百信集团
PASHUN GROUP

Pa Shun International Holdings Limited
百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 574

ANNUAL REPORT 2020

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Professor Xiao Kai *(Chairman)*
(appointed on 22 February 2021)
Mr. Chen Yenfei
(Chairman and Chief Executive Officer)
(vacated from his office as the Chairman and an Executive Director, and ceased to be the Chief Executive Officer, on 18 June 2020)
Mr. Shen Shun
Mr. Yang Bo
(appointed on 22 February 2021)
Mr. Chen Rongxin
(resigned on 23 February 2021)

NON-EXECUTIVE DIRECTORS

Mr. Zhang Xiongfeng
Mr. Hu Haisong
Mr. Wu Guohua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Lei *(appointed on 22 February 2021)*
Mr. Ng Wai Tsan
(appointed on 22 February 2021)
Mr. Chen Yongsheng
(appointed on 22 February 2021)
Mr. Liu Liangzhong
(resigned on 1 February 2021)
Mr. Wong Tak Shing *(retired on 31 July 2020)*
Mr. Lu Yongchao *(resigned on 1 October 2020)*

AUTHORISED REPRESENTATIVES

Professor Xiao Kai
Mr. Shen Shun

COMPANY SECRETARY

Mr. Hung Hing Hung *HKICPA*
(resigned on 18 December 2020)

AUDIT COMMITTEE

Mr. Chen Yongsheng *(Chairman)*
(appointed on 22 February 2021)
Mr. Cao Lei *(appointed on 22 February 2021)*
Mr. Ng Wai Tsan
(appointed on 22 February 2021)
Mr. Liu Liangzhong *(Chairman)*
(resigned on 1 February 2021)
Mr. Lu Yongchao *(resigned on 1 October 2020)*
Mr. Wong Tak Shing *(retired on 31 July 2020)*

REMUNERATION COMMITTEE

Mr. Cao Lei *(Chairman)*
(appointed on 22 February 2021)
Mr. Ng Wai Tsan
(appointed on 22 February 2021)
Mr. Chen Yongsheng
(appointed on 22 February 2021)
Mr. Liu Liangzhong *(Chairman)*
(resigned on 1 February 2021)
Mr. Chen Yenfei *(ceased on 18 June 2020)*
Mr. Wong Tak Shing *(retired on 31 July 2020)*

NOMINATION COMMITTEE

Professor Xiao Kai *(Chairman)*
(appointed on 22 February 2021)
Mr. Cao Lei *(appointed on 22 February 2021)*
Mr. Ng Wai Tsan
(appointed on 22 February 2021)
Mr. Chen Yenfei *(Chairman)*
(ceased on 18 June 2020)
Mr. Liu Liangzhong
(resigned on 1 February 2021)
Mr. Lu Yongchao *(resigned on 1 October 2020)*

CORPORATE GOVERNANCE COMMITTEE

Mr. Cao Lei *(Chairman)*
(appointed on 22 February 2021)
Mr. Ng Wai Tsan
(appointed on 22 February 2021)
Mr. Chen Yongsheng
(appointed on 22 February 2021)
Mr. Chen Yenfei *(Chairman)*
(ceased on 18 June 2020)
Mr. Lu Yongchao *(resigned on 1 October 2020)*
Mr. Liu Liangzhong
(resigned on 1 February 2021)

REGISTERED OFFICE

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

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit K, 3/F, Wanda Industrial Building,
328 Kwun Tong Road,
Kwun Tong, Kowloon,
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 608-616, Building 28
Longfor North Paradise Walk 2
229 Wufuqiao East Road
Jinniu District
Chengdu, Sichuan Province
PRC

AUDITORS

CCTH CPA Limited
Certified Public Accountants
Unit 1510-17, 15/F., Tower 2,
Kowloon Commerce Centre,
No. 51 Kwai Cheong Road,
Kwai Chung, New Territories,
Hong Kong

STOCK CODE

00574

COMPANY'S WEBSITE

www.pashun.com.cn

PRINCIPAL BANK

Bank of Communications Co., Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

FINANCIAL HIGHLIGHTS

A summary of the main financial data of Pa Shun International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020 with comparative figures for the year ended 31 December 2019 is set out below:

	For the year ended 31 December		
	2020	2019	
	RMB'000	RMB'000	Change (%)
Revenue	**474,835**	845,448	(43.8)
Gross profit	**17,697**	41,932	(57.8)
Loss for the year	**(419,189)**	(193,399)	116.7
Loss attributable to equity shareholders of the Company	**(418,454)**	(193,721)	116.0
Basic loss per share – RMB cent(s)	**(28.37)**	(13.38)	112.0
Diluted loss per share – RMB cent(s)	**N/A**	N/A	N/A

The board (the "Board") of directors (the "Directors") of the Company does not recommend the payment of any final dividend for the year ended 31 December 2020.

FINANCIAL SUMMARY

	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Revenue	860,574	869,891	821,142	845,448	**474,835**
Profit/(loss) before tax	28,441	19,502	(48,047)	(190,482)	**(425,761)**
Income tax expense	(20,766)	(9,325)	(15,361)	(2,917)	**6,572**
Profit/(loss) for the year	7,675	10,177	(63,408)	(193,399)	**(419,189)**
Earnings/(loss) per share (RMB cent(s))					
Basic	0.77	1.01	(5.32)	(13.38)	**(28.37)**
Diluted	0.76	N/A	N/A	N/A	**N/A**
Assets and liabilities					
Non-current assets	245,821	315,249	290,437	331,995	**305,093**
Current assets	854,666	831,999	838,674	593,871	**198,092**
Current liabilities	(218,441)	(295,867)	(157,805)	(153,974)	**(200,259)**
Net current assets (liabilities)	636,225	536,132	680,869	439,897	**(2,167)**
Total assets less current liabilities	882,046	851,381	971,306	771,892	**302,926**
Non-current liabilities	(157,278)	(102,116)	(114,833)	(88,310)	**(24,944)**
Net assets	724,768	749,265	856,473	683,582	**277,982**
Capital and reserves					
Share capital	801	856	1,116	1,216	**1,216**
Reserves	723,967	748,409	869,580	696,267	**276,760**
Non-controlling interests	–	–	(14,223)	(13,901)	**–**
Total equity	724,768	749,265	856,473	683,582	**277,982**

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to focus on the pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC during the year ended 31 December 2020. For the self-operated retail pharmacies business, the Group continued to seek mergers and acquisitions opportunities in respect of established retail pharmacy chains in order to revitalize the business segment during the year ended 31 December 2020.

REVENUE

For the year ended 31 December 2020, the Group recorded a total revenue of RMB474.8 million, representing an decrease of approximately 43.8% from RMB845.4 million for last year. This decrease was primarily due to (i) the drop in revenue from the Group's pharmaceutical distribution to wholesalers due to vigorous competition; and (ii) the outbreak of the novel coronavirus (COVID-19) epidemic ("Epidemic") that has spread across China and other countries since early 2020 which has adversely affected the business and economic activities of the Group. The factory of the Group in the People's Republic of China ("PRC") was closed or under restricted operation for months during the year ended 31 December 2020.

COST OF SALES, GROSS MARGIN AND GROSS PROFIT MARGIN

The Group's cost of sales decreased by approximately 43.1% from RMB803.5 million for the year ended 31 December 2019 to RMB457.1 million for the year ended 31 December 2020. This decrease of cost of sales was in line with the decrease in revenue during the year ended 31 December 2020.

The Group's gross profit decreased by approximately 57.8% from RMB41.9 million for the year ended 31 December 2019 to RMB17.7 million for the year ended 31 December 2020. The Group's gross profit margin decreased from 5.0% for the year ended December 2019 to 3.7% for the year ended 31 December 2020. Such decrease is primarily attributable to increasing competition of pharmaceutical distribution to wholesalers. Also, such decrease is attributable to fixed cost (including staff cost and maintenance cost) incurred by factory of the Group during the period of closure or restricted operations.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses decreased by approximately 26.3% from RMB11.0 million for the year ended 31 December 2019 to RMB8.1 million for the year ended 31 December 2020. This decrease was in line with the decrease in revenue and reduction in selling and promotion activities due to the Epidemic.

Also, the Group had disposed of 2% equity interest and lost the control in the board of directors of 成都百信藥業連鎖有限責任公司 (for identification purpose only, Chengdu Pashun Pharmacy Chain Store Co., Ltd.) ("Pa Shun Chain Store") on 30 June 2020 and 30 September 2020 respectively. After 30 September 2020, the Group held 49% equity interest and lost the control in the board of directors of Pa Shun Chain Store and Pa Shun Chain Store was recognized as interests in associates as at 31 December 2020. As a result, the selling and distribution expenses of the Group during the year ended 31 December 2020 decreased due to such disposal.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's general and administrative expenses decreased by approximately 25.4% from RMB35.2 million for the year ended 31 December 2019 to RMB26.3 million for the year ended 31 December 2020. The decrease was attributable to the one-off expenses of consultation, legal and professional fee incurred during the year ended 31 December 2019 arising from the acquisitions of two companies which indirectly hold interest in certain units located in the building called "The Apple" which is a multi-storey building located in Melaka, Malaysia. No such expenses were recorded during the year ended 31 December 2020.

In addition, the Group had implemented cost budget control in early 2020 and all the general and administrative expenses were reduced accordingly.

OTHER INCOME AND GAINS

Other income and gains of the Group decreased by approximately 23.8% from RMB22.3 million for the year ended 31 December 2019 to RMB17.0 million for the year ended 31 December 2020. The decrease was attributable to the decrease in franchise fee income from RMB8.2 million for the year ended 31 December 2019 to RMB3.4 million for the year ended 31 December 2020.

OTHER NET LOSS

The Group recorded other net loss of RMB414.6 million for the year ended 31 December 2020, representing an increase of approximately 110.1% from RMB197.3 million in last year. The significant increase in other net loss was mainly due to the recognition of impairment loss on trade and other receivables of approximately RMB305.3 million during the year ended 31 December 2020 (approximately RMB125.7 million for the year ended 31 December 2019), taking into account that it is currently expected that the Group would not be able to receive the overdue trade receivables of the Company from some of its customers in the PRC which businesses have been adversely affected by the Epidemic.

FINANCE COSTS

Finance costs of the Group decreased by approximately 2.8% from RMB11.9 million for the year ended 31 December 2019 to RMB11.5 million for the year ended 31 December 2020. The finance cost of the Group were mainly incurred from the corporate bonds payables and no material fluctuation was noted.

LOSS BEFORE TAX

Loss before tax increased by approximately 123.5% from RMB190.5 million for the year ended 31 December 2019 to RMB425.8 million for the year ended 31 December 2020. The increase was primarily due to (i) the increase in other net losses; and (ii) the decrease in gross profit, and offset with the decrease in general and administrative expenses as disclosed above.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX EXPENSE

Income tax decreased from income tax expense of RMB2.9 million for the year ended 31 December 2019 to income tax credit of RMB6.6 million for the year ended 31 December 2020. The decrease was primarily due to the decrease in taxable income from the PRC subsidiaries of the Company.

LOSS FOR THE YEAR

As a result of the foregoing, the Group's loss for the year increased by approximately 116.7% from RMB193.4 million for the year ended 31 December 2019 to RMB419.2 million for the year ended 31 December 2020.

OUTLOOK

Due to the Epidemic in the PRC, the economy of the PRC is seriously affected. Since many economic activities in the PRC are slowed down due to the Epidemic, and the factory of the Group was closed for around two months in the first quarter of 2020, thus the revenue and results of the Group for year ended 31 December 2020 was adversely affected. The Group will continue to leverage on its solid foundation in the PRC and make good use of its existing resources and networks to capture the opportunities to expand to other business through various business development strategies, at the same time diversify its business risk to other investment segments and other countries. The Company will further seek other similar opportunities to reduce the operation risk of the Group.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents and pledged bank deposits of RMB15.3 million as at 31 December 2020 as compared with RMB26.0 million as at 31 December 2019.

The Group recorded net current liabilities of RMB2.2 million and net current asset of RMB439.9 million as at 31 December 2020 and 31 December 2019 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 0.99 as at 31 December 2020, as compared with 3.86 as at 31 December 2019. The net current liabilities of the Group as at 31 December 2020 has arisen from the reclassification of all corporate bonds payable to current liabilities, due to the breach of certain redemption default clauses of the corporate bonds.

As at 31 December 2020, the total amount of bank loans was RMB8.0 million, as compared with RMB6.0 million as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2020, the total number of issued ordinary shares of the Company was 1,474,992,908 shares (31 December 2019: 1,474,992,908 shares) ("Shares"). In 2018, the Company has granted to certain eligible persons share options ("Options") to subscribe for an aggregate of 100,000,000 Shares under the share option scheme adopted by the Company by ordinary resolution of all shareholders of the Company passed on 26 May 2015. As at 31 December 2020, 100,000,000 share options remained outstanding. Please refer to the announcements of the Company dated 7 September 2018 for details of the grant of the Options. No options were granted in 2019 and 2020.

During 2016 to 2018, the Company issued unsecured corporate bonds with principal amount of HK$113.9 million to various independent third parties at par value, bearing coupon rates of 6.5% to 7% per annum and with maturity periods from 2 to 7.5 years. As at 31 December 2020, eleven corporate bonds with aggregate principal amount of HK$30.2 million was matured and the Company repaid a matured corporate bond with principal amount of HK$1 million during the year ended 31 December 2020. Subsequent to 31 December 2020, the Company further repaid HK$4.8 million to the eleven matured corporate bonds.

As at 31 December 2020, interest payable on corporate bonds of approximately HK$12.3 million was due and remained outstanding. Since the maturity dates of bonds principal and interests, the Company and the holders of the corporate bonds have engaged in numerous rounds of negotiations to seek to resolve the issue amicably, including extension of the maturity date and the due date of the interest payments, and repayments of principal and interests by installments.

The Group actively and regularly reviews and manages its capital structure to enhance its financial strength for the Group's long-term development. There were no changes in the Group's approach to capital management during the year ended 31 December 2020.

CONTINGENT LIABILITIES

A petition (the "Petition") was filed on 16 November 2020 by Ms. Feng Lihua (the "Petitioner") against the Company in the High Court of the Hong Kong Special Administrative Region (the "Court") for an order that the Company be wound up by the Court. The Petition was filed against the Company for the Company's failure to settle the principal payment in the sum of HK$10,000,000 due on 3 June 2020 in respect of the bond issued to the Petitioner by the Company as well as the interest accrued on the bond from 1 October 2019 to 30 September 2020 in the sum of HK$650,000. The Petition was heard on 10 February 2021 as scheduled at the High Court before a Master. The Petitioner and the Company have reached settlement agreement and the Petition is expected to be withdrawn by the Petitioner upon the Company's full payment of the outstanding debt owed to the Petitioner. The Petition is adjourned to be heard by a Master at 3 p.m. on Wednesday, 9 June 2021.

As at 31 December 2020, except as disclosed above, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

QUALIFIED OPINION ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

As at 31 December 2020, the carrying amount of the Group's interests in associates amounted to RMB42,881,000 and the principal assets of the associates are the 68 property units ("Property Units") located in the building called "the Apple" located in Melaka, Malaysia, which is a multi-storey building consisting of 361 units in total, all of which will be used as serviced apartments ("Building")). Due to the following reasons, the auditors of the Company were unable to obtain sufficient appropriate audit evidence to satisfy itself whether the Property Units are owned by the associates and impairment losses on these property units are required to be made in the financial statements of the associates:

(i) as at 31 December 2020, the Group held 100% interest in each of Bisan Parkwell Consultants Limited ("Bisan Parkwell") and Parkwell Services Consultants Limited ("Parkwell Services"), both are companies incorporated in Hong Kong with limited liability;

(ii) as at 31 December 2020, Bisan Parkwell held 49% interest in Awesome Applause Sdn. Bhd., a company incorporated in Malaysia ("Awesome Applause"), with 51% interest in Awesome Applause being held by a Malaysia national ("Malaysian Individual"). Awesome Applause is recognized as an investment in associate of the Company as at 31 December 2020. Awesome Applause has signed agreements for the purchase of 48 Property Units;

(iii) as at 31 December 2020, Parkwell Services held 49% interest in Massive Goodwill Sdn. Bhd. a company incorporated in Malaysia ("Massive Goodwill", together with Awesome Applause, "Malaysia Associates"), with 51% interest in Massive Goodwill being held by the Malaysian Individual. Massive Goodwill is recognized as an investment in associate of the Company as at 31 December 2020. Massive Goodwill has signed agreements for the purchase of 20 Property Units;

(iv) as the Property Units are still under construction, the ownership of the Property Units cannot be confirmed by conducting land searches on the Property Units. In order to confirm the ownership of the Property Units, the auditors of the Company could only obtain the confirmation from the developer of the Property Units ("Developer") or review the original of the sale and purchase agreements of the Property Units;

(iv) subsequent to 31 December 2020, the auditors of the Company approached the Malaysia Associates requesting for (1) the authorisation from the Malaysia Associates to send confirmations to the Developer to confirm the ownership of the Property Units; or (2) the permission to inspect the original of the sale and purchase of the Property Units. However, due to the lack of cooperation of the Malaysian Individual, who is the major shareholder of the Malaysia Associates, the auditors of the Company could neither obtain the authorisation from the Malaysia Associates to send confirmations to the Developer to confirm the ownership of the Property Units, nor could they review the original of the sale and purchase agreements of the Property Units.

Due to the insufficient audit evidence in relation to the Property Units, the auditors of the Company expressed a qualified opinion on the Company's annual results for the year ended 31 December 2020 ("Audit Qualification").

MANAGEMENT DISCUSSION AND ANALYSIS

As the principal assets of the associates of the Company are the Property Units, if the auditor of the Company cannot prove the ownership of any of these Properties Units, the Company would have to record an impairment to the carrying amount of the investment in associates for the year ended 31 December 2020 on a pro-rata basis to the fair values of these Property Units and the maximum amount of the impairment will be RMB42,881,000.

At the time of the Company's acquisition of Bisan Parkwell and Parkwell Services, the Company obtained a legal opinion from a Malaysian legal adviser ("Malaysian Lawyer"). The Malaysian Lawyer had reviewed the original of the sale and purchase agreements of the Property Units and opined that Awesome Applause and Massive Goodwill are the beneficial owners of the Property Units. As a result, the Property Units were recognised as assets in the financial statements of Awesome Applause and Massive Goodwill and the Company's investments in Awesome Applause and Massive Goodwill were recognised on the pro-rata basis as investment in associates in the consolidated financial statements of the Company.

As at the date of this annual report, the management of the Company were not aware of any issues that may affect the ownership of the Property Units by the Malaysia Associates.

The management of the Company is of the view that the Audit Qualification is fair and reasonable for the following reasons:

(i) the management of the Company has communicated with the management of the Malaysia Associates and the representatives of the Malaysian Individual during the period from January 2021 to March 2021 for several times through emails and whatsapp to obtain audit information (including the arrangement of audit confirmations to the Developer and review of original of the sale of and purchase agreements of the Property Units signed by Awesome Applause and Massive Goodwill. Such requests were ignored; and

(ii) the management of the Company agreed with the auditors of the Company that they are not able to obtain enough audit evidence to support their audit opinion over the investment in the Malaysia Associates. Although a legal opinion was previously provided, the auditors of the Company still have the responsibility to arrange confirmations to be sent to the Developer and sight original copies of the sale and purchase agreements of the Property Units as their audit evidence.

To address the Audit Qualification, the Group continues to approach the Malaysian Individual, aiming to obtaining the authorisation from the Malaysia Associates to send confirmations to the Developer to confirm the ownership of the Property Units or the permission to inspect the original of the sale and purchase of the Property Units. In addition, the Group has been seeking assistance from the vendors ("Vendors") from whom the Group acquired 49% interest in Bisan Parkwell and Parkwell Services ("Acquisitions") in coordination to obtain the abovementioned audit evidences. The Vendors preliminary agree to "unwind" the Acquisitions with the Company, after the winding-up petition against the Company being withdrawn or otherwise orderly settled (which is currently expected to happen in June 2021), and subject to further discussion between the Vendors and the Company. Once the Acquisitions were un-winded, the Company's investment in the Malaysia Associates will no longer be recognised in the consolidated financial statements of the Company and the Audit Qualification will be removed.

MANAGEMENT DISCUSSION AND ANALYSIS

The Audit Committee has critically reviewed the major judgmental areas and has reviewed and agreed with the position and basis of the management of the Company as stated above. The Audit Committee also considered that Audit Qualification as fair and reasonable as stated above.

The Audit Committee is of the view that the Company's proposals to address the Audit Qualification as stated above are feasible, the Audit Committee also considers that the Company may proceed to unwind the Acquisitions after the winding-up petition against the Company being withdrawn or otherwise orderly settled, if the Company is still unable to obtain necessary information from the Malaysia Associates.

FOREIGN EXCHANGE RISKS

The functional currency of the Group is Renminbi while a portion of funds raised by the Group from its initial public offering and issue of corporate and convertible bonds is still in the form of bank deposits denominated in Hong Kong dollars. Therefore, it may be subject to the risks of exchange rate fluctuations of the Renminbi and the Hong Kong dollars. Apart from the above, most of the assets and transactions of the Group are dominated in Renminbi, and the Group mainly settles its operating expenses in the PRC with income generated from operations in Renminbi, thus the Group is not exposed to any significant foreign exchange risks.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 26 May 2020, the Group disposed of its 5% unlisted equity interest in 武漢太福製藥有限公司 (for identification purpose only, Wuhan Taifu Pharmaceutical Co. Ltd.) to an independent third party at a consideration of RMB3,000,000.

Saved as disclosed above, the Group did not make any other significant investments, acquisitions or disposals that would constitute a notifiable transaction under Chapter 14 of the Listing Rules during the year ended 31 December 2020.

HUMAN RESOURCES

As at 31 December 2020, the Group had a total of 165 (31 December 2019: 170) staff, primarily in the PRC. The total staff cost was RMB11.3 million (31 December 2019: RMB12.7 million) for the year ended 31 December 2020.

The Group believes that its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favorable working environment. The Group constantly invests in training across diverse operational functions and offers competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 (year ended 31 December 2019: Nil).

CORPORATE GOVERNANCE REPORT

The Board is committed to upholding a high standard of corporate governance and business ethics in the firm belief that they are essential for enhancing investors' confidence and maximising Shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders, comply with increasingly stringent regulatory requirements and fulfill its commitment to excellence in corporate governance.

CORPORATE GOVERNANCE CODE

After reviewing the Company's corporate governance practices and the relevant regulations of the Corporate Governance Code and the Corporate Governance Report (the "CG code") as set out in Appendix 14 to the Listing Rules, which have been adopted as the Company's code of corporate governance, the Board is satisfied that the Company has, save as disclosed below, complied with the CG code provisions (each a "Code provision") then in force for the year ended 31 December 2020.

Code provision A.2.1 of the CG code stipulates that the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. From 1 January 2020 to 17 June 2020, Mr. Chen Yenfei was the chairman of the Board as well as the chief executive officer of the Company. He has extensive experience in medicine industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considered that vesting the roles of chairman and chief executive officer in the same individual was beneficial to the business prospects and management of the Group. The balance of power and authorities was ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals.

