a pollution control system to keep track of the level of pollutant emissions to the environment. During the Reporting Period, the Group has proactively consulted with other parties and have timely tracked the pollution emission sources to further minimise the level of emissions. The Group's total emissions for 2020 are summarised below:

			2020	
Emission Category	**Key Performance Indicator (KPI)**	**Unit**	**Amount**	**Intensity[1] (Per Employee)**
Air Pollutants Emissions[1]	Nitrogen Oxides (NOx)	Kg	230.17	1.34
	Sulphur Oxides (SOx)		1.20	0.0069
	Particulate Matter (PM)		0.68	0.00040
	Total Air Pollutants Emissions		**232.05**	**1.35**
Greenhouse Gas Emissions (GHG)	Scope 1[2] (Direct Emissions)	tCO_2e	2,957.59	17.20
	Scope 2[3] (Other Indirect Emissions)		246.08	1.43
	Scope 3[4] (Other Indirect Emissions)		16.08	0.09
	Total Greenhouse Gas Emissions		**3,219.76**	**18.72**

1 Intensity is calculated by dividing the respective KPI by 172 employees which is the total workforce of the Group in 2020.

2 Scope 1 comprises of GHG emissions from stationary combustion sources and transportation. Since the Group planted trees, a reduction in greenhouse gas has been taken into account.

3 Scope 2 includes GHG emissions from electricity.

4 Scope 3 includes GHG emissions from paper waste disposed at landfills, electricity used for fresh water processing and sewage by the government departments, and business air travels.

Air Pollutant Emissions

During the Reporting Period, the total air pollutant emissions amounted to 232.05kg. Approximately 96% of the air pollutant emissions came from the gaseous fuel consumption which was primarily generated from the boiler and the gas stove. These equipment are an integral part of the core production process. As a result, the Group utilised conservation measures to minimise the consumption of gas for these equipment. The remaining 4% of the air pollutant emissions came from vehicle usage. The Group's mode of transportation were passenger cars and light goods vehicles. To further reduce emissions from vehicles, the Group encouraged employees to conduct online meetings or teleconference.

Greenhouse Gas Emissions

Scope 1 is the largest component of GHG emissions. This is primarily due to the GHG emissions from boiler and gas stove, which are part of the production process. To counteract the primary sources of emissions, 265 trees were planted which reduced the GHG emissions by 6.1 tCO_2e and has been incorporated into Scope 1's calculation. As part of the tree planting initiative, the Group aims to plant more trees in the future to contribute to a greener environment.

Compared with scope 1, the level of GHG emissions from scope 2 and scope 3 are relatively low. Scope 2 includes GHG emissions from electricity which is utilised in the production facility for lights, equipment and machineries. In addition, scope 3 includes the GHG emissions from air travels and electricity used for water processing. As the Group's business spans across the PRC, it is necessary for its employees to travel long distance. The group has several measures in place to minimise the number of employees travelling by airplane and the frequency of flights. To further reduce carbon footprints, the Group provides mainly economy seats to employees. Employees are encouraged to use tele-conference and online meetings instead of travelling long distance.

Waste

			2020	
Emission Category	**Key Performance Indicator (KPI)**	**Unit**	**Amount**	**Intensity[5] (Per Employee)**
Hazardous waste	Experimental Waste	Tonnes	0.3	0.0017
Non-hazardous waste	Construction waste		6.5	0.038
	Food waste		3.55	0.021
	General office waste		1.68	0.01
Total waste produced			**12.03**	**0.070**

5 Intensity is calculated by dividing the respective KPI by 172 employees which is the total workforce of the Group in 2020.

The Group strives to minimise the waste disposal to the environment. For hazardous waste, the Group dedicates another system for the surveillance and treatment of these pollutant discharge. The Group has taken precautionary measure to process and discharge the experimental waste according to the applicable laws and regulations.

Resource Consumption

The energy management system is established to control the energy utilization in the production facility and to ensure compliance with the Law of the People's Republic of China on Conserving Energy (中華人民共和國節約能源法). Each station and heavy energy utilization machinery is assigned an energy utilization quota, and the limit depends the nature of operation. Periodically, the production facility will review the stations and machinery's energy utilization levels and adjust the energy utilization quotas when necessary. The table below summarises the energy consumption level from different resources.

			2020	
Use of Resources	**Key Performance Indicator (KPI)**	**Unit**	**Amount**	**Intensity[6] (Per Employee)**
Energy	Petrol	Kwh	53.94	0.31
	Diesel		4.29	0.025
	Gas		16,655.47	96.83
	LPG		42.73	0.25
	Electricity		254.22	1.48
Total Energy Consumption			**17,010.66**	**98.90**

6 Intensity is calculated by dividing the respective KPI by 172 employees which is the total workforce of the Group in 2020.

From this table, the energy consumption from gas is relatively higher than other categories. The gas is used for the boiler and gas cooking stove which is consistent with the above descriptions.

Electricity consumption

In addition, the Group has adapted energy saving initiatives within different areas of the business to further reduce the GHG emissions. The initiatives for electricity are as follows:

1. Procure and select energy-efficient appliances
2. Conduct regular review and maintenance of equipment to ensure optimal energy efficiency performance
3. Switch off equipment and lights when they are not in use
4. Air conditioners
   a. Keep all the windows and doors closed when the air conditioning or heater when it's on
   b. Maintain room temperature of no lower than 25 degrees in the summer
   c. Clean the air-conditioner inlet, outlet, dust filters and fan coil units periodically
5. Maximise daylight usage by opening the curtains

Employees are reminded and encouraged to follow the energy saving measures. The Group will continuously assess the efficiency of resource utilization and evaluate the energy saving initiatives to uphold the core value of environmental protection. Based on the current year's energy utilization level, the quantitative emission target will be set for the following years.

Water Consumption

Use of Resources	Key Performance Indicator (KPI)	Unit	Amount	Intensity[7] (Per Employee)
Water	Water	m^3	15,527	90.27

7 Intensity is calculated by dividing the respective KPI by 172 employees which is the total workforce of the Group in 2020.

Water consumption is one of the primary resources that is consumed in the production facilities. The energy management system also governs the water consumption level and sets the relevant water usage quota for each station. To ensure that the waste water is treated properly, the Group outsourced the service to a third-party contractor. Even though the water usage in the production facility is much larger than in the office, the Group is committed to conserving water in every aspect of the business. Within the office area, the Group has devised a set of measures to minimise the water consumption level and are as follows:

1. Regular maintenance of the taps and pipes to prevent leakage.
2. Trained employees on methods to conserve water in the office.

Paper Usage

As an advocate in a paperless environment, the Group has transitioned into a paperless office through operating on an online platform. Business operations ranging from energy management system to fee applications are all conducted online. This has enhanced operational efficiency for employees and more importantly, minimised the level of paper waste. With the below resource saving and efficiency measures, the Group strives to maintain a paperless office in the following few years:

1. Encourage employees to use cloud or online storage of files.
2. Encourage employees to distribute copies of report through soft copy.
3. Encourage employees to take paperless notes.
4. Encourage employees to send electronic greetings through electronic applications, such as e-mail or WeChat, instead of writing or faxing.

Packaging Material

Use of Resources	Key Performance Indicator (KPI)	Unit	Amount	Intensity[8] (Per Employee)
Packaging material	Plastic	Tonnes	728	4.23
	Paper		1,329	7.73
	Metal		216	1.26
Total packaging material used			**2,273**	**13.22**

8 Intensity is calculated by dividing the respective KPI by 172 employees which is the total workforce of the Group in 2020.

As the Group utilises packaging materials for its products, it strives to use bio-degradable plastic and recycled paper to minimise the impact to the environment. The Group understands that the paper usage contributes to the air pollutants and GHG emissions. During the Reporting Period, the Group has continuously developed ways to improve the product's packaging to consume less materials. The Group has also been exploring alternative environmentally friendly packaging materials for the products.

B. SOCIAL ASPECT

Employment and Labour Practices

The Group's business success stems from the reliable, quality and consistent services of the employees. They are one of the most valuable assets for the Group's sustainable development. During the Reporting Period, the Group has a diverse workforce of 171 employees and 1 part time employee in the PRC, and Hong Kong, respectively.

Key Performance Indicator	Category	Number of Employees
Gender	Male	56
	Female	116
Employment type	Full time	171
	Part time	1
Age group	Below 30	4
	Between 31 and 40	74
	Between 41 and 50	62
	Above 51	32
Geographical region	Mainland China	171
	Hong Kong	1

The Group offers an array of incentives that is designed to align the employee's goal towards the Group's aim. The Group's competitive remuneration package is benchmarked to the industry average and will adjust according to each employee's performance. Other benefits include accommodations, travel allowances and meals.

The Group places a large emphasis on fair competition. Both female and male of the same role receive the same remuneration package, insurance coverage, working hours and statutory holidays and other types of leaves. The Group also entitles maternity leave for employees and ensure that their job will be retained. Additionally, the Group places great emphasis on transparency as well. All employees will receive a "Employee Handbook" which set out the Group' policies, benefits and rules regarding employment.

The Group strives to promote an inclusive environment free from harassments or discrimination to foster positive corporate culture and harmonious employee relationship. Periodically, the Group organises leisure activities that is eligible for all employees to create an optimistic environment and raise team spirit.

Furthermore, the Group aims to empower female employees through diverse teams and leadership roles. The Group recognises gender equality and have aligned its standards to an international level.

Health and Safety

With the outbreak of COVID-19, the safety and well-being of our employees remains our highest priority. The Group has stepped up the preventive measures in the working environment to minimise the transmission risk of COVID-19. To ensure a healthy and safe workspace for the Group's employees, the following precautionary measures have been implemented:

– All employees are required to wear a face mask within our facility premise;
– Employees showing symptoms of COVID-19 are prohibited to enter the facility premises;
– All public spaces and bathrooms are frequently sterilised;
– Depending on the job responsibility, the Group has permitted employees to work from home;
– Employees that have been in close proximity with people tested positive with COVID-19 are permitted to leave work for COVID-19 testing; and
– Social distancing policies have been implemented within the workspace.

As a manufacturer in proprietary Chinese medicine, the Group attaches great importance to the health and safety environment of the production facility and workspace. In addition, the Group has established health regulations and occupational standards that are at national standards.

Within the working environment, all equipment are well-maintained to minimise any malfunctioning and are equipped with safety controls. The Group has established contingency plans and have regularly reviewed them to maintain its relevant and effectiveness. If employees are required to handle any machinery, they will be provided with protective clothing and equipment. They are also verified to have sufficient knowledge and expertise to handle the equipment. Periodically, training will be provided to employees to raise their safety awareness which includes contingency measures and related hazards to their job responsibilities. A productive environment for employees is also provided. This includes maintaining the workspace at reasonable temperatures and providing sufficient air ventilation system to ensure good air quality. All employees have been arranged with medical insurance to address any injuries sustained in their work.

In addition, the Group also focuses on the mental health of the employees. The Group recognises that both mental and physical health are of equal importance to promote a healthy, safe and productive working environment. The working culture revolves around a work-life balance philosophy and in this regard, the Group organised an array of events throughout the Year 2020 to reduce pressure and to provide opportunities for them to celebrate different festivals. The Group also strives to grant leave based on the employee's preference and adjust the operation schedules accordingly to minimise the impact to the business. Special leave related to personal or family issues will be permitted on a case by case basis. Furthermore, the Group provides a mentally healthy work space. The Group also provides counselling services to its employees, where needed. During the Reporting Period, there were no work-related fatalities and the Group did not record any lost days during its manufacturing process due to work injury.

Development and Training

Through continuously optimising the talent management system, the Group provides a training platform to support the employee's personal growth that will enable them to develop their full potential and to achieve the targets. One of the key areas of the talent management system is the well-developed training sessions. It enhances the employee's knowledge in different aspects of the business, develop their skill set and increase the quality of their performance.

Every year, the training content is tailor-made to the employee's role and business needs. The training sessions include but do not limit to the following:

A. Workplace safety
B. Quality management
C. Products
D. Laws and regulations related to the operation
E. Corporate culture

The Group recognises that all employees contribute to the company in different ways. Training resources has been allocated evenly between all employees such that each staff members has received on average of 30 hours training hours annually. The Group aims to retain them and attract other talented individuals as well.

