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 2021

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Professor Xiao Kai *(Chairman)*
(appointed on 22 February 2021,
retired on 30 June 2021 and
re-appointed on 29 October 2021)
Mr. Yuan Hongbing (appointed on 28 March 2023)
Mr. Feng Junzheng *(Chief Executive Officer)*
(appointed on 29 October 2021)
Mr. Shen Shun (resigned on 26 October 2023)
Mr. Yang Bo (appointed on 22 February 2021
and retired on 30 June 2021)
Mr. Chen Rongxin
(resigned on 23 February 2021)

NON-EXECUTIVE DIRECTORS

Mr. Zhang Tong (appointed on 29 October 2021)
Mr. Chen Yunwei (appointed on 29 October 2021)
Mr. Zhang Xiongfeng (resigned on 16 March 2023)
Mr. Hu Haisong (retired on 30 June 2021)
Mr. Wu Guohua (retired on 30 June 2021)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Lei
(appointed on 22 February 2021,
retired on 30 June 2021 and
re-appointed on 29 October 2021)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Khor Khie Liem Alex
(appointed on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021
and resigned on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021
and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February 2021
and retired on 30 June 2021)
Mr. Chen Yongsheng (appointed on 22 February
2021 and retired on 30 June 2021)
Mr. Liu Liangzhong
(resigned on 1 February 2021)

AUTHORISED REPRESENTATIVE

Professor Xiao Kai
Mr. Yuan Hongbing
(appointed on 30 October 2023)
Mr. Shen Shun (resigned on 26 October 2023)

COMPANY SECRETARY

Ms. Lam Yuen Ling Eva
(appointed on 1 October 2023)
Mr. So Wing Chun
(appointed on 13 December 2021 and
resigned on 1 October 2023)

AUDIT COMMITTEE

Ms. Li Yan *(Chairman)*
(appointed on 10 March 2023)
Mr. Cao Lei (appointed on 22 February 2021,
retired on 30 June 2021
and re-appointed on 29 October 2021)
Mr. Khor Khie Liem Alex
(appointed on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and
resigned on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021
and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February
2021 and retired on 30 June 2021)
Mr. Chen Yongsheng (appointed on 22 February 2021
and retired on 30 June 2021)
Mr. Liu Liangzhong
(resigned on 1 February 2021)

REMUNERATION COMMITTEE

Mr. Cao Lei *(Chairman)*
(appointed on 22 February 2021,
retired on 30 June 2021
and re-appointed on 29 October 2021)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Khor Khie Liem Alex
(appointed on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021
and resigned on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021
and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February
2021 and retired on 30 June 2021)
Mr. Chen Yongsheng (appointed on 22 February
2021 and retired on 30 June 2021)
Mr. Liu Liangzhong
(resigned on 1 February 2021)

CORPORATE INFORMATION

NOMINATION COMMITTEE

Mr. Khor Khie Liem Alex *(Chairman)*
(appointed on 28 March 2023)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Chen Yunwei (appointed on 28 March 2023)
Professor Xiao Kai (appointed on 22 February 2021, retired on 30 June 2021, re-appointed on 29 October 2021 and resigned on 28 March 2023)
Mr. Cao Lei (appointed on 22 February 2021, retired on 30 June 2021, re-appointed on 29 October 2021 and resigned on 28 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Liu Liangzhong
(resigned on 1 February 2021)

CORPORATE GOVERNANCE COMMITTEE

Mr. Cao Lei *(Chairman)*
(appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Khor Khie Liem Alex
(appointed on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021 and resigned on 10 March 2023)
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(appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Chen Yongsheng
(appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Liu Liangzhong
(resigned on 1 February 2021)

REGISTERED OFFICE

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

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 1510–1517, 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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

FINANCIAL SUMMARY

	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Revenue	869,891	821,142	845,448	474,835	**85,913**
Profit/(loss) before tax	19,502	(48,047)	(190,482)	(425,761)	**(323,417)**
Income tax expense	(9,325)	(15,361)	(2,917)	6,572	**(6,984)**
Profit/(loss) for the year	10,177	(63,408)	(193,399)	(419,189)	**(330,401)**
Earnings/(loss) per share (RMB cent(s))					
Basic	1.01	(5.32)	(13.38)	(28.37)	**(22.40)**
Diluted	N/A	N/A	N/A	N/A	**N/A**
Assets and liabilities					
Non-current assets	315,249	290,437	331,995	305,093	**115,468**
Current assets	831,999	838,674	593,871	198,092	**51,756**
Current liabilities	(295,867)	(157,805)	(153,974)	(200,259)	**(200,582)**
Net current assets/(liabilities)	536,132	680,869	439,897	(2,167)	**(148,826)**
Total assets less current liabilities	851,381	971,306	771,892	302,926	**(33,358)**
Non-current liabilities	(102,116)	(114,833)	(88,310)	(24,944)	**(25,144)**
Net assets/(liabilities)	749,265	856,473	683,582	277,982	**(58,502)**
Capital and reserves					
Share capital	856	1,116	1,216	1,216	**1,216**
Reserves	748,409	869,580	696,267	276,760	**(59,718)**
Non-controlling interests	–	(14,223)	(13,901)	–	**–**
Total equity	749,265	856,473	683,582	277,982	**(58,502)**

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 December 2021, the Group recorded revenue from operations of RMB85.9 million (2020: RMB474.8 million), representing a decrease of 81.9% from 2020. The Group's gross profit of the operations decreased to RMB13.0 million for the year ended 31 December 2021 from RMB17.7 million recorded in 2020, with the gross profit margin improved to 15.1%. The Company recorded a decrease in the loss attributable to the equity shareholders of the Company for the year ended 31 December 2021 to RMB330.4 million from that of RMB418.5 million recorded in 2020.

The Group continued to focus on the pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC during the year ended 31 December 2021.

REVENUE

For the year ended 31 December 2021, the Group recorded a total revenue of RMB85.9 million, representing a decrease of approximately 81.9% from RMB474.8 million for 2020. Such decrease was primarily due to (i) the drop in revenue from the Group's pharmaceutical distribution to wholesalers resulting from vigorous competition; and (ii) the outbreak of the novel coronavirus (COVID-19) epidemic ("Epidemic") that has spread across China and worldwide, which has adversely affected the business and economic activities of the Group.

COST OF SALES, GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's cost of sales decreased by approximately 84.0% from RMB457.1 million for the year ended 31 December 2020 to RMB73.0 million for the year ended 31 December 2021. Such decrease in cost of sales was in line with the decrease in revenue during the year.

The Group's gross profit decreased by approximately 26.8% from RMB17.7 million for the year ended 31 December 2020 to RMB13.0 million for the year ended 31 December 2021. The Group's gross profit margin increased from 3.7% for the year ended 31 December 2020 to 15.1% for the year ended 31 December 2021. Such change was primarily attributable to the stringent cost control measures over the business of pharmaceutical distribution to wholesalers by limiting its scale.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses slightly increased by approximately 8.8% from RMB8.1 million for the year ended 31 December 2020 to RMB8.8 million for the year ended 31 December 2021. The increase was mainly attributable to the increase in advertising costs incurred for promoting the business of the Group under the Epidemic.

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's general and administrative expenses decreased by approximately 26.1% from RMB26.3 million for the year ended 31 December 2020 to RMB19.4 million for the year ended 31 December 2021. The decrease was attributable to the Group's disposal of the interest in, and the loss of control in the board of directors of 成都百信藥業連鎖有限責任公司 (Chengdu Pashun Pharmacy Chain Store Co., Ltd.*) ("CPPCSCL") on 30 June 2020 and 30 September 2020 respectively.

* *for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME AND GAINS

Other income and gains increased by approximately 9.7% from RMB17.0 million for the year ended 31 December 2020 to RMB18.7 million for the year ended 31 December 2021. The increase was primarily attributable to the gain of RMB16.3 million recognised upon further disposal of CPPCSCL (as an associate of the Group) during the year ended 31 December 2021, which was partially offset by the absence of franchise fee income and gain on disposal of CPPCSCL as a result of the disposal of the interest in, and the loss of control at the board of directors of CPPCSCL in 2020.

OTHER NET LOSSES

Other net losses during the year ended 31 December 2021 mainly comprised of:

(i) impairment of interest in associates of approximately RMB42.5 million, which represents the investment in 49% equity interest in Awesome Applause Sdn. Bhd. ("AASB") and Massive Goodwill Sdn. Bhd. ("MGSB"). The principal assets of AASB and MGSB comprise property units in Malaysia, which comprised 48 units and 20 units of properties located in Melaka, Malaysia respectively. Since the sales and purchases agreements of the acquisitions of the 48 units and 20 units of properties have been terminated by the developer in April 2022, the Board considered full impairment should be made on the investment in AASB and MGSB;

(ii) impairment of other intangible assets of RMB24.1 million, which comprise three patents of "一種適合腎臟病人食用面製品及其加工方法 (a method of manufacture and processing of noodles products suitable for kidney failure patient)", "一種脱蛋白大米加工方法 (a method of processing of hulled rice)" and "一種適合腎臟病人食用再制米及其加工方法 (a method of manufacture and processing of artificial rice suitable for kidney failure patient)". During the year ended 31 December 2021, the management of the Group conducted a review of the commercial viability of the patents by an independent valuer, B.I. Appraisals Limited ("B.I.") and is of the view that the products attributable to this technology cannot be marketable. Accordingly, impairment losses on the intangible assets amounted to RMB24.1 million were recognised in profit or loss during the year; and

(iii) impairment on property development project of RMB111.8 million. There was no progress in the property development project during the year ended 31 December 2021 up to the date of this report. During the year ended 31 December 2021, the management of the Group conducted impairment assessment of value on the land by an independent firm of professional valuers with recognised qualifications and experiences, B.I., based on market-based approach methodology for the land and impairment loss amounted to RMB111.8 million was recognised on profit or loss during the year.

During the year ended 31 December 2020, there were significant amount of impairment losses of trade receivables of approximately RMB242.9 million, other receivables of RMB62.4 million and prepayments and deposits paid of RMB102.2 million, which were mainly due to the adverse economic environment under the Epidemic and many customers of the Group not being able to settle or delay the payments to the Group. Such situation was improved during the year ended 31 December 2021 and impairment on trade receivables, other receivables and prepayments and deposits paid significantly decreased during the year ended 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCE COSTS

Finance costs decreased by approximately 8.9% from RMB11.5 million for the year ended 31 December 2020 to RMB10.5 million for the year ended 31 December 2021. Such decrease in finance costs of the Group were mainly due to the decrease in the overdue interests accrued on the corporate bonds payables of the Group.

LOSS BEFORE TAX

Loss before tax decreased by approximately 24.0% from RMB425.8 million for the year ended 31 December 2020 to RMB323.4 million for the year ended 31 December 2021. The improvement was primarily due to the decrease in other net losses and general and administrative expenses as disclosed above.

INCOME TAX EXPENSE

Income tax changed from income tax credit of RMB6.6 million for the year ended 31 December 2020 to income tax expense of RMB7.0 million for the year ended 31 December 2021. The increase in income tax expense was primarily due to the improvement of operating results in the year under review.

LOSS FOR THE YEAR

As a result of the foregoing, the Group's loss for the year decreased by approximately 21.2% from RMB419.2 million for the year ended 31 December 2020 to RMB330.4 million for the year ended 31 December 2021.

OUTLOOK

With the outbreak of Epidemic expected to be continued in 2022, the Group had been cautious in the development of its business. The Group had been closely monitoring the status of Epidemic, observing the latest government policies and taking prompt actions to minimize the impact of Epidemic on the Group's operation.

The management of the Group had been closely assessing the development of the situation of the Epidemic. The Group will continue to leverage on its solid foundation in the PRC such that the Group's operation could be returned to normal once the Epidemic is being contained.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents and pledged bank deposits of RMB2.3 million as at 31 December 2021 as compared to RMB15.3 million as at 31 December 2020.

The Group recorded net current liabilities of RMB148.8 million and RMB2.2 million as at 31 December 2021 and 31 December 2020 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 0.26 as at 31 December 2021, as compared with 0.99 as at 31 December 2020. The net current liabilities of the Group as at 31 December 2021 has arisen from (i) the decrease in total cash and cash equivalents and pledged bank deposits; (ii) the decrease in trade and other receivables; (iii) the decrease in prepayment and deposits paid; and (iv) the increase in other borrowings in the year under review.

As at 31 December 2021, the total amount of bank borrowing was RMB5.0 million, as compared to RMB8.0 million as at 31 December 2020. As at 31 December 2021, the total amounts of other borrowings was RMB16.2 million (2020: RMB4.8 million).

As at 31 December 2021, the total number of issued ordinary shares of the Company ("Shares") was 1,474,992,908 Shares (2020: 1,474,992,908 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 2021, 100,000,000 Options remained outstanding. Please refer to the announcement of the Company dated 7 September 2018 for details of the grant of the Options. No Options were granted in 2020 and 2021.

During the period between 2016 and 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 2021, 15 corporate bonds with aggregate principal amount of HK$47.2 million matured and the Company has outstanding unpaid principal amount of HK$33.5 million of matured corporate bonds as at 31 December 2021.

As at 31 December 2021, interest payable on corporate bonds of approximately HK$13.4 million was due and remained outstanding. Since the maturity dates of bonds principals 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 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

A petition (the "2020 Petition") was filed on 16 November 2020 by Ms. Feng Lihua (the "2020 Petitioner") against the Company in the High Court of the Hong Kong Special Administrative Region (the "High Court") for an order that the Company be wound up by the High Court. The 2020 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 2020 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 2020 Petitioner and the Company reached settlement agreement ("Settlement Agreement") and the 2020 Petition is expected to be withdrawn by the 2020 Petitioner upon the Company's full payment of the outstanding debt owed to the 2020 Petitioner. However, the Company did not fully comply with the Settlement Agreement and the 2020 Petitioner applied to the High Court to bring forward the hearing of the 2020 Petition. The 2020 Petition was dismissed by the High Court at the hearing on 17 January 2022.

Please refer to the announcements of the Company dated 17 December 2020, 6 January 2021, 18 February 2021, 4 May 2021, 9 July 2021, 2 November 2021, 16 December 2021 and 17 January 2022 for details.

As at 31 December 2021, except as disclosed above, the Group did not have any significant contingent liabilities.

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 denominated in Renminbi, and the Group mainly settles its operating expenses in the PRC with income generated from operations in Renminbi. Therefore, the Group is not exposed to any significant foreign exchange risks.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2021, the Group did not make any significant investments, acquisitions or disposals that was required to the disclosed under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

HUMAN RESOURCES

As at 31 December 2021, the Group had a total of 95 (2020: 165) staff, primarily in the PRC. The total staff cost was RMB8.2 million (2020: RMB11.3 million) for the year ended 31 December 2021.

The Group believes 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 its corporate development needs.

MANAGEMENT DISCUSSION AND ANALYSIS

DISCLAIMER OF OPINION ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2021 includes paragraphs regarding disclaimer of opinion (the "Disclaimer of Opinion") as set out on pages 53 and 55 of this annual report.

DETAILED PLAN TO ADDRESS THE DISCLAIMER OF OPINION

The Scheme of Arrangement

As disclosed by the Company in its announcement dated 8 September 2023 and 15 September 2023, the Company intends to restructure its overall indebtedness position in order to address its liquidity issue.

On 20 July 2023, the Company, through its legal advisors, made an ex parte application to the High Court of Hong Kong to apply for leave to convene a scheme meeting (the "Scheme Meeting") for the purpose of considering and, if thought fit, approving the scheme of arrangement (the "Scheme of Arrangement") and related directions.

The Scheme Meeting was held on 18 October 2023. During the Scheme Meeting, over 50% in number of, and representing not less than 75% in value of the claims of, the creditors present and voting in person or by proxy at the Scheme Meeting, have voted in favour of the Scheme of Arrangement. The High Court of Hong Kong sanctioned the Scheme of Arrangement on 1 November 2023 (the "Sanction Hearing"). It is expected that the Scheme of Arrangement will take effect shortly after the Sanction Hearing.

The Scheme of Arrangement is, in substance, a debt rescheduling arrangement. While the direct impact on the Company's overall financial position is expected to be minimal, a substantial part of the liabilities which are classified as current liabilities will be classified as non-current liabilities as a result of the Scheme of Arrangement.