As disclosed in the announcement of the Company dated 22 June 2020, the office of Mr. Chen Yenfei as the chairman of the Company and an executive Director was vacated on 18 June 2020. Mr. Chen Yenfei also ceased to be chief executive officer of the Company on 18 June 2020. Following the vacation of office of Mr. Chen Yenfei, the Board will consider suitable replacement candidate(s) for the position(s) of the chairman and the chief executive officer of the Company as soon as practicable.

With effect from the conclusion of the annual general meeting of the Company ("AGM") held on 31 July 2020, Mr. Wong Tak Shing retired as an independent non-executive Director and ceased to be a member of each of the audit committee ("Audit Committee") and the remuneration committee of the Board ("Remuneration Committee") upon conclusion of the annual general meeting of the Company held on 31 July 2020. Following the retirement of Mr. Wong Tak Shing, the Company had only two independent non-executive Directors, two members of the Audit Committee and one member of the Remuneration Committee.

With effect from 1 October 2020, Mr. Lu Yongchao has resigned as an independent non-executive Director and a member of each of the Audit Committee, the nomination committee ("Nomination Committee") and the corporate governance committee ("CG Committee") of the Board. Following the resignation of Mr. Lu Yongchao on 1 October 2020, the Company only had one independent non-executive Director, one member of the Audit Committee, Nomination Committee and Remuneration Committee.

CORPORATE GOVERNANCE REPORT

With effect from 1 February 2021, Mr. Liu Liangzhong has resigned as an independent non-executive Director, the chairman of each of the Audit Committee and the Remuneration Committee, and a member of each of the Nomination Committee and the CG Committee. Following the resignation of Mr. Liu Liangzhong on 1 February 2021, the Company had no independent non-executive Directors, no member of the Audit Committee, no member of the Nomination Committee and no member of the Remuneration Committee, and did not have an independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, or an Audit Committee member as required under Rule 3.21 of the Listing Rules who meets the same requirements under Rule 3.10(2) of the Listing Rules.

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. Pursuant to Rule 3.10(2) of the Listing Rules, at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. Pursuant to Rule 3.10(A) of the Listing Rules, a listed issuer must appoint independent non-executive directors representing at least one-third of the board. Pursuant to Rule 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Pursuant to Rule 3.25 of the Listing Rules, an issuer must establish a remuneration committee chaired by an independent non-executive director and comprising a majority of independent non-executive directors. Pursuant to code provision A.5.1 of the CG code, issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

Following the retirement of Mr. Wong Tak Shing, and the resignation of Mr. Lu Yongchao and Mr. Liu Liangzhong, it fell below the minimum number of independent non-executive directors and members of audit committee requirement under Rules 3.10(1) and 3.21 of the Listing Rules and the number of the independent non– executive Directors falls below one-third of the Board as required under Rule 3.10(A) of the Listing Rules. The Board did not have an independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, or an Audit Committee member as required under Rule 3.21 of the Listing Rules who meets the same requirements under Rule 3.10(2) of the Listing Rules. The Company did not have a Remuneration Committee chaired by an independent non-executive Director and comprising a majority of independent non-executive Directors as required under Rule 3.25 of the Listing Rules. The Company did not have a Nomination Committee which is chaired by the chairman of the Board or an independent non-executive Director and comprises a majority of independent non-executive Directors as required under code provision A.5.1 of the CG code.

With effect from 22 February 2021, (1) Professor Xiao Kai has been appointed as the chairman of the Board, an executive Director and the chairman of the Nomination Committee; (2) Mr. Yang Bo has been appointed as an executive Director; (3) Mr. Cao Lei has been appointed as an independent non-executive Director, the chairman of the Remuneration Committee and the CG Committee, and a member of each of the Audit Committee and the Nomination Committee; (4) Mr. Ng Wai Tsan has been appointed as an independent non-executive Director, a member of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the CG Committee; and (5) Mr. Chen Yongsheng has been appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the Remuneration Committee and the CG Committee. As at the date of this annual report, the Board does not have an independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules, or an Audit Committee member as required under Rule 3.21 of the Listing Rules who meets the same requirements under Rule 3.10(2) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

The Board currently comprises three executive Directors, three non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

With effect from 18 December 2020, Mr. Hung Hing Hung has resigned as the company secretary of the Company. As at the date of this annual report, the Company is in the course of identifying suitable candidate(s) to fill up the vacancies of the company secretary of the Company so as to meet the requirements under Rules 3.05 and 3.28 of the Listing Rules as soon as practicable. Following the resignation of Mr. Hung Hing Hung as the company secretary of the Company, there is breach of code provision A.5.1 of the CG code which requires that all directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.

BOARD OF DIRECTORS

The Board is responsible for governing the Company and managing assets entrusted by the Shareholders. The Directors recognise their collective and individual responsibility to the Shareholders and perform their duties diligently to achieve positive results for the Company and to maximise returns for Shareholders.

The Board currently comprises three executive Directors, namely, Professor Xiao Kai (chairman), Mr. Shen Shun and Mr. Yang Bo, three non-executive Directors, namely, Mr. Zhang Xiongfeng, Mr. Hu Haisong and Mr. Wu Guohua and three independent non-executive Directors, namely, Mr. Cao Lei, Mr. Ng Wai Tsan and Mr. Chen Yongsheng. Professor Xiao Kai, Mr. Yang Bo, Mr. Cao Lei, Mr. Ng Wai Tsan and Mr. Chen Yongsheng were appointed as Directors on 22 February 2021.

The Directors' biographical details are set out in the section headed "Directors and Senior Management" on pages 30 to 33 in this annual report. A list of the Directors identifying their roles and functions is available on the Company's website.

Save that Mr. Chen Rongxin (resigned on 23 February 2021) is the nephew of Mr. Chen Yenfei (vacated on 18 June 2020), who was the Chairman and an executive Director during the period from 1 January 2020 to 17 June 2020, to the best knowledge of the Board, there is no other financial, business, family or other material/ relevant relationships among members of the Board during the year under review.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, significant transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the corporate governance report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organisations. These interests are updated on an annual basis and when necessary.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Each newly appointed Director is given necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant laws and regulations.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices. The participations by the Directors in the continuous professional development are recorded individually.

The then Directors, namely, Mr. Chen Yenfei, Mr. Shen Shun, Mr. Chen Rongxin, Mr. Zhang Xiongfeng, Mr. Hu Haisong, Mr. Wu Guohua, Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Lu Yongchao had complied with the Code provision A.6.5 during the year ended 31 December 2020 by participating in continuous professional development.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the period from 1 January 2020 and up to 17 June 2020, Mr. Chen Yenfei assumed the roles of both the chairman and chief executive officer of the Company. The reasons for the deviation from the Code provision A.2.1 of the CG code are explained in the paragraph headed "Corporate Governance Code" above.

With effect from 22 February 2021, Professor Xiao Kai is the chairman of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board and give adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

During the period from 1 January 2020 to the conclusion of the AGM held on 31 July 2020 in compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company had appointed three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Lu Yongchao representing one-third of the Board. Two of the then independent non-executive Directors, Mr. Liu Liangzhong and Mr. Wong Tak Shing, had the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. Following the retirement of Mr. Wong Tak Shing at the conclusion of the AGM held on 31 July 2020 and the resignation of Mr. Lu Yongchao and Mr. Liu Liangzhong on 1 October 2020 and 1 February 2021 respectively, the Company did not have the minimum number of independent non-executive directors required under Rules 3.10(1) of the Listing Rules and the number of the independent non-executive Directors falls below one-third of the Board as required under Rule 3.10(A) of the Listing Rules. The Board also did not have an independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The details of non-compliance with Rules 3.10(1), 3.10(2), and 3.10A of the Listing Rules are explained set out in the paragraph headed "Corporate Governance Code" above.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board is supported by four committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the CG Committee. Each Board committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the Company's website.

All Board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chen Yongsheng, Mr. Cao Lei and Mr. Ng Wai Tsan.

During the period from 1 January 2020 and to the conclusion of the AGM held on 31 July 2020, the Audit Committee consisted of three independent non-executive Directors, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Lu Yongchao. Following the retirement of Mr. Wong Tak Shing with effect from the conclusion of the AGM held on 31 July 2020, the Audit Committee consisted of two independent non-executive Directors, namely Mr. Liu Liangzhong, and Mr. Lu Yongchao. Following the resignation of Mr. Lu Yongchao with effect from 1 October 2020, the Audit Committee consisted of one independent non-executive Director, namely Mr. Liu Liangzhong. Following the resignation of Mr. Liu Liangzhong with effect from 1 February 2021, the Audit Committee did not have any member. With effect from 22 February 2021 and as at the date hereof, the Audit Committee consists of three independent non-executive Directors, namely Mr. Cao Lei, Mr. Ng Wai Tsan and Mr. Chen Yongsheng.

During the year ended 31 December 2020 and up to 31 January 2021, Mr. Liu Liangzhong was the chairman of the Audit Committee. With effect from 22 February 2021 and as at the date hereof, Mr. Chen Yongsheng is the chairman of the Audit Committee.

Details of non-compliance with Rule 3.21 of the Listing Rules during the year ended 31 December 2020 are set out in the paragraph headed "Corporate Governance Code" above.

The primary functions of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. These include reviewing the interim and annual results and reports of the Company.

The members of the Audit Committee have reviewed and discussed with the external auditors of the Company the consolidated financial statements of the Group and effectiveness of internal control system for the year ended 31 December 2020, including the accounting principles and practices adopted by the Group and the report prepared by the external auditors covering major findings in the course of the audit. During the year ended 31 December 2020, the Audit Committee held two meetings and the then Mr. Liu Liangzhong and Mr. Lu Yongchao, attended all such meetings to which they were eligible to attend, while Mr. Wong Tak Shing attended one meeting and retired on 31 July 2020.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors, namely Mr. Cao Lei, Mr. Ng Wai Tsan and Mr. Chen Yongsheng.

During the period from 1 January 2020 and up to 17 June 2020, the Remuneration Committee consisted of one executive Director, namely Mr. Chen Yenfei and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Wong Tak Shing. Following the vacation of office of Mr. Chen Yenfei with effect from 18 June 2020, the Remuneration Committee consisted of two independent non-executive Directors, namely Mr. Liu Liangzhong, and Mr. Wong Tak Shing. Following the retirement of Mr. Wong Tak Shing with effect from the conclusion of the annual general meeting of the Company held on 31 July 2020, the Remuneration Committee consisted of one independent non-executive Director, namely Mr. Liu Liangzhong. Following the resignation of Mr. Liu Liangzhong with effect from 1 February 2021, the Remuneration Committee did not have any member. With effect from 22 February 2021 and as at the date hereof, the Remuneration Committee consists of three independent non-executive Directors, namely Mr. Cao Lei, Mr. Ng Wai Tsan and Mr. Chen Yongsheng.

During the year ended 31 December 2020 and up to 31 January 2021, Mr. Liu Liangzhong was the chairman of the Remuneration Committee. With effect from 22 February 2021 and as at the date hereof, Mr. Cao Lei is the chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and, adopting the approach under Code provision B.1.2(c)(ii), make recommendations to the Board on the remuneration package of individual executive Director and senior management, the remuneration of non-executive Directors and on the establishment of a formal and transparent process for developing such remuneration policy. No executive Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees to be paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibilities, job complexity and the Group's performance are taken into account.

During the year ended 31 December 2020, the Remuneration Committee held one meeting and reviewed the remuneration policy and structure and the existing terms of remuneration relating to the Directors and senior management of the Company. All the then members of the Remuneration Committee, namely Mr. Chen Yenfei, Mr. Liu Liangzhong and Mr. Wong Tak Shing, attended such meetings to which they were eligible to attend.

The remuneration of the members of the senior management of the Group by bands for the year ended 31 December 2020 is set out below:

Remuneration bands	**Number of persons**
Nil to HK$1,000,000	3

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 10 and 11 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee consists of three Directors, namely Professor Xiao Kai, Mr. Cao Lei and Mr. Ng Wai Tsan.

During the period from 1 January 2020 and up to 17 June 2020, the nomination committee consisted of one executive Director, namely Mr. Chen Yenfei and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Lu Yongchao.

Following the vacation of office of Mr. Chen Yenfei with effect from 18 June 2020, the Nomination Committee consisted of two independent non-executive Directors, namely Mr. Liu Liangzhong, and Mr. Lu Yongchao. Following the resignation of Mr. Lu Yongchao with effect from 1 October 2020, the Nomination Committee consisted of one independent non-executive Director, namely Mr. Liu Liangzhong. Following the resignation of Mr. Liu Liangzhong with effect from 1 February 2021, the Nomination Committee did not have any member. With effect from 22 February 2021 and as at the date hereof, the Nomination Committee consists of one executive Director and two independent non-executive Directors, namely Professor Xiao Kai, Mr. Cao Lei and Mr. Ng Wai Tsan.

During the period from 1 January 2020 to 17 June 2020, Mr. Chen Yenfei was the chairman of the Nomination Committee. With effect from 22 February 2021 and as at the date hereof, Professor Xiao Kai is the chairman of the Nomination Committee.

The primary functions of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and make recommendations to the Board suitably qualified persons to become a member of the Board, monitor the succession planning for Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. The process for the nomination of Directors is led by the Nomination Committee, which has been made on a merit basis, taking into account the background, experience and qualification of the proposed candidates.

During the year ended 31 December 2020, the Nomination Committee held one meeting and reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors. All the then members of the remuneration committee, namely Mr. Chen Yenfei, Mr. Liu Liangzhong and Mr. Lu Yongchao attended such meetings to which they were eligible to attend.

CORPORATE GOVERNANCE REPORT

CG Committee

The CG Committee consists of three independent non-executive Directors, namely Mr. Cao Lei, Mr. Ng Wai Tsan and Mr. Chen Yongsheng.

During the period from 1 January 2020 and up to 17 June 2020, the CG Committee consisted of one executive Director, namely Mr. Chen Yenfei and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Lu Yongchao. Following the vacation of office of Mr. Chen Yenfei with effect from 18 June 2020, the CG Committee consisted of two independent non-executive Directors, namely Mr. Liu Liangzhong, and Mr. Lu Yongchao. Following the resignation of Mr. Lu Yongchao with effect from 1 October 2020, the CG Committee consisted of one independent non-executive Director, namely Mr. Liu Liangzhong. Following the resignation of Mr. Liu Liangzhong with effect from 1 February 2021, the CG Committee did not have any member. With effect from 22 February 2021 and as at the date hereof, the CG Committee consists of three independent non-executive Directors, namely Mr. Cao Lei, Mr. Ng Wai Tsan and Mr. Chen Yongsheng.

During the period from 1 January 2020 to 17 June 2020, Mr. Chen Yenfei was the chairman of the CG Committee. With effect from 22 February 2021 and as at the date hereof, Mr. Cao Lei is the chairman of the CG committee.

The primary functions of the CG Committee include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG code and disclosure in the corporate governance report.

The CG Committee also performs annual assessment on the anti-fraud, anti-corruption and anti-bribery measures and the channels for handling complaints and investigations ("Annual Assessment"), and submits the assessment results to the Audit Committee and the Board for review. During the year ended 31 December 2020, all the then members of the CG Committee, namely Mr. Chen Yenfei, Mr. Liu Liangzhong and Mr. Lu Yongchao, attended a meeting held on 31 March 2020 to review the Annual Assessment, and no incident of non-compliance with the Company's anti-fraud, anti-corruption, and anti-bribery policies that has significant impact to its operations was reported.

CORPORATE GOVERNANCE REPORT

BOARD PROCEEDINGS

Regular Board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the chairman or any of the company secretary of the Company to include matters in the agenda for regular board meetings.

During the year ended 31 December 2020, the Board held nine Board meetings. Subsequent to the year ended 31 December 2020 and up to the date of this annual report, the Board held another three Board meetings for the main purposes of approving the annual results of the Group for the year ended 31 December 2019 and resignation and appointment of Directors. One annual general meeting was held by the Company during the year ended 31 December 2020 on 31 July 2021.

Attendance at the Board meetings and the general meeting held during the year ended 31 December 2020 by each of the then Directors are set out below:

Name of Director	Attendance at Board meetings	Attendance at the general meeting
Mr. Chen Yenfei *(vacated from the office of director on 18 June 2020)*	10/10	0/0
Mr. Shen Shun	9/9	1/1
Mr. Chen Rongxin *(resigned on 25 February 2021)*	10/10	1/1
Mr. Zhang Xiongfeng	9/9	1/1
Mr. Hu Haisong	9/9	1/1
Mr. Wu Guohua	9/9	1/1
Mr. Liu Liangzhong *(resigned on 1 February 2021)*	9/9	1/1
Mr. Wong Tak Shing *(retired on 31 July 2020)*	7/7	0/0
Mr. Lu Yongchao *(resigned on 1 October 2020)*	8/8	1/1

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board committees are kept by the company secretary of the Company with sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of the minutes are sent to all Directors for their comments and records respectively within a reasonable time after the Board meeting is held.

During the period from 1 January 2020 to 17 December 2020, all Directors have access to the advice and services of the company secretary of the Company with a view to ensuring the Board procedures are followed.

CORPORATE GOVERNANCE REPORT

MEETING WITH INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2020, the then chairman of the Company had one meeting with the independent non-executive Directors without the presence of other Directors to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views in Board meetings without restrictions.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

During the year ended 31 December 2020, each of Mr. Chen Yenfei and Mr. Shen Shun has entered into a service contract, and each of Mr. Zhang Xiangfeng, Mr. Liu Liangzhong and Mr. Wong Tak Shing has entered into a letter of appointment, with the Company for a term of three years commencing from 19 June 2018. Mr. Chen Rongxin has entered into a service contract with the Company for a term of three years commencing from 5 September 2018. Mr. Lu Yongchao has entered into a letter of appointment with the Company for a term of three years commencing from 14 September 2018. Each of Mr. Hu Haisong and Mr. Wu Guohua has entered into a letter of re-appointment with the Company for a term of one year commencing from 20 May 2020. All Directors are subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the Shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the Shareholders. In addition, all Directors are required to retire by rotation at least once every three years and are subject to re-election by the Shareholders at the annual general meeting.

BOARD DIVERSITY POLICY

Pursuant to the CG code relating to board diversity policy which has come into effect since 1 September 2013, the Board adopted a board diversity policy (the "Board Diversity Policy") on 26 May 2015. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Model Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code for the year ended 31 December 2020.

Senior management who, because of their offices in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Model Code.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Hung Hing Hung has been appointed as the company secretary of the Company on 13 August 2019 and resigned on 18 December 2020. Mr. Hung Hing Hung processes the requisite qualification and experience of a company secretary as required under Rule 3.28 and Rule 8.17 of the Listing Rules. Prior to the resignation of Mr. Hung Hing Hung on 18 December 2020, all Directors have access to the advice and services of the company secretary of the Company to ensure that the Board procedures, and all applicable law, rules and regulations are followed.

During the year ended 31 December 2020, the company secretary of the Company complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. Following the resignation of Mr. Hung Hing Hung as the company secretary on 18 December 2020, the Company has no company secretary until the date of this annual report. The Company is in the course of identifying suitable candidate(s) to fill up the vacancies of the company secretary of the Company so as to meet the requirements under Rules 3.05 and 3.28 of the Listing Rules as soon as practicable. Following the resignation of Mr. Hung Hing Hung, there is breach of code provision A.5.1 of the CG Code which requires that all directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial Reporting

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year ended 31 December 2020 and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

The responsibilities of CCTH CPA Limited ("CCTH CPA"), the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Basis for qualified opinion

At 31 December 2020, the carrying amount of the Group's interests in associates amounted to RMB42,881,000 and the principal assets of the associates are property units located in Malaysia, details of which are set out in note 17 to the consolidated financial statements. The auditors of the Company, CCTH CPA, were unable to obtain sufficient appropriate audit evidence to satisfy themselves whether these property units are owned by the associates and impairment losses on these property units are required to be made in the financial statements of the associates. Any adjustments to be made against the property units held by the associates may have significant impact to the results of the associates and their net asset value, which in turn, may give rise to a significant impact on the loss of the Group for the year ended 31 December 2020 and the Group's net asset value as at that date. On the above basis, CCTH CPA expressed a qualified opinion on the Company's annual results for the year ended 31 December 2020. For further details of the auditors' qualified opinion, please refer to the paragraph headed "Basis for Qualified Opinion" in the section headed "Independent Auditor's Report" and the paragraph headed "Qualified Opinion on the Company's Consolidated Financial Statements for the Year Ended 31 December 2020" in the section headed "Management Discussion and Analysis" of this annual report.

CORPORATE GOVERNANCE REPORT

Material uncertainty related to going concern

In preparing the consolidated financial statements, the Directors have considered the future liquidity of the Group. The Group incurred a loss attributable to owners of the Company of approximately RMB419,189,000 and RMB193,399,000 for the years ended 31 December 2019 and 2020 respectively, and the Group had net current liabilities of approximately RMB2,167,000 as at 31 December 2020. These conditions indicate the existence of a material uncertainty which may cast a significant doubt on the Group's ability to continue as a going concern. Nevertheless, the Directors are of the opinion that:

(i) with reference to the cash flow forecast prepared by the Group's management for the twelve months ending 31 December 2021, the Group will be able to generate adequate cash flows from its continuing operations and to obtain sufficient funding to meet the debts of the Group as and when they fall due in the foreseeable future; and

(ii) the Directors are considering various alternatives, including but not limited to new long term debts to be secured by pledge of the assets involved in the property development project, to obtain additional funds to finance the Group's working capital and the repayment of existing debts when they fall due.

For further details, please refer to the paragraph headed "Material Uncertainty to Going Concern" in the section headed "Independent Auditor's Report" of this annual report.

Risk Management and Internal Controls

The Board acknowledges that it is the responsibility of the Board for establishing and maintaining appropriate and effective risk management and internal control systems. Also, the Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness on an annual basis. The established 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.

During the year ended 31 December 2020, the Board, through the Audit Committee, has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects. The systems were considered effective and adequate.

CORPORATE GOVERNANCE REPORT

The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

The internal audit function of the Group is governed by an appointed professional with Certified Internal Auditor qualification. With the appointment of chief audit executive, the effectiveness of the risk management and internal control systems is reviewed by conducting internal audit assignments. Recommendations for major observations of control weaknesses from the audits will be provided, so as to resolve material internal control defects.

Policies and procedures for releasing information to external parties had been established and are in place, which covers the handling and dissemination of inside information, with an aim to provide accurate, complete and timely information to all stakeholders of the Group. These policies and procedures define the class and form of the information to be disclosed, the procedures for dissemination and disclosure of information, and communication with investors, financial analysts and media. They also include the policies for communication with shareholders, and the information management for subsidiaries and associated companies of the Company.