Category	Key Performance Indicators	2020 Percentage
Gender Category	Male	33%
	Female	67%
Employment category	Senior management	2%
	Middle management	11%
	Frontline and other employees	87%

Category	Key Performance Indicators	2020 Training Hours
Gender Category	Male	30.00
	Female	30.34
Employment category	Senior management	30.00
	Middle management	30.00
	Frontline and other employees	30.27

According to the Code A.6.5 under Appendix 14 to the Listing Rules, all directors are required to participate in continuous professional training to develop and refresh their knowledge and skills. The Group ensures that all Directors have sufficient skills and knowledge to perform their responsibilities, and that the Group are kept up to date with these regulatory changes. At the end of each year, the Group assess the effectiveness of all the training program and further develop the training materials to increase the quality of the sessions.

Labour Standards

The Group strictly complies with the Labour Law of the People's Republic of China (中華人民共和國勞動法), labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法) and other legal employment requirements. Any employee harassment, discrimination or offenses against the law of China is prohibited in the Group. This includes discrimination in terms of disability, political inclination, sexual identity, sexual orientation and pregnancy. To ensure that there is no child labour, the recruitment procedure will conduct a thorough verification of the applicant. Once the applicant signs the contract, they will be employed. The terms and conditions of the contract are stipulated in the Employee Handbook which is given to each employee.

Supply Chain Management

Our supply chain management system has been one of the key drivers to enable the Group to continuously develop high-quality and consistent products. The group's strategy to select the optimal supplier is to strike a balance between quality, environmental impact, reliability, delivery schedule, legal and regulatory compliance. In order to forge long-term bonds with the suppliers, the Group is committed to providing a transparent and fair supplier review process. The Group believes that adopting a sustainable supply chain management system is the optimal strategy for the Group.

Supply Chain Management System

The Group classifies the procured process into three groups which is based on the raw material impact on the product quality. Each group has its own criteria and standards. The groups are:

- Group A supplier- animal substances and medicinal herbs (critical suppliers)
- Group B supplier- consumables/additive
- Group C supplier- packaging material

The qualifications of all supplier applicants are carefully assessed by the Quality Management Department which includes license, quality assurance in writing and permits. This may include but not limit to:

a. Production permits
b. Trading permits
c. Business License
d. Quality Standard
e. Active Pharmaceutical Ingredient Registrations
f. Good Manufacturing Practice of Pharmaceutical Products (藥品生產質量管理規範) Compliance

Since Group A and B have higher impact on the product quality, the Quality Management Department and the Procurement Center will further examine the production facility to ensure that their production process satisfy the Group's standards. Group A as our critical supplier will have their raw materials subject to regular testing to verify that they can meet the Group's standards. Throughout the inspection process, the Group will also take into consideration of the supplier's environmental impact and employee standards. This classification system aims to allocate the optimal amount of resources for each type of suppliers to maximise the efficiency in resources utilization.

Suppliers

The Group's supplier base is diversified across the PRC. During the Reporting Period, the Group has a total of 34 pre-approved suppliers. For each major type of raw material, the Group purchases from at least three suppliers to maintain a constant inflow of supplies. A contingency plan has also been established to maintain a reliable supply of raw material supply to minimise any production disruption. Throughout the year ended 31 December 2020, the Group has been continuously refining the supply chain management system to accommodate the Group's business development.

Product Responsibility

As the Group is committed to providing the highest standard of products, it values all feedbacks and complaints from the customers. The Group can be contacted through e-mail or customer hotline that is available in the package of the pharmaceutical products. Once complaints or feedbacks are received from the customers, the Group will examine the internal records and conduct relevant investigation in a prompt manner. Product recall will occur if they are below the internal and national quality standards. During the Reporting Period, none of our products were recalled and the Group did not receive any complaints for the quality of the Group's products.

Intellectual property

In order to safeguard intellectual property, the Group has established an Intellectual Property Management System. This system covers all business operations and include relevant external stakeholders that may disclose sensitive information related to intellectual property. From the top level, the Intellectual Property Management System liaises with different departments to amend, review and enhance their relevant intellectual property protection measures. They also host regular training sessions for all employees to raise awareness and to provide a guiding principle of intellectual property rights. The contracts entered into between the Group and employees, distributors and relevant parties, respectively, contain a confidentiality clause to prevent disclosure of sensitive information. In order to detect any breaches in the confidentiality clause, the Group has established a whistle-blowing platform for employees to report any incident of sensitive information disclosure.

Currently, the Group complies with the following relevant laws and regulations:

1. Patent Law of the People's Republic of China (中華人民共和國專利法)
2. Trademark Law of the People's Republic of China (中華人民共和國商標法)
3. Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法)

Quality management system

The Group's Quality Management System strictly complies with the Group Manufacture Practice ("GMP") standards and governs all stages of the production process.

Pre-production

The Group integrates strict quality management standards into the supplier selection process. This includes examining the relevant qualifications of the suppliers, conducting on-site inspection and testing of the sample raw materials. The Group only purchases from qualified suppliers who satisfy the Group's internal standards and relevant national standards. Their production facilities and supplies will be subject to annual inspection to ensure quality raw materials. Upon delivery of raw materials to our warehouses, the raw materials will also be inspected. Any suppliers that fall below the quality standards will be removed from the pre-approved supplier list.

Production

In the production facility, the Group complies with the relevant quality standards especially the GMP standard to maintain and design the machinery and infrastructure. The Group also established the standard operating procedures ("SOP") that is followed by all employees within the production facility premises. After each production stage, the Quality Management Department will conduct sample test in accordance with the internal standard and the GMP standard. When the products pass the test, they will be permitted to be processed in the next production stage.

After-sale service

As mentioned above, the Group takes into consideration of all feedbacks and complaints to maintain the quality of the Group's products. All feedbacks are valued and carefully reviewed by the respective internal departments.

Recall procedure

During the Reporting Period, the Group continued to assess and investigate whether any product causes safety hazards. Depending on the severity of the consumer's drug reaction, the relevant product will be recalled. With the supervision of the relevant drug regulatory department, it will then be destroyed.

The Group's recall procedure complies with the Administrative Measures on Drug Recalls (藥品召回管理辦法). All of the Group's products are assigned with a unique batch number that allows for an efficient recall process. During the Reporting Period, there has been no product recall.

Protection of Customers' Data

The Group complies with the relevant rules and regulation with respect to privacy in all aspects that relate to the Group. It is committed to the full compliance of privacy policies that are established for customers, suppliers, distributors and other relevant parties. A secure environment with data protection measure is set up to store these data in the internal system. This is to prevent any accidental or unauthorised access, amendments or usage of these data.

Anti-Corruption & Anti-Money Laundering

The Group is committed to upholding a highest standard of ethics, integrity and complying with the relevant law and regulations including the Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法). Any form of bribery, corruption or improper misconduct is strictly prohibited within the company.

To prevent these misconducts, the Group has established internal policies for all employees. Within areas of business operations that have higher chances of employees conducting illegal activities, specific measures are further developed and implemented. In the finance management system, this includes reviewing the marketing activities of sales representatives, further verification of reimbursements claims and detailed inspection of finance related activities. The Group has organised the training sessions for employees to raise awareness of anti-corruption law and regulations, and corruption related activities.

Furthermore, the Group conducts background check on the compliance history of the distributors and suppliers to ensure that they comply with the relevant law and regulations related to misconducts. The employees that work with the distributors and suppliers are required to inform them about the Group's anti-corruption policy and to conduct periodic inspection on the distributors and suppliers for any signs of illegal activities.

A safe and secure whistle blowing platform has been established for employees to raise any concerns related to corruption or business irregularities. All reported cases will be investigated by a special investigation group. During the Reporting Period, the Group was not aware of any misconduct or breach of rules and regulation related to fraud, corruption or related matters.

Community

The Group is committed to serving, supporting and giving back to the community. The Group fosters a 'giving back' culture that encourages employees to be actively involved in charitable and community events. Through maintaining a harmonious relationship with the community, it is believed that this will drive the company forward and ensure a sustainable business development.

Appendix of ESG Reporting Guide

Each section in the Group's ESG Report is linked to the relevant KPI as outlined in the Listing Rules. This is illustrated in the table below:

KPI	**Description**	**Section**
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	A. Environmental Aspects
KPI A1.1	The types of emissions and respective emissions data.	Emissions

KPI	Description	Section
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity	Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	Waste
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	Waste
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Resource Consumption
KPI A2.1	Direct and/or indirect energy consumption by type gas or oil) in total (kWh in '000s) and intensity	Resource Consumption
KPI A2.2	Water consumption in total and intensity	Resource Consumption
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Electricity consumption
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Consumption
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging Material
Aspect A3 The Environment and Natural Resources		
General Disclosure	General Disclosure Policies on minimizing the issuer's significant impact on the environment and natural resources.	Resource Consumption, Paper Usage
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Resource Consumption

KPI	Description	Section
B. Social		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment and Labour Practices
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment and Labour Practices
Aspect B2: Health and Safety		
General Disclosure	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category	Development and Training

KPI	Description	Section
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training
Aspect B4: Labour Standard		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Suppliers
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management, Supply Chain Management System
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Intellectual property, Product Responsibility, Intellectual property Quality management system, Protection of Customers' Data
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility

KPI	Description	Section
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual property
KPI B6.4	Description of quality assurance process and recall procedures.	Quality Management System
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Protection of Customers' Data
Aspect B7: Anti-Corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-Corruption & Anti-Money Laundering
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-Corruption & Anti-Money Laundering
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-Corruption & Anti-Money Laundering
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-Corruption & Anti-Money Laundering
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community
KPI B8.1	Focus areas of contribution	Community
KPI B8.2	Resources contributed to the focused area	Community

The Directors present this annual report and the audited consolidated financial statements for the Year 2020.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production of proprietary Chinese medicine products in the PRC with its headquarters based in Chengde City, Hebei Province, the PRC. The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 12 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the Year 2020 and the material factors underlying its results and financial position can be found in the management discussion and analysis set out on pages 5 to 10 of this annual report. These discussions form part of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain risks and uncertainties involved in the operations of the Group, some of which are beyond its control. The major risks include:

- The Traditional Chinese Medicine industry is highly regulated and the regulatory framework, requirements and enforcement trend may be tightened in the future.

- We may not be able to remain in full compliance with the evolving GMP standards or other regulatory requirements (such as the requirement for registration of Drug Approval Number) which are material to our business.

- Failure to comply with the relevant quality and safety standards of the PRC could lead to fines, lawsuits or other penalties that may adversely affect our operations.

- We rely on our distributors to onsell and distribute our products and we have limited control over them.

- If our products are produced improperly or contaminated, we may incur losses resulting from product recalls or product liability claims. Our reputation, business, financial condition and results of operations may be materially and adversely affected as a result.

- The PRC Government may determine that the Contractual Arrangements (as defined under the section headed "Continuing Connected Transactions" below) are not in compliance with applicable PRC laws, rules, regulations or policies.

However, the above is not an exhaustive list. Investors are advised to make their own judgement or consult their own investment advisors before making any investment in the Shares.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as exempted company with limited liability on 12 August 2019.

The Company completed the corporate reorganisation (the "Reorganisation") on 26 February 2020 in preparation for the Listing, pursuant to which the Company became the holding company of the companies now comprising the Group.

Details of the Reorganisation are set out in the paragraphs headed "REORGANISATION" under the section headed "History, Development and Reorganisation" in the Prospectus. The Shares were successfully listed on the Stock Exchange on 15 January 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") POLICIES AND PERFORMANCES

The Group is committed to ensuring that all business activities are economically, socially and environmentally sustainable. It has identified various ESG areas and has taken measures to control the environmental and social impacts during its operations. During the Year 2020, the Group has ensured that all applicable ESG laws and regulations are strictly complied with and notable effort is spent on various aspects of the corporate social responsibility, including greenhouse gas reduction, development and training opportunities for employees, environmental compliance, health and safe work environment for employees.

Further details are set out in the ESG Report on page 27 to 45 of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the Year 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 64 of this annual report.

The Directors do not recommend the payment of final dividend for the Year 2020. In the year ended 31 December 2019, an aggregate amount of RMB103,260,000 was declared and paid as dividends to then equity owners of the entities now comprising the Group.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 24 May 2021 to Thursday, 27 May 2021, both days inclusive, during which no transfer of shares of the Company will be registered. In order to determine the identity of members who are entitled to attend and vote at the AGM to be held on Thursday, 27 May 2021, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investors Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 21 May 2021 for registration.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2020 are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements during the Year 2020 in the share capital of the Company are explained in note 22 to the consolidated financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the Year 2020 are set out in the consolidated statement of changes in equity on page 66 to 67 of this annual report.

As at 31 December 2020, the Company did not have any distributable reserve available for distribution to the Shareholders as calculated in accordance with the applicable laws of the Cayman Islands and the memorandum and articles of association of the Company.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last four financial years is set out on page 116 of this annual report.