The management's position and basis on the going concern basis

The management of the Company is of the view that the Group will be able to continue to operate as a going concern. The Scheme Meeting was held on 18 October 2023. During the Scheme Meeting, over 50% in number of, and representing not less than 75% in value of the claims of, the creditors present and voting in person or by proxy at the Scheme Meeting, have voted in favour of the Scheme of Arrangement. The Scheme of Arrangement was sanctioned by the High Court of Hong Kong on 1 November 2023. Once the Scheme becomes effective, a substantial part of the current liabilities will be reclassified as non-current liabilities. In addition to the Scheme of Arrangement, the Directors will closely monitor the financial position of the Group. While the results of operations continued to improve since early 2023 and generate stable and adequate cash flows for the Group, the Directors will also use their best endeavour to secure new financial resources by way of re-financing (whether secured or unsecured) and/or equity financing.

On a related note, given that the Directors consider that the Group can operate as a going concern, the disclaimer of opinion in relation to the valuation of the property development project would likewise be resolved, since the valuation of the relevant property on completion basis or market basis with the recoverable amount of the property where management believes that would not less than the carrying value, would then be appropriate and therefore sufficient audit evidence could be obtained in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

Further, the disclaimer of opinion concerning the Group's interests in associates will not recur. This is attributable to the full impairment that was already implemented during the financial year ended on 31 December 2021.

The management of the Company understands that the Disclaimer of Opinion was resulted from the auditors not being able to obtain sufficient appropriate audit evidence to satisfy themselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements mainly since the current liabilities of the Group exceeded its current assets. Further, the Company has also returned to profit position in the six months ended 30 June 2023. In this regard, based on the management's discussion with the auditors, the management is optimistic that the underlying matters leading to the Disclaimer of Opinion could be resolved through the implementation of the Scheme of Arrangement.

The audit committee concur with the views as stated above.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

The Group has committed to achieving high corporate governance standards in order to safeguard the interests of shareholders and enhance corporate value and accountability of the Company. The Company has adopted the code provisions as set out in the Corporate Governance Code (the "CG Code") in Appendix 14 to the Listing Rules which was effective during the year as its own code of corporate governance. Save as disclosed below, during the year ended 31 December 2021, the Company has complied with the code provisions set out in the CG Code.

With effect from 18 December 2020, Mr. Hung Hing Hung resigned as the company secretary of the Company. Following the resignation of Mr. Hung Hing Hung as the company secretary of the Company and up to the appointment of Mr. So Wing Chun as the company secretary of the Company with effect from 13 December 2021, there was breach of code provision F.1.4 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 laws, rules and regulations, are followed. There were also breaches of Rules 3.05 and 3.28 of the Listing Rules.

With effect from the conclusion of the annual general meeting of the Company held on 31 July 2020, Mr. Wong Tak Shing ("Mr. Wong") 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 ("Remuneration Committee") of the Board upon conclusion of the annual general meeting of the Company held on 31 July 2020.

With effect from 1 October 2020, Mr. Lu Yongchao ("Mr. Lu") 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.

With effect from 1 February 2021, Mr. Liu Liangzhong ("Mr. Liu") 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.

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.

CORPORATE GOVERNANCE REPORT

Following the resignations of Mr. Wong, Mr. Lu and Mr. Liu, the Company failed to satisfy the minimum number of independent non-executive directors and members of audit committee requirements under Rules 3.10(1) and 3.21 of the Listing Rules and the number of the independent non-executive Directors fell 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 met the same requirements under Rule 3.10(2) of the Listing Rules. The Company did not have the Remuneration Committee which was 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 the Nomination Committee which was 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 (collectively, the "Relevant Board Composition Requirements").

With effect from 22 February 2021, (1) Professor Xiao Kai was appointed as the chairman of the Board, an executive Director and the chairman of the Nomination Committee; (2) Mr. Yang Bo was appointed as an executive Director; (3) Mr. Cao Lei was 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 was 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 was 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 disclosed in the announcement of the Company dated 30 June 2021, the following changes in corporate positions took place with effect from the conclusion of the annual general meeting for the year ended 31 December 2020 held on 30 June 2021:

(i) Professor Xiao Kai retired as the chairman of the Board and an executive Director and ceased to be the chairman of the Nomination Committee;

(ii) Mr. Yang Bo retired as an executive Director;

(iii) Mr. Hu Haisong retired as a non-executive Director;

(iv) Mr. Wu Guohua retired as a non-executive Director;

(v) Mr. Cao Lei retired as an independent non-executive Director and ceased to be the chairman of each of the Remuneration Committee and the CG Committee, and a member of each of the Audit Committee and the Nomination Committee;

(vi) Mr. Ng Wai Tsan retired as an independent non-executive Director and ceased to be a member of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the CG Committee; and

(vii) Mr. Chen Yongsheng retired as an independent non-executive Director and ceased to be the chairman of the Audit Committee and a member of each of the Remuneration Committee and the CG Committee.

CORPORATE GOVERNANCE REPORT

Following the retirement of the above Directors, 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. The Company failed to satisfy the Relevant Board Composition Requirements.

With effect from 29 October 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. Feng Junzheng has been appointed as the chief executive officer of the Company and an executive Director; (3) Mr. Zhang Tong has been appointed as a non-executive Director; (4) Mr. Chen Yunwei has been appointed as a non-executive Director; (5) Ms. Luo Ke has been appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the Nomination Committee, the Remuneration Committee and the CG Committee; (6) Mr. Cao Lei has been appointed as an independent non-executive Director, the chairman of each of the Remuneration Committee and the CG Committee, a member of each of the Audit Committee and the Nomination Committee; and (7) Mr. Ding Qing has been appointed as an independent non-executive Director, a member of each of the Audit Committee, the Remuneration Committee and the CG Committee. With effect from 13 December 2021, Mr. So Wing Chun has been appointed as the company secretary of the Company.

After the appointment of the above Directors and change of compositions of Board committees on 29 October 2021 and appointment of the company secretary of the Company on 13 December 2021, the Company complied with the code provisions set out in the CG Code and Rules 3.10(1), 3.10(2), 3.10(A), 3.21 and 3.25 of the Listing Rules.

As at the date of this report, the Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

Under the code provision A.1.8 of the CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. Upon the expiry of previous directors and officers liability insurance on 18 June 2021, the Company did not arrange any new insurance cover in respect of potential legal actions against its Directors during the year ended 31 December 2021. The management of the Group believe that all potential claims and legal actions against the Directors can be handled effectively, and the possibility of actual lawsuits against the Directors is remote. As at the date of this annual report, the Company was in the course of arranging insurance cover for its directors.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

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 important matters such as review and approval of 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 formulating, 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 with the applicable Listing Rules.

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. The Board considered that the above mechanisms, which are reviewed by the Board on an annual basis, have been implemented and was effective to ensure that independent views and input are available to the Board during the year ended 31 December 2021.

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

None of the members of the Board is related to each other.

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 in the Listing Rules and other applicable legal and regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices. The participations by each of the Directors in the continuous professional development are recorded.

During the year ended 31 December 2021, the Company arranged seminar for Directors from time to time on changes in the Listing Rules and other applicable regulations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the period from 22 February 2021 and up to 30 June 2021, Professor Xiao Kai was the chairman of the Company.

With effect from 29 October 2021 and up to the date of this report, Professor Xiao Kai has been the chairman of the Company and Mr. Feng Junzheng has been the chief executive officer of the Company.

CORPORATE GOVERNANCE REPORT

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective views and 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.

For details of the non-compliance with Rules 3.10(1), 3.10(2), and 3.10A of the Listing Rules, please refer to 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 such confirmations, the Company considers that all of the independent non-executive Directors are independent.

ATTENDANCE RECORDS OF DIRECTORS

Details of Directors' attendance at the annual general meeting ("AGM"), Board and board committee meetings in the year 2021 are set out in the following table.

	Number of meetings attended/held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	CG Committee	AGM
Executive Directors						
Professor Xiao Kai (appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)	2/2	–	–	1/1	–	1/1
Mr. Feng Junzheng (appointed on 29 October 2021)	1/1	–	–	–	–	–
Mr. Shen Shun	6/6	–	–	–	–	1/1
Mr. Yang Bo (appointed on 22 February 2021 and retired on 30 June 2021)	1/1	–	–	–	–	1/1
Mr. Chen Rongxin (resigned on 23 February 2021)	2/2	–	–	–	–	–
Non-executive Directors						
Mr. Zhang Xiongfeng	6/6	–	–	–	–	1/1
Mr. Zhang Tong (appointed on 29 October 2021)	1/1	–	–	–	–	–
Mr. Chen Yunwei (appointed on 29 October 2021)	1/1	–	–	–	–	–
Mr. Hu Haisong (retired on 30 June 2021)	0/3	–	–	–	–	0/1
Mr. Wu Guohua (retired on 30 June 2021)	0/3	–	–	–	–	0/1

CORPORATE GOVERNANCE REPORT

	Number of meetings attended/held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	CG Committee	AGM
Independent non-executive Directors						
Mr. Cao Lei (appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)	2/2	2/2	1/1	1/1	1/1	1/1
Mr. Ding Qing (appointed on 29 October 2021)	1/1	1/1	1/1	–	–	–
Ms. Luo Ke (appointed on 29 October 2021)	1/1	1/1	1/1	1/1	–	–
Mr. Ng Wai Tsan (appointed on 22 February 2021 and retired on 30 June 2021)	1/1	1/1	–	–	1/1	1/1
Mr. Chen Yongsheng (appointed on 22 February 2021 and retired on 30 June 2021)	1/1	1/1	–	–	1/1	1/1
Mr. Liu Liangzhong (resigned on 1 February 2021)	–	–	–	–	–	–

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 setting out 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. The members of the Audit Committee during the year ended 31 December 2021 and up to the date of this report are as follows:

Ms. Li Yan (appointed on 10 March 2023)
Mr. Cao Lei (appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)
Mr. Khor Khie Liem Alex (appointed on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Chen Yongsheng (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Liu Liangzhong (resigned on 1 February 2021)

Mr. Liu Liangzhong was the chairman of the Audit Committee between 1 January 2021 and 1 February 2021. Then, Mr. Chen Yongsheng was the chairman of the Audit Committee between 22 February 2021 and 30 June 2021. After that, Ms. Luo Ke was the chairman of the Audit Committee between 29 October 2021 and 10 March 2023. Ms. Li Yan has been the chairman of the Audit Committee with effect from 10 March 2023.

CORPORATE GOVERNANCE REPORT

Details of non-compliance with Rule 3.21 of the Listing Rules during the year ended 31 December 2021 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.

During the year ended 31 December 2021, the Audit Committee held two meetings and reviewed and discussed with the external auditors of the Company the consolidated financial statements of the Group for the year ended 31 December 2020, and the effectiveness of the internal control system of the Group, 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.

Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors. The members of the Remuneration Committee during the year ended 31 December 2021 and up to the date of this report are as follows:

Mr. Cao Lei (appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Khor Khie Liem Alex (appointed on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Chen Yongsheng (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Liu Liangzhong (resigned on 1 February 2021)

Mr. Liu Liangzhong was the chairman of the Remuneration Committee between 1 January 2021 and 1 February 2021. Then, Mr. Cao Lei was the chairman of the Remuneration Committee between 22 February 2021 and 30 June 2021 and he has been re-appointed as the chairman of the Remuneration Committee with effect from 29 October 2021.

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, prevailing market rates and other 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 2021, 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.

CORPORATE GOVERNANCE REPORT

The remuneration of the members of the senior management of the Group by bands for the year ended 31 December 2021 is set out below:

Remuneration bands	Number of persons
Nil to HK$1,000,000	2

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 11 and 12 to the consolidated financial statements.

Nomination Committee

The Nomination Committee consists of one non-executive Director and two independent non-executive Directors. The members of the Nomination Committee during the year ended 31 December 2021 and up to the date of this report are as follows:

Mr. Khor Khie Liem Alex (appointed on 28 March 2023)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Chen Yunwei (appointed on 28 March 2023)
Professor Xiao Kai (appointed on 22 February 2021, retired on 30 June 2021, re-appointed on 29 October 2021 and resigned on 28 March 2023)
Mr. Cao Lei (appointed on 22 February 2021, retired on 30 June 2021, re-appointed on 29 October 2021 and resigned on 28 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Liu Liangzhong (resigned on 1 February 2021)

Professor Xiao Kai was the chairman of the Nomination Committee between 22 February 2021 and 30 June 2021 and between 29 October 2021 and 28 March 2023. Then, Mr. Khor Khie Liem Alex has been the chairman of the Nomination Committee with effect from 28 March 2023.

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 that 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 implementation of the Board Diversity Policy and to monitor the progress on achieving these objectives.

During the year ended 31 December 2021, the Nomination Committee held one meeting and reviewed the structure, size and composition of the Board, and assessed Board Diversity Policy, nomination policy and the independence of the independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the Nomination Committee. Notwithstanding the aforesaid, the ultimate responsibility for selection and appointment of Directors rests with the entire Board.

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on various criteria to determine whether such candidate is qualified for directorship. Those criteria include but not limited to, character and integrity, professional qualifications, skills, knowledge and experiences, potential contributions the candidate can bring to the Board, willingness and ability to devote adequate time to discharge duties as a member of the Board, and such other perspectives that are appropriate to the Company's business and succession plan. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

CG Committee

The CG Committee consists of three independent non-executive Directors. The members of the CG Committee during the year ended 31 December 2021 and up to the date of this report are as follows:

Mr. Cao Lei (appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Khor Khie Liem Alex (appointed on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Chen Yongsheng (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Liu Liangzhong (resigned on 1 February 2021)

Mr. Cao Lei was the chairman of the CG Committee between 22 February 2021 and 30 June 2021 and he has been re-appointed as the chairman of the CG Committee with effect from 29 October 2021.

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.

During the year ended 31 December 2021, the CG Committee held one meeting to review, among others, the Company's policies and practices on corporate governance, continuous professional development of the Directors and senior management of the Group, the policies and practices on compliance with legal and regulatory requirements and the Company's compliance with the CG code.

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. Any Director may propose to the chairman or the company secretary of the Company to include matters in the agenda for regular board meetings.

During the year ended 31 December 2021, the Board held six Board meetings. One annual general meeting was held by the Company during the year ended 31 December 2021 on 30 June 2021.

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 relevant 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.

From 13 December 2021 onwards, all Directors had access to the advice and services of the company secretary of the Company with a view to ensuring the Board procedures are followed.

MEETING WITH INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2021, the chairman of the Company had one meeting with the independent non-executive Directors without the presence of other Directors or senior management to review and discuss, among other things, any issue which is of special concern 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 2021, each of Professor Xiao Kai and Mr. Feng Junzheng has entered into a service contract, and each of Mr. Zhang Tong, Mr. Chen Yunwei, Ms. Luo Ke, Mr. Cao Lei and Mr. Ding Qing has entered into a letter of appointment, with the Company for a term of three years commencing from 29 October 2021. 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.

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.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy"). 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.

For the year ended 31 December 2021, the Company considers that it has complied with the Board Diversity Policy. As at 31 December 2021, the Board comprised nine Directors, eight of which were male Directors and one of which was female Director, with different age, educational background and professional experience. The Board and the Nomination Committee will review the Board Diversity Policy to ensure its effectiveness.

At the Group's senior management and entire workforce levels, approximately 50% and 62% of them are female respectively. The Board considered it has achieved gender balance at all levels, and shall strive to maintain not less than 10% of the personnels with different gender across all three levels (i.e. the Board, senior management and entire workforce level) through nomination, recruitment and promotion processes.

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 2021.

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

COMPANY SECRETARY

Mr. So Wing Chun has been appointed as the company secretary of the Company with effect from 13 December 2021. Mr. So is a manager of BMI Listed Corporate Services Limited, a corporate secretarial service provider in Hong Kong, and is responsible for provision of full range corporate secretarial and compliance services to listed and private companies. The primary contact person of the Company with the Company Secretary is Yuan Hongbing, an executive Director.

Mr. So obtained a Bachelor of Business Administration (Upper Second Class Honours) from Hong Kong Shue Yan University. He has been an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute since November 2019.