EXTERNAL AUDITORS

CCTH CPA was appointed as the external auditors of the Company on 11 January 2017. The independence of the external auditors is recognised and annually reviewed by the Board and the Audit Committee. For the year ended 31 December 2020, the fees paid and payable to CCTH CPA and PRC statutory auditors in respect of their audit services provided to the Group were RMB1.20 million. For the year ended 31 December 2020, the fees paid to CCTH CPA in respect of non-audit service assignment (agreed-upon procedures regarding interim financial information for the six months ended 30 June 2020) amounted to RMB0.16 million.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year under review.

NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Chen Yenfei and Praise Treasure Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company ("Controlling Shareholders"). To protect the Group from any potential competition, the Controlling Shareholders have entered into the Deed of Non-competition ("Deed of Non-competition") in favor of the Company on 26 May 2015.

The Company has adopted the following measures to manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking:

(a) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by the Controlling Shareholders under the Deed of Non-competition;

CORPORATE GOVERNANCE REPORT

(b) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;

(c) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Deed of Non-competition in the annual reports of the Company; and

(d) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of the Company.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders. Each of the Controlling Shareholders has confirmed in writing to the Company that he/it has complied with the Deed of Non-competition for the year ended 31 December 2020. Based on such written confirmation from the Controlling Shareholders and other appropriate queries made by the independent non-executive Directors, the independent non-executive Directors considered that the Controlling Shareholders have complied with all the undertakings under the Deed of Non-competition for the year ended 31 December 2020.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all the Shareholders an equal opportunity to exercise their rights in an informed manner and allow the Shareholders to engage actively with the Company. Under the Company's articles of association, the Shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

(i) Participation at general meeting

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. Prior notices of meetings with sufficient notice period in compliance with the articles of association of the Company and the Listing Rules and circulars containing details on the proposed resolutions will to be sent to the Shareholders before the meeting. At the general meetings, separate resolutions are proposed on each substantial issue, including the election/re-election of individual Directors. One general meeting was held during the year ended 31 December 2020.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend general meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board committees at the general meetings or providing written notice of such proposals for the attention of the Board of the Company at the principal place of business of the Company in Hong Kong (currently situated at Unit K, 3/F, Wanda Industrial Building, 328 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong) or via email to ir@pashunholding.com.

CORPORATE GOVERNANCE REPORT

(iii) Convening extraordinary general meeting

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the company secretary of the Company and deposited at the principal place of business of the Company in Hong Kong (currently situated at Unit K, 3/F, Wanda Industrial Building, 328 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong) for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at general meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

Pursuant to the article 85 of the articles of association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office (as defined therein) provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

CORPORATE GOVERNANCE REPORT

Accordingly, if a Shareholder wishes to nominate a person to stand for election as a Director, the following documents must be validly served on the Board of the Company, namely (i) his/her notice of intention to propose a resolution at the general meeting; and (ii) a notice signed by the nominated candidate of the candidate's willingness to be appointed as a Director together with (A) that candidate's information as required to be disclosed under Rule 13.51(2) of the Listing Rules and such other information, as set out in the below heading "Required information of the candidate(s) nominated by Shareholders", and (B) the candidate's written consent to the publication of his/her personal data.

Required information of the candidate(s) nominated by Shareholders

In order to enable Shareholders to make an informed decision on their election of Directors, the above described notice of intention to propose a resolution by a Shareholder should be accompanied by the following information of the nominated candidate(s):

(a) full name and age;

(b) positions held with the Company and its subsidiaries (if any);

(c) experience including (i) other directorships held in the past three years in public companies of which the securities are listed on any securities market in Hong Kong and overseas, and (ii) other major appointments and professional qualifications;

(d) current employment and such other information (which may include business experience and academic qualifications) of which Shareholders should be aware of, pertaining to the ability or integrity of the candidate;

(e) length or proposed length of service with the Company;

(f) relationships with any Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Company, or an appropriate negative statement;

(g) interests in the Shares within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), or an appropriate negative statement;

(h) a declaration made by the nominated candidate in respect of the information required to be disclosed pursuant to Rule 13.51(2)(h) to (w) of the Listing Rules, or an appropriate negative statement to that effect where there is no information to be disclosed pursuant to any of such requirements nor there are any other matters relating to that nominated candidate's standing for election as a Director that should be brought to Shareholders' attention; and

(i) contact details.

The Shareholder proposing the candidate will be required to read out aloud the proposed resolution at the general meeting.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

There was no change in the amended and restated memorandum and articles of association of the Company for the year ended 31 December 2020.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

POLICY ON PAYMENT OF DIVIDENDS

The Company adopted a policy on payment of dividends (the "Dividend Policy") in compliance with E.1.5 of the CG code with effect from 1 January 2020, which establishes an appropriate procedure on declaring and recommending dividend payment of the Company.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:–

(i) results of operations;

(ii) cash flows;

(iii) financial condition;

(iv) statutory and regulatory restrictions on the payment of dividends by the Company;

(v) future prospects; and

(vi) other factors that the Board may consider relevant.

Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. Dividends may be paid only out of the Company's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in the Group's operations.

Subject to the factors described above, the Board intends to recommend at the relevant shareholders meetings an annual dividend of no less than 30% of the Company's future net profit available for distribution to the shareholders in the foreseeable future.

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

There can be no assurance that the Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Dividend Policy will continue to be reviewed from time to time by the Board.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Professor Xiao Kai (肖凱) (“**Prof. Xiao**”), aged 40, was appointed as the Chairman and an executive Director on 22 February 2021. Prof. Xiao is currently the chairman of Hong Kong Cambridge Education Group (香港劍橋教育集團) and the chairman of Shenzhen Qianhai Huirong Asset Management Co., Ltd. (深圳前海匯容資產管理有限公司). He has extensive experience in investment and industrial operation and has notable achievements in mergers and acquisitions and equity investment. Prof. Xiao is a Certified Mergers and Acquisitions Dealmaker of the China Mergers & Acquisitions Association and once worked as the general manager of the investment banking department of Tianhong Asset Management Co., Ltd. (天弘資產管理有限公司).

In 2016, he founded Hong Kong Cambridge Education Group (香港劍橋教育集團) and is both the chairman and the chief executive officer. Hong Kong Cambridge Education Group focuses on pre-school education for children aged 2 to 6 years and K12 education, training and study tours. Prof. Xiao has invested and run schools in Hong Kong and many provinces and cities in Mainland China, including Harbin in Heilongjiang, Dalian in Liaoning, Hebei, Henan, Shandong, Jiangxi, Guangxi, Shenzhen in Guangdong to provide high-quality pre-school education and K12 education services. Hong Kong Cambridge Education Group and its schools have obtained many honours such as Provincial Model Kindergarten, Municipal Model Kindergarten, Excellent Private School, China's Economic Innovation Enterprise in the New Era, Preferred Brand in China's Education Industry, and Advanced Technology Enterprise in China's Education Industry. Hong Kong Cambridge Education Group also obtained 1 invention patent, 15 software copyrights and a number of works registration rights in Mainland China, and its corporate credit rating is AAA. Since its establishment, Hong Kong Cambridge Education Group has opened 19 kindergartens, 2 primary schools and 1 secondary school.

Prof. Xiao is a Hong Kong and Macao member of the Chinese People's Political Consultative Conference (“CPPCC”) in Heilongjiang Province and a Hong Kong and Macao member of CPPCC in Pudong New Area, Shanghai. He is an Honorary Permanent President, Vice President and Standing Secretary of the Federation of Industry and Commerce in all districts in Hong Kong. In 2015, he was awarded the first Top 10 Outstanding New Hong Kong Youths in Hong Kong. In 2016 and 2019, he received the “Education Contribution Award” by Harbin Institute of Technology. In July 2019, he was engaged as an adjunct professor of Harbin Institute of Technology.

Prof. Xiao graduated from the Department of Applied Mathematics of The Hong Kong Polytechnic University with a master degree in science majoring in actuarial science and investment. He also graduated from the School of Mechanical and Electrical Engineering, Harbin Institute of Technology with a master degree in engineering and a bachelor degree in engineering majoring in mechanical design, manufacturing and automation.

SHEN SHUN (沈順), aged 48, was appointed as an executive Director on 27 February 2012. Mr. Shen is mainly responsible for the sales and internal control of the Group. He has over 20 years of experience in the pharmaceutical industry. Mr. Shen has been appointed as a vice general manager of 成都科訊藥業有限公司 (in English for identification purpose only, Chengdu Kexun Pharmaceutical Co., Ltd.) (“Chengdu Kexun”) since 1998, responsible for the sales of Chengdu Kexun. Mr. Shen obtained a master's degree of business administration from a course jointly cooperated by Southwest Jiaotong University (西南交通大學) and University of South Australia in May 2011.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(Continued)*

Mr. Yang Bo (楊波), aged 41, was appointed as an executive Director on 22 February 2021. He graduated from the Instrument Science and Engineering Department of Southeast University, is the founder of Fanmai Assets (凡麥資產) and Tide Venture Group (泰德創業集團). He has been the chief executive officer of Shanghai Fanmai Assets Management Co., Ltd. (上海凡麥資產管理有限公司) since 2016. He once served as the managing director of Shenzhen Qianhai Wutong M&A Fund (深圳前海梧桐併購基金), partner of Shanghai Heshan Investment Co., Ltd. (上海和山投資有限公司), and the chief financial officer of Shanghai Oufei Digital Card Co., Ltd. (上海歐飛數卡有限責任公司) over the past 10 more years. Mr. Yang is an investment banker specializing in technology, environmental protection and education. He is also a senior expert in the industrial investment and mergers and acquisitions sectors. He has extensive experience in corporate listing, private equity, direct investment, cross-border mergers and acquisitions and industrial funds. He has successively led the setting up, investment and management of Jiaxing Digital Expo Fund (嘉興數博基金), Lanyu Phoenix Fund (嵐裕鳳凰基金), Luolai Wutong Fund (羅萊梧桐基金), Infinite Dream Fund (無限夢想基金), Xinyue Cultural Fund (新越文化基金) and Fanmai No. 7 Fund (凡麥七號基金). Mr. Yang is also one of the founding members of the renowned environmental protection organization "Green Stone".

NON-EXECUTIVE DIRECTORS

ZHANG XIONGFENG (張雄峰), aged 53, was appointed as a non-executive Director with effect from 1 July 2016. Mr. Zhang holds a bachelor of arts degree in German Language awarded by Shanghai International Studies University (上海外國語大學) in July 1990. Mr. Zhang has extensive experience in the investment banking industry, specialising in the area of corporate finance. From December 2004 to September 2010, Mr. Zhang was employed by Daiwa Capital Markets Hong Kong Limited. From October 2010 to May 2012, Mr. Zhang was the joint head of corporate finance department of Oriental Patron Asia Limited. From 30 June 2017 to 5 October 2018, Mr. Zhang was a non-executive director of Fire Rock Holdings Limited, a company whose shares were listed on GEM of the Stock Exchange (Stock code: 8345) and has transferred to the Main Board of the Stock Exchange on 27 June 2019 (Stock code: 1909) and he was an independent non-executive director of such company from January 2016 to June 2017. From 31 December 2013 to 1 December 2018, he was an executive director and the chairman of the board of directors of Hang Tai Yue Group Holdings Limited (formerly known as Interactive Entertainment China Cultural Technology Investments Limited) (Stock code: 8081), a company whose shares are listed on GEM of the Stock Exchange. Mr. Zhang is currently a non-executive director of Dadi International Group Limited (Stock code: 8130), a company whose shares are listed on GEM of the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. HU HAISONG (胡海松), aged 53, was appointed as a non-executive Director on 20 May 2019. Mr. Hu has a strong track record in pursuing crossborder business opportunities primarily in the energy and resources industry. Mr. Hu has substantial experience in business management and management and supervision of investment projects in various sectors and industries, including oil and gas related industry, trading of commodities and real estates. He was a non-executive director of Goldstone Investment Group Limited (formerly known as Eagle Ride Investment Holdings Limited), a company whose shares are listed on the Main Board of the Stock Exchange (Stock code: 901) from 1 November 2013 to 18 August 2020. Mr. Hu is currently the chairman and director of each of APAC Investment Holdings Limited ("APAC"). APAC is principally engaged in investment holding focusing on the energy sector and high growth private investments. Mr. Hu is also a director of Bluesea Energy Holdings Limited, a limited liability company incorporated in Hong Kong and is principally engaged in providing consultancy services in the oil and gas related industry and the trading of petroleum related products, including crude oil and fuel oil. Mr. Hu obtained a Doctor degree in Business Administration honoris causa by Dubna International University for Nature, Society and Man in June 2013.

Mr. WU GUOHUA (吳國華), aged 37, was appointed as a non-executive Director on 20 May 2019. Mr. Wu has a strong track record primarily in real estate and financial investment industries. Mr. Wu has extensive experience in the management and planning of the industrial structure chain of the real estate industry. He is currently a director of Hainan Tianyu Real Estate* (海南天宇房地產), which was awarded as the local enterprise with the strongest capabilities in the real estate development industry in Hainan. Such company is a diversified conglomerate integrating multiple sectors such as tourism, finance, trading, education, medical, agriculture and high technology. Mr. Wu obtained a Bachelor degree in Finance and Economics from The University of New South Wales in Australia in 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Lei (曹雷), aged 63, was appointed as an independent non-executive Director on 22 February 2021. He graduated from Huazhong University of Science and Technology and had worked at Zhongnan University of Economics and Law in Wuhan for many years. He joined Shenzhen Stock Exchange in early 1990s and served as the editorial director of the Securities Market Herald and is the principal founder and principal of the Securities Times. He was the general manager, executive director and independent director of many private enterprises and state-owned enterprises, and has more than 20 years of experience in enterprise operation and management, and is particularly familiar with and good at corporate capital operation, domestic and overseas listing business, and investment and financing business.

Mr. Ng Wai Tsan (吳為贊), aged 73, was appointed as an independent non-executive Director on 22 February 2021. He is an entrepreneur with many years of experience in investment and business development. He has invested in Hong Kong, Mainland China, Southeast Asia and other places. His businesses include film and television investment and distribution, real estate development, transportation and logistics and catering chain, etc.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Chen Yongsheng (陳永生), aged 41, was appointed as an independent non-executive Director on 22 February 2021. He graduated from Nanyang Technological University, the Republic of Singapore, in 2004, with a bachelor degree of engineering (electrical & electronic engineering) and from the Hong Kong University of Science and Technology, Hong Kong, in 2010, with a master degree in business administration.

Mr. Chen passed the Fund Management Practitioner's Qualification Examination (基金從業人員資格考試) of Asset Management Association of China (中國證券投資基金業協會) in 2017. He was a licensed representative of China Tonghai Capital Limited for type 6 (advising on corporate finance) regulated activities under the SFO from August 2008 to July 2010 and December 2013 to March 2016.

Mr. Chen has over 15 years experience in domestic and overseas capital market, investment and financial and corporate management. Mr. Chen has held management positions in many well-know domestic and overseas financial institutions such as Citicorp Investment Bank (S) Ltd., a company principally engaged in assets management and investment banking and a subsidiary of CITIC International Assets Management Limited, a company principally engaged in investment and assets management.

Mr. Chen was an executive director of Long Well International Holdings Limited, a company whose shares are listed on Main Board of the Stock Exchange (Stock Code: 850), from December 2018 to December 2019 and the chief executive officer of the same from January 2019 to December 2019.

Mr. Chen is also actively involved in social affairs. He is a member of the Global Alumni Committee and chairman of the Hong Kong Alumni Association of Nanyang Technological University in Singapore, vice chairman of Alumni Association for Mainland Students of The Hong Kong University of Science and Technology. He was awarded the Nanyang Outstanding Young Alumni Award (南洋杰出青年校友獎) by Nanyang Technological University.

SENIOR MANAGEMENT

LI XIAODUO (李小多), aged 52, is a manager in charge of the manufacturing of the Group. Mr. Li joined the Group in 1998 and is mainly responsible for the production and quality control of the Group. Mr. Li has over 18 years of experience in the pharmaceutical industry. Mr. Li was appointed as the deputy general manager of Wuhan Baixin Holdings Group Limited (武漢百信控股集團有限公司) since March 1998 in charge of manufacturing. Prior to joining the Group, he was the workshop supervisor and chief of biotech of Chengdu Di Kang Pharmaceuticals Limited (成都迪康製藥公司) from February 1996 to February 1998. He also worked for Chongqing Oriental Pharmaceutical Co., Limited (重慶東方藥業股份有限公司) from July 1994 to February 1996, responsible for developing new products. Mr. Li graduated from Chengdu College of Traditional Chinese Medicine (成都中醫學院) in July 1994, majoring in traditional Chinese medicine.

TANG ZAIXIU (唐再秀), aged 42, is the head of accounting department of the Group. She is mainly responsible for daily accounting. Ms. Tang has over 15 years of experience in accounting. She has worked as the cashier, accountant, financial supervisor and financial manager of Chengdu Kexun since 1999. Ms. Tang graduated from Chongqing Technology and Business University (重慶工商大學) on 30 June 2007, majoring in accounting.

REPORT OF DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company for the year ended 31 December 2020.

BUSINESS REVIEW

A review of the business of the Group during 2020 and further discussion and analysis, including an indication of the likely future developments in the Group's business are set out in the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this report of Directors.

CORPORATE INFORMATION

The Company was incorporated on 3 May 2011 as a limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Shares were listed on the Stock Exchange on 19 June 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group primarily operates in three business segments in China, namely (1) pharmaceutical distribution, (2) self-operated retail pharmacies, and (3) pharmaceutical manufacturing. The analysis of the revenue of the principal activities of the Group during the year ended 31 December 2020 is set out in note 5 to the consolidated financial statements in this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 63 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the financial year ended 31 December 2020 (2019: Nil).

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial risks. The Group's key risk exposures are summarised as follows:

Business risks

(i) Slowdown of China's economic growth in particular in Southwestern China

The Group derived all of its revenue from sales in the PRC market, particularly in the southwestern region. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. There can be no assurance that current economic reform and policies adopted by the PRC government will continue to successfully create economic growth as in the past years.

(ii) Changing legal and regulatory requirements in the PRC pharmaceutical industry

The Group anticipates that revenue from sales in the PRC will continue to represent a substantial proportion of its total turnover in the near future. The Group's operations, financial condition and results of operations could be adversely affected by changes in political condition or relevant laws and regulations in the PRC pharmaceutical industry. In April 2016, the State Council of the PRC issued the 2016 List of Major Tasks in Furtherance of the Healthcare and Pharmaceutical Reforms (深化醫藥衛生體制改革2016年重點工作任務) that outlines several important targets for the current healthcare reform, including the introduction of the "Two-Invoice System" (兩票制) which only allows a single level of distributors for the sale of pharmaceutical products from the manufacturers to the hospitals. While such reform is expected to further improve the quality and efficiency of the healthcare industry in the long-run, the implementation of the "Two-Invoice System" in April 2017 in Sichuan province, given the reliance of the Group on the Sichuan market, had a material adverse impact on the Group's sales to other distributors in its pharmaceutical distribution and pharmaceutical manufacturing businesses.

REPORT OF DIRECTORS

Operational risks

(i) Non-compliance with, changes in, or amendments to, the applicable PRC regulatory licensing requirements may have a material adverse effect on the Group's business operations

The Group is required to obtain certain permits, approvals and certificates from various PRC governmental authorities for its business operations, such as Good Manufacturing Practices ("GMP") certificates for pharmaceutical manufacturing and Good Supply Practices ("GSP") certificates for pharmaceutical distribution and retail pharmacy operations.

The Good Manufacturing Practices (2010 Revision), which was promulgated by the Ministry of Health of the PRC on 17 January 2011 and effective on 1 March 2011, is a set of detailed basic guidelines on the manufacture and quality control of pharmaceutical products, with the purpose of ensuring that pharmaceutical products are consistently and appropriately manufactured to their intended use as well as statutory registration requirements for the pharmaceutical products, by minimising the risks of contamination, cross contamination, mix-ups and/or errors during the manufacture process.

According to the Administrative Measures of Good Supply Practices (《藥品經營質量管理規範》), which was promulgated by the China Food and Drug Administration on 25 June 2015 and was amended on 13 July 2016 and became effective on the same day, drug distributors should take quality control measures in the processes of procurement, storage, sale and transportation to ensure drug quality and establish drug trace system, intensifying the requirements regarding the management of pharmaceutical trade in terms of both software and hardware of the enterprises in this industry.

As of the date of this annual report, the Group had obtained all material requisite permits, approvals and certificates for its business operations, and intends to apply for the renewal of these certificates when required by applicable laws, rules and regulations. However, the conditions for such renewal may change from time to time. There is no assurance that the Group will be able to successfully renew all of these permits, approvals and certificates, including GMP and GSP. In addition, the more stringent requirements may also affect the Group's plan to identify potential acquisition target.

REPORT OF DIRECTORS

(ii) Any disruption or termination of or material change in supplier relationships may have a negative impact on the Group's operation

The Group's business is dependent to a large extent upon the stable supply of products from its suppliers. If the Group fails to maintain stable relationship with its suppliers, it may not be able to secure a stable supply of products, which, in turn, may materially and adversely affect its business, financial condition and results of operations.

(iii) Reliance on key personnel and business and growth may be disrupted if the Group is not able to retain the key personnel

The Group's future success depends heavily upon the continued services of its senior executives and key sales and marketing personnel. The Group's ability to attract and retain key personnel is a critical factor in its competitiveness. If the Group is unable to attract or retain the personnel required to achieve its business objectives, its business could be severely disrupted.

Financial risks

(i) Foreign currency exchange risk
(ii) Interest rate risk
(iii) Credit risk
(iv) Liquidity risk
(v) Price risk

Details of the financial risk management are set out in note 44 to the consolidated financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

CHARGES OF ASSETS

Details of charges of the Group's assets during the year ended 31 December 2020 are set out in note 26 to the consolidated financial statements in this annual report.

GEARING RATIO

The Group's gearing ratio is represented by net debts divided by total equity plus net debts. The Group's net debts include bank borrowings, corporate and convertible bonds, less cash and cash equivalents and pledged bank deposits. As at 31 December 2020, the Group's gearing ratio was 28.9% (2019: 9.4%).

REPORT OF DIRECTORS

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY AND COMPLIANCE WITH LAWS AND REGULATIONS

As a responsible corporation, the Group is committed to maintain the highest environmental and social standards to ensure sustainable development of its business.

The Group is subject to the following major PRC laws and regulations:

i) **Business operation**

- Administrative Measures for the Registration of Pharmaceuticals《藥品註冊管理辦法》
- Administrative Measures for Pharmaceutical Supply Permit《藥品經營許可證管理辦法》
- Good Supply Practice Rules for Pharmaceuticals《藥品經營質量管理規範》
- Measures for the Certification of Good Supply Practice of Pharmaceutical Operations《藥品經營質量管理規範認證管理辦法》
- Good Manufacturing Practices (2010 Revision)《藥品生產質量管理規範(2010年修訂)》

ii) **Environmental and social standards**

- the Environmental Protection Law of the PRC《中華人民共和國環境保護法》
- the Labor Law of the PRC《中華人民共和國勞動法》
- the Law of the PRC on the Prevention and Control of Water Pollution《中華人民共和國水污染防治法》
- the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste《中華人民共和國固體廢物污染環境防治法》
- the Law of the PRC on Safe Production《中華人民共和國安全生產法》
- the PRC Labor Contract Law《中華人民共和國勞動合同法》

During the year under review, the Group has complied with all relevant laws and regulations in relation to its business including production, health and safety, workplace conditions, employment and the environment that have a significant impact on the Group.