BOARD OF DIRECTORS

The Directors during the Year 2020 and up to the date of this report were:

Executive Directors:

Mr. Xie Wei (謝偉) *(Chairman)*	(Appointed on 18 December 2020) *(Note)*
Ms. Zhang Hongli (張宏麗) *(Chief Executive Officer)*	(Appointed on 18 December 2020) *(Note)*
Mr. Li Jinglian (栗景連)	(Appointed on 18 December 2020) *(Note)*
Mr. Jiang Zhendong (姜振東)	(Appointed on 18 December 2020) *(Note)*

Independent Non-executive Directors:

Ms. Liu Ling (劉凌)	(Appointed on 18 December 2020)
Mr. Leung Tsz Wing (梁子榮)	(Appointed on 18 December 2020)
Mr. Chan Kam Leung (陳錦良)	(Appointed on 18 December 2020)

Note: Mr. Xie Wei, Ms. Zhang Hongli, Mr. Li Jinglian and Mr. Jiang Zhendong were appointed as Director of the Group firstly on 12 August 2019, 12 December 2019, 7 January 2020, and 7 January 2020, respectively.

In accordance with article 108 (a) and (b) and article 112 of the articles of association of the Company, Mr. Xie Wei, Ms. Zhang Hongli and Ms. Liu Ling will retire from office as Directors at the forthcoming AGM of the Company, and being eligible, offer themselves for re-election.

Each of the independent non-executive Directors has confirmed in writing his/her independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the Senior Management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 11 to 15 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for election at the forthcoming AGM has or is proposed to have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation, other than the statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Apart from the Contractual Arrangements (as defined under the section headed "Continuing Connected Transactions" below) set out in the section headed "Continuing Connected Transactions" below, there was no transaction, arrangement or contract of significance to which the Company or any related companies (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Year 2020.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As the Shares were listed on the Main Board of the Stock Exchange on 15 January 2021, the Company was not required to keep any register under Part XV of the Securities and Futures Ordinance ("SFO") as at 31 December 2020.

Subsequent to the Listing, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or under the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in Shares

Name	Capacity/Nature of interest	Number of Shares interested in	Percentage of interest in the Company
Mr. Xie Wei ("Mr. Xie") (Note)	Interest in a controlled corporation	450,000,000 (long position)	75%

Note: These Shares are held by Modern Biotechnology Group Holdings Co., Ltd (現代生物科技集團控股有限公司) ("Modern Biotechnology") which is a company incorporated in the British Virgin Islands. The entire issued share capital of Modern Biotechnology is owned by Mr. Xie who is therefore deemed to be interested in the Shares held by Modern Biotechnology under the SFO.

(b) Interests in the shares of associated corporations

Name	Name of associated corporation	Capacity/ Nature of interest	Number of shares	Percentage of interest in associated corporations
Mr. Xie	Modern Biotechnology	Beneficial owner	One share of US$1.00 (long position)	100%
	Chengde Yushi (Note 1)	Beneficial owner	N/A (Note 2)	100%

Notes:

(1) Chengde Yushi is a limited liability company established in the PRC. It is regarded as an indirect wholly-owned subsidiary of the Group by virtue of the Contractual Arrangements (as defined under the section headed "Continuing Connected Transactions" below) entered into with the Group.

(2) The percentage of shareholding is determined with reference to the percentage of subscribed registered capital of the shareholder.

SHARE OPTION SCHEME

On 18 December 2020, the Company adopted a share option scheme (the "Scheme"), salient features of which are as follows:

(a) Purpose of the Scheme

The Scheme is a share incentive scheme and is established to enable the Group to (i) recognise and acknowledge the contributions that eligible participants have (or may have) made or may make to the Group (whether directly or indirectly); (ii) attract and retain and appropriately remunerate the best possible quality of employees and other eligible participants; (iii) motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group; (iv) enhance its business, employee and other relations; and/or (iv) retain maximum flexibility as to the range and nature of rewards and incentives which the Group can offer to eligible participants.

(b) Eligible participants to the Scheme

Eligible participants mean (i) any employee or officer employed by any member of the Group or an affiliate (whether full time or part time) and any of his/her close associates; (ii) any director or proposed director of any member of the Group or any company which is an affiliate and their respective close associates; and (iii) any consultant, professional, customer, supplier, agent, franchisee, partner, adviser or contractor of any member of the Group or any of the affiliates and their respective close associates, who the Board in its absolute discretion determines to be qualified to be (or, where applicable, to continue to be qualified to be) an eligible participant.

(c) **Maximum number of Shares**

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the Listing date (the "Scheme Mandate Limit") unless approved by the Shareholders. The Scheme Mandate Limit may be refreshed if so approved by the Shareholders at general meeting from time to time provided the Scheme Mandate Limit so refreshed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by the Shareholders at general meeting.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time. Notwithstanding anything contrary to the terms of the Scheme, no options may be granted under the Scheme or other schemes if this will result in the said 30% limit being exceeded.

(d) **Maximum entitlement of a grantee**

Unless approved by the Shareholders, no option may be granted to any eligible participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such eligible participant under the Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant.

(e) **Exercise price**

Subject to any adjustment made pursuant to the alteration in the capital structure of the Company, the exercise price in respect of any particular option (the "Exercise Price") shall be a price determined by the Board and stated in the offer letter, and shall not be less than the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, 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 the offer; and

(iii) the nominal value of a Share prevailing on the date of the offer.

(f) **Rights are personal to grantee**

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the Scheme.

(g) Duration

The Scheme shall be valid and effective for a period of ten years commencing on the effective date of the Scheme, after which no further options may be offered or granted under the Scheme but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the terms and conditions of the Scheme.

No option had been granted by the Company under the Scheme since its inception.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in the Directors' Report, at no time during the Year 2020 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the Directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the Year 2020.

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

As the Shares were listed on the Main Board of the Stock Exchange on 15 January 2021, the Company was not required to keep any register under Part XV of the SFO as at 31 December 2020. So far as is known to the Directors, the following person (not being a Director or chief executive of the Company), immediately after the Listing, would have interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name	Capacity/Nature of interest	Number of Shares held	Percentage of interest in the Company
Modern Biotechnology	Beneficial owner	450,000,000 (long position)	75%

CONTINUING CONNECTED TRANSACTIONS

During the Year 2020, Shijiazhuang Medical Research Advisory Company Limited (石家莊藥研諮詢有限公司) ("Shijiazhuang Medical Research"), an indirect wholly-owned subsidiary of the Group, entered into series of contractual arrangements (the "Contractual Arrangements") with Chengde Yushi and Mr. Xie, details of which are as follows:

(a) Exclusive Option Agreement

Pursuant to the Exclusive Option Agreement, Shijiazhuang Medical Research (or the Company or any subsidiary of the Company, the "designee") was granted an irrevocable and exclusive right to purchase from Mr. Xie and/or Chengde Yushi all or any part of their equity interest in and/or assets of Chengde Yushi for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, Mr. Xie and/or Chengde Yushi shall return any amount of purchase price they have received to Shijiazhuang Medical Research. At Shijiazhuang Medical Research's request, Mr. Xie and/or Chengde Yushi will promptly and unconditionally transfer their respective equity interests in and/or asset of Chengde Yushi to Shijiazhuang Medical Research (or its designee) after Shijiazhuang Medical Research exercises its purchase right. The Exclusive Option Agreement is valid for an initial term of ten years and Shijiazhaung Medical Research has the right to renew the term of the Exclusive Option Agreement. Upon expiration of the initial term, the Exclusive Option Agreement will be automatically extended for an indefinite term until Shijiazhuang Medical Research serves a written notice to confirm the term of renewal. Shijiazhuang Medical Research intends to renew the Exclusive Option Agreement upon the expiry of its initial term unless (i) all equity interest in and/or assets of Chengde Yushi are transferred to Shijiazhuang Medical Research or its designee and (ii) Shijiazhuang Medical Research and its subsidiaries are allowed to carry out the processing techniques of Chengde Yushi for traditional Chinese medicine decoction pieces such as steaming, frying, simmering and calcining (the "Relevant Businesses") in the production of PCM under the applicable PRC laws and regulations.

In order to prevent the flow of the assets and value of Chengde Yushi to Mr. Xie, during the term of the Exclusive Option Agreement, any assets of Chengde Yushi is not allowed to be sold, transferred, mortgaged or otherwise disposed without the prior written consent of Shijiazhuang Medical Research. In addition, Chengde Yushi is not allowed to make any distributions to its shareholders without the prior written consent of Shijiazhuang Medical Research. In the event that Mr. Xie receives any distribution from Chengde Yushi and subject to the PRC laws, Mr. Xie must immediately pay or transfer such distribution to Shijiazhuang Medical Research (or its designee). If Shijiazhuang Medical Research exercises its purchase right, all or any part of the equity interest in and/or assets of Chengde Yushi acquired would be transferred to Shijiazhuang Medical Research.

As provided in the Exclusive Option Agreement, without the prior written consent of Shijiazhuang Medical Research, Chengde Yushi shall not, among other things, (i) sell, transfer, pledge or dispose of in any manner any of its assets; (ii) execute any material contract for a value more than RMB1 million, except any contracts in the ordinary course of business and any contracts entered into with any members of our Group; (iii) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party create any pledge or other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business of Chengde Yushi or not disclosed and consented to by Shijiazhuang Medical Research; (v) enter into any consolidation, partnership, joint venture, or merger with any third party, or acquire or invest in any third party; or (vi) increase or reduce its registered capital, or alter the structure of the registered capital, or alter the company nature of Chengde Yushi in any other way. The Exclusive Option Agreement also provides that Mr. Xie and Chengde Yushi shall procure the subsidiaries of Chengde Yushi (if any) to comply with the above undertaking as if they are parties to the Exclusive Option Agreement.

(b) Exclusive Business Cooperation Agreement

Pursuant to the Exclusive Business Cooperation Agreement, Chengde Yushi agreed to engage Shijiazhuang Medical Research as its exclusive provider of business support, technical and consulting services to the extent allowed under the PRC laws, including the consultation services, procurement, production and sales consulting services in relation to the manufacturing and development of medicines, human resources consulting services, tax and financial management services, information system services, internal control services, technical support, licensing services, management consulting services in connection with the business operation of Chengde Yushi, consulting services in connection with the application of the necessary licenses, approvals and permits for the business operation of Chengde Yushi, in exchange for service fees. Under these arrangements, the service fees, subject to Shijiazhuang Medical Research's adjustment, are equal to the cumulative net profit of Chengde Yushi and its subsidiaries (if any). Shijiazhuang Medical Research may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Chengde Yushi and its subsidiaries (if any) from previous financial periods, which will be wired to the designated account of Shijiazhuang Medical Research upon issuance of payment notification by Shijiazhuang Medical Research.

Intellectual property rights are developed during the normal course of business of Chengde Yushi and its subsidiaries (if any). Pursuant to the Exclusive Business Cooperation Agreement, Shijiazhuang Medical Research has the exclusive and proprietary rights to all intellectual properties developed by Chengde Yushi and its subsidiaries (if any), given that Shijiazhuang Medical Research provides consultation services to Chengde Yushi and its subsidiaries (if any) during the term of the Exclusive Business Cooperation Agreement. Although the Group does not intend to transfer any existing intellectual property rights held by Chengde Yushi to Shijiazhuang Medical Research, Chengde Yushi is required under the Contractual Arrangements to obtain Shijiazhuang Medical Research's prior written consent before they transfer, assign or dispose of any of the intellectual properties to any third party.

The Exclusive Business Cooperation Agreement is valid for an initial term of ten years and Shijiazhaung Medical Research has the right to renew the term of the Exclusive Business Cooperation Agreement. Upon expiration of the initial term, the Exclusive Business Cooperation Agreement will be automatically extended for an indefinite term until Shijiazhaung Medical Research serves a written notice to confirm the term of renewal. Shijiazhuang Medical Research intends to renew the Exclusive Business Cooperation Agreement upon the expiry of its initial term unless (i) all equity interest in and/or assets of Chengde Yushi are transferred to Shijiazhuang Medical Research or its designee and (ii) Shijiazhuang Medical Research and its subsidiaries are allowed to carry out the Relevant Businesses under the applicable PRC laws and regulations.

