



現代中藥集團有限公司

Modern Chinese Medicine Group Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1643

ANNUAL REPORT

2023

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Important:

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Sun Xinlei (Chairman)
(Appointed as chairman on 3 November 2023)
Ms. Zhang Hongli (Chief Executive Officer)
Ms. Jia Yanru (Appointed on 3 November 2023)
Mr. Li Jinglian (Resigned on 3 November 2023)
Mr. Jiang Zhendong (Resigned on 3 November 2023)

Independent non-executive Directors

Ms. Liu Ling
Mr. Leung Tsz Wing
Mr. Wong Chi Kin (Appointed on 13 April 2023)
Mr. Chan Kam Leung (Resigned on 13 April 2023)

Audit Committee

Mr. Leung Tsz Wing (Chairman)
Ms. Liu Ling
Mr. Wong Chi Kin (Appointed on 13 April 2023)
Mr. Chan Kam Leung (Ceased on 13 April 2023)

Remuneration Committee

Ms. Liu Ling (Chairlady)
Ms. Zhang Hongli
Mr. Wong Chi Kin (Appointed on 13 April 2023)
Mr. Chan Kam Leung (Ceased on 13 April 2023)

Nomination Committee

Mr. Wong Chi Kin (Chairman) (Appointed on 13 April 2023)
Ms. Jia Yanru (Appointed on 3 November 2023)
Ms. Liu Ling
Mr. Jiang Zhendong (Ceased on 3 November 2023)
Mr. Chan Kam Leung (Ceased on 13 April 2023)

COMPANY SECRETARY

Ms. Jia Yanru (Appointed on 30 August 2023)
Ms. Chan Tsz Hei Sammi (Appointed on 30 June 2023)
Ms. Leung Kwan Wai (Resigned on 30 June 2023)

AUTHORISED REPRESENTATIVES

Ms. Zhang Hongli
Ms. Chan Tsz Hei Sammi (Appointed on 30 June 2023)
Ms. Leung Kwan Wai (Ceased on 30 June 2023)

INDEPENDENT AUDITOR

Mazars CPA Limited
*Certified Public Accountants and
Registered Public Interest Entity Auditor*
42nd Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISER

Mason Ching & Associates
2403, 24th Floor
World-Wide House
19 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKER

Bank of China Limited
Longhua Branch
No. 7 Anzhou North Street, Longhua Town
Longhua County, Chengde City
Hebei Province
PRC

REGISTERED OFFICE

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Cayman Islands

CORPORATE HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA

No. 88 Jinwei Road
Chengde City
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Ogier Global (Cayman) Limited
89 Nexus Way, Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
17/F, Far East Finance Centre
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STOCK CODE

1643

Board Statement and Executive Director's Message

Dear Shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Modern Chinese Medicine Group Co., Ltd. (the “**Company**”) and together with its subsidiaries the “**Group**”), I am pleased to present the annual report of the Group for the year ended 31 December 2023 (the “**Year 2023**”) for shareholder's review.

In 2023, COVID-19 pandemic (the “**Pandemic**”) has receded, but at the same time, we were facing fierce market competition and pressure on drug prices, as well as the complex evolution of the world situation and the impact of geopolitics, which created economic and political uncertainties in the world. For the Year 2023, the Group recorded revenue of approximately RMB344.1 million; net profit of approximately RMB48.8 million, representing a decrease of 13.9% and 44.4% respectively as compared to that of the year ended 31 December 2022 (“**Year 2022**”).

The Group is considered as one of the leading companies engaged in the production of Proprietary Chinese Medicines (“**PCM**”) in terms of the sales in Northeast region of the PRC, our Group will continue to contribute to China's healthcare industry, seize every development opportunity, actively research and develop high-quality PCM products, and strive to become one of the pioneers in the modernization of Traditional Chinese Medicine (“**TCM**”) in China.

Business Review

The group is committed to developing a diversified product portfolio to increase our market share in the TCM market and enhance industry competitiveness. We currently have approximately 60 types of PCM products and major products include Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸), Liver-dispersing and Stomach Regulating Pill (舒肝和胃丸) and Fever-removing and Detoxification Pill (清瘟解毒丸). The intended therapeutic effects of the Group's major products are for the treatment and/or alleviation of (i) Qi (氣) – deficiency and blood-stasis condition; (ii) cardio-cerebrovascular condition; (iii) digestive and gastrointestinal condition; and (iv) gynaecological condition. Some of the Group's major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illnesses.