The Group strives to minimise its impact on the environment by reducing its electricity consumption and encouraging recycle of office supplies and other materials.

Further information about the Company's environmental policies and performance will be disclosed in the environmental, social and governance report to be issued by the Company in due course.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 72% of the total sales for the year ended 31 December 2020 and sales to the largest customer included therein amounted to approximately 41% of the total sales for the year. The credit terms granted to major customers are 30 to 180 days which are in line with those granted to other customers. Purchases from the Group's five largest suppliers accounted for approximately 74% of the total purchases for the year ended 31 December 2020 and purchases from the Group's largest supplier included therein amounted to approximately 19% of the total purchases for the year.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

The Group has established a business relationship with its five largest customers and suppliers for more than five years. Management of the Company conducts review on customer and supplier composition on a regular basis to monitor whether there is over-reliance on certain counterparty.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Being people-oriented, the Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

The Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

The Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 14 to the consolidated financial statements in this annual report.

SHARE CAPITAL

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

REPORT OF DIRECTORS

ISSUE OF CORPORATE BONDS

During 2016 to 2018, the Company issued unsecured corporate bonds with principal amount of HK$113.9 million to various independent third parties at par value, bearing coupon rates of 6.5% to 7% per annum and with maturity periods from 2 to 7.5 years. As at 31 December 2020, eleven corporate bonds with aggregate principal amount of HK$30.2 million was matured and the Company repaid a matured corporate bond with principal amount of HK$1 million during the year ended 31 December 2020. Subsequent to 31 December 2020, the Company further repaid HK$4.8 million to the eleven matured corporate bonds.

As at 31 December 2020, interest payable on corporate bonds of approximately HK$12.3 million was due and remained outstanding. Since the maturity dates of bonds principal and interests, the Company and the holders of the corporate bonds have engaged in numerous rounds of negotiations to seek to resolve the issue amicably, including extension of the maturity date and the due date of the interest payments, and repayments of principal and interests by installments.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2020 are set out on page 67 in the consolidated statement of changes in equity of this annual report and in note 37 to the consolidated financial statements in the annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's accumulated losses amounted to approximately RMB393,161,000 and the Company's share premium amounted to approximately RMB691,882,000. By passing an ordinary resolution of the Company, dividends may be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2020 are set out in note 30 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

DIRECTORS

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

Executive Directors:

Professor. Xiao Kai *(Chairman) (appointed on 22 February 2021)*
Mr. Chen Yenfei *(Chairman and Chief Executive Officer)*
(vacated from his office as the Chairman and an Executive Director, and ceased to be the Chief Executive Officer, on 18 June 2020)
Mr. Shen Shun
Mr. Yang Bo *(appointed on 22 February 2021)*
Mr. Chen Rongxin *(resigned on 23 February 2021)*

Non-executive Directors:

Mr. Zhang Xiongfeng
Mr. Hu Haisong
Mr Wu Guohua

Independent non-executive Directors:

Mr. Cao Lei *(appointed on 22 February 2021)*
Mr. Ng Wai Tsan *(appointed on 22 February 2021)*
Mr. Chen Yongsheng *(appointed on 22 February 2021)*
Mr. Liu Liangzhong *(resigned on 1 February 2021)*
Mr. Wong Tak Shing *(retired on 31 July 2020)*
Mr. Lu Yongchao *(resigned on 1 October 2020)*

Each of the executive Directors has entered into a service contract, and each of the non-executive Director (except Mr. Hu Haisong and Mr. Wu Guohua), and independent non-executive Directors has entered into a letter of appointment, with the Company for a term of three years, subject to termination by (i) each of the executive Directors by not less than three month's notice in writing served by either party on the other; and (ii) each of the non-executive Directors and the independent non-executive Directors by service of notice in writing to the Company at least 15 days in advance or by the Company at any time. Each of Mr. Hu Haisong and Mr. Wu Guohua has entered into a letter of re-appointment with the Company for a term of one year, subject to termination by not less than six month's notice in writing served by either party on the other. All Directors are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are disclosed in note 10 to the consolidated financial statements in this annual report.

As at 31 December 2020 and up to the date of this annual report, no Director who will be proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders.

REPORT OF DIRECTORS

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 30 to 33 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

No Director has any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year or at any time during the year ended 31 December 2020.

CONTRACTS OF SIGNIFICANCE ENTERED INTO BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDERS

There are not any contracts of significance entered into between the Group and the controlling shareholders of the Company (within the meaning of the Listing Rules) (or any of their subsidiaries) which subsisted at any time during the year ended 31 December 2020.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. A permitted indemnity provision (having its meaning under section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) is in force for the benefit of the Directors when this report of Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and was in force throughout the year ended 31 December 2019 for the benefit of the then Directors.

The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the directors of the Company and its subsidiaries.

REPORT OF DIRECTORS

SHARE OPTION SCHEME

The Company adopted the share option scheme (the "Share Option Scheme") on 26 May 2015 for the purpose of rewarding certain Eligible Persons (as defined below) for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such Eligible Persons (as defined below) who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 26 May 2015.

Eligible participants of the Share Option Scheme include, (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Company or any of its subsidiaries and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above (the persons referred above are the "Eligible Persons").

In accordance with the resolution passed at the annual general meeting held in 28 June 2019 ("2019 AGM"), the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the date of the 2019 AGM, i.e. 147,499,290 Shares. During the year under review, no share options was granted under the Share Option Scheme, and share options granted on 8 July 2016 to subscribe for an aggregate of 75,690,000 shares were lapsed on 31 December 2019. As at 31 December 2020, the total number of securities available for issue under the Share Option Scheme pursuant to its terms was 100,000,000 Shares, representing in aggregate approximately 6.78% of the Company's issued share capital as at the date of this annual report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may grant options beyond the 10% limit to the Eligible Persons specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

The maximum number of Shares issued and to be issued upon the exercise of options granted under the Share Option Scheme (including exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the Shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

REPORT OF DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder (within the meaning of the Listing Rules) or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The Board shall not offer the grant of any option to any Eligible Person after inside information has come to its knowledge until it has announced the information pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period commencing two months immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements provided that no option may be granted during any period of delay in publishing a results announcement.

The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share.

REPORT OF DIRECTORS

SHARE OPTION SCHEME *(Continued)*

The details of share options granted under the Share Option Scheme as at 31 December 2020 are set out as follows:

			Number of share options					
Name	Date of grant	Vesting date	Outstanding as at 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2020
Mr. Chen Rongxin (an executive Director and resigned on 23 February 2021)	7 September 2018	7 September 2018	10,000,000 *(Note 1)*	–	–	–	–	10,000,000
Mr. Zhang Xiongfeng (a non-executive Director)	7 September 2018	7 September 2018	10,000,000 *(Note 1)*	–	–	–	–	10,000,000
Employees in aggregate	7 September 2018	7 September 2018	10,000,000 *(Note 1)*	–	–	–	–	10,000,000
Other eligible participates in aggregate	7 September 2018	7 September 2018	70,000,000 *(Note 1)*	–	–	–	–	70,000,000
Total			100,000,000	–	–	–	–	100,000,000

Note:

1. The exercise price of these options is HK$0.67 and the exercise period is from 7 September 2018 to 25 May 2025, both dates inclusive. The closing price of the Shares immediately preceding the date of grant of these options was HK$0.70. The Company received HK$1 from each of the grantees of these options upon acceptance of the options granted.

EMOLUMENT POLICY

A remuneration committee of the Board was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

REPORT OF DIRECTORS

EMOLUMENT POLICY *(Continued)*

The Company has adopted the Share Option Scheme, of which share options may be granted to Eligible Persons. Details of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in this report of Directors and note 37 to the consolidated financial statements in this annual report.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 10 and 11 to the consolidated financial statements in this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules for the year ended 31 December 2020.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the Shares

Name of Director	Capacity/ nature of interest	Number of Shares held	Approximate percentage of shareholding *(Note 1)*
Mr. Shen Shun	Beneficial owner	3,500,000	0.24%
Mr. Chen Rongxin (resigned on 23 February 2021)	Beneficial owner	414,820	0.03%
Mr. Zhang Xiongfeng	Beneficial owner	34,814,000	2.36%

Notes:

1. The total number of Shares in issue as at 31 December 2020 (i.e. 1,474,992,908 Shares) has been used for the calculation of the approximate percentage of interest.

2. Mr. Chen Yenfei holds 100% of the issued share capital of Praise Treasure Limited and is therefore deemed to be interested in the 753,040,000 Shares held by Praise Treasure Limited in the Company.

REPORT OF DIRECTORS

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS *(Continued)*

Long position in the underlying Shares

Name of Director	Capacity/nature of interest	Number of underlying Shares held	Approximate percentage of shareholding *(Note 1)*
Mr. Chen Rongxin *(Note 2)* (resigned on 23 February 2021)	Beneficial owner	10,000,000 *(Note 2)*	0.68%
Mr. Zhang Xiongfeng *(Note 3)*	Beneficial owner	10,000,000 *(Note 3)*	0.68%

Notes:

1. The total number of Shares in issue as at 31 December 2020 (i.e. 1,474,992,908 Shares) has been used for the calculation of the approximate percentage of interest.

2. These are 10,000,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Chen Rongxin on 7 September 2018 pursuant to the Share Option Scheme and can be exercised by Mr. Chen Rongxin between 7 September 2018 and 25 May 2025 at the subscription price of HK$0.67 per Share.

3. These are 10,000,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Zhang Xiongfeng on 7 September 2018 pursuant to the Share Option Scheme and can be exercised by Mr. Zhang Xiongfeng between 7 September 2018 and 25 May 2025 at the subscription price of HK$0.67 per Share.

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had 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 which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, during the year under review, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

REPORT OF DIRECTORS

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

As at 31 December 2020, so far as the Directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executive of the Company) had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

(i) Substantial shareholder's long position in the Shares

Name of Shareholder	Capacity/nature of interest	Number of Shares held	Approximate percentage of issued share capital *(Note 1)*
Praise Treasure Limited	Beneficial owner	753,040,000	51.05%
Mr. Chen Yenfei	Interest of a controlled corporation	753,040,000	51.05%
	Beneficial owner	13,560,000	0.92%
		766,600,000	51.97%

(ii) Other persons' long positions in the Shares

Name of Shareholder	Capacity/nature of interest	Number of Shares held	Approximate percentage of issued share capital *(Note 1)*
Win Win Stable No. 3 Fund SP	Person having a security interest in shares	753,040,000	51.05%
Zhongtai Innovation Capital Management Limited	Investment manager	753,040,000	51.05%
Arab Osman Mohammed *(Note 2)*	Agent	753,040,000	51.05%
Lai Wing Lun *(Note 2)*	Agent	753,040,000	51.05%

Notes:

1. The total number of Shares in issue as at 31 December 2020 (i.e. 1,474,912,908 Shares) has been used for the calculation of the approximate percentage of interest.

REPORT OF DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

(ii) Other persons' long positions in the Shares *(Continued)*

Notes: (Continued)

2. 753,040,000 Shares (the "Charged Shares") were pledged by Praise Treasure Limited in favour of an original chargee whose rights have been assigned to Win Win International Strategic Investment Funds SPC (for the account and on behalf of Win Win Stable No.1 Fund SP), and on 27 September 2019, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited were appointed as joint and several receivers and managers over the Charged Shares. The Charged Shares represent approximately 51.05% of the issued share capital of the Company as at the date of this annual report.

Save as disclosed above, as at 31 December 2020, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

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

COMPETING BUSINESS

None of the Directors had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2020. Each of Mr. Chen Yenfei and Praise Treasure Limited (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 26 May 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2020.

REPORT OF DIRECTORS

POSSIBLE TRANSACTION WHICH MAY OR MAY NOT INVOLVE CHANGE OF CONTROLLING SHAREHOLDER OF THE COMPANY

As set out in the Company's announcement dated 30 September 2019, the Company has been informed by Praise Treasure Limited ("PTL"), a controlling shareholder (within the meaning of the Listing Rules) that 753,040,000 Shares (the "Charged Shares") were pledged by PTL in favour of Winwin International Strategic Investment Funds SPC (acting for and on behalf of Win Win Stable No.1 Fund SP) (the "Chargee") to secure certain indebtedness of PTL, and on 27 September 2019, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited were appointed as joint and several receivers and managers over the Charged Shares. The Charged Shares represent approximately 51.05% of the issued share capital of the Company as at the date of this annual report.

As set out in the Company's announcement dated 4 June 2020, (i) the Company has been further informed that PTL is still in negotiation with the Chargee regarding the settlement of the outstanding indebtedness owed by PTL to the Chargee, and it will need more time to reach final settlement with the Chargee in view of (a) the outbreak of the novel coronavirus epidemic in the People's Republic of China which adversely affected the progress of negotiation among the parties involved; and (b) that more time is required for potential new lender of PTL to conduct due diligence exercise in relation to PTL and for the negotiation among the parties involved; and (ii) the Company has not been advised by PTL or the Receivers of any proposed change of the ownership of the Charged Shares which may or may not involve a change of the controlling shareholder of the Company (the "Possible Transaction"). Details of the Possible Transaction are set out in the Company's announcements dated 30 September 2019, 3 October 2019, 1 November, 2019, 2 December 2019, 2 January 2020, 3 February 2020, 3 March 2020, 19 March 2020, 3 April 2020, 4 May 2020, 4 June 2020, 6 July 2020, 6 August 2020, 7 September 2020, 7 October 2020, 9 November 2020, 9 December 2020, 11 January 2021, 11 February 2021 and 11 March 2021.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2020 is contained in note 46 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

REPORT OF DIRECTORS

CHARITABLE DONATIONS

There was no charitable donations made by the Group during the year ended 31 December 2020 (2019: Nil).

AUDIT COMMITTEE

The audit committee of the Board has reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2020.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 13 to 29 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

No subsequent event was noted after 31 December 2020 until the date of this annual report.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2020 have been audited by CCTH CPA Limited.

CCTH CPA Limited shall retire and being eligible, offer themselves for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

By the order of the Board
Chairman and Executive Director
Professor. Xiao Kai

Hong Kong, 31 March 2021

INDEPENDENT AUDITOR'S REPORT

CCTH CPA LIMITED
中正天恒會計師有限公司

TO THE SHAREHOLDERS OF
PA SHUN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Pa Shun International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the"Group") set out on pages 63 to 164, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit and loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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, except for the matters mentioned in the "Basis for Qualified Opinion" paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

At 31 December 2020, the carrying amount of the Group's interests in associates amounted to RMB42,881,000 and the principal assets of the associates are property units located in Malaysia, details of which are set out in note 16 to the consolidated financial statements. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves whether these property units are owned by the associates and impairment losses on these property units are required to be made in the financial statements of the associates. Any adjustments to be made against the property units held by the associates may have significant impact to the results of the associates and their net asset value, which in turn, may give rise to a significant impact on the loss of the Group for the year ended 31 December 2020 and the Group's net asset value as at that date.

INDEPENDENT AUDITOR'S REPORT

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 qualified opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 3 to the consolidated financial statements that the Group had incurred losses amounted to approximately RMB419,189,000 and RMB193,399,000 for the years ended 31 December 2020 and 31 December 2019 respectively, and the Group had net current liabilities amounted to approximately RMB2,167,000 as at 31 December 2020. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. In light of all the measures and arrangements detailed in note 3 to the consolidated financial statements, the directors of the Company are of the opinion that the Group will be able to finance its future working capital and financial requirements. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section and the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter

Revenue recognised from sales of pharmaceutical products

Note 5(a) to the consolidated financial statements

Revenue from sales of pharmaceutical products is recognised when the controls of the pharmaceutical products are transferred to customers. The accounting policy for revenue recognition is disclosed in note 3(n) to the consolidated financial statements. The Group recognised revenue of approximately RMB845.4 million from sales of pharmaceutical products for the year ended 31 December 2020.

We have identified revenue recognised from sales of pharmaceutical products as a key audit matter as the revenue recognised is quantitatively significant to the consolidated statement of profit or loss and is one of the key performance of the Group.

Our procedures in relation to revenue recognised from sales included:

- We obtained an understanding of the revenue business process regarding sales of pharmaceutical products.
- We evaluated and tested the key controls over the recognition of sales of pharmaceutical products.
- We checked, on a sample basis, the terms set out in the sales and purchase agreements, and assessed whether the significant risks and rewards of ownership of the related pharmaceutical products sold and the Group's control therein have been transferred to the customers by reviewing the relevant documents, including the delivery notes and acknowledgement to receipts.
- We tested the recognition of material sales transactions closed to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting periods in accordance with the Group's revenue recognition policy.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of the proposed property development project

Note 21 to the consolidated financial statements

As at 31 December 2020, the Group had made payments amounted to approximately RMB185.8 million to Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming") in connection with a proposed property development project of a logistic centre. Management conducted impairment assessment of the property project and concluded that no impairment loss is required to be made based on the fair value of the properties upon their completion of development, as valued by an external property valuer.

We identified the impairment assessment of the proposed property development project as a key audit matter due to significant payments made by the Group for the project up to 31 December 2020 and the estimation and judgment involved in the assessments of the budgeted development costs for the project and the fair value of the properties upon their completion of development as valued by the external property valuer.

Our procedures in relation to the impairment assessment of the property development project included:

- We interviewed with management of the Group regarding the status of the project and update of the project development.
- We obtained an understanding of the management's internal control of the preparation of budgeted costs for the development of the property project.
- We assessed the reasonableness of the individual components of the budgeted costs by reference to the feasibility study report prepared by management and other corroborative evidence.
- We evaluated the competence, capabilities and objectivity of the external property valuer regarding the project under development.
- We obtained an understanding from the external property valuer about the valuation techniques, performance of the property markets, significant assumptions adopted, critical judgmental areas, key inputs and data used in the valuation.
- We evaluated the reasonableness of the key inputs used in the valuation by comparing the rentals, capitalisation rate and market observable transactions for valuation with other similar properties, market trend and management assumptions.
- We interviewed with management of Chengdu Yiming regarding the development progress of the project to assess whether the project development is in line with the planned time schedule and any significant obstacles are expected to hinder the project completion.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Net realisable value of inventories Note 22 to the consolidated financial statements As 31 December 2020, the Group had inventories amounted to approximately RMB18.0 million. Recoverability of the inventories involved management judgment in assessing the net realisable value ("NRV") for individual inventories. The management's estimation of the NRV is primarily based on the latest selling prices and current market conditions. The Group conducted the inventory review and, where necessary, made allowance on obsolete and slow moving items to write off or write down such inventories to their NRV. We have identified the NRV of inventories as a key audit matter due to the magnitude of inventories and the significant degree of judgment by the management associated with determining the NRV.	Our procedures in relation to assessing the net realisable value of the inventories included: • We obtained an understanding of the control procedures performed by management in estimating the NRV of the inventories and conducting periodic review of inventory obsolescence. • We observed the Group's inventory counts to identify whether there is any damaged or obsolete inventories. • We tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices. • We tested, on a sample basis, the NRV of selected inventory items, by comparing the selling prices subsequent to the year end, against the carrying amounts of these individual finished goods. Where there are no subsequent sales of the respective finished goods after the year end, we discussed with management as to the assessment of net realisable value of the products, corroborating explanations with the inventory ageing, sales orders, historical margins, and current market conditions by using our industry knowledge and external market analysis, as appropriate.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade and commercial bills receivables	
Note 23 to the consolidated financial statements	
At 31 December 2020, the Group had gross trade and commercial bills receivables amounted to approximately RMB413.2 million, of which impairment provision of approximately RMB359.7 million has been made. Recoverability of these receivables involved management judgment in assessing the allowance for doubtful debts for the receivables. The ability of the debtors to repay to the Group depends on customer specific and market conditions which involve inherent uncertainty. We have identified impairment assessment of trade and commercial bills receivables as a key audit matter due to the magnitude of the receivables and the estimation and judgment involved in the determination of the recoverable amounts of these receivables.	Our procedures in relation to the recoverability of trade and bills receivables included: • We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts. • We assessed the classification and accuracy of individual balances in trade and commercial bills receivables ageing report by testing the underlying invoices on a sample basis. • We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgment about the recoverability of the outstanding receivables and assessed the allowance for doubtful debts made by management for these individual balances. • We assessed the appropriateness of the expected credit loss positioning methodology, by examining the key data inputs on a sample bases, to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit loss.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Recoverability of other receivables

Note 23 to the consolidated financial statements

As at 31 December 2020, the Group had other receivables amounted to approximately RMB27.0 million which included receivables of grants and taxes refundable from local government and outstanding balances due from other parties.

The ability of the debtors to repay to the Group depends on the debtor's specific and market conditions and the financial position of the debtors.

We have identified impairment assessment of the other receivables as a key audit matter due to the magnitude of the receivable balances and the estimation and judgment of management involved in the determination of the recoverable amounts of these receivables.

How our audit addressed the key audit matter

Our procedures in relation to the recoverability of other receivables included:

- We obtained an understanding of the Group's processes and controls relating to monitoring of the recoverability of the other receivables and identifying any impairment indicators.
- We assessed the classification and accuracy of individual receivables by testing relevant corroborative evidence on a sample basis.
- We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to year end date, we obtained an understanding of the basis of management's judgment about the recoverability of the outstanding receivables and assessed the impairment loss made by management for doubtful recovery of the receivable balances.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment for investments in associates	
Note 16 to the consolidated financial statements	
As at 31 December 2020, the carrying amount of the Group's investments in associates amounted to approximately RMB42.9 million, of impairment loss of RMB6.1 million has been recognised in the consolidated financial statements. We focused on impairment assessment of the Group's investments in associates as the magnitude of the investments is significant and management assessment of the recoverable amount of the investments involves judgements and estimates about the future results of the associates and underlying value of the assets held by the associates.	Our procedures in relation to the impairment assessment of the investments in associates included: • We interviewed with management of the Group regarding details of the calculation of the recoverable amount of the investments in associates. • We performed audit procedures on the accounting records and relevant documents of the associates. • We evaluated the competence, capabilities and objectivity of the external property valuer regarding the valuations of the properties hold by the associates. • We obtained an understanding from the property valuer about the valuation techniques, performance of the property markets, significant assumptions adopted, critical judgemental areas, key inputs and data used in the valuation.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

We communicate with 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.

INDEPENDENT AUDITOR'S REPORT

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.