(c) Equity Pledge Agreement

Under the Equity Pledge Agreement, Mr. Xie pledged as first charge all of his equity interest in Chengde Yushi to Shijiazhuang Medical Research as collateral security for any or all of his payments due to Shijiazhuang Medical Research and to secure performance of (i) the respective obligations of Chengde Yushi and Mr. Xie under the Exclusive Option Agreement and the Power of Attorney (as defined below); and (ii) the obligations of Chengde Yushi under the Exclusive Business Cooperation Agreement. The Equity Pledge Agreement will not terminate until (i) all obligations of Chengde Yushi and Mr. Xie under the Contractual Arrangements are satisfied in full; (ii) Shijiazhuang Medical Research and/or its designee exercises its exclusive option to purchase the entire equity interests of Mr. Xie in Chengde Yushi and/or the entire assets of Chengde Yushi pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws and conducts; (iii) Shijiazhuang Medical Research exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws.

(d) Power of Attorney

Pursuant to the Power of Attorney, Mr. Xie appointed Shijiazhuang Medical Research or a director of its offshore holding company or its/his/her successor (including a liquidator replacing Shijiazhuang Medical Research's director) as his exclusive agent and attorney to act on his behalf on all matters concerning Chengde Yushi and to exercise all of its rights as a registered shareholder of Chengde Yushi. These rights include (i) the right to propose, convene and attend shareholders' meetings; (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of Chengde Yushi. The authorised person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Chengde Yushi on behalf of Mr. Xie. Mr. Xie has also undertaken to transfer all assets obtained after the winding up of Chengde Yushi to Shijiazhuang Medical Research at nil consideration or the lowest price permissible by the then applicable PRC laws.

The Power of Attorney also provided that, in order to avoid potential conflicts of interest, where Mr. Xie is an officer or a director of Shijiazhuang Medical Research, the power of attorney is granted in favour of other unrelated officers or directors of the Company.

The Power of Attorney shall automatically terminate once Shijiazhuang Medical Research (or any member of our Group other than Chengde Yushi and its subsidiaries (if any)) directly holds the entire equity interests in and/or the entire assets of Chengde Yushi once permitted under the then PRC laws and Shijiazhuang Medical Research (or its subsidiaries (if any)) is allowed to conduct the Relevant Businesses under the then PRC laws, following which Shijiazhuang Medical Research is registered as the sole shareholder of Chengde Yushi.

(e) Spouse's Undertaking

Ms. Sun Xinlei (孫新磊), the spouse of Mr. Xie, executed an irrevocable undertaking, whereby she expressly and irrevocably acknowledged and has undertaken that (i) any equity interest held by Mr. Xie in Chengde Yushi does not fall within the scope of their communal properties; (ii) she will not have any claim on the interests of Chengde Yushi obtained through the Contractual Arrangements; and (iii) she has never participated and unless with the prior written consent of Shijiazhuang Medical Research, will not participate in the operation or management of Chengde Yushi.

The transactions contemplated under the Contractual Arrangements constituted non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. However, waivers from strict compliance has been granted by the Stock Exchange in respect of (i) the announcement, circular and independent shareholders' approval requirements for the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; and (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules subject to several conditions and requirements.

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

- the transactions carried out during the Year 2020 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- no dividends or other distributions have been made by Chengde Yushi to Mr. Xie which are not otherwise subsequently assigned or transferred to the Group; and
- any new contracts entered into, renewed or reproduced between the Group and Chengde Yushi during the Year 2020 are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

Mazars, the Company's independent auditor, was engaged to report on the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 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 the Hong Kong

Institute of Certified Public Accountants. Based on the results of the work performed, Mazars has issued a limited assurance report containing an unqualified conclusion in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules in confirming that:

- nothing has come to their attention that causes them to believe that the transactions have not been approved by the Directors;
- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant provisions of the Contractual Arrangements; and
- nothing has come to their attention that causes them to believe that dividends or other distributions have been made by Chengde Yushi to its registered shareholder which are not otherwise subsequently assigned or transferred to the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Our distributors are our customers. For the Year 2020, sales to the Group's five largest customers accounted for approximately 42.3% (2019: 40.2%) of the total revenue of the Group, while the percentage of the total revenue of the Group attributable to the Group's largest customer was approximately 10.8% (2019: 10.7%).

For the Year 2020, purchases from the Group's five largest suppliers accounted for approximately 62.8% (2019: 58.0%) of the total purchases of raw materials of the Group, while the percentage of the total purchases of raw materials of the Group attributable to the Group's largest supplier was approximately 17.6% (2019: 17.1%).

None of the Directors of the Company, or any of their associates or any other shareholders, which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the Year 2020.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Group is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities. Intending holders and investors of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications (including tax relief) of subscribing for, purchasing, holding, disposing of or dealing in the Shares. It is emphasised that none of the Company or its Directors or officers will accept any responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding, disposal of or dealing in the Shares.

PERMITTED INDEMNITY PROVISION

Since the Shares were not listed until 15 January 2021, the Company did not maintain a directors and officers liability insurance during the Year 2020. A directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

COMPETING INTERESTS

Other than the equity interest held by Mr. Xie in Chengde Yushi as disclosed under the section headed "Continuing Connected Transactions" in this report, none of the controlling shareholders, namely Mr. Xie and Modern Biotechnology, the Directors nor their respective close associates (as defined in the Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the Year 2020 and up to the date of this report.

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

The Shares were listed on the Main Board of the Stock Exchange on 15 January 2021. As the Shares were not listed on the Main Board of the Stock Exchange as at 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year 2020. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities after the Listing date and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate government practices adopted by the Company is set out in the "Corporate Governance Report" on pages 16 to 26 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 31 to the consolidated financial statements, there is no significant event after the Reporting Period the Group and up to the date of this report.

AUDITOR

The consolidated financial statements for the Year 2020 have been audited by Mazars. Mazars shall retire in the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming AGM. There is no change in auditor since the date of the Listing.

On behalf of the Board

Ms. Zhang Hongli
Chief Executive Officer and Executive Director
Modern Chinese Medicine Group Co., Ltd.

26 March 2021

mazars
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MAZARS CPA LIMITED
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To the members of
Modern Chinese Medicine Group Co., Ltd.
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Modern Chinese Medicine Group Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 64 to 115, which comprise the consolidated statement of financial position at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for 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)

Key audit matters	How our audit addressed the key audit matter
Revenue recognition	
Refer to Notes 2 and 4 to the consolidated financial statements. Revenue of the Group mainly comprises production of proprietary Chinese medicine in the People's Republic of China. The Group enters into distribution agreements with most of its customers including the terms of delivery and policies for marketing incentives. 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. 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. 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 key audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the effectiveness of design and, implementation of management's key internal controls in relation to revenue recognition; • 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; • 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; • inspecting goods delivery notes and/or delivery records, on a sample basis, to assess whether revenue transactions recorded around the financial year end date has been recognised in the appropriate financial period on the basis of the terms of sale as set out in the purchase orders; and • inspecting underlying documentation for manual journal entries and adjustments relating to revenue raised during the year which met specific risk-based criteria.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
Determination of whether the Group has control over a subsidiary governed under a series of contractual arrangements	
Refer to Notes 2 and 12 to the consolidated financial statements. The Group, through its indirect wholly-owned subsidiary, Shijiazhuang Medical Research Advisory Company Limited* ("Shijiazhuang Medical Research") (石家莊藥研咨詢有限公司), entered into series of contractual arrangements (the "Contractual Arrangements") with Chengde Yushi Jindan Pharmaceutical Co., Ltd.* ("Chengde Yushi") (承德御室金丹藥業有限公司) and its legal shareholder of Chengde Yushi. The Group, through the Contractual Arrangements, has exposure and rights to variable returns from its involvement with Chengde Yushi and has ability to affect those returns through its power over Chengde Yushi. Therefore, the Group is considered to have control over Chengde Yushi. In determining the extent of the Group's involvement with and control over Chengde Yushi, the management considered a number of factors including whether the Group has: (i) exercise effective financial and operational control over Chengde Yushi; (ii) exercised equity holders' voting rights of Chengde Yushi; (iii) received substantially all of the economic interest returns generated by Chengde Yushi in accordance to the amount of equity interest held by the Group and/or the Contractual Arrangements; (iv) obtained an irrevocable and exclusive right to purchase the remaining entire equity interest in Chengde Yushi from the respective equity holders; and (v) obtained a pledge over the entire equity interest of Chengde Yushi from their respective equity holders under the Contractual Arrangements, as appropriate. We identified the above matter as a key audit matter because Chengde Yushi is material to the Group and the determination of whether the Group has power to control over Chengde Yushi involves a significant degree of management's judgement.	Our key audit procedures to assess the determination of control over Chengde Yushi included: • evaluating the terms in the Contractual Arrangements in connection with the Group's control over Chengde Yushi; • understanding how the Group controls the daily business operation and financing activities of Chengde Yushi; • evaluating the management's assessment in relation to the control over Chengde Yushi according to HKFRS 10; • obtaining an updated legal opinion from the Company's PRC legal counsel regarding whether the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable; and • evaluating the Company's PRC legal counsel's competence, capabilities and objectivity.

* *For identification purpose only.*

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matter
Recognition of expenses for the initial listing of the shares of the Company	
Refer to Note 2 to the consolidated financial statements. Relevant costs incurred for the initial listing of the shares of the Company are allocated and classified among (i) profit or loss as listing expenses and (ii) equity as a reduction of share premium upon the capitalisation issue, on the basis that whether the costs are (i) costs for the Company to obtain the listing status or (ii) incremental costs for the Company to raise additional funds from the issue of new shares, respectively. During the year ended 31 December 2020, costs attributable to obtaining the listing status of approximately RMB14,367,000 (2019: RMB11,758,000) were charged to profit or loss. We have identified the above matter as a key audit matter because the classification and allocation of relevant costs incurred involves a significant degree of management judgement.	Our audit procedures to assess the recognition of expenses included: • enquiring of the management on the bases of classification and allocation for the relevant costs and assessing the reasonableness of these bases with reference to the applicable accounting standards and guidelines; and • checking samples of expense items that made up the total costs incurred for the initial listing of the shares of the Company to invoices and agreements to confirm the nature of the items and checking whether these items have been correctly classified and allocated accordingly to the bases determined by the management.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2020 annual report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

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

- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, 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.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2021

The engagement director on the audit resulting in this independent auditor's report is:
Law Lai Ting
Practising Certificate number: P07322

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	For the year ended 31 December 2020 RMB'000	 2019 RMB'000
Revenue	4	**308,692**	218,767
Cost of sales		**(171,831)**	(119,698)
Gross profit		**136,861**	99,069
Other income	5	**403**	174
Selling and distribution expenses		**(10,349)**	(8,105)
Administrative and other operating expenses		**(21,823)**	(14,124)
Finance costs	6	**(247)**	–
Listing expenses		**(14,367)**	(11,758)
Profit before tax	6	**90,478**	65,256
Income tax expenses	9	**(26,901)**	(19,019)
Profit for the year		**63,577**	46,237
Other comprehensive income (loss)			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on consolidation/combination		**1,559**	(138)
Total comprehensive income for the year		**65,136**	46,099
Earnings per share attributable to owners of the Company		**RMB cents**	RMB cents
Basic and diluted		**14.13**	10.27

Consolidated Statement of Financial Position

	Note	At 31 December 2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	13	**11,565**	12,527
Right-of-use assets	14	**2,524**	1,985
Deposits paid for acquisition of property, plant and equipment		**1,887**	1,887
Deferred tax assets	21	**4,418**	2,150
		20,394	18,549
Current assets			
Inventories	15	**33,964**	40,933
Trade and other receivables	16	**81,709**	27,737
Bank balances and cash		**73,191**	35,891
		188,864	104,561
Current liabilities			
Trade and other payables	17	**61,576**	39,978
Interest-bearing borrowings	18	**5,000**	5,000
Lease liabilities	19	**335**	–
Amount due to the Ultimate Controlling Party	20	**–**	5,316
Income tax payables		**7,312**	3,962
		74,223	54,256
Net current assets		**114,641**	50,305
Total assets less current liabilities		**135,035**	68,854
Non-current liabilities			
Lease liabilities	19	**203**	–
NET ASSETS		**134,832**	68,854
Capital and reserves			
Share capital	22	**–***	–*
Reserves	23	**134,832**	68,854
TOTAL EQUITY		**134,832**	68,854

* Represent amounts less than RMB1,000.