During the year ended 31 December 2021, the company secretary of the Company complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

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 2021 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.

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2021 includes paragraphs regarding disclaimer of opinion as set out on pages 53 and 55 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.

In March and April 2019, the Company entered into 2 sale and purchase agreements (the "Sale and Purchase Agreements") with Mr. Yu Kin Wai and Mr. Chu Hin Ming Alfonso (the "Vendors") to acquire the entire issued share capitals of Bisan Parkwell Consultants Limited and Parkwell Services Consultants Limited (the "Acquisitions"). The aforesaid companies held 49% legal and beneficial interest in the issued share capitals of two property companies in Malaysia (the "Property Companies"), which in turn held the interest in an aggregate of 68 units in the building called "The Apple" located in Melaka, Malaysia (the "Properties"). The consideration was satisfied by way of issue and allotment of an aggregate of 117,118,818 consideration shares at the issue price of HK$0.55 per share, which have been issued to the Vendors in March and April 2019. For details, please refer to the announcement of the Company dated 19 March 2019 and 12 April 2019.

In May 2022, the Board was informed by the Vendors that the Sale and Purchase Agreements have been terminated by the developers, to the effect that the Property Companies will cease to have any interest in the Properties. The Board did not have the supporting documents or information in relation to the termination. In view of the uncertainty in relation to the termination, the audit process could not be completed by 13 May 2022. As a result, trading in the Shares on the Stock Exchange has been suspended since 12 May 2022.

CORPORATE GOVERNANCE REPORT

The Company had engaged Deloitte & Touche Financial Advisory Services Limited (Guangzhou Branch) (the "Forensic Accountant") as the Company's forensic accountant to conduct an independent forensic investigation into the incident. The key findings of the Forensic Accountant includes: (i) the Acquisitions were proposed by Mr. Chen Yenfei and other Directors were not involved in the liaison with the counterparties of the transaction; (ii) after the resignation of Mr. Chen Yenfei, there was no management who was responsible for liaising with the Vendors on the progress of the Acquisitions, the Properties and the payment of purchase price of the Properties. The Company was only informed by the Vendors in early 2022 that payment of the purchase price of the Properties was not made in a timely manner; (iii) since the share price of the Company continued to fall and trading volume remained low, the proceeds from the disposal of the consideration shares were insufficient to support the payment of the balance of the purchase prices of the Properties; (iv) according to the parent company of the developer, the main reason why the property transactions were terminated was that the Vendors failed to pay the purchase prices of the Properties in a timely manner in accordance with the property agreements despite repeated requests and indulgence granted by the developers. For more details of the key findings of the Forensic Accountant, please refer to the announcement of the Company dated 26 October 2023.

The independent investigation committee of the Company and the Board have reviewed the forensic investigation report and consider that the contents and findings of the report reasonable and acceptable.

The Company has also engaged SHINEWING Risk Services Limited ("SHINEWING") to conduct an internal control review. The internal control review covers the period from 1 January 2022 to 31 August 2023. SHINEWING identified 15 internal control deficiencies. The Group has taken remedial actions and SHINEWING has performed follow up reviews on the enhanced internal control measure adopted by the Group. Having considered the aforesaid, the Board and the audit committee of the Company are of the view that (i) the major internal control deficiencies have been remedied and the associated risks have been controlled at a reasonable level, and (ii) the rectification actions and improvement measures implemented by the Company are sufficient to address the key findings of the internal control review.

Policy and procedures have also been established for investment management, including but not limited to analysis and approval procedures for investment and declaration of interest.

For more details, please refer to the announcements of the Company dated 26 October 2023 and 6 November 2023.

The annual results announcement of the Company for the year ended 31 December 2021 was published on 2 November 2023 and trading in the Shares have been resumed on 6 December 2023.

During the Reporting Period, the Board had outsourced its internal audit function to an independent internal audit firm (the "Internal Auditor"). The Internal Auditor reports directly to the Audit Committee once a year on all internal audit matters. The Audit Committee reviewed the internal audit report and would monitor the implementation of the improvements required on internal control weaknesses identified.

Even though the Group does not maintain an internal audit function, the Board has overall responsibility for the risk management and internal control systems and for reviewing its effectiveness. The Audit Committee and the Board would review the risk management and internal control systems once annually. Based on the review of the Group's internal control systems by the Internal Auditor, the Directors were satisfied that effective and adequate internal control measures as appropriate to the Group for the year ended 31 December 2021 were implemented properly and that no significant areas of weaknesses were identified.

CORPORATE GOVERNANCE REPORT

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.

The Company's vision is to become the leading pharmaceutical company by leveraging on its solid foundation in the PRC and has formulated a set of values and strategy guiding its operation. The vision has been considered with significance when developing the Group's internal policies and making day-to-day business decisions so that the Group would not take undue risks to make short term gains at the expense of such long term objectives.

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 reviewed by the Board and the Audit Committee on an annual basis. For the year ended 31 December 2021, the fees paid and payable to CCTH CPA and PRC statutory auditors in respect of their audit services provided to the Group were RMB1.2 million and 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 2021) amounted to RMB Nil 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 executed 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;

(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;

CORPORATE GOVERNANCE REPORT

(c) the Company will disclose the 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 and disclose the same 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 2021. 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 2021.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, through its corporate governance structure, provide 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 meetings

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 can 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 be sent to the Shareholders before the meeting. At the general meetings, separate resolutions are proposed on each substantial matter, including the election/re-election of each individual Directors. One general meeting was held during the year ended 31 December 2021.

(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/or Board committees at the general meetings or providing written proposals for the attention of the Board 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, an aggregate of 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 as 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 21 clear 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, 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 paragraph headed "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 the Shareholders to make an informed decision on their election of Directors, the abovementioned 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 public companies of which the securities are listed on any securities market in Hong Kong and overseas in the past three years, 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.

Having considered the above communication measures and channels, the Company considers the Shareholders communication policy is effective and sufficient during the year.

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 2021.

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

Special resolution will be proposed at the forthcoming annual general meeting of the Company to adopt the second amended and restated memorandum and articles of association of the Company in order to fully comply with the core shareholder protection standards as set out in Appendix 3 of the Listing Rules.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "Dividend Policy"), which sets out the 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 on a pro rata basis 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.

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

The biographical details of the Directors and the senior management as at the date of this report are as follows:

EXECUTIVE DIRECTORS

Professor Xiao Kai (肖凱) ("**Prof. Xiao**"), aged 43, was the Chairman and an executive Director from 22 February 2021 to the conclusion of the annual general meeting of the Company held on 30 June 2021 ("2020 AGM") and has been re-appointed as the Chairman and an executive Director with effect from 29 October 2021. Prof. Xiao 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 (中國併購公會) 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).

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 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.

Yuan Hongbing (袁紅兵), aged 44, was appointed as an executive Director with effect from 28 March 2023. Mr. Yuan has over 20 years of work experiences in investment industry. He is skilled in capital management, mergers and acquisitions as well as investment banking. Mr. Yuan is the founder and the chairman of the board of directors of Yuanchuang Capital, which is principally engaged in venture investment, investment in mergers and acquisitions and reorganization, industrial investment and fund management. Mr. Yuan has been an executive director and the chief executive officer of Jintai Energy Holdings Limited, a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 2728), since 31 May 2019 and 27 September 2019 respectively. Mr. Yuan was an executive director of China Clean Energy Technology Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 2379), from 3 October 2022 to 17 March 2023.

Feng Junzheng (馮軍正), aged 45, was appointed as an executive Director with effect from 29 October 2021. Mr. Feng, graduated from Wuhan University with an Executive Master of Business Administration degree, is a senior economist, Standing Vice President of Shaanxi Weinan Chamber of Commerce of Guangdong Province and Vice President of Shenzhen Foreign Trade Enterprise Development Association. Mr. Feng has extensive corporate management experiences and is familiar with domestic and foreign multi-level structured capital markets, and also possesses extensive experiences in supply chain industry and medical industry operations. China Enterprise Service (Shenzhen) Group Co., Ltd. (中企服（深圳）集團有限公司), a company that he founded in 2017, was awarded the "2021 New Information Consumption Demonstration Project", "2020 Contract-abiding and Creditworthy Enterprise" of Guangdong Province, "2020 Service-oriented Manufacturing Demonstration Enterprise (Platform) ", "Small and Medium-sized Enterprise Public Service Demonstration Platform" of Shenzhen, "2020 Technology Advanced Service Enterprise" and other honorary titles by Ministry of Industry and Information Technology of the PRC.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Zhang Tong (張同), aged 32, was appointed as a non-executive Director with effect from 29 October 2021. Mr. Zhang graduated from The Hong Kong Polytechnic University with a master's degree in operations research and risk analysis, and graduated from Beijing Forestry University with a bachelor's degree in mathematics. Mr. Zhang is currently the head of the Risk Management Department of Zhongtai Financial International Limited ("Zhongtai International"). Mr. Zhang has been working in the investment banking industry for more than six years and has accumulated extensive experiences in credit and risk management.

Chen Yunwei (陳運偉), aged 36, was appointed as a non-executive Director with effect from 29 October 2021. Mr. Chen graduated from Shandong University with a master's degree in economics. Mr. Chen is currently the head of Comprehensive Management Department and co-head of Structured Finance Department of Zhongtai International. Mr. Chen has been working in the investment banking industry for more than ten years and has accumulated extensive experiences in public bond market issuance, structured financing, cross-border private equity investment and independent financial consulting.

Mr. Chen has been appointed as a non-executive director of China Art Financial Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 1572), since 23 April 2021.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Cao Lei (曹雷), aged 66, was an independent non-executive Director from 22 February 2021 to the conclusion of the 2020 AGM and has been re-appointed as an independent non-executive Director with effect from 29 October 2021. Mr. Cao 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 experiences in enterprise operation and management, and is particularly familiar with and capable at corporate capital operation, domestic and overseas listing business, and investment and financing business.

Li Yan (李燕), aged 45, graduated from the Wuhan Institute of Chemical Technology (武漢化工學院) (currently known as Wuhan Institute of Technology (武漢工程大學)) in July 2000 with a bachelor's degree in accounting. Ms. Li has been a Chinese Certified Public Accountant since 2002 and a Certified Financial Manager since 2014. She started to work in auditing in 2000 and worked in a well-known domestic accounting firm. Ms. Li has been engaged in accounting and financial management since 2008. She has been appointed as the chief financial officer of a number of listed companies, and led or participated in a number of investment, financing and merger and acquisition projects, and participated in a number of corporate restructuring and initial public offering projects of these companies.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Khor Khie Liem Alex (許麒麟) (formerly known as Mr. Khor Kee Lin), aged 55, has accumulated more than 20 years of working experiences in the fields of finance, capital market, financial reporting and financial compliance services. Mr. Khor has been the founding director of KBS Capital Partners (Singapore) Pte. Ltd. ("KBS Capital") since July 2004, which principally provides accounting, tax, company secretarial compliance services, and corporate advisory services, including initial public offering facilitation, merger and acquisition services and project financing services. Mr. Khor has completed various initial public offering, merger and acquisition and project fund-raising transactions for KBS Capital's clients from Singapore, Malaysia and China.

Mr. Khor has been appointed as an independent non-executive director of Sanai Health Industry Group Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1889) with effect from February 2021; and an independent non-executive director of Xinming China Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2699) with effect from August 2021.

Prior to founding KBS Capital, Mr. Khor was the group financial controller of CFM Holdings Limited between 2002 and 2004, the group financial controller of TEE International Limited between 2000 and 2002, and the regional financial controller of Showpla Asia Limited between 1997 and 2000, all of which are listed on Singapore Exchange Limited.

Mr. Khor was admitted as an associate and a fellow member of the Association of Chartered Certified Accountants in 1999 and 2002, respectively. He obtained a Master of Business Administration from University of Leicester, United Kingdom in 2004. He is a Chartered Accountant of both the Institute of Singapore Chartered Accountants and the Malaysian Institute of Accountants.

SENIOR MANAGEMENT

Li Xiaoduo (李小多), aged 55, is a manager in charge of the manufacturing operation 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 experiences 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 operation. 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 44, is the head of accounting department of the Group. She is mainly responsible for daily accounting. Ms. Tang has over 15 years of experiences 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 2021.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2021 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 two business segments in China, namely (1) pharmaceutical distribution; and (2) pharmaceutical manufacturing. The analysis of the revenue of the principal activities of the Group during the year ended 31 December 2021 is set out in note 6 to the consolidated financial statements in this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss on page 56 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2021 (2020: Nil).

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 4 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 generated 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.

The Group will closely monitor the PRC economy and market from time to time and adjust its business strategy in a timely manner, if necessary.

(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.

There may be possibility that new laws and regulations are enacted in the future, which in turn affect the business models of the Group or otherwise increase the compliance costs thereof. The Group will closely monitor the legal and regulatory environment from time to time to minimise any compliance risks.

REPORT OF DIRECTORS

Operational risks

(i) Risk of non-compliance with safety standards

In recent years, the PRC government has been enhancing its supervision on the quality and safety standards of the pharmaceutical industry. If the Company fails to meet the quality and safety standards stipulated by the PRC government, the Company shall be fined and be required to invest fund immediately to make corresponding improvements in order to meet the existing standards. Thus, the Company's liquidity, profitability, expansion plans and other operational strategies may be affected. If the Company's products cause injury or death due to failure to meet standards stipulated by the PRC government, the Company shall be fined, prosecuted, or even be confronted with suspension crisis, which would severely affect the reputation of the Company.

The Company can mitigate the risk by:

(1) setting quality and safety standards in compliance with the standards stipulated by the PRC government;
(2) consulting with quality control consultants for quality and safety standards;
(3) keeping an eye on changes in the market and regulations of the pharmaceutical industry in the PRC, developing response plans for changes, and if necessary, consulting with lawyers or quality control consultants for response plans; and
(4) continuously updating and using compliance lists to ensure related personnel to carry out business and operation in compliance with the compliance lists.

(ii) Risk related to bidding for pharmaceuticals distribution

The Company operates agricultural distribution and selling business which primarily sells pharmaceuticals to hospitals and medical institutions in rural areas, provided that the Company can obtain the authority for pharmaceuticals supply from provincial or municipal governments through public bidding.

If the Company is unsuccessful in the bidding or fails in the bidding due to failure to timely response to changes in bidding procedures and policies, the Company will lose the authority to sell to provincial hospitals and other medical institutions, which will cause negative impacts on the agricultural distribution and selling business and market share of the Company. This will bring material and adverse impacts on the business operation, sustainable operation and cash flows of the Company.

REPORT OF DIRECTORS

The Company shall constantly strive to strengthen and develop its competitive strength and advantage. For this purpose, it can take measures such as the following:

(1) maintaining good communication and relationships with government departments and various medical institutions;
(2) continuously monitoring and updating information on bidding for pharmaceuticals distribution; and
(3) taking measures in response to unsuccessful bids, including changing sales strategies to allocate resources to explore other new sales channels (such as implementing online sales) and strengthening distribution and sales and expanding franchise network, etc.

(iii) Impacts caused by natural disasters

The Company's main production facilities are all located in Chengdu and Sichuan Province. If these production facilities in the same place are damaged due to attack by natural disasters such as flood, fire, or earthquake, the Company may be required to spend a lot of money and time for repairs. Meanwhile, if there is no alternative production equipment, it may cause insufficient production quantity or production interruption, and failure to meet customer demand, which may cause a decrease in the revenue of the Company.

The Company can mitigate the risk by:

(1) purchasing insurance to ensure the Company can get compensation and restore productivity as soon as possible
(2) engaging professionals to carry out annual review on the safety of factory

Financial risks

The Group is also subject to the following financial risks:

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

The above risks and uncertainties are not exhaustive and 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.

REPORT OF DIRECTORS

CHARGES OF ASSETS

Details of charges of the Group's assets during the year ended 31 December 2021 are set out in note 23 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. The Group's net debts include bank borrowings, corporate bonds and other borrowings, less cash and cash equivalents and pledged bank deposits. As at 31 December 2021, the Group's gearing ratio was -163.2% (2020: 28.9%).

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.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 25.0% of the total sales for the year ended 31 December 2021 and sales to the largest customer included therein amounted to approximately 8.3% 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 35.6% of the total purchases for the year ended 31 December 2021 and purchases from the Group's largest supplier included therein amounted to approximately 9.9% of the total purchases for the year.