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2021

Lee Chi Hang
Practising Certificate Number: P01957

Unit 1510-1517, 15/F., Tower 2,
Kowloon Commerce Centre,
No 51 Kwai Cheong Road, Kwai Chung,
New Territories, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

		Year ended 31 December	
	NOTES	**2020 RMB'000**	2019 RMB'000
Revenue	*5(a)*	**474,835**	845,448
Cost of sales		**(457,138)**	(803,516)
Gross profit		**17,697**	41,932
Other income and gains	*6(a)*	**16,991**	22,285
Other net losses	*6(b)*	**(414,576)**	(197,289)
Selling and distribution expenses		**(8,085)**	(10,976)
General and administrative expenses		**(26,268)**	(35,229)
Finance costs	*7*	**(11,520)**	(11,855)
Share of profit of associate		**–**	650
Loss before tax	*8*	**(425,761)**	(190,482)
Income tax credit/(expense)	*9*	**6,572**	(2,917)
Loss for the year		**(419,189)**	(193,399)
Attributable to:			
Equity shareholders of the Company		**(418,454)**	(193,721)
Non-controlling interests		**(735)**	322
Loss for the year		**(419,189)**	(193,399)
		RMB cents	RMB cents
Loss per share	*13*		
Basic		**(28.37)**	(13.38)
Diluted		**N/A**	N/A

The notes on pages 71 to 164 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Loss for the year	**(419,189)**	(193,399)
Other comprehensive loss for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC" or "China")	**13,670**	(8,083)
Item that may not be reclassified subsequently to profit or loss:		
Loss on change in fair value of financial assets at fair value through other comprehensive income	**–**	(22,000)
Total comprehensive loss for the year	**(405,519)**	(223,482)
Attributable to:		
Equity shareholders of the Company	**(404,784)**	(223,804)
Non-controlling interests	**(735)**	322
Total comprehensive loss for the year	**(405,519)**	(223,482)

The notes on pages 71 to 164 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**40,910**	51,642
Right-of-use assets	15	**4,188**	3,060
Interests in associates	16	**42,881**	50,580
Other intangible assets	18(a)	**26,677**	29,632
Financial assets at fair value through other comprehensive income	19	**–**	3,000
Property development project	20	**185,797**	185,797
Other non-current assets	21	**–**	1,972
Deferred tax assets	32(b)	**4,640**	6,312
		305,093	331,995
CURRENT ASSETS			
Inventories	22	**17,950**	14,849
Trade and other receivables	23	**81,980**	373,740
Prepayments and deposits paid	24	**82,548**	179,179
Amounts due from related parties	50(b)	**85**	85
Income tax recoverable	32(a)	**180**	–
Pledged bank deposits	25	**10,087**	9,893
Cash and cash equivalents	25	**5,262**	16,125
		198,092	593,871
CURRENT LIABILITIES			
Trade and other payables	27	**103,811**	111,979
Bank borrowings	28	**8,000**	6,000
Amount due to a shareholder	29	**550**	283
Amounts due to associates	30	**2**	2
Amounts due to related parties	50(b)	**145**	144
Corporate bonds payable	31	**87,751**	26,871
Income tax payable		**–**	8,695
		200,259	153,974
NET CURRENT (LIABILITIES)/ASSETS		**(2,167)**	439,897
TOTAL ASSETS LESS CURRENT LIABILITIES		**302,926**	771,892

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Deferred income – government grant	33	**23,541**	24,053
Corporate bonds payable		**–**	64,143
Lease liabilities	34	**1,403**	114
		24,944	88,310
NET ASSETS		**277,982**	683,582
CAPITAL AND RESERVES			
Share capital	35	**1,216**	1,216
Reserves	37	**276,766**	696,267
Total equity attributable to equity shareholders of the Company		**277,982**	697,483
Non-controlling interests		**–**	(13,901)
TOTAL EQUITY		**277,982**	683,582

The consolidated financial statements on pages 63 to 164 were approved and authorised for issue by the board of directors of the Company on 31 March 2021 and are signed on its behalf by:

Xiao Kai
Director

Shen Shun
Director

The notes on pages 71 to 164 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity shareholders of the Company											
	Share capital RMB'000	Share premium RMB'000	PRC statutory reserve RMB'000	Convertible bonds reserve RMB'000	Investment revaluation reserve RMB'000 *(Note 37)*	Share option reserve RMB'000 *(Note 37)*	Exchange reserve RMB'000	Other reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	1,116	641,391	48,789	–	–	20,537	(1,462)	(26,534)	186,859	870,696	(14,223)	856,473
Loss for the year	–	–	–	–	–	–	–	–	(193,721)	(193,721)	322	(193,399)
Other comprehensive loss for the year												
Loss on change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	(22,000)	–	–	–	–	(22,000)	–	(22,000)
Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	–	–	–	(8,083)	–	–	(8,083)	–	(8,083)
Total comprehensive loss for the year	–	–	–	–	(22,000)	–	(8,083)	–	(193,721)	(223,804)	322	(223,482)
Adjustment upon lapse of share options	–	–	–	–	–	(9,081)	–	–	9,081	–	–	–
Issue of shares upon acquisition of subsidiaries	100	50,491	–	–	–	–	–	–	–	50,591	–	50,591
Transfer of PRC statutory reserve to retained profits	–	–	(15,632)	–	–	–	–	–	15,632	–	–	–
At 31 December 2019 and 1 January 2020	1,216	691,882	33,157	–	(22,000)	11,456	(9,545)	(26,534)	17,851	697,483	(13,901)	683,582
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(418,454)**	**(418,454)**	**(735)**	**(419,189)**
Other comprehensive income for the year												
Exchange differences on translation of financial statements of entities outside the PRC	**–**	**–**	**–**	**–**	**–**	**–**	**13,670**	**–**	**–**	**13,670**	**–**	**13,670**
Total comprehensive income/(expense) the year	**–**	**–**	**–**	**–**	**–**	**–**	**13,670**	**–**	**(418,454)**	**(404,784)**	**(735)**	**(405,519)**
Investment revaluation reserve transferred to accumulated losses on disposal of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**22,000**	**–**	**–**	**–**	**(22,000)**	**–**	**–**	**–**
Disposal of interest in a subsidiary	**–**	**–**	**(81)**	**–**	**–**	**–**	**–**	**(1,616)**	**(13,020)**	**(14,717)**	**14,636**	**(81)**
Transfer of PRC statutory reserve to retained profits	**–**	**–**	**(42,462)**	**–**	**–**	**–**	**–**	**–**	**42,462**	**–**	**–**	**–**
At 31 December 2020	**1,216**	**691,822**	**(9,386)**	**–**	**–**	**11,456**	**4,125**	**(28,150)**	**(393,161)**	**277,982**	**–**	**277,982**

The notes on pages 71 to 164 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Operating activities			
Loss before tax		**(425,761)**	(190,482)
Adjustments for:			
Depreciation of property, plant and equipment	14	**3,079**	3,517
Depreciation of right-of-use asset	15	**1,393**	1,594
Impairment loss on investment in associates		**6,088**	–
Amortisation of intangible assets	18(a)	**2,614**	2,164
Government grant recognised to profit or loss	33	**(512)**	(512)
Impairment loss on property, plant and equipment		**7,200**	–
Impairment loss on prepayments for intangible assets		**–**	17,000
Impairment loss on intangible assets		**–**	4,090
Impairment loss on trade receivables	6(b)	**242,887**	118,469
Impairment loss on other receivables	6(b)	**62,407**	7,193
Impairment loss on inventories		**–**	463
Impairment loss on prepayments and deposits		**102,237**	32,501
Reversal of impairment loss on trade receivables	6(b)	**(6,263)**	(8,288)
Reversal of impairment loss on other receivables		**–**	(1,234)
(Gain)/loss on disposal of property, plant and equipment	6(a&b)	**–**	(9)
Gain on disposal of a subsidiary	40	**(5,908)**	(5,516)
Loss on disposal of an associate		**–**	1,916
Reversal of write-off of other payable		**541**	–
Write-off of property, plant and equipment		**20**	179
Bank interest income	6(a)	**(45)**	(49)
Interest income from other receivables	6(a)	**(3,099)**	(576)
Finance costs	7	**11,520**	11,855
Share of profit of associate		**–**	(650)
Net foreign exchange gains		**7,970**	(6,469)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Operating cash flows before movements in working capital		**6,368**	(12,844)
(Increase)/decrease in inventories		**(3,149)**	37,747
Increase in trade and other receivables		**(12,229)**	(76,586)
Increase in prepayments and deposits paid		**(5,838)**	(27,691)
Decrease in amount due from an associate		**–**	10,834
Decrease in amounts due from related parties		**–**	993
Increase in trade and other payables		**1,890**	22,731
Increase/(decrease) in amount due to a shareholder		**302**	(3,148)
Decrease in other non-current assets		**–**	5,000
Decrease in amounts due to non-controlling interests		**–**	(5,143)
Cash used in operations		**(6,392)**	(48,107)
Income tax paid	*32(a)*	**(117)**	(10,347)
Net cash used in operating activities		**(6,509)**	(58,454)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(80)**	(92)
Proceeds from disposal of property, plant and equipment		**–**	62
Proceeds from disposal of an associate		**–**	8,123
Consideration for disposal of financial assets at fair value through other comprehensive income		**3,000**	–
Deposits refunded for investment projects		**–**	15,000
Disposal of a subsidiary	*40*	**(5,197)**	4,912
Decrease in pledged bank deposits		**(197)**	31,345
Bank interest received		**45**	49
Net cash (used in)/generated from investing activities		**(2,429)**	59,399
Financing activities			
Drawn down of new bank loans	*41*	**10,000**	6,000
Repayment of bank loans	*41*	**(6,000)**	(34,824)
Corporate bond repaid	*41*	**(889)**	(1,864)
Payment of lease liabilities	*41*	**(1,406)**	(1,588)
Finance costs paid	*41*	**(3,623)**	(1,349)
Net cash used in financing activities		**(1,918)**	(33,625)
Net decrease in cash and cash equivalents		**(10,856)**	(32,680)
Cash and cash equivalents at 1 January		**16,125**	48,831
Effect of changes in foreign exchange rates		**(7)**	(26)
Cash and cash equivalents at 31 December	*25*	**5,262**	16,125

The notes on pages 71 to 164 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

Pa Shun International Holdings Limited (the "Company", together with its subsidiaries, the "Group") was incorporated in the Cayman Islands on 3 May 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 June 2015. The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit K, 31/F, Wanda Industrial Building, 328 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong.

The functional currency of the Company is Hong Kong dollar ("HK$"). The consolidated financial statements of the Company are presented in Renminbi ("RMB") for easy reference of international investors.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 47.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by HKICPA for the first time which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while business usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processed and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Impacts on application of Amendments to HKFRS 3 Definition of a Business *(Continued)*

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs, which are not yet effective, will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group, comprising the Company and its subsidiaries, have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated financial statements have also been prepared in accordance with the applicable disclosures by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements

In preparing the consolidated financial statements, the directors of the Company have considered the future liquidity of the Group. The Group incurred losses amounted to approximately RMB419,189,000 and RMB193,399,000 for the years ended 31 December 2020 and 2019 respectively, and the Group had net current liabilities of approximately RMB2,167,000 as at 31 December 2020. These conditions indicate the existence of a material uncertainty which may cast a significant doubt on the Group's ability to continue as a going concern. Nevertheless, the directors of the Company are of the opinion that;

(i) With reference to the cash flow forecast prepared by the Group's management for the twelve months ending 31 December 2021, the Group will be able to generate adequate cash flows from its continuing operations and to obtain sufficient funding to meet the debts of the Group as and when they fall due in the foreseeable future.

(ii) The directors of the Company are considering various alternatives, including but not limited to new long term debts to be secured by pledge of the assets involved in the property development project, to obtain additional funds to finance the Group's working capital and the repayment of existing debts when they fall due.

The consolidated financial statements have been prepared on the historical cost basis except that certain assets are stated at fair value as explained in the accounting policies set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

The principal accounting policies are set out below:

(a) *Subsidiaries and non-controlling interests*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group has power over the entity, the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to use its power to affect those returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicated that there were changes to one or more of the aforementioned three elements of control.

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets, however, the choice of measuring non-controlling interests is limited to those types of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation. All other types of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by HKFRSs.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(a) Subsidiaries and non-controlling interests *(Continued)*

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any identified impairment losses.

(b) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is stated at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent period.

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(b) Goodwill *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(c) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(c) Investments in associates *(Continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with an associate of the Group, profit or loss resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(d) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which is derived from the Group's ordinary course of business are presented as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the 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 that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

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

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9) *(Continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial asset measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial assets, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets designated as at FVTOCI

Investments in financial assets at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the financial assets, and will be taken to accumulated losses.

Dividends from these financial assets are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and gains" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9)

The Group recognises loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amounts due from an associate and related parties, pledged bank deposits and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) *(Continued)*

(i) Significant increase in credit risk *(Continued)*

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

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

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

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

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers event of default occurs when 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).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial assets 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; or

(e) the disappearance of an active market for that financial assets because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group. Amounts due from an associate and related parties, and other receivables are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure that the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivables where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9)

Financial assets are classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain recognised in profit or loss excludes any interest earned on the financial assets and is included in other income and gains.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from an associate and related parties, pledged bank deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9) *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest and principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or redemption at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, if any, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(d) Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to a shareholder, related parties and non-controlling interests, and corporate bonds payable) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of available-for-sale financial asset, the cumulative gain or loss previously accumulated in reserves is reclassified to profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses, if any.

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

Buildings	20 – 30 years
Leasehold improvements	The shorter of the lease term and their useful life of 3 – 10 years
Machinery and equipment	5 – 10 years
Furniture and other office equipment	3 – 10 years
Motor vehicles	4 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful lives of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses. Cost comprises direct costs of construction during the construction period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the asset is substantially completed and ready for its intended use. No depreciation is provided in respect of construction in progress.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(f) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful lives is finite) and impairment losses, if any. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives from the date they are available for use and their estimated useful lives are as follows:

Patent	14 – 20 years
Computer software	5 – 20 years

Both the period and method of amortisation are reviewed annually.

(g) Leases

Definition of a lease

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

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(g) Leases *(Continued)*

The Group as a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of property, plant and equipment, and land that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

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

Right-of-use assets

The cost of right-of-use asset includes:

– the amount of the initial measurement of the lease liability;

– any lease payments made at or before the commencement date, less any lease incentives 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 assets, 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.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and are initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(g) Leases *(Continued)*

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments includes:

– fixed payments (including in-substance fixed payments) less any lease incentives receivable;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable by the Group under residual value guarantees;

– the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and

– payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

– the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

– the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(g) ***Leases*** *(Continued)*

The Group as a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

– the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

– the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

The Group as a lessor

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the leases transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured using fair value model.

Rental income which is derived from the Group's ordinary course of business is presented as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(h) Impairment of tangible and intangible assets (other than goodwill and financial assets)

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the tangible and intangible assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

– Property, plant and equipment;

– Prepaid land lease payments;

– Property development project;

– Intangible assets;

– Investment in associate;

– Other non-current assets; and

– Prepayments and deposits paid.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition and reversal of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior reporting periods. Reversals of impairment losses are credited to profit or loss in the reporting period in which the reversals are recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(i) Inventories

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

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

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

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement benefits

The entities within the Group in Mainland China (the "People's Republic of China" or "PRC") participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The cost of all these schemes is charged to profit or loss of the Group for the reporting period concerned and the assets of all these schemes are held separately from those of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(k) Employee benefits *(Continued)*

(iii) Share-based payments

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

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

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(l) Income tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(l) Income tax (Continued)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(l) Income tax (Continued)

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

– the same taxable entity; or

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

(m) Provisions and contingent liabilities

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

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

(n) Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(n) Revenue from contracts with customers *(Continued)*

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(o) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(p) Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(q) Related parties

(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 the Group's parent.

(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 parent, 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.

(vi) The entity is controlled or jointly controlled by a person identified in note 3(q)(a).

(vii) A person identified in note 3(q)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements *(Continued)*

(r) Segment reporting

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) Impairment of property, plant and equipment, right-of-use assets, investments in associates, property development project, other intangible assets, other non-current assets and prepayments and deposits paid (aggregate carrying amount: RMB383,001,000 (2019: RMB501,862,000))

If circumstances indicate that the carrying amounts of property, plant and equipment, right-of-use assets, investments in associates, property development project, other intangible assets, other non-current assets and prepayments and deposits paid may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amounts to the recoverable amount in accordance with the accounting policy for impairment of these assets as described in note 3(h). The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgment relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying amounts of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(b) Impairment of trade and other receivables and amounts due from related parties (aggregate carrying amount: RMB82,065,000 (2019: RMB373,825,000))

The Group estimates the provision for impairment of trade and other receivables and amounts due from related parties by assessing the recoverability based on credit history, ageing of the receivables balance and prevailing market conditions. The impairment losses are also determined based on expected credit loss provisioning method which requires management's estimates and judgments. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed.

(c) Assessment of useful lives of property, plant and equipment (carrying amount: RMB40,910,000 (2019: RMB51,642,000))

The Group estimates the useful lives of property, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of the related assets, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation charges and decrease the carrying amount of such assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(d) Net realisable value of inventories (carrying amount: RMB17,950,000 (2019: RMB14,849,000))

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling the products with similar nature. Any change in the market conditions and management's experience would increase or decrease the write-down of inventories or the related reversals of write-down made in prior periods.

(e) Recognition of deferred tax assets (carrying amount: RMB4,640,000 (2019: RMB6,312,000))

Deferred tax assets are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires a significant level of judgment exercised by the management. Any change in such assumptions and judgment would affect the profit in future years and hence the carrying amounts of deferred tax assets recognised.

5. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are pharmaceutical distribution, self-operated retail pharmacies and manufacture of pharmaceutical products in the PRC.

Revenue represents the sales value of goods supplied to customers (which is recognised on the basis of "at a point in time"). The revenue of each significant segment is as follows:

	2020 **RMB'000**	2019 RMB'000
Pharmaceutical distribution	**447,106**	798,490
Self-operated retail pharmacies	**–**	1,255
Pharmaceutical manufacturing	**27,729**	45,703
	474,835	845,448

(b) Segment reporting

The Group manages its business by business lines and distribution channels. In a manner consistent with the way in which information is reported internally to the executive directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Pharmaceutical distribution: this segment generates revenue primarily from sales of pharmaceutical products to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.

Self-operated retail pharmacies: this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.

Pharmaceutical manufacturing: this segment generates revenue primarily from sales of pharmaceutical products manufactured by the Group.

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	Year ended 31 December 2020							
	Pharmaceutical distribution							
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Others RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	376,369	31,108	39,277	354	447,108	–	27,727	474,835
Inter-segment revenue	–	585	–	–	585	–	207	792
Reportable segment revenue	376,369	31,693	39,277	354	447,693	–	27,934	475,627
Reportable segment profit/(loss)	(141)	2,563	3,423	211	6,056	–	11,639	17,695
Other segment information								
Depreciation and amortisation	–	–	–	–	–	–	112	112

	Year ended 31 December 2019							
	Pharmaceutical distribution							
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Others RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	690,859	39,218	58,905	9,508	798,490	1,255	45,703	845,448
Inter-segment revenue	–	–	–	–	–	–	291	291
Reportable segment revenue	690,859	39,218	58,905	9,508	798,490	1,255	45,994	845,739
Reportable segment profit	8,823	2,027	9,135	1,565	21,550	(463)	20,833	41,920
Other segment information								
Depreciation and amortisation	–	–	–	–	–	–	114	114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment revenue and results *(Continued)*

Revenue and expenses are allocated to the reportable segments with reference to sales generated by and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

(ii) Reconciliations of reportable segment revenue and segment profit or loss

	2020 RMB'000	2019 RMB'000
Revenue		
Reportable segment revenue	**475,627**	845,739
Elimination of inter-segment revenue	**(792)**	(291)
Consolidated revenue	**474,835**	845,448
Loss		
Reportable segment profit	**17,695**	41,920
Elimination of inter-segment loss	**2**	12
Gross profit derived from external customers	**17,697**	41,932
Other income and gains	**16,991**	22,285
Other net losses	**(414,576)**	(197,289)
Selling and distribution expenses	**(8,085)**	(10,976)
General and administrative expenses	**(26,268)**	(35,229)
Finance costs	**(11,520)**	(11,855)
Share of profit of associate	**–**	650
Consolidated loss before tax	**(425,761)**	(190,482)
Other items		
Depreciation and amortisation		
Reportable segment total	**112**	114
Unallocated total	**6,974**	7,161
Consolidated total	**7,086**	7,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Revenue from individual customers contributing over 10% of the total revenue of the Group is as follows:

	2020 **RMB'000**	2019 RMB'000
Revenue generated from pharmaceutical distribution		
Customer A	**194,187**	135,331
Customer B	**79,206**	N/A
Customer C	**N/A**	107,706
Customer D	**N/A**	86,870

Revenue from each of the Customer C and Customer D for the year ended 31 December 2020 did not contribute 10% or more to the Group's revenue for this year respectively.

Revenue from customer B for the year ended 31 December 2019 did not contribute 10% or more to the Group's revenue for that year.

The Group's segment revenue and segment profit were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC for the years ended 31 December 2020 and 2019 and the principal assets employed by the Group were located in the PRC as at 31 December 2020 and 2019. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2020 and 2019.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision makers for review during the years ended 31 December 2020 and 31 December 2019 for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. OTHER INCOME AND GAINS AND OTHER NET LOSSES

(a) Other income and gains

	2020 RMB'000	2019 RMB'000
Franchise fee	**3,357**	8,155
Bank interest income	**45**	49
Interest income from other receivables *(note 23(c))*	**3,099**	576
Gain on disposal of property, plant and equipment	**–**	9
Gain on disposal of subsidiary *(note 40(a))*	**5,908**	5,516
Write-off of trade payables	**–**	172
Write-off of other payables	**–**	1,215
Reversal of write-off of other payables	**(541)**	(583)
Net foreign exchange gains	**57**	571
Royalty fee income	**4,000**	4,000
Deferred income – government grant *(note 33)*	**512**	512
Others	**554**	2,093
	16,991	22,285

(b) Other net losses

	2020 RMB'000	2019 RMB'000
Impairment loss on:		
Inventories	**–**	463
Trade receivables *(note 23(a)(ii))*	**242,887**	118,469
Other receivables *(note 23(c))*	**62,407**	7,193
Prepayments and deposits paid *(note 24)*	**102,237**	74,501
Intangible assets *(note 18)*	**–**	4,090
Property, plant and equipment *(note 14)*	**7,200**	–
Investments in associates	**6,088**	–
Reversal of impairment loss on:		
Trade receivables *(note 23(a)(ii))*	**(6,263)**	(8,288)
Other receivables *(note 23(c))*	**–**	(1,234)
Write-off of property, plant and equipment	**20**	179
Loss on disposal of associate	**–**	1,916
	414,576	197,289

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on:		
Bank borrowings	**671**	1,242
Corporate bonds payable	**10,664**	10,421
Lease liabilities	**87**	85
Other borrowings	**98**	107
	11,520	11,855

8. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	2020 RMB'000	2019 RMB'000
Cost of inventories *(note i)*	**457,138**	803,516
Salaries, wages and other benefits	**11,002**	12,156
Contributions to defined contribution retirement plans	**342**	580
Total staff costs *(note ii)*	**11,344**	12,736
Amortisation of intangible assets	**2,614**	2,140
Depreciation of property, plant and equipment	**2,909**	3,517
Depreciation of right-of-use assets	**1,393**	1,594
Amortisation of prepaid land lease payments	**–**	–
Auditors' remuneration		
Audit services	**1,182**	1,305
Non-audit services	**160**	220

Notes:

(i) Cost of inventories includes staff costs and depreciation expenses totalled RMB1,069,000 (2019: RMB738,000) which are also included in the respective total amounts disclosed separately above.