The consolidated financial statements on pages 64 to 115 were approved and authorised for issue by the Board of Directors on 26 March 2021 and signed on its behalf by

Ms. Zhang Hongli
Director

Mr. Jiang Zhendong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

		Reserves						
	Share capital RMB'000 (Note 22)	Share premium RMB'000 (Note 23(a))	Capital reserve RMB'000 (Note 23(b))	Special reserve RMB'000 (Note 23(c))	Translation reserve RMB'000 (Note 23(d))	Statutory reserve RMB'000 (Note 23(e))	Accumulated profits RMB'000	Total RMB'000
At 1 January 2019	–	–	29,540	(5,000)	–	9,923	89,356	123,819
Profit for the year	–	–	–	–	–	–	46,237	46,237
Other comprehensive loss:								
Item that may be reclassified subsequently to profit or loss								
Exchange differences on combination	–	–	–	–	(138)	–	–	(138)
Total comprehensive (loss) income for the year	–	–	–	–	(138)	–	46,237	46,099
Disposal of the Non-core Assets (Notes 1 & 23(c))	–	–	–	5,000	–	–	(2,804)	2,196
Transactions with owners:								
Contributions and distributions								
Issue of share capital	–*	–	–	–	–	–	–	–*
Dividends (Note 11)	–	–	–	–	–	–	(103,260)	(103,260)
Appropriation to statutory reserve	–	–	–	–	–	5,190	(5,190)	–
Total transactions with owners	–*	–	–	–	–	5,190	(108,450)	(103,260)
At 31 December 2019	–*	–	29,540	–	(138)	15,113	24,339	68,854

* Represent amounts less than RMB1,000.

		Reserves						
	Share capital RMB'000 (Note 22)	Share premium RMB'000 (Note 23(a))	Capital reserve RMB'000 (Note 23(b))	Special reserve RMB'000 (Note 23(c))	Translation reserve RMB'000 (Note 23(d))	Statutory reserve RMB'000 (Note 23(e))	Accumulated profits RMB'000	Total RMB'000
At 1 January 2020	–*	–	29,540	–	(138)	15,113	24,339	68,854
Profit for the year	–	–	–	–	–	–	63,577	63,577
Other comprehensive income: *Item that may be reclassified subsequently to profit or loss* Exchange differences on consolidation	–	–	–	–	1,559	–	–	1,559
Total comprehensive income for the year	–	–	–	–	1,559	–	63,577	65,136
Transactions with owners: *Contributions and distributions* Capitalisation of loan from Modern Biotechnology (Note 22)	–*	842	–	–	–	–	–	842
At 31 December 2020	–*	842	29,540	–	1,421	15,113	87,916	134,832

* Represent amounts less than RMB1,000.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**90,478**	65,256
Adjustments for:		
Depreciation	**1,835**	1,550
Finance costs	**247**	–
Interest income	**(136)**	(146)
Gain on disposal of property, plant and equipment	**–**	(1)
Provision for (Reversal of) loss allowance of trade receivables, net	**276**	(30)
Exchange difference	**1,559**	–
Operating cash inflows before movements in working capital	**94,259**	66,629
Changes in working capital:		
Inventories	**6,969**	(1,922)
Trade and other receivables	**(54,248)**	973
Trade and other payables	**21,598**	(4,600)
Cash generated from operations	**68,578**	61,080
Income tax paid	**(25,819)**	(20,840)
Net cash from operating activities	**42,759**	40,240
INVESTING ACTIVITIES		
Interest received	**136**	146
Payment for purchase of property, plant and equipment	**(544)**	(2,619)
Proceeds from disposal of the Non-core Assets	**–**	1,261
Proceeds from disposal of property, plant and equipment	**–**	5
Net cash used in investing activities	**(408)**	(1,207)
FINANCING ACTIVITIES		
(Repayment to) Advance from the Ultimate Controlling Party	**(5,316)**	5,317
Advance from the immediate holding company	**842**	–
Inception of interest-bearing borrowings	**5,000**	5,000
Repayment of interest-bearing borrowings	**(5,000)**	–
Payment of lease liabilities	**(330)**	–
Interest paid	**(247)**	–
Dividend paid	**–**	(103,260)
Net cash used in financing activities	**(5,051)**	(92,943)
Net increase (decrease) in cash and cash equivalents	**37,300**	(53,910)
Cash and cash equivalents at the beginning of year	**35,891**	89,940
Effect on exchange rate changes	**–***	(139)
Cash and cash equivalents at the end of year, represented by bank balances and cash	**73,191**	35,891

* Represent amounts less than RMB1,000.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Modern Chinese Medicine Group Co., Ltd. (the "Company", together with its subsidiaries are collectively referred to as the "Group") was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 January 2021 (the "Listing"). The address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. The Group's headquarters is situated at No. 88 Jinwei Road, Chengde City, Hebei Province, the People's Republic of China (the "PRC").

The Company is an investment holding company and its subsidiaries are principally engaged in the production of proprietary Chinese medicine ("PCM") in the PRC.

The immediate and ultimate holding company of the Company is Modern Biotechnology Group Holdings Co., Ltd. ("Modern Biotechnology"), which is incorporated in the British Virgin Islands (the "BVI"). In the opinion of the directors of the Company, the ultimate controlling party is Mr. Xie Wei (the "Ultimate Controlling Party").

Pursuant to a group reorganisation (the "Reorganisation") carried out by the Group in preparation for the Listing, the Company became the holding company of the entities now comprising the Group on 26 February 2020. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" of the section headed "History, Development and Reorganisation" of the prospectus of the Company dated 31 December 2020.

Immediately prior to and after the Reorganisation, the Company and its subsidiaries now comprising the Group are ultimately controlled by the Ultimate Controlling Party. The Group's business is mainly conducted through Chengde Yushi Jindan Pharmaceutical Co., Ltd.* ("Chengde Yushi") (承德御室金丹藥業有限公司) while the Company and other entities within the Group have not been involved in any other significant activities prior to the Reorganisation. As the Reorganisation did not result in any change in the ultimate control of and the resources employed by the Group's business, the Group is regarded as a continuity entity and, therefore, the Reorganisation is considered to be a restructuring of entities and business under common control. The consolidated financial statements are prepared using the carrying values of the entities involved in the Reorganisation for all periods presented on a basis in accordance with the principles of merger accounting as set out in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

As further explained in the paragraph headed "Merger accounting for business combination involving entities under common control" below, the consolidated financial statements present the consolidated financial position, consolidated financial performance, consolidated changes in equity and consolidated cash flows of the entities now comprising the Group as if the current group structure had always been in existence throughout the reporting periods or since their respective date of establishment or incorporation, where applicable.

The consolidated financial statements aim to include assets, liabilities, income and expenses that are related to and specifically identified for the production of PCM (the "PCM Business"). At 1 January 2019 and up to 6 September 2019, the following companies, entirely/partially owned by Chengde Yushi, were regarded as non-core assets (the "Non-core Assets") of the Group, which are not directly related to, nor form part of, the Group's principal PCM Business.

* For identification purpose only.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION (Continued)

Name	Place of incorporation/ establishment	Equity interest held by the Group prior to disposal/ deregistration	Principal activities
黑龍江省御室酒業有限公司 Heilongjiang Yushi Wine Co., Ltd.* ("Yushi Wine")	The PRC	100%	Production and wholesale of Chinese yellow wine
河北御室金丹醫藥有限公司 Hebei Yushi Jindan Pharmaceutical Co., Ltd.* ("Hebei Yushi")	The PRC	80%	Retail of pharmaceutical products and health care products
河北御室健康產業有限公司 Hebei Yushi Health Industry Co., Ltd.* ("Yushi Health")	The PRC	35%	Research & development and production of health food products
承德御室生物科技有限公司 Chengde Yushi Biotechnology Co., Ltd.* ("Chengde Biotechnology")	The PRC	30%	Biotechnology research

The Group had segregated the relevant financial information of the Non-core Assets from the consolidated financial statements of the PCM Business at 1 January 2019 for the preparation of the consolidated financial statements. In particular, the investment made and carrying amount of the Non-core Assets at 1 January 2019 and up to 6 September 2019 was reflected as movements and balances in the consolidated statement of changes in equity under the heading of "special reserve". Such presentation ceased following to the dissolution or transferal (to the independent third parties) of the Non-core Assets on or before 6 September 2019. The consolidated financial statements exclude the movements and balances of the Non-core Assets which, in the opinion of the directors of the Company, are clearly delineated from the PCM Business and whose movements and balances are clearly identifiable.

The consolidated financial statements have been prepared based on the accounting policies set out in Note 2 which conforms with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

* For identification purpose only.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with the HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The consolidated 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 (the "Listing Rules").

These consolidated financial statements are presented in Renminbi ("RMB") and all amounts have been rounded to the nearest thousand ("RMB'000"), unless otherwise indicated.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2019 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year.

Changes in accounting policies of new/revised HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business

Amendments to HKASs 1 and 8: Definition of Material

The amendments clarify the definition of material and align the definition used across HKFRSs.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 3: Definition of a Business

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

A summary of the principal accounting policies adopted by the Group in preparing the consolidated financial statements is set out below.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

Basis of consolidations/combinations

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Ultimate Controlling Party.

The net assets of the combining entities or businesses are combined using the existing carrying values from the Ultimate Controlling Party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the Ultimate Controlling Party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities, arising from the Reorganisation, are recognised directly in equity as part of the capital reserve. The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

Subsidiaries

A subsidiary is an entity (including a structured entity), that is 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. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position, investment in a subsidiary is stated at cost less impairment loss. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of a subsidiary are accounted for by the Company on the basis of dividends received and receivable.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	3 years to 5 years
Motor vehicles	4 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Intangible assets

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised will be the outsourcing costs. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over their estimated useful lives.

During the years ended 31 December 2020 and 2019, no development cost was capitalised by the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Classification and measurement

Financial assets (except for trade receivables without a significant financing component which are initially measured at their transaction price) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and measurement (Continued)

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include trade and other receivables and bank balances and cash.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expired.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables, interest-bearing borrowings, lease liabilities, and amounts due to the Ultimate Controlling Party. All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on one or more shared credit risk characteristics, such as past due information, nature of instrument and industry of debtors.

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial asset that meets any of the following criteria.

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or

(ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, 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 in the assessment:

- the debtor's failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Simplified approach of ECL

For trade receivables without a significant financing components or otherwise for which the Group applies the practical expedient not to account for the significant financing components, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash equivalents

For the purpose of the consolidated statements of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The nature of the goods or services provided by the Group is the production of PCM.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers within HKFRS 15 (Continued)

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Revenue from the production of PCM is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Group's borrowing rates and other relevant creditworthiness information of the customer of the Group.

The Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers within HKFRS 15 (Continued)

Variable consideration: trade discounts, volume rebates and/or other price incentives

The Group gives trade discounts, volume rebates and/or other price incentives to selected distributors. The Group estimates the trade discounts, volume rebates and/or other price incentives using the expected-value method and assesses whether the estimated variable consideration is constrained with reference to the customer's historical trade discounts, volume rebates and/or other price incentives entitlement and accumulated purchases to date. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Typically, the estimated consideration is not constrained.

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group receives payments from the customer which are largely in line with the timing of revenue recognition and no significant contract assets are recognised. Contract liabilities in relation to refundable receipts in advance are recognised under "Other payables".

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Hong Kong dollar ("HK$") and majority of its subsidiaries have Renminbi ("RMB") as their functional currency. The consolidated financial statements are presented in RMB and rounded to the nearest thousands unless otherwise indicated, which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rate;
- all resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;
- on the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation and a disposal involving the loss of control over a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised; and
- on the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less 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 of 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)

Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that the Group's property, plant and equipment, right-of-use assets and the Company's investment in a subsidiary may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income in profit or loss immediately.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as a deduction from the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Leases

The Group as lessee

The Group leases several pieces of land and office premises during the reporting periods. Lease term is ranging from 2 years to 50 years. Lease terms for the pieces of land are granted by the PRC Government authority on the use of land within the pre-approved lease period and the lease terms for the office premises and the machine are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee **(Continued)**

Leases are recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments that are not paid:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease if the lease term reflects the Group exercising an option to terminate the lease.

Right-of-use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset.

Payments associated with short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets are recognised on a straight-line basis over the lease term as an expense in profit or loss.

Employee benefits

Short term employee benefits

Salaries, bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

In accordance with the rules and regulations in the PRC, the employees of the Group's entities established in the PRC are required to participate in defined contribution retirement plans organised by local governments. Contributions to these plans are expensed in profit or loss as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits to its employees.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A related party is a person or entity that is related to the Group, that is defined as:

a. A person or a close member of that person's family is related to the Group if that person:

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

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or of a holding company of the Group.

b. An entity is related to the Group if any of the following conditions applies:

   (i) the entity and the Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others).

   (ii) 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).

   (iii) both entities are joint ventures of the same third party.