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 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 stringent 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 2021 are set out in note 15 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 2021 are set out in note 34 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

ISSUE OF CORPORATE BONDS

During the period between 2016 and 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 2021, 15 corporate bonds with aggregate principal amount of HK$47.2 million matured and the Company has outstanding unpaid principal amount of HK$33.5 million of matured corporate bonds as at 31 December 2021.

As at 31 December 2021, interest payable on corporate bonds of approximately HK$13.4 million was due and remained outstanding. Since the maturity dates of bonds principals 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 2021 are set out on page 60 in the consolidated statement of changes in equity of this annual report and in note 36 to the consolidated financial statements in the annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's accumulated losses amounted to approximately RMB723.6 million and the Company's share premium amounted to approximately RMB691.9 million. 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 Act of the Cayman Islands. As at 31 December 2021, the Company's reserves available for distribution amounted to approximately RMB0 million (2020: RMB416.2 million).

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2021 are set out in note 26 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this annual report were:

Executive Directors:

Professor Xiao Kai *(Chairman)* (appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)
Mr. Yuan Hongbing (appointed on 28 March 2023)
Mr. Feng Junzheng *(Chief Executive Officer)* (appointed on 29 October 2021)
Mr. Shen Shun (resigned on 26 October 2023)
Mr. Yang Bo (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Chen Rongxin (resigned on 23 February 2021)

Non-executive Directors:

Mr. Zhang Tong (appointed on 29 October 2021)
Mr. Chen Yunwei (appointed on 29 October 2021)
Mr. Zhang Xiongfeng (resigned on 16 March 2023)
Mr. Hu Haisong (retired on 30 June 2021)
Mr. Wu Guohua (retired on 30 June 2021)

Independent non-executive Directors:

Mr. Cao Lei (appointed on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021)
Ms. Li Yan (appointed on 10 March 2023)
Mr. Khor Khie Liem Alex (appointed on 10 March 2023)
Mr. Ding Qing (appointed on 29 October 2021 and resigned on 10 March 2023)
Ms. Luo Ke (appointed on 29 October 2021 and resigned on 10 March 2023)
Mr. Ng Wai Tsan (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Chen Yongsheng (appointed on 22 February 2021 and retired on 30 June 2021)
Mr. Liu Liangzhong (resigned on 1 February 2021)

Each of the executive Directors has entered into a service contract, and each of the non-executive Directors, 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 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. 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 11 to the consolidated financial statements in this annual report.

As at 31 December 2021 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.

REPORT OF DIRECTORS

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group as at the date of this annual report are set out on pages 30 to 32 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 2021.

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 (within the meaning of the Listing Rules) of the Company (or any of their subsidiaries) which subsisted at any time during the year ended 31 December 2021.

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 2021.

PERMITTED INDEMNITY PROVISION

Upon the expiry of previous directors and officers insurance on 18 June 2021, the Company did not arrange any new insurance cover in respect of legal actions against its Directors and senior management arising out of corporate activities during the year ended 31 December 2021. Up to the date of this annual report, no permitted indemnity provision was being in force for the benefit of any of the Directors or senior management.

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.

Subject to the requirements of the Listing Rules, 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. As at 31 December 2021, the total number of securities available for issue pursuant to the options granted under the Share Option Scheme 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. As at 1 January 2021 and 31 December 2021, the total number of Shares in respect of which options available for grant under the Share Option Scheme were 47,499,290 Shares, representing in aggregate approximately 3.22% 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 one month 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.

Subject to the requirements of the Listing Rules, 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 2021 are set out as follows:

			Number of share options					
Name	Date of grant	Vesting date	Outstanding as at 1 January 2021	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2021
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$1.0 from each of the grantees of these options upon acceptance of the options granted.

From 1 January 2023, the Company will rely on the transitional arrangements provided by the Stock Exchange for share schemes should it decide to grant any share options. The Company will amend the terms of the Share Option Scheme or consider to adopt a new share option scheme in compliance with the new Chapter 17 of the Listing Rules as and when appropriate.

Save and except the Share Option Scheme, the Company did not have any other share scheme during the year ended 31 December 2021.

EMOLUMENT POLICY

The Remuneration Committee 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.

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 35 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

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 11 and 12 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 2021.

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 2021, 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. Zhang Xiongfeng	Beneficial owner	34,814,000	2.36%

Note:

1. The total number of Shares in issue as at 31 December 2021 (i.e. 1,474,992,908 Shares) has been used for the calculation of the approximate percentage of interest.

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 Shares held	Approximate percentage of shareholding *(Note 1)*
Mr. Zhang Xiongfeng *(Note 2)*	Beneficial owner	10,000,000 *(Note 2)*	0.68%

Notes:

1. The total number of Shares in issue as at 31 December 2021 (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. Zhang Xiongfeng on 7 September 2018 pursuant to the Share Option Scheme and which 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 2021, 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 2021, 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%
Osman Mohammed Arab *(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 2021 (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 2021, 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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 2021. 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 2021.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2021 is contained in note 42 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 2021 (2020: Nil).

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management and auditor of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the annual financial statements for the year ended 31 December 2021.

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 12 to 29 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the 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 required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

(1) Restructuring and Scheme of Arrangement

Since 2020, various winding-up petitions were presented against the Company. As at the date of this report, a re-re-amended petition ("Re-Re-Amended Petition") remains subsisting. The Re-Re-Amended Petition was filed by a substituting petitioner against the Company for the Company's failure to settle the principal sum and interest payment with total amount of HK$2,573,424.66 in respect of the bond issued to a petitioner by the Company. The hearing of the Re-Re-Amended Petition is adjourned to 20 November 2023.

In or around early June 2023, in view of the winding-up petitions, the Company contemplates a restructuring of its overall indebtedness position in order to address the liquidity issue faced by the Company.

On 20 July 2023, the Company, through its legal advisors, made an ex parte application to the High Court to apply for leave to convene the Scheme Meeting for the purpose of considering and, if thought fit, approving the Scheme of Arrangement and related directions.

The Scheme Meeting was held on 18 October 2023. During the Scheme Meeting, over 50% in number of, and representing not less than 75% in value of the claims of, the creditors present and voting in person or by proxy at the Scheme Meeting, have voted in favour of the Scheme of Arrangement. The High Court of Hong Kong sanctioned the Scheme of Arrangement on 1 November 2023.

REPORT OF DIRECTORS

EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(1) Restructuring and Scheme of Arrangement *(Continued)*

For the Re-Re-Amended Petition, the High Court of Hong Kong has indicated that, on the basis of the undertaking given by the Company, the court considered that there is sufficient assurance that the Scheme of Arrangement will proceed with the result that all creditors will receive various payments provided for under the Scheme of Arrangement and will be able to resolve insolvency status and there is no further basis for the Substituting Petitioner to maintain that the Company is insolvent and should be wound up by the court. The High Court of Hong Kong requested the Substituting Petitioner to act reasonably and indicate her consent to the dismissal of the Re-Re-Amended Petition so as to dispense with the parties' attendance and the court will be able to pronounce the order dismissing the Re-Re-Amended Petition without either hearing the Company or the Substituting Petitioner. This is a matter that should be dealt with by way of consent summons.

As at the date of this report, the Company was in negotiation with the substituting petitioner for an amicable settlement and the withdrawal of the said petition.

For details and progress of the restructuring and the Scheme of Arrangement, please refer to the announcements of the Company dated 25 July 2023, 11 August 2023, 8 September 2023, 15 September 2023, 25 September 2023, 18 October 2023 and 1 November 2023.

(2) Establishment of Independent Investigation Committee

On 12 August 2022, the Company received a resumption guidance letter (the "Resumption Guidance"), pursuant to which the Stock Exchange requires the Company to, inter alia, (i) conduct an appropriate independent forensic investigation (the "Investigation") into two acquisitions (the "Acquisitions") (including the two side agreements), the termination thereof and the other related matters raised by the Company auditors, announce the findings and take appropriate remedial actions and (ii) conduct an independent internal control review (the "Internal Control Review") and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules.

As disclosed in the announcement of the Company dated 12 May 2023, a report on the Internal Control Review and the report on the Investigation were completed. On 17 August 2023, the Board has resolved to establish an independent investigation committee (the "Committee"), initially comprising three independent non-executive Directors, namely Mr. Cao Lei, Ms. Li Yan and Mr. Khor Khie Liem Alex, for the purpose of, among other things, conducting a comprehensive forensic investigation (the "Forensic Investigation") into the Acquisitions; reporting and making recommendations to the Board on appropriate actions to be taken.

As disclosed in the announcement of the Company dated 26 October 2023, the Committee and the Board have reviewed the forensic investigation report ("Forensic Investigation Report") and adopted the findings of the Forensic Investigation. The Board was of the view that the issues identified in the Forensic Investigation Report do not affect the business operation of the Group, and that with the proposed internal control measures, the Company would be able to monitor and control the risks of investments in the future.

For details of the matters relating to the Acquisitions, the Investigation, the Internal Control Review, the Forensic Investigation and the Committee, please refer to the announcements of the Company dated 12 May 2023, 29 May 2023, 11 August 2023, 17 August 2023 and 26 October 2023.

REPORT OF DIRECTORS

EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(3) Possible transaction pursuant to Rule 3.7 of the Takeovers Code

As disclosed in the Company's announcement dated 3 August 2022, the Board has been informed of the appointment of joint and several receivers and managers of the ordinary shares of HK$0.001 each in the Shares held by Praise Treasure Limited ("PTL"), a controlling shareholder of the Company.

As informed by PTL, 753,040,000 Shares (the "Charged Shares") were pledged by PTL in favour of the 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. 3 Fund SP (the "Chargee") to secure certain indebtedness of PTL, and on 27 July 2022, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited (the "Receivers") were appointed as joint and several receivers and managers over the Charged Shares, which represented approximately 51.05% of the issued share capital of the Company. For the purpose of the Code on Takeovers and Mergers (the "Takeovers Code"), the offer period commenced on 3 August 2022.

As announced by the Company on 8 March 2023, the Board has been advised by PTL that PTL was still in negotiations with the Chargee regarding settlement of the outstanding indebtedness owed by PTL to the Chargee. After making appropriate enquiries with the Receivers, the Receivers informed the Board that they have not identified a potential purchaser for the Charged Shares. As such, the Company considered that a bona fide offer was not imminent. The offer period under Rule 26.1 of the Takeovers Code was closed on 8 March 2023.

Please refer to the announcements of the Company dated 3 August 2022, 5 September 2022, 5 October 2022, 7 November 2022, 7 December 2022, 9 January 2023, 9 February 2023 and 8 March 2023 for details.

(4) Possible transaction which may or may not involve change of Controlling Shareholder of the Company

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

Any proposed change of the ownership of the 2019 Charged Shares may or may not involve a change of the controlling shareholder of the Company (the "Possible Transaction"). On 11 January 2022, the Company received a letter from the 2019 Receivers that the 2019 Receivers have been released from their appointment and ceased to act as joint and several receivers and managers over the 2019 Charged Shares with effect from 10 January 2022. Accordingly, the Possible Transaction will not proceed. 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, 11 March 2021, 12 April 2021, 12 May 2021, 15 June 2021, 15 July 2021, 16 August 2021, 16 September 2021, 18 October 2021, 18 November 2021, 20 December 2021 and 11 January 2022.

REPORT OF DIRECTORS

EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(4) Possible transaction which may or may not involve change of Controlling Shareholder of the Company *(Continued)*

Save as disclosed above and in the paragraph headed "Contingent Liabilities" in the Management Discussion and Analysis section of this report, the Board is not aware of any significant events requiring disclosure that has taken place subsequent to 31 December 2021 and up to the date of this report.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2021 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.

On behalf of the Board
Pa Shun International Holdings Limited
Professor Xiao Kai
Chairman and Executive Director

Hong Kong, 2 November 2023

INDEPENDENT AUDITOR'S REPORT

CCTH CPA LIMITED
中正天恆會計師有限公司

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

DISCLAIMER OF OPINION

We were engaged to audit 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 56 to 154, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

(a) Multiple uncertainties relating to going concern

As disclosed in note 2 to the consolidated financial statements, the net current liabilities and net liabilities of the Group at 31 December 2021 amounted to approximately RMB148,826,000 and RMB58,502,000 respectively, and the Group incurred net loss of approximately RMB330,401,000 for the year ended 31 December 2021.

The abovementioned conditions together with those set out in note 2 to the consolidated financial statements indicate the existence of material multiple uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the Scheme of Arrangement and other various measures to be undertaken by the Group, details of which are set out in note 2 to the consolidated financial statements. In view of the extent of the material multiple uncertainties relating to the results of those measures to be undertaken by the Group which might cast significant doubt on the Group's ability to continue as a going concern, we have disclaimed our audit opinion regarding the preparation of the consolidated financial statements on the going concern basis.

INDEPENDENT AUDITOR'S REPORT

Should the going concern assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their net realisable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

(b) Interests in associates

As detailed in our auditor's report dated 31 March 2021 on the Group's consolidated financial statements for the year ended 31 December 2020, we expressed a qualified opinion in respect of the Group's interests in associates amounted to approximately RMB42,881,000 as at 31 December 2020 because we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves whether (i) the property units held by the associates were beneficially owned by the associates, Awesome Applause Sdn. Bhd. and Massive Goodwill Sdn. Bhd., and (ii) impairment losses were required to be made on these property units by the associates. Any adjustments to be made against the property units held by the associates might have significant impact to the results of the associates, which in turn, might give rise to a significant impact on the loss of the Group for the prior year ended 31 December 2020 and the Group's net assets value as at that date.

Management of the Group, having conducted an assessment of the recoverable amounts of the Group's interests in the associates, considered it appropriate to make impairment losses in full against its carrying amount amounted to approximately RMB42,485,000 which were charged to the Group's profit and loss for the year ended 31 December 2021 and was included in other net losses.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves whether the impairment losses on interests in the associates amounted to approximately RMB42,485,000 were properly recognised in the Group's profit and loss for the current year ended 31 December 2021 or any impairment losses should have been attributable to the prior year ended 31 December 2020. Any adjustments, if required, to be made against the amount of impairment losses in the current year's profit and loss or prior year's profit and loss might have a significant impact on the loss of the Group for the year ended 31 December 2021 and the accumulated losses at 1 January 2021. Our opinion on the Group's consolidated financial statements is also modified because of the possible effect of the aforementioned matters on the comparability of the current year's figures and the corresponding figures for the prior year ended 31 December 2020.

(c) Property development project

The Group had property development project with the carrying amount of approximately RMB74,000,000 as at 31 December 2021 and impairment loss on the property development project amounted to approximately RMB111,797,000 was recognised in profit and loss of the Group in respect of the current year and was included in other net losses. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves whether the amount of the impairment loss on the property development project were properly recognised in the consolidated financial statements. Any adjustments to be made against the amount of impairment loss recognised might have a significant impact on the loss of the Group for the year ended 31 December 2021 and the carrying amount of the property development project as at that date.