As at 31 December 2023, the Group had a distribution network of 88 distributors, covering about 40 cities in the PRC. Sales revenue generated from Northeast China, being one of the Group's main strategic targets, was approximately RMB188.2 million for the Year 2023, representing a decrease of approximately 14.4% as compare to the Year 2022 and accounting for over 54.7% of the Group's total revenue.

Outlook

Attributable to the relaxation of domestic pandemic control and a series of policies and plans launched by the government of the People's Republic of China (“**PRC**”) during the Year 2023 to promote the development of the pharmaceutical industry, such as the “Notice on Issuing Key Tasks for Deepening the Reform of the Medicine and Hygiene System in the Second Half of 2023” (《關於印發深化醫藥衛生體制改革2023年下半年重點工作任務的通知》), the “Measures for the Administration of Drug Standards” (《藥品標準管理辦法》) and the “Provisions on Label Management of Chinese Medicine Decoction Pieces” (《中藥飲片標籤管理規定》), it is expected that the Chinese pharmaceutical market will maintain the positive growth. The “China Pharmaceutical Industry Research Blue Book (2022)” (《2022年版中國醫藥行業研究藍皮書》) released by the AskCI Research shows that in 2023, the scale of Chinese pharmaceutical market would have reached RMB1,797.7 billion and is expected to have a further rise to RMB1,931.2 billion in 2024.

Board Statement and Executive Director's Message (Continued)

We are confident about the prospects of TCM. As one of the Chinese medicine brands in the PRC, we will exploit the favorable government policies and further promote product portfolio diversification through continuous innovation and research and development. The Group will also coordinate online and offline product marketing strategies to create more value for our shareholders.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all our management and all colleagues for their valuable contribution to the Group. Moreover, I would also like to express my deepest appreciation to our valued shareholders, clients and business partners who have been supportive as always.

Ms. Zhang Hongli

Executive Director

Modern Chinese Medicine Group Co., Ltd.

22 March 2024

Management Discussion and Analysis

INDUSTRY OVERVIEW

Notwithstanding that the Pandemic has come to an end, industries in the Mainland China have been confronting economic downturn pressure and intricate international situations and as such, the State has continued to put in place different policies to promote high-quality development and persist in seeking progress while maintaining stability. In this regard, the pharmaceuticals industry is faced with new challenges. In view of the rising attention to health management alongside the continuous progress of science and technology, the State further promoted the standardization of the industry by issuing multiple policies at different levels, so as to facilitating the high-quality development of the pharmaceuticals industry. Such policies include promoting multi-level medical security, consummating public health system, carrying forward health knowledge publicity, and comprehensively regulating the behaviors and supervision system with respect to the purchase, storage, transportation and use of drugs by domestic pharmaceutical wholesales and retailers, pharmaceutical marketing authorization holders and medical institutions. In addition, standardized guidance has also been provided on pharmaceutical packaging, clinical medication management, pharmaceutical sales management and other aspects.

In spite of the challenges, the industry as a whole has maintained a growth trend. The pharmaceutical industry continues to serve as the pillar industry of the domestic economy, which is directly related to people's lives, health and quality of life, and has a significant impact on the economic society. According to the China Pharmaceutical Industry Development Conference held in October 2023, the average annual growth rate of the revenue from the primary business of the pharmaceutical industry and the average annual growth rate of the total profits since the "14th Five-Year" amounted to 9.3% and 11.3% respectively, indicating a more solid foundation for development.

In summary, despite various uncertainties and challenges, China's pharmaceutical industry has maintained a growth momentum in general. New business models have continued to emerge, and public awareness of self-care has been continuously enhanced after the Pandemic. Besides, the government's support for the industry has been consistently strengthened, providing a solid foundation for the industry's future development.