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

   (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

   (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

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

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 and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to Group's most senior executive management for the purpose 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.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management of the Group in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty

(i) Useful lives of property, plant and equipment and right-of-use assets

The management of the Group determines the estimated useful lives of the Group's property, plant and equipment and right-of-use assets based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

(ii) Impairment of property, plant and equipment and right-of-use assets

The management of the Group determines whether the Group's property, plant and equipment and right-of-use assets are impaired when an indication of impairment exists. This requires an estimation of the recoverable amount of the property, plant and equipment and right-of-use assets, which is equal to the higher of fair value less costs of disposal and value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the property, plant and equipment and right-of-use assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will be charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

Key sources of estimation uncertainty (Continued)

(iii) Allowance for inventories

The management of the Group reviews the inventory ageing and subsequent sales/utilisation analysis periodically and makes allowances for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances at the end of each reporting period by reference to management's estimation of the net realisable value based on the latest market prices and current market conditions.

(iv) Loss allowance for ECL

The management of the Group estimates the loss allowance for trade and other receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables.

(v) Income taxes

Significant estimates are required in determining the provision for income taxes and deferred taxation. There are transactions and calculations for which the ultimate tax determination is uncertain where the final tax outcome of these matters may be different from the amounts that were initially recorded and such differences will affect the income tax and deferred tax provision in the period in which such determination is made.

Critical judgements made in applying accounting policies

(i) Subsidiary governed under the Contractual Arrangements – Chengde Yushi

The prevailing rules and regulations prohibit foreign ownership of companies that engage in the production of PCM that involves processing techniques such as steaming, frying, simmering and calcining, which are the core business of the Group (which is conducted through Chengde Yushi) during the years ended 31 December 2020 and 2019.

Although the entire equity interest in Chengde Yushi is held by the Ultimate Controlling Party, by implementation of the Contractual Arrangements as set out in Note 12, Shijiazhuang Medical Research Advisory Company Limited* ("Shijiazhuang Medical Research") (石家莊藥研諮詢有限公司) had obtained control over Chengde Yushi and Shijiazhuang Medical Research is exposed, or has rights, to variable returns from its involvement with Chengde Yushi and has the ability to affect those returns through its power over Chengde Yushi.

* *For identification purpose only*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

Critical judgements made in applying accounting policies (Continued)

(i) Subsidiary governed under the Contractual Arrangements – Chengde Yushi (Continued)

The Company's legal advisers as to the applicable laws and regulations in the PRC have confirmed that the Contractual Arrangements are in compliance with and enforceable under the applicable PRC laws and regulations. After due and careful consideration of all relevant factors together with the legal opinion obtained, the management of the Group assesses and concludes that the Contractual Arrangements are valid, legal and enforceable in the PRC.

Based upon the judgement of the management of the Group on the Contractual Arrangements, the Company accounts Chengde Yushi as a subsidiary in accordance with HKFRS 10.

As the Group holds no equity interests in Chengde Yushi but is subject to the Contractual Arrangements, significant judgement is necessary to determine whether these contracts give the Group the ability to exercise control over Chengde Yushi, including consideration of the PRC legal and regulatory requirements, foreign exchange control, or other influences, such as, force majeure etc.

(ii) Recognition of expenses for the Listing

The management of the Group determines the allocation and classification of relevant costs incurred for Listing among (i) profit or loss as listing expenses and (ii) equity as a reduction of share premium upon the capitalisation issue based on its judgement on whether such costs are (i) costs for the Company to obtain the listing status or (ii) incremental costs for the Company to raise additional funds from the issue of new shares, respectively. During the year ended 31 December 2020, costs attributable to obtaining the listing status of approximately RMB14,367,000 (2019: RMB11,758,000) were charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs

At the date of approving the consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKFRS 16	COVID-19-Related Rent Concessions [(1)]
Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2 [(2)]
Amendments to HKAS 16	Proceeds before Intended Use [(3)]
Amendments to HKAS 37	Cost of Fulfilling a Contract [(3)]
Amendments to HKFRS 3	Reference to the Conceptual Framework [(3)]
Annual Improvements to HKFRSs	2018–2020 Cycle [(3)]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current [(4)]
HKFRS 17	Insurance Contracts [(4)]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [(5)]

(1) Effective for annual periods beginning on or after 1 June 2020
(2) Effective for annual periods beginning on or after 1 January 2021
(3) Effective for annual periods beginning on or after 1 January 2022
(4) Effective for annual periods beginning on or after 1 January 2023
(5) The effective date to be determined

The management of the Group does not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Group's consolidated financial statements.

3. SEGMENT INFORMATION

The management of the Company has determined that the Group has only one operating and reportable segment throughout the reporting periods, as the Group manages its business as a whole as the production of PCM in the PRC and the executive directors of the Company, being the chief operating decision-makers of the Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Group. Segment information is not presented accordingly.

The Company is an investment holding company and the principal place of the Group's operation is the PRC. All of the Group's revenue from external customers during the reporting periods is derived from the PRC and almost all of the Group's assets and liabilities are located in the PRC.

3. SEGMENT INFORMATION (Continued)

Information about major customer

Revenue from customer individually contributing 10% or more of the total revenue of the Group is as follows:

	2020 RMB'000	2019 RMB'000
Customer A	**33,254**	23,511

4. REVENUE

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within HKFRS 15		
At a point in time		
– Production of PCM	**308,692**	218,767

5. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Interest income	**136**	146
Exchange gain, net	**–**	1
Gain on disposal of property, plant and equipment	**–**	1
Sundry income	**267**	26
	403	174

6. PROFIT BEFORE TAX

This is stated after charging:

	2020 RMB'000	2019 RMB'000
Finance costs		
Interest on interest-bearing borrowings	**228**	–
Interest on lease liabilities	**19**	–
	247	–
Staff costs (including directors' emoluments)		
Salaries, allowances, discretionary bonus, and other benefits in kind	**12,313**	9,477
Contributions to defined contribution plans	**1,278**	1,835
	13,591	11,312
Other items		
Auditor's remuneration	**1,424**	20
Cost of inventories	**171,831**	119,698
Exchange loss, net	**58**	–
Depreciation of right-of-use assets (charged to "administrative and other operating expenses")	**329**	60
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate)	**1,506**	1,490
Expenses recognised under short-term leases	**238**	187
Provision for loss allowance for trade receivables, net	**276**	–
Research and development expenses	**10,200**	8,300

Note: Cost of inventories included approximately RMB9,316,000 and RMB1,469,000 (2019: RMB7,890,000 and RMB1,461,000) relating to staff costs and depreciation, respectively, which were included in the respective amounts as disclosed above for the year ended 31 December 2020.

7. DIRECTORS' REMUNERATION

The Company was incorporated in the Cayman Islands on 12 August 2019 and Mr. Xie Wei was appointed as an executive director of the Company on the same day. Ms. Zhang Hongli was appointed as an executive director of the Company on 12 December 2019. Mr. Li Jinglian and Mr. Jiang Zhendong were appointed as executive directors of the Company on 7 January 2020. Ms. Liu Ling, Mr. Leung Tsz Wing and Mr. Chan Kam Leung were appointed as independent non-executive directors of the Company on 18 December 2020.

Certain directors of the Company received remuneration from the entities now comprising the Group during the years ended 31 December 2020 and 2019 for their appointment as employees of these entities. The aggregate amounts of remuneration received and receivable by the directors of the Company during the years ended 31 December 2020 and 2019 are set out below.

Year ended 31 December 2020

	Directors' fees RMB'000	**Salaries, allowances and other benefits in kind RMB'000**	**Discretionary bonus RMB'000**	**Contributions to defined contribution plans RMB'000**	**Total RMB'000**
Executive directors					
Mr. Xie Wei	**–**	**216**	**–**	**26**	**242**
Ms. Zhang Hongli	**–**	**180**	**–**	**16**	**196**
Mr. Li Jinglian	**–**	**519**	**–**	**43**	**562**
Mr. Jiang Zhendong	**–**	**144**	**–**	**18**	**162**
Independent non-executive directors					
Ms. Liu Ling	**4**	**–**	**–**	**–**	**4**
Mr. Leung Tsz Wing	**4**	**–**	**–**	**–**	**4**
Mr. Chan Kam Leung	**4**	**–**	**–**	**–**	**4**
	12	**1,059**	**–**	**103**	**1,174**

Year ended 31 December 2019

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Contributions to defined contribution plans RMB'000	Total RMB'000
Executive directors					
Mr. Xie Wei	–	128	–	36	164
Ms. Zhang Hongli	–	103	–	31	134
Mr. Li Jinglian	–	372	–	50	422
Mr. Jiang Zhendong	–	100	–	29	129
	–	703	–	146	849

7. DIRECTORS' REMUNERATION (Continued)

During the years ended 31 December 2020 and 2019, no remuneration was paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2020 and 2019.

8. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals during the years ended 31 December 2020 and 2019 is as follows:

	Number of individuals	
	2020	2019
Director	**4**	3
Non-director	**1**	2
	5	5

Details of the remuneration of the above highest paid non-director individuals are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries, allowances, discretionary bonus, and other benefits in kind	**427**	204
Contributions to defined contribution plans	**16**	59
	443	263

The number of these non-director individuals whose emoluments fell within the following emoluments band is as follows:

	2020	2019
Nil to HK$1,000,000	**1**	2

During the years ended 31 December 2020 and 2019, no remuneration was paid by the Group to any of these highest paid non-director individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which any of these highest paid non-director individuals waived or has agreed to waive any emoluments during the years ended 31 December 2020 and 2019.

9. INCOME TAX EXPENSES

	2020 RMB'000	2019 RMB'000
Current tax		
PRC enterprise income tax ("PRC EIT")	**29,169**	21,120
Deferred tax		
Changes in temporary differences (Note 21)	**(2,268)**	(2,101)
Total income tax expenses for the year	**26,901**	19,019

The Group entities established in the Cayman Islands and the BVI are exempted from income tax of those jurisdictions.

The Group's entities established in the PRC are subject to PRC EIT at a statutory rate of 25% during the years ended 31 December 2020 and 2019.

Hong Kong Profits Tax has not been provided as the Group had no assessable profit arising from Hong Kong for the years ended 31 December 2020 and 2019.

Reconciliation of income tax expenses

	2020 RMB'000	2019 RMB'000
Profit before tax	**90,478**	65,256
Income tax at statutory tax rate applicable in respective tax jurisdictions	**22,619**	16,314
Non-deductible expenses	**4,268**	2,705
Others	**14**	–
Income tax expenses for the year	**26,901**	19,019

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2020 **RMB'000**	2019 RMB'000
Profit for the year attributable to owners of the Company, used in basic and diluted earnings per share calculation	**63,577**	46,237

	'000	'000
Number of shares:		
Weighted average number of ordinary shares for basic and diluted earnings per share calculation	**450,000**	450,000

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share were on the basis as if the Reorganisation and Capitalisation Issue (Note 22) had been effective on 1 January 2019.

Diluted earnings per share are same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2020 and 2019.

11. DIVIDENDS

	2020 **RMB'000**	2019 RMB'000
Dividends declared to the then equity owners of the entities now comprising the Group	**–**	103,260

Dividend per share is not presented as its inclusion, for the purpose of the consolidated financial statements, is not considered meaningful.

12. SUBSIDIARIES

Details of the subsidiaries at end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ operation	Date of incorporation	Issued and paid-up share capital	Equity interest attributable to the Company	Principal activities
Directly held					
Modern TCM Holdings Group Co., Ltd ("Modern TCM Holdings")	The BVI	20 August 2019	United States dollar (US$) 1	100%	Investment holding
Indirectly held					
HK Modern Chinese Medicine Co., Ltd.	Hong Kong	9 September 2019	HK$1	100%	Investment holding
Shijiazhuang Medical Research (Note)	The PRC	16 December 2019	HK$1,000,000	100%	Provision of business support, technical and consulting services
Chengde Yushi (Note)	The PRC	8 March 2001	RMB28,000,000	100%	Production of PCM

Note:

The Group's indirect wholly-owned subsidiary, Shijiazhuang Medical Research, entered into a series of contractual arrangements with Chengde Yushi and/or the Ultimate Controlling Party (the "Contractual Arrangements") which enables Shijiazhuang Medical Research to:

– exercise effective financial and operational control over Chengde Yushi;
– exercise the entire owners' voting rights of Chengde Yushi;
– receive and be exposed to all of the economic interest returns generated by Chengde Yushi;
– have an irrevocable option to purchase the entire equity interest in Chengde Yushi when and to the extent permitted under the PRC laws; and
– obtain pledges over the entire equity interest of Chengde Yushi from the Ultimate Controlling Party.