INDEPENDENT AUDITOR'S REPORT

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

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

In preparing the consolidated financial statements, the directors 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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report that include 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 1 November 2023

Yeung May May Joey
Practising Certificate Number: P05205

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 2021

		Year ended 31 December	
		2021	2020
	NOTES	**RMB'000**	RMB'000
Revenue	*6(a)*	**85,913**	474,835
Cost of sales		**(72,958)**	(457,138)
Gross profit		**12,955**	17,697
Other income and gains	*7(a)*	**18,651**	16,991
Other net losses	*7(b)*	**(316,330)**	(414,576)
Selling and distribution expenses		**(8,793)**	(8,085)
General and administrative expenses		**(19,404)**	(26,268)
Finance costs	*8*	**(10,496)**	(11,520)
Loss before tax	*9*	**(323,417)**	(425,761)
Income tax (expense)/credit	*10*	**(6,984)**	6,572
Loss for the year		**(330,401)**	(419,189)
Attributable to:			
Equity shareholders of the Company		**(330,401)**	(418,454)
Non-controlling interests		**–**	(735)
Loss for the year		**(330,401)**	(419,189)

The notes on pages 64 to 154 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 2021

	NOTE	Year ended 31 December 2021 RMB'000	 2020 RMB'000
Loss for the year		**(330,401)**	(419,189)
Other comprehensive (expense)/income 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")		**(6,083)**	13,670
Total comprehensive expense for the year		**(336,484)**	(405,519)
Attributable to:			
Equity shareholders of the Company		**(336,484)**	(404,784)
Non-controlling interests		**–**	(735)
Total comprehensive expense for the year		**(336,484)**	(405,519)
Loss per share (in RMB cents)	*14*		
Basic		**(22.4)**	(28.37)
Diluted		**N/A**	N/A

The notes on pages 64 to 154 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	NOTES	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**38,180**	40,910
Right-of-use assets	16	**3,177**	4,188
Interests in associates	17	**–**	42,881
Other intangible assets	18(a)	**111**	26,677
Property development project	19	**74,000**	185,797
Deferred tax assets	31(b)	**–**	4,640
		115,468	305,093
CURRENT ASSETS			
Inventories	20	**8,346**	17,950
Trade and other receivables	21	**25,784**	81,980
Prepayments and deposits paid	22	**15,322**	82,548
Amounts due from related parties	42(b)	**32**	85
Pledged bank deposits	23	**–**	10,087
Cash and cash equivalents	23	**2,272**	5,262
Income tax recoverable	31(a)	**–**	180
		51,756	198,092
CURRENT LIABILITIES			
Trade and other payables	25	**99,876**	99,023
Bank borrowings	26	**5,000**	8,000
Amount due to a shareholder	27	**933**	550
Amounts due to associates	28	**–**	2
Amounts due to related parties	42(b)	**568**	145
Corporate bonds payable	29	**76,583**	87,751
Other borrowings	30	**16,189**	4,788
Income tax payable	31(a)	**1,433**	–
		200,582	200,259
NET CURRENT LIABILITIES		**(148,826)**	(2,167)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(33,358)**	302,926

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	NOTES	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Deferred income – government grant	32	**23,029**	23,541
Deferred tax liabilities		**1,741**	–
Lease liabilities	33	**374**	1,403
		25,144	24,944
NET (LIABILITIES)/ASSETS		**(58,502)**	277,982
CAPITAL AND RESERVES			
Share capital	34	**1,216**	1,216
Reserves	36	**(59,718)**	276,766
(Deficit)/equity attributable to equity shareholders of the Company		**(58,502)**	277,982

The consolidated financial statements on pages 56 to 63 were approved and authorised for issue by the board of directors of the Company on 1 November 2023 and are signed on its behalf by:

Xiao Kai
Director

Yuan Hongbing
Director

The notes on pages 64 to 154 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to equity shareholders of the Company										
	Share capital RMB'000	Share premium RMB'000	PRC statutory reserve RMB'000	Investment revaluation reserve RMB'000 *(Note 36)*	Share option reserve RMB'000 *(Note 36)*	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 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/(expense) 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 and 1 January 2021	1,216	691,882	(9,386)	–	11,456	4,125	(28,150)	(393,161)	277,982	–	277,982
Loss for the year	–	–	–	–	–	–	–	**(330,401)**	**(330,401)**	–	**(330,401)**
Other comprehensive expense for the year											
Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	–	–	**(6,083)**	–	–	**(6,083)**	–	**(6,083)**
Total comprehensive income/(expense) the year	–	–	–	–	–	**(6,083)**	–	**(330,401)**	**(336,484)**	–	**(336,484)**
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–
Transfer of PRC statutory reserve to retained profits	–	–	**42,529**	–	–	–	–	**(42,529)**	–	–	–
At 31 December 2021	**1,216**	**691,882**	**33,143**	–	**11,456**	**(1,958)**	**(28,150)**	**(766,091)**	**(58,502)**	–	**(58,502)**

The notes on pages 64 to 154 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

		Year ended 31 December	
		2021	2020
	NOTES	**RMB'000**	RMB'000
Operating activities			
Loss before tax		**(323,417)**	(425,761)
Adjustments for:			
Depreciation of property, plant and equipment	*15*	**2,867**	3,079
Depreciation of right-of-use assets	*16*	**1,011**	1,393
Impairment loss on interests in associates	*7(b)*	**42,485**	6,088
Amortisation of intangible assets	*18*	**2,560**	2,614
Government grant recognised to profit or loss		**(512)**	(512)
Impairment loss on property, plant and equipment	*15*	**–**	7,200
Impairment loss on intangible assets	*18*	**24,006**	–
Impairment loss on inventories	*7(b)*	**1,891**	–
Impairment loss on trade receivables	*7(b)*	**41,405**	242,887
Impairment loss on other receivables	*7(b)*	**40,859**	62,407
Impairment loss on property development project	*7(b)*	**111,797**	–
Impairment loss on prepayments and deposits paid	*7(b)*	**57,027**	102,237
Reversal of impairment loss on trade receivables	*7(b)*	**(290)**	(6,263)
Reversal of impairment loss on other receivables	*7(b)*	**(3,000)**	–
Gain on disposal of a subsidiary	*38*	**–**	(5,908)
Gain on disposal of interest in an associate	*7(a)*	**(16,344)**	–
Reversal of write-off of other payables	*7(a)*	**–**	541
Write-off of property, plant and equipment	*7(b)*	**86**	20
Bank interest income	*7(a)*	**(103)**	(45)
Interest income from other receivables	*7(a)*	**–**	(3,099)
Finance costs	*8*	**10,496**	11,520
Net foreign exchange gains		**(7,934)**	7,970

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

		Year ended 31 December	
	NOTES	**2021 RMB'000**	2020 RMB'000
Operating cash flows before movements in working capital		**(15,110)**	6,368
Decrease/(increase) in inventories		**7,713**	(3,149)
Increase in trade and other receivables		**(19,778)**	(5,965)
Decrease/(increase) in prepayments and deposits paid		**10,199**	(5,838)
Increase in amounts due from an associate		**(1,656)**	–
Decrease in amounts due from related parties		**53**	–
Decrease in trade and other payables		**(5,130)**	(2,898)
Decrease in amount due to associates		**(2)**	–
Increase in amounts due to related parties		**423**	–
Cash used in operations		**(23,288)**	(11,482)
Income tax refunded/(paid)	*32(a)*	**1,010**	(117)
Net cash used in operating activities		**(22,278)**	(11,599)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

		Year ended 31 December	
	NOTES	**2021 RMB'000**	2020 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(223)**	(80)
Proceeds from disposal of an associate		**15,000**	–
Consideration for disposal of financial assets at fair value through other comprehensive income		**–**	3,000
Disposal of a subsidiary	*38*	**–**	(5,197)
Decrease/(increase) in pledged bank deposits		**10,087**	(197)
Bank interest received		**103**	45
Net cash generated from/(used in) investing activities		**24,967**	(2,429)
Financing activities			
Drawn down of new bank loans	*39*	**5,000**	10,000
Repayment of bank loans	*39*	**(8,000)**	(6,000)
Funding from other borrowings	*39*	**11,679**	4,788
Funding from amount due to a shareholder	*39*	**383**	302
Repayment of corporate bond payable	*39*	**(11,657)**	(889)
Payment of lease liabilities	*39*	**(988)**	(1,406)
Finance costs paid	*39*	**(2,099)**	(3,623)
Net cash (used in)/generated from financing activities		**(5,682)**	3,172
Net decrease in cash and cash equivalents		**(2,993)**	(10,856)
Cash and cash equivalents at 1 January		**5,262**	16,125
Effect of changes in foreign exchange rates		**3**	(7)
Cash and cash equivalents at 31 December	*23*	**2,272**	5,262

The notes on pages 64 to 154 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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, 3/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 44.

The trading of shares of the Company on the Stock Exchange suspended as from 12 May 2022 and the shares trading has not been resumed thereafter up to the date of approval of these consolidated financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong.

In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention.

Going concern

Notwithstanding that the current liabilities of the Group at 31 December 2021 exceed the Group's current assets at that date by RMB148,826,000, which includes the corporate bonds payable, other borrowings and bank borrowing amounted to RMB76,583,000, RMB16,189,000 and RMB5,000,000 respectively; the total liabilities of the Group at 31 December 2021 exceed the Group's total assets at that date by RMB58,502,000 and that the Group incurred net loss amounted to RMB330,401,000 for the year ended 31 December 2021, the directors of the Company consider it appropriate for the preparation of the consolidated financial statements on a going concern basis after taking into account of the following circumstances and measures being/to be implemented:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

Going concern *(Continued)*

(a) Up to the date of approval of these consolidated financial statements, the Company announced for the proposed scheme of arrangement ("Scheme of Arrangement") for the restructuring of its overall indebtedness position, under which

(i) All unsecured and non-preferential claims ("Scheme Claims") shall be discharged and released in full as against the Company on the date on which the Scheme of Arrangement becomes unconditional and comes into effect;

(ii) The creditors with Scheme Claims ("Scheme Creditors"), which have been admitted by the administrators of the Scheme of Arrangement or the adjudicator, will be entitled to the following in proportion to their admitted claims on a pari passu basis:

– an initial cash payment representing 1% of the admitted claims ("Initial Cash Payment"); and

– annual cash payments from 2024 to 2028 ("Yearly Payments").

The Yearly Payments comprise a cash amount which shall be the higher of (i) HK$5 million of the year 2024 and HK$10 million annually for the years 2025 to 2028; and (ii) a cash amount representing the relevant proportion of the Company's audited consolidated net profits for the relevant financial year.

Details of the Scheme of Arrangement are set out in the announcement dated 15 September 2023 (the "Announcement") made by the Company. On 18 October 2023, over 50% in number of, and representing not less than 75% in value of the claims of, the creditors included in the Scheme Creditors voted in favour of the Scheme of Arrangement. On 1 November 2023, the Hong Kong Court sanctioned the Scheme of Arrangement. The Scheme of Arrangement will be effective subject to various conditions to be fulfilled, details of which are set out in the Announcement.

Management of the Company expect that a substantial part of the liabilities which are classified as current liabilities will be classified as non-current liabilities when the Scheme of Arrangement is effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

Going concern *(Continued)*

(b) Management of the Group will closely monitor the financial position of the Group and the directors of the Company will make every effort to (a) generate adequate cash flows from its continuing operations; and (b) secure funds as may be necessary by pledge of the assets involved in the property development project being undertaken by the Group and issue of new shares as may be necessary to finance the business operations of the Group and repayment of existing debts when they fall due in the foreseeable future.

In light of the measures and arrangements implemented to date, the directors of the Company are of the view that the Group will have sufficient cash resources to satisfy its working capital and other financial obligations for the next twelve months from the date of approval of these consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its businesses. Accordingly, the directors of the Company are of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Multiple material uncertainties regarding the Group's ability to operate as a going concern exist as to whether management of the Group will be able to achieve its plans and measures as described above. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the value of assets to their net realisable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

(a) Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institutes of Certified Public Accountants (the "HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosure set out in these consolidated financial statements.

(b) New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 3 (Amendments)	Reference to the Conceptual Framework[1]
HKAS 16 (Amendments)	Property, Plant and Equipment – Proceeds before Intended Use[1]
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2018–2020[1]
HKFRS 17	Insurance Contracts and the related Amendments[2]
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies[2]
HKAS 8 (Amendments)	Definition of Accounting Estimates[2]
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKFRS 16	Lease liability in a Sale and Leaseback[4]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS1	Non-current liabilities with convenants[4]

1 Effective for annual periods beginning on or after 1 January 2022.
2 Effective for annual periods beginning on or after 1 January 2023.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2024.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Investments in associates *(Continued)*

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.

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.

(c) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial liabilities

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.

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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) 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.

(f) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) 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.

(i) 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.

(j) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) 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.

(k) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) 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.

(l) 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.

(m) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) 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.

(o) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Segment reporting

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

5. 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 2021

5. 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: RMB130,790,000 (2020: RMB383,001,000))

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: RMB25,816,000 (2020: RMB82,065,000))

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: RMB38,180,000 (2020: RMB40,910,000))

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 2021

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

(d) Net realisable value of inventories (carrying amount: RMB8,346,000 (2020: RMB17,950,000))

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: Nil (2020: RMB4,640,000))

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.

6. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are pharmaceutical distribution 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:

	2021 **RMB'000**	2020 RMB'000
Pharmaceutical distribution	**61,889**	447,106
Pharmaceutical manufacturing	**24,024**	27,729
	85,913	474,835

(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 2021

6. 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.

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 2021 and 2020 is set out below.

	Year ended 31 December 2021						
	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	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	6,007	18,487	37,756	152	62,402	23,511	85,913
Inter-segment revenue	–	–	–	–	–	512	512
Reportable segment revenue	6,007	18,487	37,756	152	62,402	24,023	86,425
Reportable segment profit	66	812	3,498	13	4,389	8,566	12,955
Other segment information							
Depreciation and amortisation	–	–	–	–	–	215	215

	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	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. 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

	2021 RMB'000	2020 RMB'000
Revenue		
Reportable segment revenue	**86,425**	475,627
Elimination of inter-segment revenue	**(512)**	(792)
Consolidated revenue	**85,913**	474,835
Loss		
Reportable segment profit	**12,954**	17,695
Elimination of inter-segment loss	**1**	2
Gross profit derived from external customers	**12,955**	17,697
Other income and gains	**18,651**	16,991
Other net losses	**(316,330)**	(414,576)
Selling and distribution expenses	**(8,793)**	(8,085)
General and administrative expenses	**(19,404)**	(26,268)
Finance costs	**(10,496)**	(11,520)
Consolidated loss before tax	**(323,417)**	(425,761)
Other items		
Depreciation and amortisation		
Reportable segment total	**215**	112
Unallocated total	**6,223**	6,974
Consolidated total	**6,438**	7,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. 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:

	2021 **RMB'000**	2020 RMB'000
Revenue generated from pharmaceutical distribution		
Customer A	**N/A***	194,187
Customer B	**N/A***	79,206

* Revenue from each of the Customer A and Customer B for the year ended 31 December 2021 did not contribute 10% or more to the Group's revenue for this year respectively.

The Group's segment revenue and segment profit were entirely derived from activities of pharmaceutical distribution and pharmaceutical manufacturing in the PRC for the years ended 31 December 2021 and 2020 and the principal assets employed by the Group were located in the PRC as at 31 December 2021 and 2020. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2021 and 2020.