Management Discussion and Analysis (Continued)

BUSINESS REVIEW

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

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

The Group has currently established a distribution network of 88 distributors covering about 40 cities in the PRC, which are in turn served and administered by over 37 marketing staff members with relevant experience in the TCM industry. It is believed that the Group's distribution network and distributorship model will continue to support further development of the Group's business operations in the foreseeable future. In addition, the distribution network would not only help to develop the business operations geographically from the Northeast and Southern regions of the PRC to other areas in the PRC, but also allow the Group to penetrate in reasonably extensive width and breadth both in Northeast and Southern regions of the PRC, where the Group is strategically targeting at in view of the Group's established footprint and the large population there. For the Year 2023, the revenue contribution from Northeast region, Northern region and Southern region of the PRC amounted to approximately RMB188.2 million, RMB57.2 million and RMB56.3 million, respectively (2022: approximately RMB219.9 million, RMB67.0 million and RMB65.1 million).

During the Year 2023, for the purpose of meeting the new requirements for renewal of the Group's certificate of good manufacturing practice that, among the others, the cleanliness of pharmaceutical factory production areas must reach D grade, the Group entered into an engineering contract with National Power Runke Engineering (Beijing) Company Limited* (國電潤科電力設備工程北京股份有限公司) for the renovation of the Group's pharmaceutical manufacturing building located at Longhua County, Chengde City, Hebei Province, PRC. For details, please refer to the circular of the Company dated 29 December 2023. Taking into consideration the severe weather in the Hebei Province in December 2023, it is expected that the renovation will be completed in June 2024. Upon completion of the renovation, the Group's production will become more efficiency and the renovation work will allow the Group to manufacture better quality of products.

FINANCIAL REVIEW

The Group recorded revenue of approximately RMB344.1 million for the Year 2023, representing a decrease of approximately RMB55.6 million or 13.9% as compared to the Year 2022. The decrease in revenue was primarily driven by the decrease in the number of orders from distributors due to the change in government policies.

Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸) and Shan Mei Jiao Nang (山玫膠囊) were the three top selling products for the Year 2023. These three products contributed approximately 29.5% (2022: 28.7%), 15.3% (2022: 15.0%) and 10.1% (2022: 10.0%) of the Group's total revenue for the Year 2023, respectively.

Breakdown of the Group's revenue by geographic location is as follows:

| | For the year ended 31 December | | | |
|-------------------------------------|--------------------------------|--------------------------------------|----------------|--------------------------------------|
| | 2023 | Approximate % of total revenue | 2022 | Approximate % of total revenue |
| | RMB'000 | | RMB'000 | |
| Northeast region <i>(Note (i))</i> | 188,213 | 54.7 | 219,877 | 55.0 |
| Eastern region <i>(Note (ii))</i> | 29,384 | 8.5 | 31,948 | 8.0 |
| Southern region <i>(Note (iii))</i> | 56,326 | 16.4 | 65,108 | 16.3 |
| Northern region <i>(Note (iv))</i> | 57,194 | 16.6 | 67,006 | 16.8 |
| Southwest region <i>(Note (v))</i> | 7,296 | 2.1 | 9,179 | 2.3 |
| Northwest region <i>(Note (vi))</i> | 5,662 | 1.7 | 6,538 | 1.6 |
| Total | 344,075 | 100.0 | 399,656 | 100.0 |

Notes:

- (i) Northeast region represents Heilongjiang, Jilin, Liaoning, the PRC
- (ii) Eastern region represents Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong, the PRC
- (iii) Southern region represents Henan, Hubei, Hunan, Guangxi, Guangdong, Hainan, the PRC
- (iv) Northern region represents Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia, the PRC
- (v) Southwest region represents Chongqing, Sichuan, Guizhou, Yunnan, Tibet, the PRC
- (vi) Northwest region represents Shaanxi, Gansu, Qinghai, Ningxia Hui, Xinjiang, the PRC

Management Discussion and Analysis (Continued)

Northeast region remained the largest contributor to the Group's total revenue for the Year 2023. It contributed 54.7% and 55.0% of the total revenue of the Group for the Year 2023 and the Year 2022, respectively. The decrease in total revenue of the Group by approximately 13.9% for the Year 2023 as compared to that of the Year 2022 was mainly due to the decline in sales in Northeast, Northern and Southern regions by approximately RMB31.7 million, RMB9.8 million and RMB8.8 million, respectively.

The overall gross profit margin for the Year 2023 decreased to approximately 30.3% from approximately 42.7% for the Year 2022. The decrease was mainly due to the increased in costs of raw materials.