(ii) The total staff costs include directors' emoluments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. INCOME TAX (CREDIT)/EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax		
PRC Enterprise Income Tax	**(7,275)**	5,112
Deferred tax		
Origination and reversal of temporary differences	**703**	(2,195)
	(6,572)	2,917

Notes:

(i) The Group is subject to income tax on an entity based on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

(ii) Pursuant to rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(iii) No provision for Hong Kong Profits Tax has been made in the unaudited consolidated statement of profit or loss as the Group has no assessable profits arising in Hong Kong for both of the years presented.

(iv) Except for Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("Chengdu Pashun"), the Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% (2019: 25%).

Having applied for preferential income tax treatment under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy, Chengdu Pashun, a wholly-owned subsidiary of the Company, obtained the approval from local tax authority and is entitled to a preferential income tax rate of 15% for the period from 1 January 2011 to 31 December 2020.

No provision for PRC Enterprise Income Tax was recognised for the current year as the Group has no profit for the year which are assessable to the PRC tax. The credit to PRC Enterprise Income Tax for the current year represents overprovision for the PRC tax in prior years.

The income tax expense can be reconciled to loss before tax as per the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Loss before tax	**(425,761)**	(190,484)
Tax charge on loss before tax, calculated at the statutory tax rates applicable in the jurisdictions concerned	**(99,277)**	(45,215)
Effect of non-deductible expenses	**109,915**	48,170
Effect of non-taxable income	**(6,622)**	(175)
Effect of unused tax losses/deductible temporary differences not recognised	**(3,301)**	137
Overprovision in respect of prior years	**(7,287)**	–
Income tax (credit)/expense	**(6,572)**	2,917

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

An analysis of the directors' emoluments by individual directors is as follows:

For the year ended 31 December 2020

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Chen Yenfei *(Chairman and Chief Executive Officer) (note c)*	320	–	–	320
Shen Shun	–	184	22	206
Non-executive directors				
Zhang Xiongfeng	45	–	–	45
Hu Haisong *(note a)*	–	–	–	–
Wu Guohua *(note b)*	–	–	–	–
Independent non-executive directors				
Liu Liangzhong *(note d)*	45	–	–	45
Wong Tak Shing *(note e)*	80	–	–	80
Lu Yongchao *(note f)*	64	–	–	64
	554	184	22	760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

For the year ended 31 December 2019

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Chen Yenfei *(Chairman and Chief Executive Officer) (note c)*	–	635	–	635
Shen Shun	–	178	20	198
Chen Rongxin	–	85	–	85
Non-executive directors				
Zhang Xiongfeng	44	–	–	44
Hu Haisong *(note a)*	44	–	–	44
Wu Guohua *(note b)*	44	–	–	44
Independent non-executive directors				
Liu Liangzhong *(note d)*	–	50	–	50
Wong Tak Shing *(note e)*	159	–	–	159
Lu Yongchao *(note f)*	127	–	–	127
	418	948	20	1,386

Notes:

(a) Hu Haisong was appointed as a non-executive Director on 20 May 2019.

(b) Wu Guohua was appointed as a non-executive Director on 20 May 2019.

(c) Chen Yenfei was vacated from the office of the Chairman of the Board and an executive director and ceased to be the Chief Executive Officer of the Company on 18 June 2020.

(d) Liu Liangzhong resigned as an independent non-executive director on 1 February 2021.

(e) Wong Tak Shing retired as an independent non-executive director on 31 July 2020.

(f) Lu Yongchao resigned as an independent non-executive director on 1 October 2020.

During the two years ended 31 December 2020 and 2019, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 11 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any emoluments for the two years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five employees of the Group with the highest emoluments, two (2020: two) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the remaining three (2019: three) individuals are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries and other emoluments	**537**	522
Retirement scheme contributions	**22**	32
Equity-settled share-based payments	**–**	–
	559	554

The emoluments of the above individuals with the highest emoluments are within the following bands:

	2020 **Numbers of individuals**	2019 Numbers of individuals
Nil to HK$1,000,000 (equivalent to RMB889,000) (2019: equivalent to RMB882,000)	**3**	3
HK$1,000,001 (equivalent to RMB889,001) (2019: equivalent to RMB882,001) to HK$1,500,000 (equivalent to RMB1,334,000) (2019: equivalent to RMB1,323,000)	**–**	–

12. DIVIDENDS

No dividend was paid, declared or proposed during the year ended 31 December 2020 (2019: Nil) nor had any dividend been proposed since the end of the reporting period (2019: Nil).

13. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of RMB418,454,000 (2019: RMB193,721,000) and the weighted average of approximately 1,474,993,000 ordinary shares (2019: 1,448,003,000 ordinary shares) in issue during the year.

(b) Diluted loss per share

Weighted average number of ordinary shares

The computation of diluted loss per share does not assume the exercise of the Company's share options granted because the exercise price of those share options was higher than the average market price of shares for both of the years presented.

Diluted loss per share for the year ended 31 December 2020 and 31 December 2019 is not presented as there were no other potential ordinary shares in issue for both of these years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2019	56,954	4,843	11,091	14,167	2,906	3,239	93,200
Additions	–	–	–	28	–	64	92
Disposal of subsidiary	(2,920)	–	–	(2)	–	–	(2,922)
Disposals/write-off	–	–	(387)	(555)	(581)	–	(1,523)
At 31 December 2019 and 1 January 2020	54,034	4,843	10,704	13,638	2,325	3,303	88,847
Additions	–	–	8	9	–	63	80
Disposal of subsidiary	–	–	–	(9,920)	–	–	(9,920)
Disposals/write-off	–	–	(3)	(15)	(207)	–	(225)
At 31 December 2020	54,034	4,843	10,709	3,712	2,118	3,366	78,782
Accumulated depreciation and impairment							
At 1 January 2019	13,827	2,674	3,193	12,848	2,632	–	35,174
Depreciation for the year	2,430	718	85	284	–	–	3,517
Disposal of subsidiary	(153)	–	–	(37)	(5)	–	(195)
Eliminated on disposals/write-off	–	–	(343)	(550)	(398)	–	(1,291)
At 31 December 2019 and 1 January 2020	16,104	3,392	2,935	12,545	2,229	–	37,205
Depreciation for the year	2,430	351	83	215	–	–	3,079
Impairment loss recognised for the year *(note b)*	–	–	7,200	–	–	–	7,200
Disposal of subsidiary	–	–	–	(9,407)	–	–	(9,407)
Eliminated on disposals/write-off	–	–	(1)	(6)	(198)	–	(205)
At 31 December 2020	18,534	3,743	10,217	3,347	2,031	–	37,872
Carrying amount							
At 31 December 2020	**35,500**	**1,100**	**492**	**365**	**87**	**3,366**	**40,910**
At 31 December 2019	37,930	1,451	7,769	1,093	96	3,303	51,642

Notes:

(a) The Group's buildings are located on leasehold land in the PRC.

(b) In prior years, the Group acquired certain machinery and equipment for the purchase cost of RMB7,200,000, such machinery and equipment were intended for the production which was yet to be re-considered by the Group's management. In view of the uncertainty regarding the Group's commercial production and the expected selling price on disposal of the relevant machinery and equipment, management considers it appropriate to recognize impairment loss amounted to RMB7,200,000 (2019: Nil) which was charged to profit or loss in respect of the current year (note 6(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. RIGHT-OF-USE ASSETS

	Leased land RMB'000 *(Note a)*	**Leased properties** RMB'000 *(Note b)*	**Total** RMB'000
Arising from adoption of HKFRS 16			
– recognition of right-of-use assets and lease liabilities	–	2,478	2,478
– transferred from prepaid land lease payments	2,380	–	2,380
Carrying amount at 1 January 2019	2,380	2,478	4,858
Depreciation provided for the year ended 31 December 2019	(59)	(1,535)	(1,594)
Disposal of subsidiary	(206)	–	(206)
Exchange difference	–	2	2
Carrying amount at 31 December 2019	2,115	945	3,060
New leases entered during the year ended 31 December 2020	–	2,522	2,522
Depreciation provided for the year ended 31 December 2020	(63)	(1,330)	(1,393)
Exchange difference	–	(1)	(1)
Carrying amount at 31 December 2020	2,052	2,136	4,188

Notes:

(a) The leased land represents prepaid land lease payments in respect of land located in the PRC. Such leased land is amortised over the periods ranging from 20 to 50 years.

(b) The Group is the lessee in respect of the Group's offices and warehouses under operating leases. The leases typically run for an initial period of 1 to 3 years with an option to renew when all terms are renegotiated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. INTERESTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Unlisted associates		
Cost of investments	**48,956**	50,587
Share of post-acquisition loss/profits and other comprehensive income	**(7)**	(7)
Impairment loss recognised	**(6,068)**	–
	42,881	50,580

Movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**50,580**	9,382
Acquisition of associates	**–**	50,587
Share of profits for the year	**–**	650
Disposal of an associate	**–**	(10,039)
Impairment loss recognised for the year *(note 6(b))*	**(6,088)**	–
Exchange difference	**(1,611)**	–
At 31 December	**42,881**	50,580

Particulars of the associates of the Group are as follows:

Name	Place of establishment/ registration and operations	Proportion equity interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		2020	2019	**2020**	2019	
Awesome Applause Sdn. Bhd. ("Awesome Applause") *(note i)*	Malaysia	**49%**	49%	**49%**	49%	Property investment
Massive Goodwill Sdn. Bhd. ("Massive Goodwill") *(note i)*	Malaysia	**49%**	49%	**49%**	49%	Property investment
Chengdu Pashun Pharmacy Chain Store Co. Ltd. 成都百信藥業連鎖有限責任公司 ("Pashun Pharmacy") *(note ii)*	PRC	**49%**	N/A	**49%**	N/A	Medicine chain store operation and management

Notes:

(i) The principal assets of Awesome Applause and Massive Goodwill are property units in Malaysia, details of which are set out in note 39(a) and 39(b) respectively. The directors of the Company conducted assessments of the recoverable amounts of the investments in associates with reference to the valuations of these property units conducted by an independent firm of professional valuers with recognised qualifications and experiences, using the market-based approach methodology. Based on the assessments, in the opinion of the directors of the Company, the estimated recoverable amounts of the investments in associates were approximate or lower than their respective carrying amounts and therefore, an impairment loss amounted to approximately RMB6,068,000 was recognised to profit or loss for the year ended 31 December 2020 (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(ii) During the current year, a former subsidiary, Pa Shun Pharmacy became a 49% equity owned associate of the Group, details of which are set out in note 40. The fair value of the retained 49% equity interest in Pashun Pharmacy was estimated to be insignificant and was not included in the Group's interests in associates.

The interests in associates are accounted for using the equity method in these consolidated financial statements.

The following table illustrate the summarised financial information and the reconciliation of the summarised information to the carrying amount in the consolidated financial statements:

	31 December 2020				31 December 2019		
	Pa Shun Pharmacy RMB'000	**Awesome Applause RMB'000**	**Massive Goodwill RMB'000**	**Total RMB'000**	Awesome Applause RMB'000	Massive Goodwill RMB'000	Total RMB'000
Non-current assets	**2,761**	**67,735**	**26,398**	**94,133**	85,478	26,804	112,282
Current assets	**2,120**	**2**	**2**	**4**	2	2	4
Current liabilities	**(35,320)**	**(13)**	**(13)**	**(26)**	(13)	(13)	(26)
Non-current liabilities	**–**	**(4,983)**	**(1,615)**	**(6,598)**	(7,736)	(1,299)	(9,035)
Net (liabilities)/assets	**(30,439)**	**62,741**	**24,772**	**87,513**	77,731	25,494	103,225

	Year ended 31 December 2020			
	Pa Shun Pharmacy 1 October 2020 to 31 December 2020 RMB'000	**Awesome Applause RMB'000**	**Massive Goodwill RMB'000**	**Total RMB'000**
Revenue	**–**	**–**	**–**	**–**
Loss before tax	**(371)**	**–**	**–**	**(371)**
Loss and total comprehensive loss for the year	**(383)**	**–**	**–**	**(383)**
Reconciliation of the Group's ownership	**49% (lost control on 30 September 2020)**	**49%**	**49%**	
Group's share of net assets of the associate	**–**	**30,743**	**12,138**	**42,881**
Carrying amount of the investment	**–**	**30,743**	**12,138**	**42,881**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. INTERESTS IN ASSOCIATES *(Continued)*

	Year ended 31 December 2019			
	Te Lun, 1 January 2019 to 28 June 2019	**Awesome Applause 19 March 2019 to 31 December 2019**	**Massive Goodwill 12 April 2019 to 31 December 2019**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	31,408	–	–	31,608
Profit/(loss) before tax	7,733	(14)	–	7,719
Income tax expense	1,160	–	–	1,160
Profit and total comprehensive income for the period	6,573	(14)	–	6,559
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's ownership	10% (wholly disposed of on 28 June 2019)	49%	49%	
Group's share of net assets of the associate	–	38,088	12,492	50,580
Carrying amount of the investment	–	38,088	12,492	50,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. GOODWILL

	2020 RMB'000	2019 RMB'000
Cost		
At 1 January	–	5,942
Eliminated on disposal of subsidiary *(note 40)*	–	(5,942)
At 31 December	–	–
Accumulated impairment losses		
At 1 January	–	–
Eliminated on disposal of subsidiary *(note 40)*	–	–
At 31 December	–	–
Carrying amount		
At 31 December	–	–

Impairment tests for cash-generating units containing goodwill

The cost of goodwill is allocated to the Group's cash-generating units ("CGUs") identified as follows:

	2020 RMB'000	2019 RMB'000
Yanchi County Medical & Pharmaceutical Herbal Co., Ltd. (鹽池縣醫藥藥材有限公司) ("Yanchi")	–	–

Goodwill arising from the acquisition of Yanchi in relation to growing, processing and sale of biological assets

The goodwill of RMB5,942,000 at 31 December 2018 arose from the acquisition of Yanchi during the year ended 31 December 2017.

During the year ended 31 December 2019, the Group disposed of its subsidiary, Yanchi, and the goodwill attributable to Yanchi was transferred out and formed part of the carrying amount of the subsidiary disposed. Details of the disposal of the subsidiary are set out in note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS

(a) Other intangible assets

	Patent	Computer software	Total
	RMB'000	RMB'000	RMB'000
	(Note (i))	*(Note (ii))*	
Cost			
At 1 January 2019	2,000	1,864	3,864
Additions	35,000	–	35,000
At 31 December 2019 and 1 January 2020	37,000	1,864	38,864
Disposal of a subsidiary	–	(627)	(627)
At 31 December 2020	37,000	1,237	38,237
Accumulated amortisation and impairment			
At 1 January 2019	2,000	978	2,978
Amortisation for the year	2,012	152	2,164
Impairment loss recognised for the year	4,090	–	4,090
At 31 December 2019 and 1 January 2020	8,102	1,130	9,232
Amortisation for the year	2,478	136	2,614
Disposal of a subsidiary	–	(286)	(286)
At 31 December 2020	10,580	980	11,560
Carrying amount			
At 31 December 2020	26,420	257	26,677
At 31 December 2019	28,898	734	29,632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS *(Continued)*

(a) Other intangible assets *(Continued)*

Notes:

(i) During the year ended 31 December 2019, the Group acquired three patents for an aggregate consideration of RMB35,000,000 from an independent third party, 武漢好多多生物科技有限公司 ("Wuhan Hao Duo Duo") during the current year. These patents are "一種適合腎臟病人食用面製品及其加工方法", "一種脫蛋大米加工方法" and "一種適合腎臟病人食用再制米及其加工方法". Under the agreement for the acquisition, the Group is entitled to exclusively use these patents for the period commencing from 27 February 2019 to 3 May 2033 and 30 October 2033 ("Patent Period") and the Group licenced such patents to Wuhan Hao Duo Duo over the Patent Period for receipt of royalty fee of RMB4,000,000 per annum.

The patents acquired during the current year were amortised on a straight line basis over the Patent Period and the carrying amount of the patents at 31 December 2020 will be amortised over the remaining useful lives of 13 years (2019: 14 years).

(ii) Included in computer software is the right to use electronic platform of Tianfu Mercantile Exchange Company Limited for 10 years commencing from 15 January 2016 with the carrying amount of RMB2,397,000 at 31 December 2017.

The carrying amount of computer software will be amortised over the remaining useful lives ranged from 1 to 7 years (2019: 1 to 8 years).

(iii) The amortisation charges of RMB2,614,000 (2019: RMB2,164,000) are included in "general and administrative expenses" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS *(Continued)*

(b) Prepayments for intangible assets

	2020 RMB'000	2019 RMB'000
Prepayments for patented technology *(note)*		
Cost	**20,000**	20,000
Impairment loss recognised	**(20,000)**	(20,000)
Carrying amount	**–**	–

Movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**–**	17,000
Impairment loss recognised for the year *(note 6(b))*	**–**	(17,000)
At 31 December	**–**	–

Note:

In 2014, the Group entered into a technology cooperation agreement with Beijing Runbofude Biotechnology Co., Ltd. ("Beijing Runbofude"), an independent third party, to acquire a patented technology from Beijing Runbofude for a ten-year period from 1 January 2014 to 31 December 2023 at a consideration of RMB20,000,000.

On 28 July 2014, by way of a supplementary agreement, the commencement date of the ten-year period was changed from 1 January 2014 to the date on which the installation and testing of production plant and equipment was approved by Beijing Runbofude.

Up to the date of approval of these consolidated financial statements, the installation and testing of production plant and equipment was not yet approved by Beijing Runbofude.

Management of the Group conducted a review of the commercial viability of the patented technology and of the view that the products attributable to this technology cannot be marketable. Accordingly, impairment losses on the intangible assets amounted to RMB17,000,000 and RMB3,000,000 were recognised in profit or loss in the prior years ended 31 December 2019 and 31 December 2018 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 **RMB'000**	2019 RMB'000
Unlisted investment		
Cost of investment	–	25,000
Loss on change in fair value	–	(22,000)
Fair value at 31 December	–	3,000

During the prior year ended 31 December 2019, the Group acquired 5% equity interest in a PRC entity, 武漢太福製藥有限公司 (for identification purpose only, Wuhan Taifu Pharmaceutical Co. Ltd.) ("Wuhan Taifu"), from an independent third party (the "Vendor") for a consideration of RMB25,000,000. Wuhan Taifu is principally engaged in manufacturing of Chinese medicine in the PRC. Such investment in Wuhan Taifu was accounted for as a financial assets at fair value through other comprehensive income in the consolidated financial statements.

The fair value of the unlisted investment at 31 December 2019 was estimated based on the present value of the future cash flow forecast as valued by an external valuer. Details of the key assumptions adopted for the valuation are as follows:

	31 December 2019
Discount rate	16.18%
Terminal growth rate	3%
Tax rate	15%
Expected growth rate in revenue	3% to 30%

The loss on change in fair value amounted to RMB22,000,000 was recognised in investment revaluation reserve for the prior year ended 31 December 2019.

On 26 May 2020, the Group disposed of its 5% unlisted equity interest in Wuhan Taifu to the Vendor for a consideration of RMB3,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. PROPERTY DEVELOPMENT PROJECT

	2020 RMB'000	2019 RMB'000
Property development project in the PRC, at cost	**185,797**	185,797

As at 1 January 2019, 31 December 2019 and 31 December 2020, the Group had payments to a third party, Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming"), amounted to approximately RMB185,797,000 for the property development project of a logistic centre in the PRC. The land use rights of the land of the property development project is currently registered in the name of a subsidiary of the Company and Chengdu Yiming. It is the understanding of the management of the Group and Chengdu Yiming that the development costs of the property development project, including any land premium of the land for the project arising from change of land usage, are financed as to 30% and 70% by the Group and Chengdu Yiming respectively and the subsidiary and Chengdu Yiming are entitled to share 30% and 70% the ownership of the land used for the property development project and the properties after the completion of development.

During the prior year ended 31 December 2019, the negotiation with the PRC local government regarding the land premium and other terms for the change of land usage of the land for the property development project had been finalized. The licence for the construction was obtained and the construction commenced afterwards.

On 9 March 2021, the subsidiary of the Company, Chengdu Yimming and a PRC registered company "Zhongnan Fanhua Construction (Hubei) Co., Ltd.*"("Fanhua") have signed and agreement for the new arrangement for the property development project.

Under this agreement, the subsidiary of the Company remains its 30% interest for the project, Chengdu Yimming entrusts Fanhua to exercise the shareholders' equity on behalf of Chengdu Yimming to the end of the project. Therefore from the date of the agreement, Chengdu Yimming no longer has the project shareholder rights corresponding to the transfer of equity and no longer fulfills the part of the shareholder's obligations and Fanhua enjoys the shareholder rights of the project's shareholding part and needs to perform the shareholder obligations.

Fanhua will be responsible for financing the construction of the project, and Fanhua should prepare the construction funds according to the actual construction progress. At the date of the agreement, the expected further costs to complete the project is around RMB300 million and Fanhua's upfront investment of RMB205 million is used for the initial project construction fund, and the other funds are financed by the project itself.

The project is expected to be completed within 450 natural days after Fanhua participates to the project, and is expected to obtain a pre-sale permit before October 2021 to start pre-sales. Fanhua and the subsidiary of the Company will share the project sales profit at a ratio of 70:30.

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21. OTHER NON-CURRENT ASSETS

	2020	2019
	RMB'000	RMB'000
Deposits paid for acquisition of property, plant and equipment	**–**	1,972

22. INVENTORIES

	2020	2019
	RMB'000	RMB'000
Raw materials	**7,669**	6,823
Work in progress	**1,934**	2,029
Finished goods	**8,297**	5,948
Consumables	**50**	49
	17,950	14,849

23. TRADE AND OTHER RECEIVABLES

	2020	2019
	RMB'000	RMB'000
Trade and commercial bills receivables	**53,521**	291,586
Bank bills receivables	**1,427**	1,494
Other receivables	**27,032**	80,660
	81,980	373,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Trade and commercial bills receivables

(i) Ageing analysis of trade and commercial bills receivables

As at the end of the reporting period, the ageing analysis of trade and commercial bills receivables, based on dates of goods delivery and net of allowance for doubtful debts, is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 month	**3,837**	9,380
1 to 3 months	**8,236**	30,709
4 to 6 months	**29,469**	69,398
Over 6 months	**11,979**	182,099
	53,521	291,586

An average credit period of 30 to 180 days is granted by the Group to its customers.