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 2021 and 31 December 2020 for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. OTHER INCOME AND GAINS AND OTHER NET LOSSES

(a) Other income and gains

	2021 RMB'000	2020 RMB'000
Gain on disposal of interest in an associate	**16,344**	–
Rental income	**1,421**	–
Bank interest income	**103**	45
Deferred income – government grant	**518**	512
Franchise fee	**–**	3,357
Interest income from other receivables	**–**	3,099
Gain on disposal of subsidiary	**–**	5,908
Reversal of write-off of other payables	**–**	(541)
Net foreign exchange gains	**–**	57
Royalty fee income	**–**	4,000
Others	**265**	554
	18,651	16,991

(b) Other net losses

	2021 RMB'000	2020 RMB'000
Impairment loss on:		
Property, plant and equipment	**–**	7,200
Interests in associates	**42,485**	6,088
Inventories	**1,892**	–
Other intangible assets	**24,069**	–
Property development project	**111,797**	–
Trade receivables	**41,405**	242,887
Other receivables	**40,859**	62,407
Prepayments and deposits paid	**57,027**	102,237
Reversal of impairment loss on:		
Trade receivables	**(290)**	(6,263)
Other receivables	**(3,000)**	–
Write-off of property, plant and equipment	**86**	20
	316,330	414,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

8. FINANCE COSTS

	2021 **RMB'000**	2020 RMB'000
Interest on:		
Bank borrowings	**504**	671
Corporate bonds payable	**8,436**	10,664
Other borrowings	**1,504**	98
Lease liabilities	**52**	87
	10,496	11,520

9. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	2021 **RMB'000**	2020 RMB'000
Cost of inventories *(note i)*	**72,958**	457,138
Salaries, wages and other benefits	**7,864**	11,002
Contributions to defined contribution retirement plans	**317**	342
Total staff costs *(note ii)*	**8,181**	11,344
Amortisation of intangible assets	**2,560**	2,614
Depreciation of property, plant and equipment	**2,867**	2,909
Depreciation of right-of-use assets	**1,011**	1,393
Auditors' remuneration		
Audit services	**1,182**	1,182
Non-audit services	**–**	160

Notes:

(i) Cost of inventories includes staff costs and depreciation expenses totalled RMB955,000 (2020: RMB1,069,000) 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 2021

10. INCOME TAX EXPENSE/(CREDIT)

	2021 RMB'000	2020 RMB'000
Current tax		
PRC Enterprise Income Tax	603	(7,275)
Deferred tax		
Origination and reversal of temporary differences	6,381	703
	6,984	(6,572)

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 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% (2020: 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 year ended 31 December 2020 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 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:

	2021 RMB'000	2020 RMB'000
Loss before tax	(323,417)	(425,761)
Tax charge on loss before tax, calculated at the statutory tax rates applicable in the jurisdictions concerned	(71,983)	(99,277)
Effect of non-deductible expenses	69,867	109,915
Effect of non-taxable income	(577)	(6,622)
Effect of temporary differences not previously recognised/ (not recognised)	9,677	(3,301)
Overprovision in respect of prior years	–	(7,287)
Income tax expense/(credit)	6,984	(6,572)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

For the year ended 31 December 2021

	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 *(note a)*	–	–	–	–
Xiao Kai *(Chairman) (note e)*	–	–	–	–
Yang Bo *(note f)*	–	–	–	–
Feng Junzheng *(Chief Executive Officer) (note g)*	–	–	–	–
Chen Rongxin *(note h)*	–	–	–	–
Shen Shun	–	–	–	–
Non-executive directors				
Zhang Xiongfeng	–	–	–	–
Hu Haisong *(note i)*	–	–	–	–
Wu Guohua *(note j)*	–	–	–	–
Zhang Tong *(note k)*	–	–	–	–
Chen Yunwei *(note l)*	–	–	–	–
Independent non-executive directors				
Liu Liangzhong *(note b)*	–	–	–	–
Wong Tak Shing *(note c)*	–	–	–	–
Lu Yongchao *(note d)*	–	–	–	–
Cao Lei *(note m)*	–	–	–	–
Ng Wai Tsan *(note n)*	–	–	–	–
Chen Yongsheng *(note o)*	–	–	–	–
Luo Ke *(note p)*	–	–	–	–
Ding Qing *(note q)*	–	–	–	–
	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

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 a)*	320	–	–	320
Shen Shun	–	184	22	206
Chen Rongxin	–	–	–	–
Non-executive directors				
Zhang Xiongfeng	45	–	–	45
Hu Haisong *(note i)*	–	–	–	–
Wu Guohua *(note j)*	–	–	–	–
Independent non-executive directors				
Liu Liangzhong *(note b)*	45	–	–	45
Wong Tak Shing *(note c)*	80	–	–	80
Lu Yongchao *(note d)*	64	–	–	64
	554	184	22	760

Notes:

(a) 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.

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

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

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

(e) Xiao Kai was appointed as the Chairman of the Board and executive Director on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

For the year ended 31 December 2020 *(Continued)*

Notes: (Continued)

(f) Yang Bo was appointed as a executive director on 22 February 2021 and retired on 30 June 2021.

(g) Feng Junzheng was appointed as Chief Executive Officer and executive director on 29 October 2021.

(h) Chen Rongxin resigned on 23 February 2021.

(i) Hu Haisong retired as a non-executive director on 30 June 2021.

(j) Wu Guohua retired as a non-executive director on 30 June 2021.

(k) Zhang Tong was appointed as non-executive director on 29 October 2021.

(l) Chen Yunwei was appointed as non-executive director on 29 October 2021.

(m) Cao Lei was appointed as an independent non-executive director on 22 February 2021, retired on 30 June 2021 and re-appointed on 29 October 2021.

(n) Ng Wai Tsan was appointed as an independent non-executive director on 22 February 2021 and retired on 30 June 2021.

(o) Chen Yongsheng was appointed as an independent non-executive director on 22 February 2021 and retired on 30 June 2021.

(p) Luo Ke was appointed as an independent non-executive director on 29 October 2021.

(q) Ding Qing was appointed as an independent non-executive director on 29 October 2021.

During the year ended 31 December 2021, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 12 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 year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five employees of the Group with the highest emoluments, Nil (2020: two) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining five (2020: three) individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	**553**	537
Retirement scheme contributions	**23**	22
	576	559

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

	2021 Numbers of individuals	2020 Numbers of individuals
Nil to HK$1,000,000 (equivalent to RMB851,000) (2020: equivalent to RMB889,000)	**5**	3

13. DIVIDENDS

No dividend was paid, declared or proposed during the year ended 31 December 2021 (2020: Nil) nor had any dividend been proposed since the end of the reporting period (2020: Nil).

14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to equity shareholders of the Company of RMB330,401,000 (2020: RMB418,454,000) and the weighted average of approximately 1,474,993,000 ordinary shares (2020: 1,474,993,000 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 2021 and 31 December 2020 is not presented as there were no other potential ordinary shares in issue for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

15. 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 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 and 1 January 2021	**54,034**	**4,843**	**10,709**	**3,712**	**2,118**	**3,366**	**78,782**
Additions	**–**	**–**	**124**	**2**	**–**	**97**	**223**
Disposal of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals/write-off	**–**	**–**	**–**	**(1,576)**	**(268)**	**–**	**(1,844)**
At 31 December 2021	**54,034**	**4,843**	**10,833**	**2,138**	**1,850**	**3,463**	**77,161**
Accumulated depreciation and impairment							
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 and 1 January 2021	**18,534**	**3,743**	**10,217**	**3,347**	**2,031**	**–**	**37,872**
Depreciation for the year	**2,430**	**267**	**57**	**102**	**11**	**–**	**2,867**
Impairment loss recognised for the year *(note b)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposal of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Eliminated on disposals/write-off	–	–	–	**(1,492)**	**(266)**	**–**	**(1,758)**
At 31 December 2021	**20,964**	**4,010**	**10,274**	**1,957**	**1,776**	**–**	**38,981**
Carrying amount							
At 31 December 2021	**33,070**	**833**	**559**	**181**	**74**	**3,463**	**38,180**
At 31 December 2020	35,500	1,100	492	365	87	3,366	40,910

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 RMB Nil (2020: RMB7,200,000) which was charged to profit or loss in respect of the current year (note 7(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

16. RIGHT-OF-USE ASSETS

	Leased land RMB'000 *(Note a)*	Leased properties RMB'000 *(Note b)*	Total RMB'000
Carrying amount at 31 December 2019 and 1 January 2020	2,115	945	3,060
New leases entered during the year	–	2,522	2,522
Depreciation provided for the year	(63)	(1,330)	(1,393)
Exchange difference	–	(1)	(1)
Carrying amount at 31 December 2020 and 1 January 2021	**2,052**	**2,136**	**4,188**
Depreciation provided for the year	**(62)**	**(949)**	**(1,011)**
Carrying amount at 31 December 2021	**1,990**	**1,187**	**3,177**

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 43 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.

17. INTERESTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Unlisted associates		
Cost of investments	**48,956**	48,956
Share of post-acquisition loss and other comprehensive income	**(6,471)**	(7)
Impairment loss recognised	**(42,485)**	(6,068)
	–	42,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17. INTERESTS IN ASSOCIATES *(Continued)*

Movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
At 1 January	**42,881**	50,580
Impairment loss recognised for the year *(note 7(b))*	**(42,485)**	(6,088)
Exchange difference	**(396)**	(1,611)
At 31 December	**–**	42,881

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
		2021	2020	**2021**	2020	
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	**0%**	49%	**0%**	49%	Medicine chain store operation and management

Notes:

(i) The principal assets of Awesome Applause and Massive Goodwill are property units in Malaysia, which comprised 48 units and 20 units of properties located in Melaka, Malaysia held by the associates. The directors of the Company conducted assessments of the recoverable amounts of the investments in associates with reference to the valuations of these 68 property units conducted by an independent firm of professional valuers with recognised qualifications and experiences, using the market-based approach methodology. Since the Group lost significant influence of the associates and the investments in these associates are not recoverable, management of the Group consider it appropriate to recognise an impairment loss against the investments amounted to approximately RMB42,485,000 which was charged to profit or loss for the year ended 31 December 2021. For the year ended 31 December 2020, since the estimated recoverable amounts of the investments in associates was lower than their respective carrying amounts and therefore, in the opinion of the directors of the Company, an impairment loss amounted to approximately RMB6,088,000 was recognised to profit or loss for the year ended 31 December 2020.

(ii) On 8 August 2021, a subsidiary of the Company waived the amount due from Pashun Pharmacy at a consideration of RMB18,000,000. On 1 September 2021, the Group disposed of 49% equity interest in Pashun Pharmacy at the consideration of Nil to an independent third party, a PRC entity, a gain on disposal amounted to RMB16,344,000 was recognised to profit or loss in respect of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17. INTERESTS IN ASSOCIATES *(Continued)*

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 2021				31 December 2020			
	Pashun Pharmacy RMB'000	**Awesome Applause RMB'000**	**Massive Goodwill RMB'000**	**Total RMB'000**	Pashun Pharmacy RMB'000	Awesome Applause RMB'000	Massive Goodwill RMB'000	Total RMB'000
Non-current assets	**2,826**	**67,735**	**26,398**	**96,959**	2,761	67,735	26,398	94,133
Current assets	**14,191**	**2**	**2**	**14,195**	2,120	2	2	4
Current liabilities	**(18,690)**	**(13)**	**(13)**	**(18,716)**	(35,320)	(13)	(13)	(26)
Non-current liabilities	**–**	**(4,983)**	**(1,615)**	**(6,598)**	–	(4,983)	(1,615)	(6,598)
Net (liabilities)/ assets	**(1,673)**	**62,741**	**24,772**	**85,840**	(30,439)	62,741	24,772	87,513

	Year ended 31 December 2021			
	Pashun Pharmacy 1 January 2021 to 31 August 2021 *(note ii)* RMB'000	**Awesome Applause RMB'000**	**Massive Goodwill RMB'000**	**Total RMB'000**
Revenue	**–**	**–**	**–**	**–**
Loss before tax	**–**	**–**	**–**	**–**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**–**
Reconciliation of the Group's ownership	**49%**	**49%**	**49%**	
Group's share of net assets of the associate	**–**	**–**	**–**	**–**
Carrying amount of the investment	**–**	**–**	**–**	**–**
The unrecognised share of loss and total comprehensive loss for the year	**–**	**–**	**–**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17. INTERESTS IN ASSOCIATES *(Continued)*

	Year ended 31 December 2020			
	Pashun 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
Total unrecognised share of loss and total comprehensive loss for the year	(188)	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS

(a) Other intangible assets

	Patents RMB'000 *(Note (i))*	Computer software RMB'000 *(Note (ii))*	Total RMB'000
Cost			
At 31 December 2019 and 1 January 2020	37,000	1,864	38,864
Disposal of a subsidiary	–	(627)	(627)
At 31 December 2020 and 1 January 2021	**37,000**	**1,237**	**38,237**
Disposal of a subsidiary	**–**	**–**	**–**
At 31 December 2021	**37,000**	**1,237**	**38,237**
Accumulated amortisation and impairment			
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 and 1 January 2021	**10,580**	**980**	**11,560**
Amortisation for the year	**2,414**	**146**	**2,560**
Impairment loss recognised for the year	**24,006**	**–**	**24,006**
Disposal of a subsidiary	**–**	**–**	**–**
At 31 December 2021	**37,000**	**1,126**	**38,126**
Carrying amount			
At 31 December 2021	**–**	**111**	**111**
At 31 December 2020	26,420	257	26,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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"). These patents are "一種適合腎臟病人食用面製品及其加工方法", "一種脱蛋大米加工方法" 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. Due to uncertainty on the recoverability of the royalty fee from the licence of the patents, the royalty fee of RMB4,000,000 (2020: Nil) for the year ended 31 December 2021 was not recognised in the consolidated financial statements. In addition, impairment losses on the intangible assets (patents) and the royalty fee receivable amounted to RMB24,006,000 (2020: Nil) and RMB8,000,000 (2020: Nil) (Note 21(c)(iii)) respectively were recognised for the year and was included in other net losses.

The patents acquired were amortised on a straight line basis over the Patent Period. The carrying amount of the patents for the year ended 31 December 2021 will be amortised over the remaining useful lives of 14 years (2020: 13 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 6 years (2020: 1 to 7 years).

(iii) The amortisation charges of RMB2,560,000 (2020: RMB2,614,000) 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 2021

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

(b) Prepayments for intangible assets

	2021	2020
	RMB'000	RMB'000
Prepayments for patented technology *(note)*		
Cost	**20,000**	20,000
Impairment loss recognised	**(20,000)**	(20,000)
Carrying amount	**–**	–

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 prior years.

19. PROPERTY DEVELOPMENT PROJECT

	2021	2020
	RMB'000	RMB'000
Property development project in the PRC, at cost	**185,797**	185,797
Less: Impairment loss recognised	**(111,797)**	–
	74,000	185,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

19. PROPERTY DEVELOPMENT PROJECT *(Continued)*

The cost of the property development project represents the Group's 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. 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. It was 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, were financed as to 30% and 70% by the Group and Chengdu Yiming respectively and the subsidiary and Chengdu Yiming were 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.

On 9 March 2021, the subsidiary of the Company, Chengdu Yiming and a PRC registered company "Zhongnan Fanhua Construction (Hubei) Co., Ltd.*" ("Fanhua") have signed an 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 Yiming entrusts Fanhua to exercise the shareholders' equity on behalf of Chengdu Yiming to the end of the project. Therefore from the date of the agreement, Chengdu Yiming 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.

Subsequent to the end of the reporting period, the aforementioned agreement dated 9 March 2021 was cancelled by Chengdu Yiming, Fanhua and the subsidiary of the Company on 10 August 2022.

Management of the Group conducted impairment assessment of the property development project as at 31 December 2021 by reference to its estimated market value as at that date as valued by an independent firm of professional valuers, B. I. Appraisals Limited. In view of infrequent comparable market transactions occurred during the year under review, the market value of the property development project was determined based on the land price index published by the PRC government. With reference to the property valuation, impairment loss on the property development project amounted to RMB111,797,000 (2020: Nil) was recognised in profit or loss in respect of the year.

* *For identification purpose only*

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20. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**2,714**	7,669
Work in progress	**1,892**	1,934
Finished goods	**5,582**	8,297
Consumables	**50**	50
	10,238	17,950
Less: Impairment loss recognised	**(1,892)**	–
	8,346	17,950

21. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade and commercial bills receivables	**15,413**	53,521
Bank bills receivables	**677**	1,427
Other receivables	**9,694**	27,032
	25,784	81,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

21. 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:

	2021 RMB'000	2020 RMB'000
Within 1 month	**5,322**	3,837
1 to 3 months	**6,037**	8,236
4 to 6 months	**4,054**	29,469
Over 6 months	**–**	11,979
	15,413	53,521

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

	2021 RMB'000	2020 RMB'000
Trade and commercial bills receivables		
– Gross amount	**416,255**	413,248
– Allowance for doubtful debts	**(400,842)**	(359,727)
– Amount net of allowance for doubtful debts	**15,413**	53,521

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 2021

21. 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:

	2021 RMB'000	2020 RMB'000
At 1 January	359,727	123,319
Eliminated on disposal of a subsidiary	–	(216)
Impairment losses recognised *(note 7(b))*	41,405	242,887
Reversal of impairment losses *(note 7(b))*	(290)	(6,263)
Uncollectible amounts written off	–	–
At 31 December	400,842	359,727

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 41(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:

	2021 RMB'000	2020 RMB'000
Not past due	13,341	37,758
Less than 1 month past due	2,072	4,238
1 to 3 months past due	–	5,370
4 to 6 months past due	–	3,360
Over 6 months past due	–	2,795
	2,072	15,763
	15,413	53,521

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 (2020: 180 days).