The management of the Group is of the opinion that, notwithstanding the lack of equity ownership, the Contractual Arrangements give Shijiazhuang Medical Research control over Chengde Yushi in substance under the principles set out in HKFRS 10 where Shijiazhuang Medical Research is exposed, or has rights, to variable returns from its involvement with Chengde Yushi and has the ability to affect those returns through power over Chengde Yushi. Therefore, the Group regards Chengde Yushi as an indirect wholly-owned subsidiary under HKFRSs and Chengde Yushi is consolidated into the Group's consolidation financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Reconciliation of carrying amount – year ended 31 December 2019					
At 1 January 2019	7,196	5,666	27	17	12,906
Additions	410	705	–	–	1,115
Disposals	–	–	–	(4)	(4)
Depreciation	(602)	(868)	(20)	–	(1,490)
At 31 December 2019	7,004	5,503	7	13	12,527
Reconciliation of carrying amount – year ended 31 December 2020					
At 1 January 2020	7,004	5,503	7	13	12,527
Additions	–	396	–	148	544
Depreciation	(555)	(922)	(4)	(25)	(1,506)
At 31 December 2020	6,449	4,977	3	136	11,565
At 31 December 2019					
Cost	19,148	12,648	1,490	428	33,714
Accumulated depreciation	(12,144)	(7,145)	(1,483)	(415)	(21,187)
Net carrying amounts	7,004	5,503	7	13	12,527
At 31 December 2020					
Cost	19,148	13,044	1,490	576	34,258
Accumulated depreciation	(12,699)	(8,067)	(1,487)	(440)	(22,693)
Net carrying amounts	6,449	4,977	3	136	11,565

14. RIGHT-OF-USE ASSETS

Right-of-use assets represent lump sum considerations paid/to be paid by the Group to acquire leasehold lands and lease of office premises located in the PRC. The leasehold lands are with initial lease period of 50 years and there are no ongoing payments to be made under the terms of the land leases. The Group leases various office premises for its daily operations and lease terms are 2 years.

	Leasehold lands RMB'000	Office premises RMB'000	Total RMB'000
Cost			
At 1 January 2019, 31 December 2019 and 1 January 2020	2,945	–	2,945
Additions	–	868	868
At 31 December 2020	**2,945**	**868**	**3,813**
Accumulated depreciation			
At 1 January 2019	900	–	900
Depreciation	60	–	60
At 31 December 2019 and 1 January 2020	960	–	960
Depreciation	60	269	329
At 31 December 2020	**1,020**	**269**	**1,289**
Net carrying amounts			
At 31 December 2020	**1,925**	**599**	**2,524**
At 31 December 2019	**1,985**	**-**	**1,985**

All the lease contracts of office premises contain extension or termination options. These options aim to provide flexibility to the Group in managing the leased assets.

Most of the leases impose a restriction that, unless approval is obtained from the lessor, the office premises can only be used by the Group and the Group is prohibited from selling or pledging the underlying assets. The Group is also required to keep those office premises in a good state of repair and return the office premises in their original condition at the end of the lease. The Group has no leased properties recognised under right-of-use assets at 1 January 2019 and 31 December 2019.

At 31 December 2020 and 2019, the Group has no commitment to lease contracts in relation to leased assets that have not yet commenced.

At 31 December 2020, the Group was committed to short-term leases or low-value asset leases of approximately RMB238,000 (2019: RMB187,000).

During the years ended 31 December 2020 and 2019, no lease contract contains variable lease payment terms.

The Group's right-of-use assets in respect of leasehold land with a total carrying amount of approximately RMB780,000 (2019: RMB805,000) at 31 December 2020, were pledged to secure interest-bearing borrowings (Note 18) granted to the Group.

15. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**21,646**	21,796
Work-in-progress	**5,168**	5,372
Finished goods	**7,150**	13,765
	33,964	40,933

16. TRADE AND OTHER RECEIVABLES

	Note	2020 RMB'000	2019 RMB'000
Trade receivables			
From third parties		**77,850**	22,690
Less: Loss allowances	26	**(389)**	(113)
	16(a)	**77,461**	22,577
Other receivables			
Prepayments (Note)		**4,095**	4,958
Deposits paid to suppliers		**–**	81
Other deposits and receivables		**153**	121
		4,248	5,160
		81,709	27,737

Note: The amounts at 31 December 2020 included prepaid research and development expenses of approximately RMB1,300,000 (2019: RMB4,900,000).

16(a) Trade receivables

The ageing of trade receivables, net of loss allowances, based on invoice date at the end of each reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	**45,628**	15,293
31 to 60 days	**31,833**	7,234
61 to 90 days	**–**	50
	77,461	22,577

The Group normally grants credit terms up to 60 days from the date of issuance of invoices.

16. TRADE AND OTHER RECEIVABLES (Continued)

16(a) Trade receivables (Continued)

At the end of each reporting period, the ageing analysis of trade receivables, net of loss allowances, by due date is as follows:

	2020 RMB'000	2019 RMB'000
Not yet due	**77,461**	22,527
Past due:		
Less than 30 days	**–**	50
	–	50
	77,461	22,577

Information about the Group's exposure to credit risks and loss allowance for trade and other receivables are included in Note 26.

17. TRADE AND OTHER PAYABLES

	Note	**2020 RMB'000**	2019 RMB'000
Trade payables			
To third parties	17(a)	**26,884**	27,891
Other payables			
Monetary marketing incentives payables (Note i)		**11,184**	22
Value-added tax and other tax payables		**3,713**	1,124
Salary payables		**952**	957
Accruals and other payables (Note ii)		**18,843**	9,984
		34,692	12,087
		61,576	39,978

Note (i): The credit term for the monetary marketing incentives payables are not more than 90 days from the date of issuance of invoices.

Note (ii): The amounts at 31 December 2020 and 2019 included accrued listing expenses of approximately RMB12,398,000 and RMB5,139,000 respectively.

17. TRADE AND OTHER PAYABLES (Continued)

17(a) Trade payables

The trade payables are interest-free and with normal credit terms up to 90 days.

At the end of each reporting period, the ageing analysis of trade payables based on invoice date is as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	**25,681**	27,807
31 to 60 days	**1,165**	78
61 to 90 days	**38**	6
	26,884	27,891

18. INTEREST-BEARING BORROWINGS

	2020 RMB'000	2019 RMB'000
Secured bank loan	**5,000**	5,000

At 31 December 2020, the bank loan carried a fixed interest rate of 4.6% (2019: 4.6%) per annum and was repayable within one year.

The bank loan was secured by legal charges over the Group's certain leasehold land and buildings with carrying amount of approximately RMB780,000 (2019: RMB805,000) at 31 December 2020.

All the banking facilities are subject to the fulfilment of covenants relating to a subsidiary's ratios based on its relative financial information, as are commonly found in lending arrangements with financial institutions. If the subsidiary breaches the covenants, the amounts drawn down together with accrued interests would become repayable on demand.

19. LEASE

The Group as lessee

In addition to the information disclosed in Note 6, the Group had the following amounts relating to leases during the years ended 31 December 2020 and 2019:

	2020 RMB'000	2019 RMB'000
Lease liabilities		
Current portion	**335**	–
Non-current portion	**203**	–
	538	–

Commitments and present value of lease liabilities:

	Lease payments RMB'000	**Present value of lease payments** RMB'000
At December 2020		
Amounts payable:		
Within one year	352	335
In the second to fifth years inclusive	205	203
	557	538
Less: future finance charges	(19)	–
Total lease liabilities	538	538

The total cash outflows for leases were approximately RMB568,000 (2019: RMB187,000) for the year ended 31 December 2020.

At 31 December 2020, the weighted average effective interest rate for the lease liabilities of the Group was 4.6% (2019: Nil) per annum.

20. AMOUNT DUE TO THE ULTIMATE CONTROLLING PARTY

The amount due is non-trade in nature, unsecured, interest-free, repayable on demand.

21. DEFERRED TAX ASSETS

The movements in the Group's deferred tax assets (liabilities) for each of the reporting periods were as follows:

	Assets		Liabilities	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Deferred tax assets (liabilities)	**4,625**	2,150	**(207)**	–
Offsetting	**(207)**	–	**207**	–
Net deferred tax assets	**4,418**	2,150	**–**	–

	Research and development expenses RMB'000	**Accrued revenue and costs** RMB'000	**Total** RMB'000
At 1 January 2019	–	49	49
Credit to profit or loss	2,075	26	2,101
At 31 December 2019 and 1 January 2020	2,075	75	2,150
Credit (charge) to profit or loss	2,550	(282)	2,268
At 31 December 2020	4,625	(207)	4,418

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the management of the Group, it is probable that the earnings of approximately RMB115,437,000 (2019: RMB34,178,000) will not be distributed in the foreseeable future. The estimated withholding tax effects on the distribution of accumulated profits were approximately RMB11,544,000 (2019: RMB3,418,000) at 31 December 2020.

22. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 August 2019. Upon its incorporation, the authorised share capital of HK$380,000 was divided into 38,000,000 ordinary shares at HK$0.01 each and 1 ordinary share was issued.

Pursuant to the resolution of the shareholders passed on 18 December 2020, inter-alia, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional 9,962,000,000 shares of HK$0.01 each and the Capitalisation Issue (as defined below) was conditionally approved.

22. SHARE CAPITAL (Continued)

Pursuant to the Reorganisation, 99 shares were allotted and issued on 18 December 2020, and credited as fully paid by the Company to Modern Biotechnology in consideration of the capitalisation of loan in the amount of HK$1,000,000 (equivalent to approximately RMB842,000) owning by the Company to Modern Biotechnology. Accordingly, the excess of the carrying amount of the loan capitalised over the nominal value of 99 ordinary shares was credited to the share premium.

Pursuant to the resolution in writing of the Company's shareholders passed on 18 December 2020, subject to the share premium account of the Company being credited as a result of the offering of the Company's shares, the directors of the Company were authorised to allot and issue a total of 449,999,900 shares of HK$0.01 each to the existing shareholders, credited as fully paid at par by way of capitalisation of the sum of HK$4,499,999 standing to be credit of the share premium account of the Company (the "Capitalisation Issue") and the shares to be allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the right to participate in the Capitalisation Issue). The Capitalisation Issue was fully completed on 15 January 2021.

On 15 January 2021, the shares of the Company were listed on the Main Board of the Stock Exchange and 150,000,000 new ordinary shares of HK$0.01 each were issued at HK$1.18 per share by way of global offering (the "Global Offering"). The gross proceeds from the Global Offering amounted to HK$177,000,000.

23. RESERVES

23(a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its nominal value. Under the law of the Cayman Islands and the Company's Articles of Association, it is distributable to the Company's shareholders provided that the Company is able to pay its debts as they fall due in the ordinary course of business after the distribution.

23(b) Capital reserve

Capital reserve of the Group represents the aggregate amount of the nominal value of the issued/paid-up capital of the entities now comprising the Group before completion of the Reorganisation less consideration paid to acquire the relevant interests (if any) in relation to the Reorganisation.

23(c) Special reserve

The special reserve comprises the aggregate investment made and carrying amount of the Non-core Assets owned by the Group at the respective dates and balances arising from the transactions with owners in their capacity as the equity owners (if any).

As further explained in Note 2, the consolidated financial statements exclude the Non-core Assets. For the purposes of preparation of the consolidated financial statements, the Group's balances in the Non-core Assets at 1 January 2019 and up to 6 September 2019 have been excluded from the Group's combined financial statements as an adjustment to the special reserve.

23. RESERVES (Continued)

23(c) Special reserve (Continued)

During the year ended 31 December 2019, Chengde Yushi entered into equity transfer agreements with two independent third parties and Yushi (Beijing) Holding Group Co., Ltd. (formally owned by the Ultimate Controlling Party) to dispose of its entire equity interests in Yushi Wine, Chengde Biotechnology and Yushi Health (the "Disposal Entities") at a total consideration of RMB1,261,000. In April 2019, the transfers of equity interests of the Disposal Entities were completed.

On 6 September 2019, the Group has deregistered Hebei Yushi as it did not have material business operation during the year ended 31 December 2019.

As a result, the carrying amount of investment cost of the Non-core Assets amounting to RMB5,000,000 was released from special reserve upon disposal/dissolution, and the difference of RMB2,804,000 between the disposal consideration of RMB1,261,000 received, the estimated tax credit of RMB935,000 arising from the disposal/dissolution of the Non-core Assets and the aforesaid carrying amount of investment cost in the Non-core Assets was debited to accumulated profits during the year ended 31 December 2019.