OPERATING COSTS AND EXPENSES

For the Year 2023, selling and distribution expenses of the Group decreased by approximately 4.0% from approximately RMB25.4 million for the Year 2022 to approximately RMB24.4 million for the Year 2023. The expenses of the advertising production company remained unchanged from the Year 2022, thus the decrease was mainly due to the decrease in freight charges by approximately RMB1.2 million during the Year 2023.

Administrative and other operating expenses consist primarily of staff costs, legal and professional fees, other taxes, research and development (“R&D”) costs and others. There was a significant decrease of approximately 30.1% in the administrative and other operating expenses from approximately RMB16.3 million for the Year 2022 to approximately RMB11.4 million for the Year 2023. This was mainly due to the decrease of approximately RMB1.5 million in R&D expenses and the decrease of approximately RMB2.0 million in employee benefit expenses during the Year 2023.

Finance costs decreased by approximately RMB9,000 for the Year 2023. Such decrease was primarily due to the full repayment of certain interest-bearing borrowings during the Year 2023.

OPERATING RESULTS

Profit before tax decreased by approximately 45.1% from approximately RMB124.3 million for the Year 2022 to approximately RMB68.3 million for the Year 2023. This was mainly driven by the decrease in the number of orders from distributors due to the change in government policies and the increase in procurement costs.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, total assets held by the Group was approximately RMB528.5 million (31 December 2022: approximately RMB501.5 million), including bank balances and cash of approximately RMB286.3 million (31 December 2022: approximately RMB282.3 million).

As at 31 December 2023, the Group had total liabilities of approximately RMB55.6 million (31 December 2022: approximately RMB78.6 million) which comprise mainly of trade and other payables amounting to approximately RMB48.8 million (31 December 2022: approximately RMB64.6 million).

As at 31 December 2023, the gearing ratio, expressed as a percentage of total borrowings over total equity, was about 0.02% (31 December 2022: approximately 0.09%). This reduction resulted from the full repayment of certain interest-bearing borrowings during the Year 2023.

CASHFLOW

During the Year 2023, the Group generated net cash of approximately RMB8.5 million (Year 2022: approximately RMB125.8 million) from operating activities. The substantial decrease in net cash generated from operating activities was mainly resulted from the decrease in cash inflow from the operating profit and working capital.

Net cash used in investing activities was approximately RMB4.2 million for the Year 2023 (Year 2022: approximately RMB11.0 million). The decrease in net cash used in investing activities was mainly resulted from the reduction in payment for purchase of property, plant and equipment during the Year 2023.

Net cash used in financing activities was approximately RMB0.3 million for the Year 2023, whereas the net cash of approximately RMB8.7 million was generated from financing activities for the Year 2022. The decrease in net cash used in financing activities was mainly resulted from no dividend paid during the Year 2023.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

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

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

Management Discussion and Analysis (Continued)

CHARGES ON GROUP'S ASSETS

As at 31 December 2023, the Group did not have any charge on its assets (31 December 2022: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group had 191 employees (31 December 2022: 194). The total staff costs including directors' remuneration for the Year 2023 were approximately RMB17.1 million (Year 2022: approximately RMB18.5 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses are offered with reference to our Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff member, which forms the basis of decisions with respect to salary rises and promotions.

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries, associated companies and joint ventures by the Group during the Year 2023.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2023.

CAPITAL EXPENDITURE

For the Year 2023, the Group spent approximately RMB5.1 million (Year 2022: approximately RMB11.7 million) on capital expenditure, which was primarily related to the acquisition of property, plant and machinery.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year 2023 (Year 2022: Nil).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

During the Year 2023, the Group implemented its business objectives and strategies in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 31 December 2020 (the “**Prospectus**”). As at the date of this report, there had been no change to its plan on the use of proceeds as stated in the Prospectus. The net proceeds (after deduction of underwriting fees, commissions and expenses) from the global offering (the “**Global Offering**”) amounted to approximately HK\$114.1 million. The table below sets out the planned allocations of the net proceeds (the “**Net Proceeds**”) and actual use of the Net Proceeds up to 31 December 2023:

| Business Strategies | Planned use of Net Proceeds from Global Offering in total | | Actual use of Net Proceeds up to 31 December 2022 | Amount utilised during the year ended 31 December 2023 | Unutilised amount as at 31 December 2023 | Expected timeline for the utilisation of the remaining balance ⁽¹⁾ |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-------|---------------------------------------------------|--------------------------------------------------------|------------------------------------------|-------------------------------------------------------------------------------|
| | (HK\$'million) | % | (HK\$'million) | (HK\$'million) | (HK\$'million) | |
| • Enhancing and expanding the production capacity to further produce the major prescribed medicine, in particular the major capsule products with the intended effect of treating/alleviating cardio-cerebrovascular (心腦血管) condition | 51.7 | 45.3 | 51.7 | – | – | Not applicable |
| • Broadening the distribution network in Southern region and Eastern region of the PRC ⁽²⁾ | 19.7 | 17.3 | 1.6 | – | 18.1 | By the end of 2024 |
| • Raising the brand awareness through media marketing and promotion efforts | 12.0 | 10.5 | 12.0 | – | – | Not applicable |
| • Further raising the R&D efforts, procuring quality management equipment and broadening the product portfolio ⁽³⁾ | 23.4 | 20.5 | 9.4 | 5.1 | 8.9 | By the end of 2024 |
| • Upgrading the IT system ⁽⁴⁾ | 4.0 | 3.5 | – | 0.6 | 3.4 | By the end of 2024 |
| • Increasing general working capital | 3.3 | 2.9 | 3.3 | – | – | Not applicable |
| • Total | 114.1 | 100.0 | 78.0 | 5.7 | 30.4 | |

Notes:

- (1) The unused proceeds are currently placed into authorised financial institution(s) and/or licensed entity(ies). The expected timeline for utilising the Net Proceeds is based on the best estimation of future market conditions made by the Group and subject to changes in accordance with our actual business operation. If there is any change in the use of proceeds, the Company will publish a separate announcement accordingly.
- (2) The expansion of distribution network in Northern and Eastern regions of the PRC was originally scheduled to commence in the second quarter of 2023. However, the economic environment was not as expected due to the impact of both COVID-19 pandemic and the change in government policy. The relevant sales team will be gradually formed by the end of 2024.
- (3) The Group expects to complete the recruitment of professional traditional medicine research and development personnel by the end of 2024.
- (4) The hardware facilities are under construction in 2024, and the Group is still in the course of seeking a suitable consulting company for the development of the IT system.

Management Discussion and Analysis (Continued)

BUSINESS DEVELOPMENT

On the basis of the traditional business cycle of production, supply and sales, the Group will gradually improve the level of intelligent and internet-oriented operations to cope with the development trend of digital economy at home and abroad. Looking forward to the future, the Group will take the lead in launching e-commerce activities in terms of sales, develop and introduce healthcare products by taking advantage of the wide range of product categories and R&D capabilities. The Group will also resort to the internet platforms, mobile internet platforms and the ascendant emerging mini video commerce and other means to organically combine the traditional physical marketing channels with the online marketing channels so as to enable the expansion of channel coverage and increase in market occupancy, which is conducive to enhancing the Group's core competitiveness and creating even greater value for the shareholders of the Company (the "Shareholders") and the society.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. Sun Xinlei (孫新磊) (“Ms. Sun”)

Ms. Sun, aged 38, is our executive Director and the Chairman of the Board. She was appointed as our executive Director on 3 November 2023, responsible for sales and operations of our Group.

Ms. Sun has been the general manager of Chengde Yushi Jindan Pharmaceutical Co., Ltd.* (承德禦室金丹藥業有限公司) (“**Chengde Yushi**”) for over 3 years and is the sole registered shareholder of Chengde Yushi. As disclosed in the announcement of the Company dated 14 June 2023, the Group conducts its business of production of proprietary Chinese medicine, which involves the application of processing techniques for traditional Chinese medicine decoction pieces such as steaming, frying, simmering and calcining through Chengde Yushi under a series of contractual arrangements entered into by Shijiazhuang Medical Research Advisory Company Limited (石家莊藥研諮詢有限公司), a wholly-owned subsidiary of the Company.

Ms. Sun is entitled to an annual director’s fee of HK\$120,000 and an annual remuneration of RMB216,000 as the general manager of Chengde Yushi.