(ii) Impairment loss on trade and commercial bills receivables

	2020 RMB'000	2019 RMB'000
Trade and commercial bills receivables		
– Gross amount	**413,248**	414,905
– Allowance for doubtful debts	**(359,727)**	(123,319)
– Amount net of allowance for doubtful debts	**53,521**	291,586

Impairment losses in respect of trade and commercial bills receivables are recorded using an allowance account unless the Group considers that recovery of the amount is remote, in which case the impairment loss is written off against trade and commercial bills receivables directly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(a) Trade and commercial bills receivables *(Continued)*

(ii) Impairment loss on trade and commercial bills receivables *(Continued)*

Movements of the allowance for doubtful debts are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	**123,319**	28,578
Eliminated on disposal of a subsidiary	**(216)**	–
Impairment losses recognised *(note 6(b))*	**242,887**	118,469
Reversal of impairment losses *(note 6(b))*	**(6,263)**	(8,288)
Uncollectible amounts written off	**–**	(15,440)
At 31 December	**359,727**	123,319

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade and commercial bills receivables relate a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and commercial bills receivables balances. Trade and commercial bills receivables are non-interest-bearing.

An analysis of the impairment loss on trade receivables of the Group is set out in note 43(a).

(iii) Trade and commercial bills receivables that are not impaired

An ageing analysis of trade and commercial bills receivables based on the dates of goods delivery that are neither individually nor collectively considered to be impaired is as follows:

	2020 RMB'000	2019 RMB'000
Not past due	**37,758**	94,029
Less than 1 month past due	**4,238**	32,976
1 to 3 months past due	**5,370**	116,445
4 to 6 months past due	**3,360**	35,076
Over 6 months past due	**2,795**	13,060
	15,763	197,557
	53,521	291,586

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(b) Bank bills receivables

The bank bills receivables is aged within 180 days (2019: 180 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Other receivables

	2020 RMB'000	2019 RMB'000
Gross other receivables	**89,439**	87,853
Less: impairment losses recognized on		
– consideration receivable *(note i)*	**30,000**	–
– other taxes recoverable *(note ii)*	**20,105**	–
– sundry receivables *(note iii)*	**12,302**	7,193
	62,407	7,193
	27,032	80,660

An analysis of other receivables after impairment losses recognised, is as follows:

	2020 RMB'000	2019 RMB'000
Other taxes recoverable	**1,737**	22,342
Consideration receivable for disposal of a subsidiary *(note (i))*	**–**	26,902
Consideration receivable for disposal of other intangible assets *(note 18(a))*	**2,934**	3,000
Royalty fee receivable	**8,000**	4,000
Sundry receivables	**14,361**	24,416
	27,032	80,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Other receivables *(Continued)*

Note:

(i) Pursuant to the agreement for disposal of the former subsidiary, Yanchi County Medical & Pharmaceutical Herbal Co., Ltd., during the prior year ended 31 December 2019, the consideration for disposal amounted to RMB10,000,000 and RMB20,000,000 are payable by the purchaser on or before 31 December 2019 and 31 December 2020 respectively. Such consideration for disposal totalled RMB30,000,000 remained unsettled up to 31 December 2020.

At initial recognition, the fair value of the consideration receivable was estimated to be RMB26,326,000 (Note 40(b)) using the effective interest rate of 11.52% per annum. The consideration receivable was subsequently measured at amortised cost with the carrying amount of RMB26,902,000 at 31 December 2019, using the effective interest rate of 11.52% per annum. The imputed interest income on the consideration receivable recognised in respect of the current year amounted to RMB3,099,000 (2019: RMB576,000), which was included in other income and gains (note 6(a)).

Having considered the financial position of the purchaser of the former subsidiary, management of the Group is of the view that the recoverability of the consideration receivable amounted to RMB30,000,000 cannot be assured beyond reasonable doubt, accordingly, considers it appropriate to recognise impairment loss on this receivable amounted to RMB30,000,000 (2019: Nil) which was charged to profit or loss in respect of the current year (Note 6(b)).

(ii) During the current year, management of the Group conducted review of the recoverability of the Group's other taxes recoverable, which mainly comprise input Value Added Tax paid by the Group, and is of the view that realization of substantial portion of the input Value Added Tax amounted approximately RMB20,105,000, which remained outstanding for a long period of time, cannot be assured beyond reasonable doubt. Accordingly, impairment loss on the taxes recoverable amounted to RMB20,105,000 (2019: Nil) was recognized in profit or loss in respect of the current year.

(iii) Included in sundry receivables at 31 December 2020 are receivables from certain third parties totalled RMB12,302,000 which remained outstanding for a considerably long period of time. Having considered the financial position of the related debtors, management of the Group is of the view that the recoverability of these other receivables cannot be assured beyond reasonable doubt, accordingly, considers it appropriate to recognise impairment loss on these receivables amounted to RMB12,302,000 (2019: Nil) which was charged to profit or loss in respect of the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. PREPAYMENTS AND DEPOSITS PAID

	2020 RMB'000	2019 RMB'000
Advance payments to suppliers *(note)*	71,679	169,735
Other deposits and prepayments	10,869	9,444
	82,548	179,179

Note:

The amount represents deposits paid to suppliers for purchases of goods in relation to the business undertaken by the Group. Management of the Group expects that a substantial portion of these purchases will be made within one year after the end of the reporting period.

During the current year, management of the Group performed assessments of the financial position of the suppliers and is of the view that recoverability of the advance payments made to certain suppliers amounted to RMB102,237,000 (2019: RMB32,501,000) cannot be assured beyond reasonable doubt, accordingly impairment loss amounted to RMB102,237,000 (2019: RMB32,501,000) was recognised on such advance payments which was included in other net losses (note 6(b)).

25. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Pledged bank deposits *(notes a, b and c)*	10,087	9,893
Cash and cash equivalents in the consolidated statement of financial position		
– Cash at banks and on hand	5,262	16,125
	15,349	26,018

Notes:

(a) Bank deposits amounted to RMB10,087,000 (2019: RMB9,893,000) have been pledged to banks for bills facilities of RMB19,978,000 (2019: RMB11,787,000) granted to the Group. These pledged bank deposits will be released upon the settlement of relevant bills payable.

(b) Cash at bank earned interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank deposits approximate their fair values.

(c) Cash and cash equivalents and pledged bank deposits placed with banks in the PRC totalled RMB5,199,000 (2019: RMB15,721,000) are denominated in Renminbi. Remittance of these funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Equity securities listed in Hong Kong, held for trading at fair value *(note 43(e))*	–	–

Trading of these equity securities has been suspended since 20 January 2016. In the opinion of the management of the Group, the fair value of such equity securities is minimal.

27. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables *(note (i))*	29,201	35,205
Bills payables	19,978	19,788
Lease liabilities	772	861
Salaries, wage and welfare payable	6,086	11,396
Contract liabilities *(note (ii))*	12,822	13,796
Accrued corporate bond interest	10,286	6,584
Other payables	24,666	24,349
	103,811	111,979

Notes:

(i) As at the end of the reporting period, the ageing analysis of trade payables, based on dates of goods delivery, is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 month	5,080	7,616
1 to 3 months	3,485	4,885
Over 3 months	20,636	22,704
	29,201	35,205

An average credit period of 30 to 180 days is granted by the suppliers to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. TRADE AND OTHER PAYABLES *(Continued)*

Notes: (Continued)

(ii) The Group received deposits from customers for sales of pharmaceutical products as provided in contracts which is regarded as contract liabilities.

The following table shows the amount of the revenue recognized in the current reporting period in relation to carried-forward contract liabilities:

	2020 **RMB'000**	2019 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**1,578**	7,103

28. BANK BORROWINGS

	2020 **RMB'000**	2019 RMB'000
Bank loans repayable within one year		
– secured by an associate and a third party company *(note a)*	**2,000**	–
– secured by guarantees given by a subsidiary and a substantial shareholder and properties held by that substantial shareholder and a third party *(note b(iv))*	**6,000**	6,000
	8,000	6,000

Notes:

(a) The bank loan outstanding carried interest at fixed interest rate of 4.55%.

(b) The bank loan outstanding carried interest at fixed interest rate of 8.50% per annum (2019: 8.59% per annum).

29. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is interest free, unsecured and repayable on demand. This shareholder is benefically owned by Mr. Chen Yenfei, the former chairman and the former executive director of the Company.

30. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates are interest free, unsecured and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. CORPORATE BONDS PAYABLE

	2020 RMB'000	2019 RMB'000
Carrying amount of corporate bonds due in:		
– 2019	**3,156**	3,635
– 2020	**22,183**	23,236
– 2021	**14,126**	14,324
– 2022	**2,789**	2,857
– 2023	**784**	796
– 2024	**29,527**	30,479
– 2025	**15,186**	15,687
	87,751	91,014
Payable		
– Within one year	**39,465**	26,871
– In the second to fifth years	**48,286**	64,143
– More than five years	**–**	–
	87,751	91,014
Analysed for reporting purposes as:		
Current liability	**87,751**	26,871
Non-current liability	**–**	64,143
	87,751	91,014
Movements in corporate bonds payable are as follows:		
At beginning of the year	**91,014**	87,410
Interest recognised as finance costs *(note 7)*	**8,394**	10,421
Accrued interest reclassified and included in trade and other payables *(note 27)*	**(4,943)**	(6,584)
Repayments during the year	**(889)**	(1,864)
Exchange realignment	**(5,825)**	1,631
At end of the year	**87,751**	91,014

At 31 December 2020, the corporate bonds with the principal amount of HK$111,900,000 (2019: HK$111,900,000) remained outstanding.

During the current year, the Group had not made repayments of principals and interests on certain corporate bonds, which resulted in the Group's failure to comply with certain covenants specified in the agreements for the corporate bonds. Accordingly, the corporate bonds are reclassified and included in current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Income tax (recoverable)/payable in the consolidated statement of financial position represents:

	2020 RMB'000	2019 RMB'000
PRC Enterprise Income Tax	(180)	8,695

Movements of the income tax (recoverable)/payable in the consolidated statement of financial position are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	8,695	13,930
Charge for the year	–	5,039
(Overprovision)/underprovision in respect of prior years	(7,275)	73
Released on disposal of a subsidiary	(1,483)	–
Tax paid during the year	(117)	(10,347)
At 31 December	(180)	8,695

(b) Deferred tax assets and deferred tax liabilities recognised:

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

	Fair value adjustment on business combination RMB'000	Provision for impairment RMB'000	Provision for accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	(7,932)	372	1,915	1,830	(3,815)
Disposal of subsidiary	7,932	–	–	–	7,932
Credited/(charged) to profit or loss	–	2,517	(38)	(284)	2,195
At 31 December 2019 and 1 January 2020	–	2,889	1,877	1,546	6,312
Disposal of subsidiary	–	(366)	(208)	(395)	(969)
Credited/(charged) to profit or loss	–	749	1	(1,453)	(703)
At 31 December 2020	–	3,272	1,670	(302)	4,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

32. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and deferred tax liabilities recognised: *(Continued)*

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2020 **RMB'000**	2019 RMB'000
Deferred tax assets, net	**4,640**	6,312

(c) Deferred tax assets and liabilities not recognised:

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profit earned by certain PRC subsidiaries to its direct holding company outside the PRC from 1 January 2008 onward. Deferred tax liabilities of RMB15,127,000 (2019: RMB28,162,000) was not provided for in the consolidated financial statements of the Group in respect of undistributed profits of relevant PRC subsidiaries amounted to RMB302,547,000 (2019: RMB588,506,000) as the management of the Company confirmed that profits generated by the relevant PRC subsidiaries from 1 January 2008 onward will not be distributed to its direct holding company outside the PRC in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses and other deductible temporary differences totalled approximately RMB16,452,000 (2019: RMBNil) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams. The tax losses will expire in one to five years after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. DEFERRED INCOME – GOVERNMENT GRANT

	2020 RMB'000	2019 RMB'000
At 1 January	**24,053**	24,565
Credited to profit or loss *(note 6(a))*	**(512)**	(512)
At 31 December	**23,541**	24,053

Deferred income of the Group mainly represents government compensation in respect of the exchange of land use rights with local government.

Such deferred income will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

34. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
– within one year	**772**	861
– within a period of more than one year but not more than two years	**1,403**	114
Total lease liabilities payable	**2,175**	975
Less: Amount due for settlement within twelve months included in trade and other payables *(Note 27)*	**772**	861
Amount due for settlement after twelve months shown under non-current liabilities	**1,403**	114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. SHARE CAPITAL

	Par value	Number of ordinary shares	Nominal amount of ordinary shares
	HK$	'000	HK$'000
Authorised:			
At 1 January 2019, 31 December 2019 and 31 December 2020	0.001	5,000,000	5,000

	Par value	Number of ordinary shares	Nominal amount of ordinary shares	Carrying amount
	HK$	'000	HK$'000	RMB'000
Issued and fully paid:				
At 1 January 2019	0.001	1,357,874	1,358	1,116
Issue of shares upon acquisition of subsidiaries *(Note)*	0.001	117,119	117	100
At 31 December 2019, 1 January 2020 and 31 December 2020	0.001	1,474,993	1,475	1,216

Notes:

On 19 March 2019 and 12 April 2019, the Company issued 82,409,000 and 34,709,818 new shares at share prices of HK$0.54 per share and HK$0.42 per share for the purpose of acquisitions of 100% equity interests of Bisan Parkwell Consultants Limited and Parkwell Services Consultants Limited respectively. The closing price of the shares of the Company on 19 March 2019 and 12 April 2019 are HK$0.54 per share and HK$0.42 per share respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted the share option scheme (the "Scheme") on 26 May 2015 for the purpose of rewarding certain eligible participants for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to early termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years commencing from 26 May 2015.

Eligible participants of the Scheme include (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to the Company or any of its subsidiaries; and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue.

Participants of the Scheme are required to pay the Company HK$1.0 upon acceptance of the grant within 28 days after the offer date. The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share. The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

Shares are issued and allotted upon the exercise of options. The Company has no legal or constructive obligations to repurchase or settle the options in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

36. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

No share options were granted under the Scheme during the year ended 31 December 2019 and 31 December 2020.

Movements in the number of share options during the years ended 31 December 2020 and 31 December 2019 are as follows:

	2020					2019				
	Weighted average exercise price HK$	Number of share options Directors '000	Employees '000	Others '000	Total '000	Weighted average exercise price HK$	Number of share options Directors '000	Employees '000	Others '000	Total '000
At 1 January	0.67	20,000	10,000	70,000	100,000	0.64	28,000	40,390	107,300	175,690
Lapsed during the year	–	–	–	–	–	(0.6)	(8,000)	(30,390)	(37,300)	(75,690)
At 31 December	0.67	20,000	10,000	70,000	100,000	0.67	20,000	10,000	70,000	100,000
Exercisable at the end of the year	0.67	20,000	10,000	70,000	100,000	0.67	20,000	10,000	70,000	100,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2020 Number of options '000	**Exercise price per share HK$**	**Exercise period**
100,000	**0.67**	**7 September 2018 to 25 May 2025**

2019 Number of options '000	Exercise price per share HK$	Exercise period
100,000	0.67	7 September 2018 to 25 May 2025

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK$0.67 (2019: HK$0.67) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 4.4 years (2019: 5.4 years).

At the end of the reporting period, the Company had 100,000,000 (2019: 100,000,000) share options outstanding under the Scheme. Exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 100,000,000 (2019: 100,000,000) additional ordinary shares of the Company which would give rise to the total gross proceeds of HK$67,000,000 for the year ended 31 December 2019.

Up to the date of approval of these consolidated financial statements, the Company had 100,000,000 share options outstanding under the Scheme, which represents approximately 6.8% of the Company's shares in issue as at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. RESERVES

	2020	2019
	RMB'000	RMB'000
Share premium *(note i)*	**691,882**	691,882
PRC statutory reserve *(note ii)*	**(9,386)**	33,157
Investment revaluation reserve *(note iii)*	**–**	(22,000)
Share option reserve *(note 36)*	**11,456**	11,456
Exchange reserve	**4,125**	(9,545)
Other reserve *(note iv)*	**(28,150)**	(26,534)
(Accumulated losses)/retained profits	**(393,161)**	17,851
	276,766	696,267

Notes:

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) PRC statutory reserve

Pursuant to the articles of association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at a 10% of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. When the balance of statutory reserve fund reaches 50% of registered capital of each relevant PRC subsidiary, any further appropriation is at the discretion of the shareholders of this subsidiary. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

(iii) Investment revaluation reserve

Investment revaluation reserve at 31 December 2019 represents loss on change in fair value of financial assets at fair value through other comprehensive income as stated in note 19.

(iv) Other reserve

Other reserve at 31 December 2020 amounted to RMB28,150,000 (2019: RMB26,534,000) comprises the following:

– the difference between the Company's cost of acquisition of the subsidiaries over the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired under common control.

– the amount arising from transactions with owners in their capacity as the equity owners.

– gain on disposal of partial interest in a subsidiary amounted to Nil (2019: RMB1,616,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

38. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance (Chapter 57 of the Laws of Hong Kong). The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group also participates in a state-managed retirement benefit scheme operated by the government of the PRC. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme. The subsidiaries are required to contribute certain portion of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

At 31 December 2020, there were no material forfeitures available to offset the Group's future contributions (2019: Nil).

39. ACQUISITION OF SUBSIDIARIES

Set out below are the acquisition of subsidiaries which the Group took place during the year ended 31 December 2019. The Group has not acquired any subsidiary during the year ended 31 December 2020.

(a) Acquisition of Bisan Parkwell Consultants Limited ("Bisan Parkwell")

On 8 March 2019, a subsidiary of the Company, Ready Gain Limited ("Ready Gain"), entered into an agreement with third parties (the "Vendor") for the acquisition of 100% equity interest in Bisan Parkwell for a consideration of HK$45,325,000. Completion of the acquisition took place on 19 March 2019 and the consideration for the acquisition was satisfied by the issue of 82,409,090 new shares of the Company. The fair value of the shares issued is estimated to be RMB38,090,000 at the date of issue, which is calculated based on the closing market price of the Company's shares at the issue date.

Bisan Parkwell, being an investment holding company, holds 49% equity interest in Awesome Applause Sdn. Bhd. ("Awesome Applause"), Pursuant to the acquisition agreement, the Group is in a position to exercise significant influence over Awesome Applause, Awesome Applause is regarded as an associate of the Company upon the completion of the acquisition.

Awesome Applause is a company incorporated in Malaysia with limited liability and is principally engaged in property investment. As at 31 December 2019, Awesome Applause has signed agreements for the purchase of 48 units of the properties located in Melaka, Malaysia for a consideration of MOP31,565,000 (equivalent to RMB51,955,000). These properties to be acquired by Awesome Applause are under construction. On 8 March 2019, Bisan Parkwell, Ready Gain and Awesome Applause signed a novation agreement under which 49% of the payment obligation for purchase of these properties is borne by the Vendor. In addition, on the same date, Awesome Applause signed a shareholder agreement with the major shareholder of Awesome Applause holding 51% of the equity interest of Awesome Applause that the shareholder will bear the remaining 51% payment obligation for purchasing these properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Parkwell Services Consultants Limited ("Parkwell Services")

On 3 April 2019, a subsidiary of the Company, Big Wish Global Limited ("Big Wish"), entered into an agreement with the Vendor for the acquisition of 100% equity interest in Parkwell Services for a consideration of HK$19,090,400. Completion of the acquisition took place on 12 April 2019 and the consideration for the acquisition was satisfied by the issue of 34,709,818 new shares of the Company. The fair value of the shares issued is estimated to be RMB12,501,000 at the date of issue, which is calculated based on the closing market price of the Company's shares at the issue date.

Parkwell Services, being an investment holding company, holds 49% equity interest in Massive Goodwill Sdn. Bhd. ("Massive Goodwill"), Pursuant to the acquisition agreement, the Group is in a position to exercise significant influence over Massive Goodwill, Massive Goodwill is regarded as an associate of the Company upon the completion of the acquisition.

Massive Goodwill is a company incorporated in Malaysia with limited liability and is principally engaged in property investment. As at 31 December 2019, Massive Goodwill has signed agreements for the purchase of 20 units of the properties located in Melaka, Malaysia for a consideration of MOP12,841,000 (equivalent to RMB21,174,000). These properties to be acquired by Massive Goodwill are under construction. On 3 April 2019, Parkwell Services, Big Wish and Massive Goodwill signed a novation agreement under which 49% of the payment obligation for purchase of these properties is borne by the Vendor. In addition, on the same date, Massive Goodwill signed a shareholder agreement with the major shareholder of Massive Goodwill holding 51% of the equity interest of Massive Goodwill that the shareholder will bear the remaining 51% payment obligation for purchasing these properties.

The acquisitions of Bisan Parkwell and Parkwell Services are accounted for as asset acquisition, assets and liabilities recognised at the acquisition date:

	Bisan Parkwell RMB'000	**Parkwell Services** RMB'000	**Total** RMB'000
Assets			
Investments in associate	38,088	12,499	50,587
Amount due from shareholder	8	9	17
	38,096	12,508	50,604
Liabilities			
Other payables	5	6	11
Amount due to associate	1	1	2
	6	7	13
Total identifiable net assets acquired	38,090	12,501	50,591
Representing:			
Consideration transferred			
– shares issued by the Company	38,090	12,501	50,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. DISPOSAL OF SUBSIDIARIES

(a) Disposal of subsidiary during the year ended 31 December 2020

On 30 June 2020, the Group disposed of its 2% equity interests in a subsidiary, Pashun Pharmacy, for a consideration of RMB100,000 (2019: Nil) to an independent third party (the "Transferee"). The voting right corresponding to these 2% equity interest were transferred to the transferee on 30 September 2020 and the Group lost control over Pashun Pharmacy. Based on the above events constituting the disposal of 2% equity interest in Pashun Pharmacy, management is of the view that the disposal was completed on 30 September 2020 at which the Group loss control over this entity. 49% equity interest in Pashun Pharmacy is still held by the Group and Pashun Pharmacy is accounted for as an associate of the Group.

Consideration for the disposal:

	RMB'000
Cash consideration	
– receivable by the Group	100
Total consideration	100

Analysis of assets and liabilities at date of disposal over which control was lost:

	RMB'000
Non-current assets	
Property, plant and equipment	513
Deposit for acquisition of property, plant and equipment	1,972
Other intangible asset	341
Current assets	
Inventories	49
Trade and other receivables	1,759
Prepayments and deposits paid	229
Cash and cash equivalents	5,197
Deferred tax assets	969
Current liabilities	
Trade and other payables	(13,273)
Bank borrowing	(2,000)
Income tax payable	(1,483)
Net liabilities disposed of	(5,727)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) Disposal of subsidiary during the year ended 31 December 2020 *(Continued)*

Gain on disposal of a subsidiary:

	RMB'000
Total consideration	100
Fair value of interest in associate retained *(note)*	–
Net liabilities disposed of	5,727
Reserve realised on disposal	81
Gain on disposal of a subsidiary *(note 6(a))*	5,908

Net cash inflow on disposal of a subsidiary:

	RMB'000
Cash and cash equivalents disposed of	(5,197)
Net cash outflow on disposal of the subsidiary	(5,197)

Note:

Management of the Group is of the view that the fair value of 49% equity interest in Pashun Pharmacy is insignificant as Pashun Pharmacy incurred operating losses and sustained net liabilities. Such fair value is therefore not recognized.