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For the year ended 31 December 2021

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Other receivables

	2021 RMB'000	2020 RMB'000
Gross other receivables	**59,855**	89,439
Less: impairment losses recognized on		
– consideration receivable *(note i)*	**–**	30,000
– other taxes recoverable *(note ii)*	**–**	20,105
– royalty fee receivable *(note iii)*	**8,000**	–
– sundry receivables *(note iv)*	**42,161**	12,302
	50,161	62,407
	9,694	27,032

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

	2021 RMB'000	2020 RMB'000
Other taxes recoverable	**1,462**	1,737
Consideration receivable for disposal of an associate *(note 17)*	**3,000**	–
Consideration receivable for disposal of other intangible assets *(note 18(a))*	**–**	2,934
Royalty fee receivable	**–**	8,000
Sundry receivables	**5,232**	14,361
	9,694	27,032

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21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Other receivables *(Continued)*

Notes:

(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 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 year ended 31 December 2020 amounted to RMB3,099,000, which was included in other income and gains (note 7(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 which was charged to profit or loss in respect of the year ended 31 December 2020 (Note 7(b)) and was written off as uncollectible in the current year.

(ii) During the prior year ended 31 December 2020, 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 was recognized in profit or loss in respect of the year ended 31 December 2020 and was written off as uncollectible in the current year.

(iii) During the year ended 31 December 2021, management of the Group conducted review of the recoverability of the royalty fee receivable of the patents amounted to RMB8,000,000 (2020: Nil), which remained outstanding and cannot be assured beyond reasonable doubt, accordingly, consider it appropriate to recognise impairment loss on this receivable amounted to RMB8,000,000 (2020: Nil) which was charged to profit or loss in respect of the current year (Note 7(b)).

(iv) Included in sundry receivables at 31 December 2021 are receivables from certain third parties totalled RMB42,161,000 (2020: 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 RMB42,161,000 (2020: RMB12,302,000) which was charged to profit or loss in respect of the year (Note 6(b)).

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For the year ended 31 December 2021

22. PREPAYMENTS AND DEPOSITS PAID

	2021 RMB'000	2020 RMB'000
Advance payments to suppliers *(note i)*	**877**	71,679
Other deposits and prepayments *(note ii)*	**14,445**	10,869
	15,322	82,548

Notes:

(i) The amount represents deposits paid to suppliers for purchases of goods in relation to the business undertaken by the Group.

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 RMB57,027,000 (2020: RMB102,237,000) cannot be assured beyond reasonable doubt, accordingly impairment loss amounted to RMB57,027,000 (2020: RMB102,237,000) was recognised in respect of the year on such advance payments which was included in other net losses (note 7(b)).

(ii) Included in other deposits and prepayments are advances to certain staff of a subsidiary amounted to RMB5,920,000 (2020: RMB160,000). These staff advances, which were unsecured, interest free and repayable on demand, were fully repaid to the Group subsequent to the end of the reporting period.

23. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Pledged bank deposits *(notes a, b and c)*	**–**	10,087
Cash and cash equivalents in the consolidated statement of financial position *(notes b and c)*		
– Cash at banks and on hand	**2,272**	5,262
	2,272	15,349

Notes:

(a) Bank deposits amounted to RMB Nil (2020: RMB10,087,000) have been pledged to banks for bills facilities of RMB Nil (2020: RMB19,978,000) 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 RMB2,209,000 (2020: RMB5,199,000) 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 2021

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 **RMB'000**	2020 RMB'000
Equity securities listed in Hong Kong, held for trading at fair value *(note 41(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.

25. TRADE AND OTHER PAYABLES

	2021 **RMB'000**	2020 RMB'000
Trade payables *(note (i))*	**27,878**	29,201
Bills payables	**3,470**	19,978
Lease liabilities *(note 33)*	**865**	772
Salaries, wage and welfare payable	**8,033**	6,086
Contract liabilities *(note (ii))*	**21,295**	12,822
Accrued corporate bond interest	**13,863**	10,286
Accrued interest for other borrowings	**1,443**	–
Other payables	**23,029**	19,878
	99,876	99,023

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:

	2021 **RMB'000**	2020 RMB'000
Within 1 month	**4,587**	5,080
1 to 3 months	**4,610**	3,485
Over 3 months	**18,681**	20,636
	27,878	29,201

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 2021

25. 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:

	2021 **RMB'000**	2020 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**1,853**	1,578

No billings in advance of performance received is expected to be recognised as income after more than one year. As the related contracts with an original expected duration of one year or less, as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

26. BANK BORROWINGS

	2021 **RMB'000**	2020 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)*	**5,000**	6,000
	5,000	8,000

Notes:

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

(b) The bank loan outstanding carried interest at fixed interest rate of 8.50% per annum (2020: 8.50% per annum).

27. AMOUNT DUE TO A SHAREHOLDER

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

28. 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 2021

29. CORPORATE BONDS PAYABLE

	2021 RMB'000	2020 RMB'000
Carrying amount of corporate bonds due in:		
– 2019	**2,337**	3,156
– 2020	**11,178**	22,183
– 2021	**14,458**	14,126
– 2022	**2,834**	2,789
– 2023	**789**	784
– 2024	**29,752**	29,527
– 2025	**15,235**	15,186
	76,583	87,751
Payable		
– Within one year	**76,583**	39,465
– In the second to fifth years	**–**	48,286
	76,583	87,751
Analysed for reporting purposes as:		
Current liability	**76,583**	87,751
Movements in corporate bonds payable are as follows:		
At beginning of the year	**87,751**	91,014
Interest recognised as finance costs *(note 8)*	**6,263**	8,394
Accrued interest reclassified and included in trade and other payables *(note 25)*	**(3,808)**	(4,943)
Repayments during the year	**(11,657)**	(889)
Exchange realignment	**(1,966)**	(5,825)
At end of the year	**76,583**	87,751

At 31 December 2021, the corporate bonds with the principal amount of HK$98,200,000 (2020: HK$111,900,000) remained outstanding.

The Group had not made repayments of principals and interests on certain corporate bonds in accordance with the terms of 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. For details, please refer to Note 46(a) and (b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

30. OTHER BORROWINGS

	2021 RMB'000	2020 RMB'000
Unsecured borrowings from third parties	**16,189**	4,788

The other borrowings are unsecured, interest bearing at 1% per month and repayable on demand.

31. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2021 RMB'000	2020 RMB'000
PRC Enterprise Income Tax	**1,433**	(180)

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

	2021 RMB'000	2020 RMB'000
At 1 January	**(180)**	8,695
Charge for the year	**603**	–
(Overprovision)/underprovision in respect of prior years	**–**	(7,275)
Released on disposal of a subsidiary	**–**	(1,483)
Tax refunded/(paid) during the year	**1,010**	(117)
At 31 December	**1,433**	(180)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

31. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(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:

	Provision for impairment RMB'000	Provision for accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 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 and 1 January 2021	**3,272**	**1,670**	**(302)**	**4,640**
Credited to profit or loss	**(2,458)**	**(1,399)**	**(2,524)**	**(6,381)**
At 31 December 2021	**814**	**271**	**(2,826)**	**(1,741)**

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2021 RMB'000	2020 RMB'000
Deferred tax (liabilities)/assets, net	**(1,741)**	4,640

(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 RMB7,347,000 (2020: RMB15,127,000) was not provided for in the consolidated financial statements of the Group in respect of undistributed profits of relevant PRC subsidiaries amounted to RMB146,941,000 (2020: RMB302,547,000) 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 RMB22,240,000 (2020: RMB16,452,000) 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 2021

32. DEFERRED INCOME – GOVERNMENT GRANT

	2021 RMB'000	2020 RMB'000
At 1 January	**23,541**	24,053
Credited to profit or loss	**(512)**	(512)
At 31 December	**23,029**	23,541

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.

33. LEASE LIABILITIES

	2021 RMB'000	2020 RMB'000
Lease liabilities payable:		
– within one year	**865**	772
– within a period of more than one year but not more than two years	**374**	1,403
Total lease liabilities payable	**1,239**	2,175
Less: Amount due for settlement within twelve months included in trade and other payables *(Note 25)*	**865**	772
Amount due for settlement after twelve months shown under non-current liabilities	**374**	1,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. SHARE CAPITAL

	Par value HK$	Number of ordinary shares '000	Nominal amount of ordinary shares HK$'000
Authorised:			
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	0.001	5,000,000	5,000

	Par value HK$	Number of ordinary shares '000	Nominal amount of ordinary shares HK$'000	Carrying amount RMB'000
Issued and fully paid:				
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	0.001	1,474,993	1,475	1,216

35. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

35. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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.

No share options were granted under the Scheme during the year ended 31 December 2021 and 31 December 2020.

Movements in the number of share options during the years ended 31 December 2021 and 31 December 2020 are as follows:

	2021					2020				
	Weighted average exercise price	**Number of share options**				Weighted average exercise price	Number of share options			
		Directors	**Employees**	**Others**	**Total**		Directors	Employees	Others	Total
	HK$	**'000**	**'000**	**'000**	**'000**	HK$	'000	'000	'000	'000
At 1 January and 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:

2021 Number of options '000	**Exercise price per share HK$**	**Exercise period**
100,000	**0.67**	**7 September 2018 to 25 May 2025**

2020 Number of options '000	Exercise price per share HK$	Exercise period
100,000	0.67	7 September 2018 to 25 May 2025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK$0.67 (2020: 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 3.4 years (2020: 4.4 years).

At the end of the reporting period, the Company had 100,000,000 (2020: 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 (2020: 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 2021 (2020: HK$67,000,000).

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.

36. RESERVES

	2021	2020
	RMB'000	RMB'000
Share premium *(note i)*	**691,882**	691,882
PRC statutory reserve *(note ii)*	**33,143**	(9,386)
Share option reserve *(note 35)*	**11,456**	11,456
Exchange reserve	**(1,958)**	4,125
Other reserve *(note iii)*	**(28,150)**	(28,150)
Accumulated losses	**(766,091)**	(393,161)
	(59,718)	276,766

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. RESERVES *(Continued)*

(iii) Other reserve

Other reserve at 31 December 2021 amounted to RMB28,150,000 (2020: RMB28,150,000) 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 RMB1,616,000 (2020: RMB1,616,000).

37. 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 2021, there were no material forfeitures available to offset the Group's future contributions (2020: Nil).

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38. DISPOSAL OF SUBSIDIARIES

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)

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38. DISPOSAL OF SUBSIDIARIES *(Continued)*

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 outflow 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.

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39. 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	Other borrowings	Lease liabilities	Amount due to a shareholder	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019 and 1 January 2020	6,584	91,014	6,000	–	975	248	104,821
Financing cash inflows	–	–	10,000	4,788	–	302	15,090
Financing cash outflows	(3,623)	(889)	(6,000)	–	(1,406)	–	(11,918)
Disposal of subsidiary	–	–	(2,000)	–	–	–	(2,000)
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 and 1 January 2021	**10,286**	**87,751**	**8,000**	**4,788**	**2,175**	**550**	**113,550**
Financing cash inflows	**–**	**–**	**5,000**	**11,679**	**–**	**383**	**17,062**
Financing cash outflows	**(2,099)**	**(11,657)**	**(8,000)**	**–**	**(988)**	**–**	**(22,744)**
Disposal of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other non-cash movements	**3,808**	**(3,808)**	**–**	**–**	**–**	**–**	**–**
Finance costs for the year	**4,181**	**6,263**	**–**	**–**	**52**	**–**	**10,496**
Exchange realignment	**(870)**	**(1,966)**	**–**	**(278)**	**–**	**–**	**(3,114)**
At 31 December 2021	**15,306**	**76,583**	**5,000**	**16,189**	**1,239**	**933**	**115,250**

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40. 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:

	2021 RMB'000	2020 RMB'000
EQUITY		
(Deficit)/equity attributable to equity shareholders of the Company		
– Share capital	**1,216**	1,216
– Reserves	**(59,718)**	276,766
LIABILITIES		
Bank borrowings	**5,000**	8,000
Bills payables	**3,470**	19,978
Corporate bonds payable	**76,583**	87,751
Other borrowings	**16,189**	4,788

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.

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41. 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	
	2021	2020
	RMB'000	RMB'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	**25,784**	81,980
Amounts due from related parties	**32**	85
Pledged bank deposits	**–**	10,087
Cash and cash equivalents	**2,272**	5,262
	28,088	97,414
	28,088	97,414

	Financial liabilities at 31 December	
	2021	2020
	RMB'000	RMB'000
Financial liabilities at amortised cost		
Trade and other payables	**99,876**	99,023
Bank borrowings	**5,000**	8,000
Amount due to a shareholder	**933**	550
Amounts due to associates	**–**	2
Amounts due to related parties	**568**	145
Corporate bonds payables	**76,583**	87,751
Other borrowings	**16,189**	4,788
Lease liabilities	**1,239**	2,175
	200,388	202,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. 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 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(i) ***Trade receivables*** *(Continued)*

The loss allowance for trade receivables based on expected credit loss ("ECL") provision matrix was determined as follows:

	Receivables aged				
	0–90 days	**91–180 days**	**180–360 days**	**Over 360 days**	**Total**
31 December 2021					
Expected loss rate	**0.1%**	**0.3%**	**100%**	**100%**	
Gross carrying amount (RMB'000)	**8,919**	**6,524**	**517**	**400,295**	**416,255**
Loss allowance (RMB'000)	**9**	**21**	**517**	**400,295**	**400,842**

	Receivables aged				
	0–90 days	91–180 days	180–360 days	Over 360 days	Total
31 December 2020					
Expected loss rate	0.1%	0.2%	5%	100%	
Gross carrying amount (RMB'000)	12,086	29,528	371,634	359,026	413,248
Loss allowance (RMB'000)	12	59	630	359,026	359,727

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 RMB400,295,000 (2020: RMB359,026,000) 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 RMB400,842,000 (2020: RMB359,727,000) were recognised as at 31 December 2021, comprising impairment loss assessed based on the ECL provision matrix amounted to RMB547,000 (2020: RMB701,000) and the impairment loss assessed on individual credit impaired debtors amounted to RMB400,295,000 (2020: RMB359,026,000).

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 2021, the Group had a concentration of credit risk given that the top 5 customers account for 34% (2020: 44%) of the Group's total 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 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(i) Trade receivables (Continued)

16% (2020: 64%) of the Group's revenue for the year ended 31 December 2021 was derived from top five 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(ii) Other receivables and amounts due from related parties *(Continued)*

Management assessed that certain other receivables at 31 December 2021 are regarded non-performing and impairment loss for the year amounted to RMB40,859,000 (2020: RMB62,407,000) have been made for those other receivables. Save as aforementioned, the Group's internal credit rating of other receivables and amounts due from 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.

(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	**2021 RMB'000**	2020 RMB'000
Cash at banks and bank deposits	Aa2-A3 *(note (i))*	**62**	3,440
	AAA *(note (ii))*	**1,505**	11,632
	AA *(note (iii))*	**705**	1,585
		2,272	15,072

Notes:

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(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.

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 2021	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	99,876	–	–	99,876	99,876
Bank borrowings	5,000	–	–	5,000	5,000
Amount due to a shareholder	933	–	–	933	933
Amounts due to associates	–	–	–	–	–
Amounts due to related parties	568	–	–	568	568
Corporate bonds payable	76,583	–	–	76,583	76,583
Other borrowings	16,189	–	–	16,189	16,189
Lease liabilities	865	374	–	1,239	1,239
	200,014	374	–	200,388	200,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

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	99,023	–	–	99,023	99,023
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
Other borrowings	4,788	–	–	4,788	4,788
Lease liabilities	772	1,403	–	2,175	2,175
	155,512	66,844	–	222,356	202,434

(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, other 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. Other borrowing and 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 26. 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 2021, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings, cash at banks and pledged bank deposits, with all other variables held constant, would decrease/increase the Group's loss after tax (and accumulated losses) by approximately RMB14,000 (2020: RMB113,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

Sensitivity analysis *(Continued)*

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and 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 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 2020.

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.

(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	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**25,993**	95,277	**101,756**	98,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency exchange risk *(Continued)*

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.