Ms. Zhang Hongli (張宏麗)

Ms. Zhang Hongli, aged 59, is our executive Director and the chief executive officer of the Company (the “**Chief Executive Officer**”). She was appointed as our executive Director on 12 December 2019, responsible for overseeing the overall business operations of our Group. She is also the member of the remuneration committee of the Company (the “**Remuneration Committee**”).

Ms. Zhang has over 32 years of experience in operation and business management in the pharmaceutical industry. From August 1986 to June 1990, Ms. Zhang served as a general worker in Jinghai Youyi Pharmaceutical Factory* (京海友誼製藥廠), the predecessor of Chengde Yushi. From July 1990 to February 2001, she worked as a finance staff member in Jinghai Youyi Pharmaceutical Factory* (京海友誼製藥廠), Chengde Yaoye Group Liuhe Pharmaceutical Factory* (承德藥業集團六合製藥廠) and Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company* (承德藥業集團六合製藥有限責任公司). From September 2001 to August 2012, Ms. Zhang served as an office supervisor in Chengde Yushi, responsible for human resources and administration, and was subsequently further promoted to executive vice president in September 2012 and general manager, responsible for the overall business operation, in December 2015, respectively.

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

Ms. Zhang is entitled to an annual director’s fee of HK\$120,000 and an annual salary of RMB180,000 as the Chief Executive Officer.

* The English names of the above companies/facilities/colleges represent the best effort made by the directors of the Company to translate the Chinese names as their names have not been registered officially in English.

Biographical Details of Directors and Senior Management (Continued)

Ms. Jia Yanru (賈豔茹) (“Ms. Jia”)

Ms. Jia, aged 41, was appointed as our executive Director on 3 November 2023.

Ms. Jia was appointed as a joint company secretary of the Company on 30 August 2023 and deputy general manager (finance) of the Company (“**Deputy GM**”) in August 2021. She is responsible for the management of financial, supervisory and compliance as well as investor relation matters and possesses experience in financial management in pharmaceutical industry for more than 20 years. Ms Jia joined the Group in 2004 and prior to being promoted as Deputy GM, Ms Jia was a finance manager of the Group.

Ms. Jia graduated from the Northeast Normal University* (東北師範大學), the Mainland China with a Higher Education Graduation Certificate (major in accounting) * (高等教育畢業證書(會計專業)).

Ms. Jia is entitled to an annual director’s fee of HK\$120,000 and an annual salary of RMB96,000 as Deputy GM.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Liu Ling (劉凌)

Ms. Liu Ling, aged 63, was appointed as our independent non-executive Director on 18 December 2020. She is also the chairlady of the Remuneration Committee and a member of the audit committee of the Company (the “**Audit Committee**”) and Nomination Committee.

Ms. Liu has more than 33 years of experience in the field of food engineering. From 1982 to 2000, Ms. Liu worked at Zhengzhou Light Industry School* (鄭州輕工業學院) (currently known as Zhengzhou University of Light Industry (鄭州輕工業大學) and her last position at Zhengzhou Light Industry School* was associate professor with specialisation in food engineering. Ms. Liu had been the deputy director of food engineering research and development, a director of high-tech research centre and a research institute deputy chief engineer of China National Research Institute of Food and Fermentation Industries (中國食品發酵工業研究院) from September 2000 to December 2017, responsible for development of new technology and products. Ms. Liu obtained a bachelor’s degree in engineering from Tianjin University of Light Industry* (天津輕工業學院) (currently known as Tianjin University of Science and Technology (天津科技大學)) in July 1982. She further obtained the degree of Doctor of Philosophy from the University of Tokyo, Graduate School of Agricultural and Life Sciences in October 1999.

Ms. Liu is entitled to an annual director’s fee of HK\$120,000 (RMB100,000).

* *The English names of the above companies/facilities/colleges represent the best effort made by the directors of the Company to translate the Chinese names as their names have not been registered officially in English.*

Biographical Details of Directors and Senior Management (Continued)

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

Mr. Leung Tsz Wing (梁子榮)

Mr. Leung Tsz Wing, aged 40, was appointed as our independent non-executive Director on 18 December 2020. He is also the chairman of the Audit Committee.