(b) Disposal of subsidiary during the year ended 31 December 2019

On 14 June 2019, a subsidiary of the Company, Chengdu Kexun Pharmaceutical Co., Ltd., disposed of 100% equity interest in Yanchi to a third party, for a consideration of RMB35,000,000. Yinchi was engaged in plantation of biological assets, distribution of Chinese herbal medicines and medicine chain store operation in the PRC.

The fair value of the consideration at the date of completion of the disposal was estimated to be RMB31,326,000, using the effective interest rate of 11.52% per annum.

Consideration for the disposal:

	RMB'000
Cash consideration	
– received by the Group	5,000
– receivable by the Group *(note 23(c))*	26,326
Total consideration	31,326

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) Disposal of subsidiary during the year ended 31 December 2019 *(Continued)*

Analysis of assets and liabilities at date of disposal over which control was lost:

	RMB'000
Non-current assets	
Property plant and equipment	2,727
Right-of-use assets	206
Goodwill	5,942
Current assets	
Inventories	2,514
Trade and other receivables	35,882
Prepayments	7
Cash and cash equivalents	88
Current liabilities	
Trade and other payables	(12,624)
Bank borrowings	(1,000)
Non-current liabilities	
Deferred tax liabilities	(7,932)
Net assets disposed of	25,810

Gain on disposal of a subsidiary:

	RMB'000
Total consideration	31,326
Net assets disposed of	(25,810)
Gain on disposal of a subsidiary *(note 6(a))*	5,516

Net cash inflow on disposal of a subsidiary:

	RMB'000
Consideration received	5,000
Cash and cash equivalents disposed of	(88)
Net cash inflow on disposal of the subsidiary	4,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Finance costs payable (included in other payables and accrued expenses)	Corporate bonds payable	Bank borrowings	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019	–	87,410	35,824	–	123,234
Financing cash inflows	–	–	6,000	–	6,000
Financing cash outflows	(1,349)	(1,864)	(34,824)	(1,588)	(39,625)
Other non-cash movements	6,584	(6,584)	(1,000)	2,478	1,478
Finance costs for the year	1,349	10,421	–	85	11,855
Exchange realignment	–	1,631	–	–	1,631
At 31 December 2019	6,584	91,014	6,000	975	104,573
Financing cash inflows	–	–	10,000	–	10,000
Disposal of subsidiary	–	–	(2,000)	–	(2,000)
Financing cash outflows	(3,623)	(889)	(6,000)	(1,406)	(11,918)
Other non-cash movements	4,943	(4,943)	–	2,522	2,522
Finance costs for the year	3,039	8,394	–	87	11,520
Exchange realignment	(657)	(5,825)	–	(3)	(6,485)
At 31 December 2020	10,286	87,751	8,000	2,175	108,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of:

	2020	2019
	RMB'000	RMB'000
EQUITY		
Equity attributable to equity shareholders of the Company		
– Share capital	**1,216**	1,216
– Reserves	**276,766**	696,267
LIABILITIES		
Bank borrowings	**8,000**	6,000
Bills payables	**19,978**	19,788
Corporate bonds payable	**87,751**	91,014

The directors review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through issue of new shares and convertible bonds as well as the additions and repayment of bank and other borrowings.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The financial assets and financial liabilities of the Group are as follows:

	Financial assets at 31 December	
	2020	2019
	RMB'000	RMB'000
Financial assets at fair value through other comprehensive income		
Unlisted investment	**–**	3,000
Financial assets at fair value through profit or loss		
Equity securities listed in Hong Kong	**–**	–
Financial assets at amortised cost		
Trade and other receivables	**81,980**	373,740
Amounts due from related parties	**85**	85
Pledged bank deposits	**10,087**	9,893
Cash and cash equivalents	**5,262**	16,125
	97,414	399,843
	97,414	402,843

	Financial liabilities at 31 December	
	2020	2019
	RMB'000	RMB'000
Financial liabilities at amortised cost		
Trade and other payables	**103,811**	111,979
Bank borrowings	**8,000**	6,000
Amount due to a shareholder	**550**	283
Amounts due to associates	**2**	2
Amounts due to related parties	**145**	144
Corporate bonds payables	**87,751**	91,014
Lease liabilities	**1,403**	114
	201,662	209,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

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 on a timely and effective manner.

(a) Credit risk

The Group is exposed to credit risk and the Group's maximum exposure to credit risk in relation to financial assets is their respective carrying amounts in the consolidated financial statements.

The Group has large number of customers and there was no concentration of credit risk. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

(i) Trade receivables

The Group applies the simplified approach to provide for expected credit losses for trade receivables prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(i) Trade receivables (Continued)

As at 31 December 2020, the loss allowance for trade receivables based on expected credit loss ("ECL") provision matrix was determined as follows:

	0-90 days	91-180 days	More than 180 days	Total
31 December 2020				
Expected loss rate	**0.1%**	**0.2%**	**5%**	
Gross carrying amount (RMB'000)	**12,086**	**29,528**	**371,634**	**413,248**
Loss allowance (RMB'000)	**12**	**59**	**630**	**701**

	0-90 days	91-180 days	More than 180 days	Total
31 December 2019				
Expected loss rate	0.1%	0.2%	5%	
Gross carrying amount (RMB'000)	40,129	69,537	305,239	414,905
Loss allowance (RMB'000)	40	139	9,584	9,763

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

In addition, management of the Group are of the view that loss allowance assessed on individual credit impaired debtors amounted to RMB359,027,000 (2019: RMB113,556,000) has to be made in the consolidated financial statements as such debtors are in financial difficulties and the recoverability of such receivables cannot be assured beyond reasonable doubt.

Based on the above assessment, accumulated impairment losses on trade receivables amounted to RM359,727,000 (2019: RMB123,319,000) were recognised as at 31 December 2020, comprising impairment loss assessed based on the ECL provision matrix amounted to RMB701,000 (2019: RMB9,763,000) and the impairment loss assessed on individual credit impaired debtors amounted to RMB359,027,000 (2019: RMB113,556,000).

The credit quality of the debtors is assessed based on their financial position, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors. As at 31 December 2020, the Group had a concentration of credit risk given that the top 5 customers account for 44% (2019: 6%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years. The Group's historical experience in collection of receivables falls within recorded allowance and the directors do not expect any major impairment on trade receivables, and receivables from other counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(i) Trade receivables (Continued)

64% of the Group's revenue for the year ended 31 December 2020 was derived from three major customers. In the event that these major customers experience any adverse business conditions or terminates its business relationship with the Group and should the management fail to identify new customers, there may be a material adverse impact on the Group's revenue, results of operations and financial condition. To minimize the above risks, the Group should actively expand its customer base.

(ii) Other receivables, amounts due from an associate and amounts due from related parties

The Group uses four categories for these receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

As at 31 December 2020, except for the other receivables for which impairment losses were made, the internal credit rating of other receivables, and amounts due from an associate and related parties were performing. The Group has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected losses method. Thus no additional loss allowance for these receivables was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(iii) Cash at bank and bank deposits

The table below shows the details of bank deposit balances (including pledged bank deposits) maintained at the end of the reporting period:

	Rating	2020 RMB'000	2019 RMB'000
Cash at banks and bank deposits	Aa2-A3 *(note (i))*	**3,440**	12,260
	AAA *(note (ii))*	**11,632**	13,683
	AA *(note (iii))*	**1,585**	–
		15,072	25,943

Note:

(i) The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within "Aa2" to "A3" rating is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Accordingly, management of the Group considers that the credit risk on these bank balances and bank deposits is limited.

(ii) The rating represents long-term credit rating provided by Dagong Global Credit Rating Co., Ltd ("Dagong"); a PRC recognised credit rating agency. A rating of "AAA" rating is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Dagong. Accordingly, management of the Group considers that the credit risk on these bank balances and bank deposits is limited.

(iii) The rating represents long-term credit rating provided by China Lianhe Credit Rating Co., Ltd ("Lianhe"); a PRC recognised credit rating agency. A rating of "AA" rating is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Lianhe. Accordingly, management of the Group considers that the credit risk on these bank balances and bank deposits is limited.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management and the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The tables below analyse the Group's non-derivative financial liabilities into relevant grouping based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows that include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

At 31 December 2020	**Within 1 year RMB'000**	**More than 1 year but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**
Non-derivative financial liabilities					
Trade and other payables	**103,811**	**–**	**–**	**103,811**	**103,811**
Bank borrowings	**8,601**	**–**	**–**	**8,601**	**8,000**
Amount due to a shareholder	**550**	**–**	**–**	**550**	**550**
Amounts due to associates	**2**	**–**	**–**	**2**	**2**
Amounts due to related parties	**145**	**–**	**–**	**145**	**145**
Corporate bonds payable	**41,631**	**65,441**	**–**	**107,072**	**87,751**
	154,740	**65,441**	**–**	**220,181**	**200,259**

At 31 December 2019	Within 1 year RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	111,979	–	–	111,979	111,979
Bank borrowings	6,510	–	–	6,510	6,000
Amount due to a shareholder	283	–	–	283	283
Amounts due to associates	2	–	–	2	2
Amounts due to related parties	144	–	–	144	144
Corporate bonds payable	33,205	64,220	16,813	114,238	91,014
	152,123	64,220	16,813	233,156	209,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from other receivable (included in trade and other receivables), cash at banks, pledged bank deposits, bank borrowings and corporate bonds payable. Other receivables, cash at banks and pledged bank deposits carried at variable rates expose the Group to cash flow interest rate risk. Bank borrowings carried at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Corporate bonds payable were issued at fixed interest rates which expose the Group to fair value interest risk.

The Group does not anticipate significant impact to cash at banks and the pledged bank deposits arising from change in interest rates because the interest rates of bank deposits are not expected to change significantly.

The interest rates and terms of repayment of bank loans of the Group are disclosed in note 28. The Group normally borrows short-term bank loans which have short-term maturity within one year in order to limit its exposure to interest rate risk.

Sensitivity analysis

At 31 December 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings, loan receivable, cash at banks and pledged bank deposits, with all other variables held constant, would decrease/increase the Group's loss after tax (and retained profits) by approximately RMB113,000 (2019: RMB220,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and retained profits/accumulated losses) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments held by the Group which expose the Group to cash flow interest rate risk at the end of the reporting period. The impact on the Group's loss after tax (and retained profits/accumulated losses) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the year ended 31 December 2019.

The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group's exposure to fair value interest risk is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency exchange risk

Foreign exchange risk arises when the group entities enter into transactions denominated in a currency other than their functional currency. The Group's financial assets and liabilities are mainly denominated in Renminbi and Hong Kong dollars. The exchange rates among these currencies are not pegged, and there are fluctuations of exchange rates among these currencies.

The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and considers hedging significant foreign currency exposure should the need arise.

The carrying amounts of the financial assets and financial liabilities at the reporting date denominated in currencies other than functional currencies of the related entities are as follows:

	Assets		**Liabilities**	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
RMB	**–**	2	**–**	–

Sensitivity analysis

The following table indicates the approximate change in the Group's profit or loss after income tax expense in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances of assets and liabilities of the group entities where the denomination of these balances is in a currency other than the functional currencies of these entities. A positive number below indicates an increase in loss for the year where the functional currency strengthens against the relevant currency. For a weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit or loss, and the balances below would be negative.

	2020		2019	
	Increase in foreign exchange rate %	**Effect on loss for the year RMB'000**	Increase in foreign exchange rate %	Effect on loss for the year RMB'000
RMB	**5%**	**–**	5%	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 26).

The Group's listed investments are listed on the Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to industry indicators, as well as the Group's liquidity needs.

At 31 December 2020, the fair value of the held for trading securities is minimal for the reason as detailed in note 26. Management does not expect that there is significant impact on the Group's performance arising from change in equity share price.

(f) Fair value measurement

(i) Financial instruments measured at fair value

The following table presents the fair value of financial instruments measured at fair value at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3: Fair value measured using significant unobservable inputs.

Where necessary, the Group engages independent professional valuers to perform valuations for the financial instruments of which are carried at fair value in the consolidated financial statements. The professional valuer reports directly to the chief financial officer of the Company and the directors. Valuation reports with analysis of changes in fair value measurement are prepared by professional valuer and are reviewed and approved by the chief financial officer of the Company and the directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(f) Fair value measurement *(Continued)*

(i) Financial instruments measured at fair value (Continued)

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Valuation technique(s) and key inputs
Recurring fair value measurements									
Assets:									
Financial assets at fair value through other comprehensive income *(note 19)*	–	–	–	–	3,000	–	–	3,000	Discounted cash flow analysis
Financial assets at fair value through profit or loss *(note 26)*	–	–	–	–	–	–	–	–	Quoted bid price in an active market
	–	–	–	–	3,000	–	–	3,000	

During the years ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(ii) Fair value of financial instruments carried at other than fair value

The directors consider that the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 31 December 2020 and 2019. The fair values, which are included in Level 3 category, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rates that reflect the credit risk of counterparties.

44. CAPITAL COMMITMENTS

Capital commitments outstanding but not provided for in the consolidated financial statements were as follows:

	2020 RMB'000	2019 RMB'000
Commitments contracted but not provided for in respect of – property development project	**–**	2,027
	–	2,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2020 and 2019 the transactions or balances with the following parties were considered to be related party transactions:

Name of party	Relationship with the Group
Mr. Chen Yenfei	The Chairman, the controlling shareholder of the Company ("Controlling Shareholder") and an executive Director and he ceased to be the Executive Director and Chief Executive Officer of the Company with effect from 18 June 2020
Hubei Bai Xin Food Company Limited ("Hubei Bai Xin")	Entity controlled by the Controlling Shareholder
Praise Treasure Limited	Entity controlled by the Controlling Shareholder
Wuhan Wantong Investment Company Limited ("Wuhan Wantong")	Entity controlled by the Controlling Shareholder
Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited ("Wuhan Bai Xin Zheng Yuan")	Entity controlled by the Controlling Shareholder
Wuhan Baixin Pharmaceutical Co., Ltd. ("Wuhan Baixin Pharmaceutical")	Entity controlled by the Controlling Shareholder

In addition to those disclosed elsewhere in these consolidated financial statements, the Group had the following transactions and balances with the related parties:

(a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid/payable to the Company's directors as disclosed in note 11 is as follows:

	2020 **RMB'000**	2019 RMB'000
Short-term employee benefits	**1,060**	1,724
Post-employment benefits	**43**	52
	1,103	1,776

Total remuneration is included in staff costs (see note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties

		Amounts owed to the Group by related parties		Amounts owed by the Group to related parties	
	NOTES	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Balance with related parties					
Amount due from/(to) Hubei Bai Xin – non-trade in nature	*(i), (ii)*	**5**	5	**–**	–
Amount due from/(to) Wuhan Wantong – non-trade in nature	*(i)*	**–**	–	**(93)**	(93)
Amount due to Wuhan Bai Xin Zheng Yuan – trade in nature	*(i)*	**–**	–	**(52)**	(51)
Amount due from Wuhan Baixin Pharmaceutical – trade in nature	*(i), (ii)*	**80**	80	**–**	–
Total balances with related parties		**85**	85	**(145)**	(144)

Notes:

(i) The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms.

(ii) No provisions for bad or doubtful debts have been made in respect of the amounts due from related parties.

(iii) The maximum outstanding balances due from related parties during the two years ended 31 December 2020 and 2019 are as follows:

	Maximum balance outstanding during the year	
	2020 RMB'000	2019 RMB'000
Hubei Bai Xin	**5**	986
Wuhan Wantong	**–**	12
Wuhan Baixin Pharmaceutical	**80**	80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,006**	1,006
CURRENT ASSETS		
Amounts due from subsidiaries	**472,805**	504,226
Other receivables	**1,985**	2,084
Prepayments and other deposits paid	**1**	177
Cash and cash equivalents	**25**	336
	474,816	506,823
CURRENT LIABILITIES		
Other payables	**15,034**	8,856
Corporate bonds payable	**87,751**	26,871
Amount due to a shareholder	**790**	283
Amount due to a subsidiary	**8,931**	4,732
	112,506	40,742
NET CURRENT ASSETS	**362,310**	466,081
TOTAL ASSETS LESS CURRENT LIABILITIES	**363,316**	467,087
NON-CURRENT LIABILITIES		
Corporate bonds payable	**–**	64,143
NET ASSETS	**363,316**	402,944
CAPITAL AND RESERVES		
Share capital	**1,216**	1,216
Reserves *(note)*	**362,100**	401,728
TOTAL EQUITY	**363,316**	402,944

The Company's statement of financial position was approved and authorised for issue by the board of directors on 31 March 2021 and is signed on its behalf by:

Wu Guohua
Director

Shen Shun
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note: Movements in the reserves of the Company are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	641,391	20,537	22,413	(74,753)	(248,247)	361,341
Loss for the year	–	–	–	–	(21,097)	(21,097)
Other comprehensive income for the year						
Exchange differences on translation of financial statements	–	–	10,993	–	–	10,993
Total comprehensive income/(loss) for the year	–	–	10,993	–	(21,097)	(10,104)
Adjustment upon lapse of share options	–	(9,081)	–	–	9,081	–
Issue of shares upon acquisition of subsidiaries	50,491	–	–	–	–	50,491
At 31 December 2019 and 1 January 2020	691,882	11,456	33,406	(74,753)	(260,263)	401,728
Loss for the year	**–**	**–**	**–**	**–**	**(15,407)**	**(15,407)**
Other comprehensive loss for the year						
Exchange differences on translation of financial statements	**–**	**–**	**(24,221)**	**–**	**–**	**(24,221)**
Total comprehensive income/(loss) for the year	**–**	**–**	**(24,221)**	**–**	**(15,407)**	**(39,628)**
At 31 December 2020	**691,882**	**11,456**	**9,185**	**(74,753)**	**(275,670)**	**(362,100)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

47. SUBSIDIARIES

(i) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place of incorporation/ operation	Issued and fully paid up capital/paid up registered capital	Attributable equity interest Group's effective interest		Held by the Company		Held by a subsidiary		Principal activities
			2020	2019	**2020**	2019	**2020**	2019	
Pa Shun Pharmaceutical Company Limited	The British Virgin Islands ("BVI")/ Hong Kong ("HK")	US$50,000	**100%**	100%	**100%**	100%	**–**	–	Investment holding
Toyot Pa Shun Medicine Factory Company Limited (東洋百信製藥廠有限公司)	HK/HK	HK$10,000,000	**100%**	100%	**–**	–	**100%**	100%	Investment holding
Chengdu Toyot Pa Shun Pharmacy Co., Ltd. 成都東洋百信製藥有限公司 *(note a, b and g)*	PRC/PRC	RMB164,570,000	**100%**	100%	**–**	–	**100%**	100%	Manufacturing and sale of pharmaceutical products in the PRC
Chengdu Pashun Pharmacy Chain Store Co., Ltd. 成都百信藥業連鎖有限責任公司 *(note a, c and e)*	PRC/PRC	RMB5,000,000	**49%**	51%	**–**	–	**49%**	51%	Medicine chain store operation and management
Chengdu Kexun Pharmaceutical Co., Ltd. 成都科訊藥業有限公司 *(note a, c and d)*	PRC/PRC	RMB170,000,000	**100%**	100%	**–**	–	**100%**	100%	Distribution of pharmaceutical products in the PRC
Chengdu Keyi Biotechnology Co., Ltd. 成都科一生物科技有限公司 *(note a and c)*	PRC/PRC	RMB2,000,000	**100%**	100%	**–**	–	**100%**	100%	Not yet commenced business
Ready Gain Limited 宏願環球有限公司	BVI	US$50,000	**100%**	100%	**100%**	100%	**–**	–	Investment holding
Big Wish Global Limited 盈達有限公司	BVI	US$50,000	**100%**	100%	**100%**	100%	**–**	–	Investment holding
Bisan Parkwell Consultants Limited 百勝百惠顧問有限公司	HK	HK$10,000	**100%**	100%	**–**	–	**100%**	100%	Investment holding
Parkwell Service Consultants Limited 百惠服務顧問有限公司	HK	HK$10,000	**100%**	100%	**–**	–	**100%**	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

47. SUBSIDIARIES *(Continued)*

(i) *(Continued)*

Notes:

(a) The English translations of the names of the Company's subsidiaries which were registered and incorporated in the PRC are for reference only and the official names of these entities are in Chinese.

(b) This entity was established in the PRC in the form of wholly-foreign-owned enterprise.

(c) These entities were established in the PRC as PRC domestic-invested companies.

(d) The paid-in registered capital of the subsidiary increased to RMB170,000,000 during the year pursuant to the Group reorganisation, under which the amount due by the subsidiary to its holding company amounted to RMB120,000,000 was capitalised as paid-in registered capital.

(e) The entity was disposed of during the year ended 31 December 2020.

(f) None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year under review.

(g) The total registered capital of this subsidiary is RMB326,000,000 of which RMB164,570,000 has been paid up.

(ii) Details of non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of non-wholly owned subsidiary of the Group that has material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interest		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	**2020**	2019	**2020**	2019
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Chengdu Pashun Pharmacy Chain Store Co., Ltd. ("Chengdu Pashun")	PRC	**–**	49%	**(735)**	322	**–**	(13,901)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

47. SUBSIDIARIES *(Continued)*

(ii) Details of non-wholly owned subsidiary that has material non-controlling interests *(Continued)*

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Chengdu Pashun	**31 December 2020 RMB'000**	31 December 2019 RMB'000
Current assets	**–**	7,680
Non-current assets	**–**	3,010
Current liabilities	**–**	(39,059)
Equity attributable to owners of the Company	**–**	(14,468)
Non-controlling interests	**–**	(13,901)

	2020 RMB'000	2019 RMB'000
Revenue	**23,409**	39,500
Other income and gains	**919**	10,168
Cost of sales	**(21,865)**	(37,442)
Other losses	**–**	(173)
Other expenses	**(6,953)**	(11,396)
(Loss)/profit for the period	**(1,490)**	657
(Loss)/profit attributable to:		
– owners of the Company	**(755)**	335
– non-controlling interests	**(735)**	322
(Loss)/profit for the period	**(1,490)**	657
Net cash inflow/(outflows) from operating activities	**1,765**	(1,171)
Net cash outflow from investing activities	**(3)**	(15)
Net cash inflows from financing activities	**1,958**	–
Net cash inflow/(outflow)	**3,720**	(1,186)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

48. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY

The directors consider the Company's ultimate and immediate holding company to be Praise Treasure Limited which was incorporated in the BVI. As at the date of approval of these consolidated financial statements, 753,040,000 Shares, representing approximately 51.05% of the issued share capital of the Company, were pledged by Praise Treasure Limited in favour of an original chargee whose rights have been assigned to Win Win International Strategic Investment Funds SPC (for the account and on behalf of Win Win Stable No.1 Fund SP).