	2021		2020	
	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%**	**619**	5%	213

(e) 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 2021

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial instruments measured at fair value *(Continued)*

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	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	Valuation technique(s) and key inputs
Recurring fair value measurements									
Assets:									
Financial assets at fair value through profit or loss *(note 24)*	-	-	-	-	-	-	-	-	Quoted bid price in an active market
	-	-	-	-	-	-	-	-	

During the years ended 31 December 2021 and 2020, 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 2021 and 2020. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

42. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2021 and 2020, apart from those disclosed elsewhere in the consolidated financial statements, 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
Advent View Limited ("Advent View")	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) (i) 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:

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	**148**	1,060
Post-employment benefits	**4**	43
	152	1,103

Total remuneration is included in staff costs (see note 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

42. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

(ii) Staff advances to key management personnel

	2021 RMB'000	2020 RMB'000
Key management personnel	1,396	–

(b) Balances with related parties

	NOTES	Amounts owed to the Group by related parties 2021 RMB'000	Amounts owed to the Group by related parties 2020 RMB'000	Amounts owed by the Group to related parties 2021 RMB'000	Amounts owed by the Group to related parties 2020 RMB'000
Balance with related parties					
Amount due from/(to) Hubei Bai Xin – non-trade in nature	*(i), (ii)*	–	5	–	–
Amount due from/(to) Wuhan Wantong – non-trade in nature	*(i)*	–	–	–	(93)
Amount due to Wuhan Bai Xin Zheng Yuan – trade in nature	*(i)*	–	–	–	(52)
Amount due to the director, Shen Shun – trade in nature	*(i), (ii)*	–	80	(70)	–
Amount due form Advent View – non-trade in nature	*(i), (ii)*	32	–	–	–
Total balances with related parties		32	85	(70)	(145)

Notes:

(i) The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms.

(ii) No impairment losses 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 2021 and 2020 are as follows:

	Maximum balance outstanding during the year 2021 RMB'000	Maximum balance outstanding during the year 2020 RMB'000
Hubei Bai Xin	–	5
Advent View	32	–
Wuhan Baixin Pharmaceutical	–	80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,006	1,006
CURRENT ASSETS		
Amounts due from subsidiaries	76,347	472,805
Other receivables	1,948	1,985
Prepayments and other deposits paid	1	1
Cash and cash equivalents	24	25
	78,320	474,816
CURRENT LIABILITIES		
Other payables	19,050	10,101
Corporate bonds payable	76,583	87,751
Amount due to a related party	568	145
Amount due to a shareholder	–	790
Amount due to a subsidiary	9,512	8,931
Other borrowings	16,189	4,788
	121,902	112,506
NET CURRENT (LIABILITIES)/ASSETS	(43,582)	362,310
TOTAL ASSETS LESS CURRENT LIABILITIES	(42,576)	363,316
NET (LIABILITIES)/ASSETS	(42,576)	363,316
CAPITAL AND RESERVES		
Share capital	1,216	1,216
Reserves *(note)*	(43,792)	362,100
TOTAL EQUITY	(42,576)	363,316

The Company's statement of financial position was approved and authorised for issue by the board of directors on 1 November 2023 and is signed on its behalf by:

Xiao Kai
Director

Yuan Hongbing
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. 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 31 December 2020 and 1 January 2021	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
Loss for the year	**–**	**–**	**–**	**–**	**(394,680)**	**(394,680)**
Other comprehensive loss for the year						
Exchange differences on translation of financial statements	**–**	**–**	**(11,212)**	**–**	**–**	**(11,212)**
Total comprehensive income/(loss) for the year	**–**	**–**	**(11,212)**	**–**	**(394,680)**	**(405,892)**
At 31 December 2021	**691,882**	**11,456**	**(2,027)**	**(74,753)**	**(670,350)**	**(43,792)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

44. 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 2021	Group's effective interest 2020	Held by the Company 2021	Held by the Company 2020	Held by a subsidiary 2021	Held by a subsidiary 2020	Principal activities
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%	**-**	-	**-**	49%	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 Services 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 2021

44. 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 2021 and 31 December 2020 accordingly. For details, please refer to note 17 and 38.

(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 allocated to non-controlling interests		Accumulated non-controlling interests	
		2021	2020	**2021**	2020	**2021**	2020
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Chengdu Pashun Pharmacy Chain Store Co., Ltd. ("Chengdu Pashun")	PRC	**–**	49	**–**	(735)	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

44. 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 2021 RMB'000	31 December 2020 RMB'000
Current assets	–	–
Non-current assets	–	–
Current liabilities	–	–
Equity attributable to owners of the Company	–	–
Non-controlling interests	–	–

	2021 RMB'000	2020 RMB'000
Revenue	–	23,409
Other income and gains	–	919
Cost of sales	–	(21,865)
Other expenses	–	(6,953)
Loss for the period	–	(1,490)
Loss attributable to:		
– owners of the Company	–	(755)
– non-controlling interests	–	(735)
Loss for the period	–	(1,490)
Net cash inflow/(outflows) from operating activities	–	1,765
Net cash outflow from investing activities	–	(3)
Net cash inflows from financing activities	–	1,958
Net cash inflow	–	3,720

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45. 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 British Virgin Islands. 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).

46. CONTINGENT LIABILITIES

As at 31 December 2021, except as disclosed below, there were no legal claims against the Group at that date.

(a) 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 "High 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 reached settlement agreement ("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. However, the Company did not fully comply with the Settlement Agreement and the Petitioner applied to the High Court to bring forward the hearing of the Petition. Subsequent to the year ended 31 December 2021, the Petition was dismissed by the High Court at the hearing on 17 January 2022.

(b) A petition (the "Petition") was filed on 30 May 2022 by Mr. Wu Yuehua (the "Petitioner") against the Company in the High Court for an order that the Company be wound up by the High Court. The Petition was filed against the Company for the Company's failure to settle the principal sum and interest payment with total amount of HK$2,390,000 in respect of the bond issued to the Petitioner by the Company.

On 6 March 2023, the Petition was heard at the High Court before a Judge, the Petition filed by the Petitioner was struck out and the supporting creditor, Opera Enterprise Limited ("Substituting Petitioner"), was granted to substitute the Petitioner. An amended petition ("Amended Petition") was filed by the Substituting Petitioner against the Company for the Company's failure to settle the principal sum and interest payment with total amount of approximately HK$842,000 in respect of the bond issued to the Substituting Petitioner by the Company.

The total outstanding sum claimed by the Petitioner has been included in the corporate bonds payable as at 31 December 2021 and no significant contingent liabilities was expected by the Group.

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For the year ended 31 December 2021

46. CONTINGENT LIABILITIES *(Continued)*

(c) A petition (the "Petition") was filed on 6 March 2023 by Mr. Zhang Min (the "Petitioner") against the Company in the Court of First Instance (the "First Instance Court") of Hong Kong for an order that the Company be wound up by the First Instance Court. The Petition was filed against the Company for the Company's failure to settle the principal sum of HK$4,000,000 and interest accrued in the total amount of approximately HK$4,730,000 in respect of the bond. Subsequent to the end of the reporting period, the Petition was dismissed by the First Instance Court on 28 June 2023.

The total outstanding sum claimed by the Petitioner has been included in the corporate bonds payable as at 31 December 2021 and no significant contingent liabilities was expected by the Group.

(d) A petition (the "Petition") was filed by 湖南省第六工程有限公司 (Hunan Province The Sixth Engineering Company Limited) (the "Petitioner") in the Sichuan Province Chengdu Intermediate People's Court against Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming") and a subsidiary of the Company for the Group's failure to settle the outstanding payable and interest payment in the total amount of approximately RMB24,657,000 regarding to the contract amount for property development project of the logistic centre in the PRC.

On 10 September 2021, the Group received a judgement from Sichuan Province Chengdu Intermediate People's Court, pursuant to which Chengdu Yiming has to pay the outstanding sum and release the subsidiary of the Company in relation to the claim and the legal costs of the court were borne by Chengdu Yiming. No provision for this legal litigation has been made in these consolidated financial statements.

47. EVENT AFTER THE REPORTING PERIOD

The following events took place subsequent to the end of the reporting period:

(a) On 11 January 2022, the Company has received a letter from the receivers that the receivers have ceased to act as joint and several receivers and managers over the charged shares held by a controlling shareholder, Praise Treasure Limited with effect from 10 January 2022.

(b) On 16 November 2020, the petition was filed by Ms. Feng Lihua (the "Petitioner") against the Company in the High Court of Hong Kong for an order that the Company be wound up by the court, 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 and the interest accrued on the bond from 1 October 2019 to 30 September 2020 in the sum of HK$650,000. The petition was dismissed by the Court at the hearing on 17 January 2022. Details regarding the petition are set out in the announcements of the Company dated 17 December 2020, 6 January 2021, 18 February 2021, 4 May 2021, 9 July 2021 and 2 November 2021.

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47. EVENT AFTER THE REPORTING PERIOD *(Continued)*

(c) On 8 April 2022, the associates of the Group, Awesome Applause and Massive Goodwill, entered into certain agreements with the developer of the properties held by the associates under which 68 units of properties located in Melaka, Malaysia, was terminated by the developer due to the failure to settle the outstanding sum in accordance with the respective terms as stated in the Sales & Purchase Agreement.

For further details, please refer to announcements of the Company dated 31 May 2022, 10 August 2022, 28 September 2022 and 16 January 2023.

(d) On 10 August 2022, the subsidiary of the Company has entered into an agreement with contracting parties to cancel the agreement dated on 9 March 2021 in relation to the property development project of the logistics centre in the PRC.

(e) On 12 August 2022, the Company received a letter ("Letter") from the Stock Exchange setting out the guidance for the resumption of trading in the shares of the Company ("Resumption Guidance") including: (i) publish all outstanding financial results required under the Listing Rules and address any audit modifications; (ii) conduct an appropriate independent forensic investigation into the acquisition of the principal assets, which is a total of 68 units situated in the building called "The Apple" located in Melaka, Malaysia ("properties"), held by the two associates of the Company ("Acquisitions") (including the two side agreements), the cease of interest in the properties ("Termination") and the other related matters, announce the findings and take appropriate remedial actions; (iii) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules; (iv) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; (v) have the winding up petition (or order, if made) withdrawn or dismissed; and (vi) inform the market of all material information for the Company's shareholders and other investors to appraise its position. It is stated in the Letter that the Company must meet all Resumption Guidance, remedy the issues causing its trading suspension and fully comply with the Listing Rules to the Stock Exchange's satisfaction before trading in the Company's shares is allowed to resume.

The trading of shares of the Company on the Stock Exchange continues to suspend and has not been resumed up to the date of these consolidated financial statements.

(f) A petition (the "Petition") was filed on 6 March 2023 by Mr. Zhang Min (the "Petitioner") against the Company in the Court of First Instance (the "First Instance Court") of the Hong Kong for an order that the Company be wound up by the First Instance Court. The Petition was filed against the Company for the Company's failure to settle the principal sum and interest payment in the total amount of approximately HK$4,730,000 in respect of the bond issued to the Petitioner by the Company. The Petition was dismissed by the First Instance Court on 28 June 2023, details of which are set out in the announcement of the Company dated 9 March 2023, 10 May 2023 and 28 June 2023.

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47. EVENT AFTER THE REPORTING PERIOD *(Continued)*

(g) Restructuring and Scheme of Arrangement

Since 2020, various winding-up petitions were presented against the Company. As at the date of these consolidated financial statements, the Amended Petition filed by the Petitioner was struck out and the supporting creditor, Zhu Shunyun ("Substituting Petition") was granted to substitute the petition ("Re-Re-Amended Petition") remains subsisting. The Re-Re-Amended Petition was filed by a petitioner against the Company for the Company's failure to settle the principal sum and interest payment with total amount of HK$2,573,424 in respect of the bond issued to the petitioner by the Company. The hearing of the Re-Re-Amended Petition is adjourned to 18 September 2023. As at the date of these consolidated financial statements, the Company is in negotiation with the petitioner for an amicable settlement and the withdrawal of the said petition.

In or around early June 2023, in view of the winding-up petitions, the Company contemplates a restructuring of its overall indebtedness position in order to address the liquidity issue faced by the Company.

On 20 July 2023, the Company, through its legal advisors, made an ex parte application to the High Court to apply for leave to convene a scheme meeting (the "Scheme Meeting") for the purpose of considering and, if thought fit, approving the scheme of arrangement (the "Scheme of Arrangement") and related directions.

The Scheme Meeting was held on 18 October 2023. During the Scheme Meeting, over 50% in number of, and representing not less than 75% in value of the claims of, the creditors present and voting in person or by proxy at the Scheme Meeting, have voted in favour of the Scheme of Arrangement. The Hong Kong Court sanctioned the Scheme of Arrangement on 1 November 2023 (the "Sanction Hearing"). It is expected that the Scheme of Arrangement will take effect shortly after the Sanction Hearing.

For the Re-Re-Amended Petition, the High Court of Hong Kong has indicated that, on the basis of the undertaking given by the Company, the court considered that there is sufficient assurance that the Scheme of Arrangement will proceed with the result that all creditors will receive various payments provided for under the Scheme of Arrangement and will be able to resolve insolvency status and there is no further basis for the Substituting Petitioner to maintain that the Company is insolvent and should be wound up by the court. The High Court of Hong Kong requested the Substituting Petitioner to act reasonably and indicate her consent to the dismissal of the Re-Re-Amended Petition so as to dispense with the parties' attendance and the court will be able to pronounce the order dismissing the Re-Re-Amended Petition without either hearing the Company or the Substituting Petitioner. This is a matter that should be dealt with by way of consent summons.

Details regarding the Scheme of Arrangement are set out in the announcements of the Company dated 25 July 2023, 11 August 2023, 8 September 2023 and 15 September 2023.

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47. EVENT AFTER THE REPORTING PERIOD *(Continued)*

(h) Establishment of Independent Investigation Committee

On 12 August 2022, the Company received a resumption guidance letter (the “Resumption Guidance”), pursuant to which the Stock Exchange requires the Company to, inter alia, (i) conduct an appropriate independent forensic investigation (the “Investigation”) into two acquisitions (the “Acquisitions”) (including the two side agreements), the termination thereof and the other related matters raised by the Company auditors, announce the findings and take appropriate remedial actions and (ii) conduct an independent internal control review (the “Internal Control Review”) and demonstrate that the Company has in place adequate internal controls and procedures to comply with Listing Rules.

As disclosed in the announcement of the Company dated 29 May 2023, a report on the Internal Control Review (“Internal Control Review Report”) and the report on the Investigation (“Investigation Report”) were completed. On 17 August 2023, the Board has resolved to establish an independent investigation committee (the “Committee”), initially comprising three independent non-executive Directors, namely Mr. Cao Lei, Ms. Li Yan and Mr. Khor Khie Liem Alex, for the purpose of, among other things, conducting a comprehensive forensic investigation into the Acquisitions; reporting and making recommendations to the Board on appropriate actions to be taken.

Details regarding the matters relating to the Acquisitions, the Investigation, the Internal Control Review and the Committee are set out in the announcements of the Company dated 12 May 2023, 29 May 2023, 11 August 2023 and 17 August 2023.

(i) Possible transaction pursuant to Rule 3.7 of the Takeovers Code

As disclosed in the Company’s announcement dated 3 August 2022, the Board has been informed of the appointment of joint and several receivers and managers of the ordinary shares of HK$0.001 each in the Shares held by Praise Treasure Limited (“PTL”), a controlling shareholder of the Company.

As informed by PTL, 753,040,000 Shares (the “Charged Shares”) were pledged by PTL in favour of the 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. 3 Fund SP (the “Chargee”) to secure certain indebtedness of PTL, and on 27 July 2022, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited (the “Receivers”) were appointed as joint and several receivers and managers over the Charged Shares, which represented approximately 51.05% of the issued share capital of the Company. For the purpose of the Code on Takeovers and Mergers (the “Takeovers Code”), the offer period commenced on 3 August 2022.

As announced by the Company on 8 March 2023, the Board has been advised by PTL that PTL was still in negotiations with the Chargee regarding settlement of the outstanding indebtedness owed by PTL to the Chargee. After making appropriate enquiries with the Receivers, the Receivers informed the Board that they have not identified a potential purchaser for the Charged Shares. As such, the Company considered that a bona fide offer was not imminent. The offer period under Rule 26.1 of the Takeovers Code closed on 8 March 2023.

Details regarding the aforementioned matters are set out in the announcements of the Company dated 3 August 2022, 5 September 2022, 5 October 2022, 7 November 2022, 7 December 2022, 9 January 2023, 9 February 2023 and 8 March 2023.