Mr. Leung joined Avantfaire Investment Management Limited, a licensed corporation authorised by the SFC conducting regulated activities of advising on securities and asset management in Hong Kong, in December 2017 and is currently its managing partner. Mr. Leung started his career at Deloitte Touche Tohmatsu in August 2005 and left as a senior associate in July 2010. He was the vice president of Fortune Investment Capital Limited from September 2010 to February 2012, responsible for private equity investments. He was the head of internal audit of USI Partners Limited from March 2012 to September 2014. From October 2014 to March 2015, Mr. Leung was a financial controller of Tibet Development Holdings Company Limited. From April 2015 to July 2015, he was the vice president of Simsen International Financial Group Limited, a subsidiary of Huarong International Financial Holdings Limited (stock code: 993), a company listed on the Stock Exchange, responsible for strategic investments. He was the vice president of Imperial Pacific International Limited (stock code: 1076), a company listed on the Stock Exchange of Hong Kong Limited, responsible for strategic investments from August 2015 to March 2017. From March 2017 to October 2017, Mr. Leung was the investment director of HX Innovation Capital Management Co. Limited. From November 2018 to November 2021, he was an independent non-executive director of China Carbon Neutral Development Group Limited (formerly known as Bisu Technology Group International Limited) (stock code: 1372), a company listed on the Stock Exchange. From January 2022, he is an independent non-executive director of Wonderful Sky Financial Group Holdings Limited (stock code: 1260), a company listed on the Stock Exchange.

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

Mr. Leung is entitled to an annual director's fee of HK\$120,000.

Biographical Details of Directors and Senior Management (Continued)

Mr. Wong Chi Kin (黃志堅)

Mr. Wong Chi Kin, aged 50, was appointed as our independent non-executive Director on 13 April 2023. He is the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee.

Mr. Wong has over 28 years of solid accounting, banking and corporate finance experience gained from reputable commercial banks and leading investment banks (including UBS and Morgan Stanley). Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia.

Mr. Wong was appointed as an independent non-executive director of Tsui Wah Holdings Limited (“**Tsui Wah**”), whose shares are listed on the Stock Exchange (Stock Code: 1314), in November 2012 and was re-designated as a non-executive director of Tsui Wah in November 2016. Further, Mr. Wong was appointed as a non-executive director of Asiaray Media Group Limited, whose shares are listed on the Stock Exchange (Stock Code: 1993), in March 2017 mainly responsible for strategic mergers and acquisitions as well as capital market transactions. Mr. Wong is also an independent non-executive director of Forgame Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 484) in May 2020. Also, Mr. Wong was the chief financial officer of Orient Victory Smart Urban Services Holding Limited (“**Orient Victory**”), whose shares are listed on the Stock Exchange (Stock Code: 265), during the period from October 2014 to October 2018 and is now the deputy chief executive officer of Orient Victory. Prior to joining Orient Victory, Mr. Wong held various management positions at China Qinfa Group Limited, whose shares are listed on the Stock Exchange (Stock Code: 866), including (i) deputy chief financial officer (from April 2011 to September 2011); (ii) chief financial officer (from September 2011 to October 2014); and (iii) company secretary and authorised representative (from July 2011 to August 2014).

For the period from July 2018 to July 2019, given Mr. Wong’s professional background and his areas of expertise, he was appointed as (i) the chairman of the independent board committee of Shenzhou Space Park Group Limited (“**Shenzhou Space**”) (which was wound up on 6 January 2020), whose shares were listed on the Stock Exchange (former Stock Code: 692) and delisted in December 2019 under Rule 6.01A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), and an independent non-executive director. Through-out his appointment in Shenzhou Space, Mr. Wong played crucial roles in delivering independent advice on listing resumption proposal and corporate governance issues as well as providing guidance in the investigation of certain transactions (for details, please refer to the announcement of Shenzhou Space dated 9 December 2019). For the period from November 2021 to February 2022, Mr. Wong was appointed a member of the independent investigation committee of Mayer Holdings Limited, whose shares are listed on the Stock Exchange (Stock Code: 1116), and an independent non-executive director. Mr. Wong obtained a Bachelor of Science (Honours) degree in Finance from The City University of Hong Kong in December 1996, a Certificate in Consecutive Interpretation in Putonghua/English from The School of Professional and Continuing Education of The University of Hong Kong in March 2001, a Master’s degree in Practising Accounting from The Monash University, Australia in November 2001, and a Master of Business Administration degree (Executive MBA Programme) from The Chinese University of Hong Kong in December 2010 (Dean’s list: 2009/2010).