23(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of foreign operations for consolidation/combination.

23(e) Statutory reserve

As stipulated by the relevant laws and regulations for enterprises incorporated/established in the PRC, the Group's subsidiaries in the PRC are required to appropriate to the statutory reserve an amount not less than 10% of the amount of profit after tax (as reported in the respective statutory financial statements of the PRC subsidiaries prepared in accordance with the PRC accounting regulations). If the accumulated statutory reserve reaches 50% of the registered share capital of the respective PRC subsidiaries, the subsidiary may not be required to make any further appropriation. The statutory reserve can be used to make up for losses, expand the existing operation and convert to additional capital.

At 31 December 2019, the accumulated statutory reserve has reached 50% of the registered share capital of the respective PRC subsidiary.

24. RELATED PARTY INFORMATION

In addition to the transactions/information disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2020 and 2019, further information of the related parties is set out below.

(a) Related party balances

	2020 **RMB'000**	2019 RMB'000
Amount due to the Ultimate Controlling Party (Notes 20 and 24(a)(i))	**–**	(5,316)

(i) The amount due is non-trade in nature, unsecured, interest-free, repayable on demand.

24. RELATED PARTY INFORMATION (Continued)

(b) Related party transactions

(i) Transactions between the group entities have been eliminated on consolidated and are not disclosed. During the years ended 31 December 2020 and 2019, the Group had the following significant transactions with related parties. In the opinion of the directors of the Company, they are under normal commercial terms that are fair and reasonable and in the best interests of the Group.

Name of the related company	Nature of transaction	2020 RMB'000	2019 RMB'000
吉林省天天大健康醫藥物流配送有限公司 Jilin Tiantian Universal Health Medicine Logistics Distribution Co., Ltd.* ("Jilin Tiantian")	Sales of PCM	**–**	1,485

* Jilin Tiantian ceased to be the related company of the Group on 2 January 2020 when all of the equity interests in Jilin Tiantian held by Mr. Xie Donghua, the father of the Ultimate Controlling Party, was disposed to an independent third party.

(ii) Remuneration for key management personnel (i.e. directors of the Company) of the Group:

	2020 RMB'000	2019 RMB'000
Salaries, allowances, discretionary bonus, and other benefits in kind	**1,071**	703
Contributions to defined contribution plans	**103**	146
	1,174	849

Further details of the Company's directors' remuneration are set out in Note 7.

* For identification purpose only.

25. ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2020, the Group entered into lease arrangements in respect of right-of-use assets with total value of the inception of leases of approximately RMB868,000.

During the year ended 31 December 2020, 99 shares of HK$0.01 each were allotted to Modern Biotechnology by way of capitalisation of loan from Modern Biotechnology in an amount of RMB842,000 (equivalent to HK$1,000,000) as further detailed in Note 22.

(b) Reconciliation of liabilities arising from financing activities

The movements in the Group's liabilities arising from financing activities during the years ended 31 December 2020 and 2019 are as follows:

			Non-cash changes				
	At 1 January 2020 RMB'000	Net cash flows RMB'000	Exchange difference RMB'000	Declaration of dividends RMB'000	Addition of right-of-use assets RMB'000	Capitalisation of loan RMB'000	At 31 December 2020 RMB'000
Year ended 31 December 2020							
Amount due to the Ultimate Controlling Party	5,316	(5,316)	–	–	–	–	–
Amount due to the immediate holding company	–	842	–	–	–	(842)	–
Interest-bearing borrowings	5,000	–	–	–	–	–	5,000
Lease liabilities	–	(330)	–	–	868	–	538
Total liabilities from financing activities	**10,316**	**(4,804)**	**–**	**–**	**868**	**(842)**	**5,538**

			Non-cash changes				
	At 1 January 2019 RMB'000	Net cash flows RMB'000	Exchange difference RMB'000	Declaration of dividends RMB'000	Addition of right-of-use assets RMB'000	Capitalisation of loan RMB'000	At 31 December 2019 RMB'000
Year ended 31 December 2019							
Amount due to the Ultimate Controlling Party	–	5,317	(1)	–	–	–	5,316
Interest-bearing borrowings	–	5,000	–	–	–	–	5,000
Dividend payable	–	(103,260)	–	103,260	–	–	–
Total liabilities from financing activities	–	(92,943)	(1)	103,260	–	–	10,316

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise trade and other receivables, bank balances and cash, trade and other payables, interest-bearing borrowings, lease liabilities and amount due to the Ultimate Controlling Party. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Credit risk

The carrying amount of financial assets recognised on the consolidated financial statements, which is net of loss allowances, represents the Group's exposure to credit risk on these financial assets without taking into account the credit enhancements.

	2020 **RMB'000**	2019 RMB'000
Trade and other receivables	**77,614**	22,779
Bank balances and cash	**73,191**	35,891
	150,805	58,670

Trade receivables

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management of the Group. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 60 days.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. Credit quality of a customer is assessed based on an extensive credit rating and individual credit limit assessment which is mainly based on the Group's own trading records.

At 31 December 2020, the Group had a concentration of credit risk as approximately 9% (2019: 11%) of the total trade receivables was due from the Group's largest trade debtor and approximately 40% (2019: 35%) of the total trade receivables was due from the Group's five largest trade debtors.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Trade receivables (Continued)

The Group's customer base consists of a wide range of customers and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL of trade receivables and recognises loss allowances based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience over the expected lives of the trade receivables and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions made during the years ended 31 December 2020 and 2019.

Considered no significant default history and no forward-looking factors that give rise to significant default risk on trade receivables, for both past due or not yet past due balances, at 31 December 2020 and 2019, and no material change in late payment and default risk as well as forward-looking factors throughout the years ended 31 December 2020 and 2019, the management of the Group estimates that the ECL for those balances is insignificant and assign 0.5% as the expected loss rate, which represented a reasonable estimation of credit risk exposure, for the years ended 31 December 2020 and 2019.

The Group does not hold any collateral over trade receivables at 31 December 2020 and 2019.

Having considered the expected loss rate of 0.5% for the years ended 31 December 2020 and 2019, the Group recognised the loss allowance of approximately RMB389,000 and RMB113,000 on the trade receivables at 31 December 2020 and 2019 respectively. The movement in the loss allowance for trade receivables during the reporting periods is summarised below.

	2020 **RMB'000**	2019 RMB'000
At the beginning of year	**113**	143
Provision for (Reversal of) loss allowance, net	**276**	(30)
At the end of year	**389**	113

None of the trade receivables were written-off during the years ended 31 December 2020 and 2019.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Other financial assets carried at amortised cost

The Company's other financial assets carried at amortised cost include bank balances and other receivables in the consolidated statements of financial position.

The majority of the Company's bank balances are deposited in major financial institutions located in the PRC, which are of high credit rating. The management of the Group does not expect any losses arising from non-performance by these counterparties.

The Company considers that other receivables have low credit risk based on the borrowers' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default.

In estimating the ECL, the Group has taken into account the historical actual credit loss experience and the financial position of the counterparties, past collection history, current creditworthiness, adjusted for forward-looking factors that are specific to the counterparties and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default. The management of the Group considers the ECL of other financial assets to be negligible after taking into account the financial position, credit quality and past settlement records of the counterparties. There was no change in the estimation techniques or significant assumptions made during the years ended 31 December 2020 and 2019.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group has no specific policy for managing its liquidity. The undiscounted contractual maturity profile of the Group's financial liabilities at the end of each reporting period, based on the contractual undiscounted payments, is summarised below:

	Total carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand or less than 1 year RMB'000	1 to 2 years RMB'000
At 31 December 2020				
Trade and other payables	**56,911**	**56,911**	**56,911**	**–**
Interest-bearing borrowings	**5,000**	**5,228**	**5,228**	**–**
Lease liabilities	**538**	**557**	**352**	**205**
	62,449	**62,696**	**62,491**	**205**
At 31 December 2019				
Trade and other payables	37,897	37,897	37,897	–
Interest-bearing borrowings	5,000	5,228	5,228	–
Amount due to the Ultimate Controlling Party	5,316	5,316	5,316	–
	48,213	48,441	48,441	–

27. FAIR VALUE MEASUREMENT

In the opinion of the management of the Group, the carrying value of the financial assets and financial liabilities approximates their fair values due to short-term maturity of these balances.

28. COMMITMENTS

Capital expenditure commitments

	2020 RMB'000	2019 RMB'000
Contracted but not provided net of deposits paid for acquisition of property, plant and equipment	**7,548**	7,548

29. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for equity owners. The Group manages its capital structure and makes adjustments, including payment of dividend, call for additional capital from equity owners or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 2019.

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, the statement of financial position of the Company and the movements in its reserves is set out below:

	Note	**2020 RMB'000**	2019 RMB'000
Non-current asset			
Investment in a subsidiary	30(a)	**–***	–*
Current assets			
Amount due from the immediate holding company	30(b)	**–**	–*
Amount due from a subsidiary	30(b)	**11**	–
Other receivables		**599**	–
Bank balances and cash		**253**	–
		863	–*
Current liabilities			
Accrued expenses		**9,657**	4,664
Amount due to the Ultimate Controlling Party	20	**–**	5,280
Amount due to a subsidiary	30(b)	**16,190**	–*
		25,847	9,944
Net current liabilities		**(24,984)**	(9,944)
NET LIABILITIES		**(24,984)**	(9,944)
Capital and reserves			
Share capital	22	**–***	–*
Reserves	30(c)	**(24,984)**	(9,944)
TOTAL DEFICITS		**(24,984)**	(9,944)

* Represent amounts less than RMB1,000.

The statement of financial position was approved and authorised for issue by the Board of Directors on 26 March 2021 and signed on its behalf by

Ms. Zhang Hongli
Director

Mr. Jiang Zhendong
Director

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

30(a) Investment in a subsidiary

Investment in a subsidiary represents 100% of the issued share capital of Modern TCM Holdings.

30(b) Amounts due from/to group entities

The amounts due are non-trade in nature, unsecured, interest-free and repayable on demand.

30(c) Reserves of the Company

	Share premium RMB'000 (Note 23(a))	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 12 August 2019 (date of incorporation)	–	–	–	–
Loss for the period	–	–	(9,806)	(9,806)
Other comprehensive loss				
Item that may be reclassified subsequently to profit or loss				
Exchange difference on translation	–	(138)	–	(138)
At 31 December 2019	–	(138)	(9,806)	(9,944)
At 1 January 2020	**–**	**(138)**	**(9,806)**	**(9,944)**
Loss for the year	**–**	**–**	**(17,397)**	**(17,397)**
Other comprehensive income				
Item that may be reclassified subsequently to profit or loss				
Exchange difference on translation	**–**	**1,515**	**–**	**1,515**
	–	**1,515**	**(17,397)**	**(15,882)**
Transactions with owners				
Contributions and distributions				
Capitalisation of loan from Modern Biotechnology (Note 22)	**842**	**–**	**–**	**842**
At 31 December 2020	**842**	**1,377**	**(27,203)**	**(24,984)**

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

30(c) Reserves of the Company (Continued)

The translation reserve represents foreign exchange differences arising from the translation of the Company's functional currency into the presentation currency.

During the years ended 31 December 2020 and 2019, certain corporate administrative costs of the Company and the expenses for the Listing were borne by the subsidiary of the Company without recharge.

31. EVENTS AFTER THE REPORTING PERIOD

On 15 January 2021, the shares of the Company were listed on the Main Board of the Stock Exchange, details of which are disclosed in Note 22.

Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last four financial years. The financial information for the year ended/as at 31 December 2020 is extracted from the consolidated financial statements in this annual report while the relevant information for the years ended/as at 31 December 2017, 2018 and 2019 is extracted from the Prospectus.

	Results of the Group for the year ended 31 December			
	2020	**2019**	**2018**	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**308,692**	218,767	173,512	106,466
Profit before taxation	**90,478**	65,256	64,507	34,770
Income tax expenses	**(26,901)**	(19,019)	(16,270)	(8,889)
Profit for the year	**63,577**	46,237	48,237	25,881
Other comprehensive income (loss)	**1,559**	(138)	–	–
Total comprehensive income for the year	**65,136**	46,099	48,237	25,881

	Assets and liabilities of the Group as at 31 December			
	2020	**2019**	**2018**	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**20,394**	18,549	15,383	16,968
Current assets	**188,864**	104,561	157,631	99,275
Total assets	**209,258**	123,110	173,014	116,243
Current liabilities	**74,223**	54,256	49,195	40,661
Non-current liabilities	**203**	–	–	–
Net assets	**134,832**	68,854	123,819	75,582