Mr. Wong is entitled to an annual director’s fee of HK\$120,000.

* For identification purposes only

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to formulating and implementing corporate governance practices appropriate to the Company's needs. The Company has adopted the principles and code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix C1 (formerly Appendix 14) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as the basis of the Company's corporate governance practices.

In the opinion of the Directors, during the Year 2023, the Company complied with all applicable code provisions as set out in the CG Code save for the deviations from code provision C.2.1 as explained in the relevant paragraph of this Corporate Governance Report.

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

CORPORATE CULTURE

The Board has established the Group's purpose, values and strategy, and satisfy itself that these and the Group's culture are aligned. All Directors must act with integrity, lead by example, and promote the desired culture. The Board should instil such culture into the Company and continually reinforces across our Company's values of acting lawfully, ethically and responsibly.

THE BOARD

Responsibilities, Accountabilities and Contributions of the Board

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

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

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

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

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

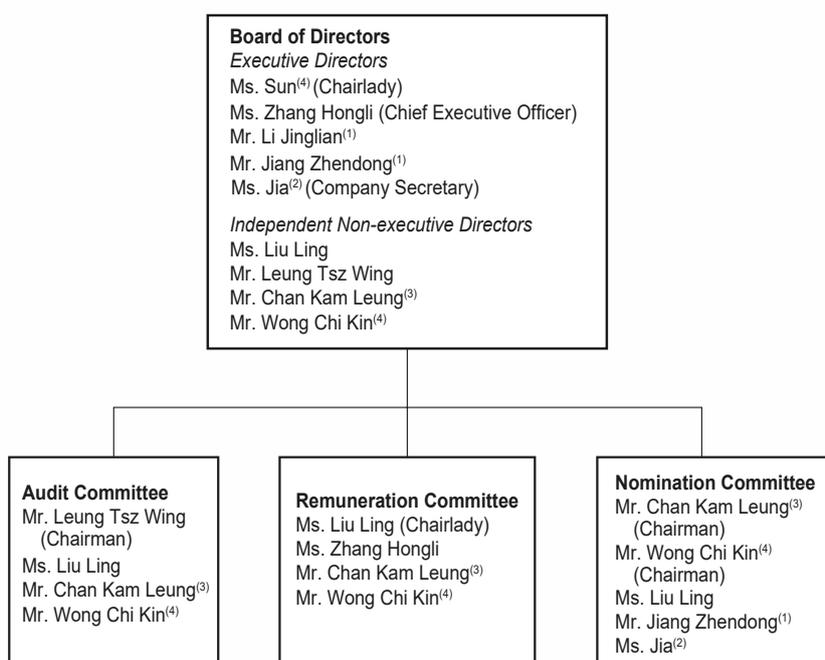
Corporate Governance Report (Continued)

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

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

Board Composition

The composition of the Board during the Year 2023 and up to the date of this annual report is as follows:



Notes:

- (1) resignation effective from 3 November 2023.
- (2) appointment effective from 3 November 2023.
- (3) resignation effective from 13 April 2023.
- (4) appointment effective from 13 April 2023.

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

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

During the Year 2023, the Board at all times met the requirement of the Listing Rules of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

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

The Company has established a board independence evaluation mechanism during the Year 2022 which sets out the processes and procedures to ensure a strong independent element on the Board, so as to allow the Board to exercise independent judgment for safeguarding the Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies the actions of the Company required to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the board independence evaluation mechanism, the Board conducts annual review on its independence. During the Year 2023, the Board reviewed the implementation and effectiveness of the Board independence evaluation mechanism and the results were satisfactory.

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

Chairman and Chief Executive Officer

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Under code provision C.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The deviation from C.2.1 of the CG Code is due to the passing away of Mr. Xie, the then Chairman and executive Director of the Board, on 24 December 2021. The position of chairman has been vacant since the death of Mr. Xie until 3 November 2023. The duties and responsibilities of chairman of the Board before 3 November 2023 had been shared among other members of the Board and senior management, including Ms. Zhang Hongli, our executive Director and Chief Executive Officer. Ms. Sun has been appointed as an executive Director and the chairman of the Board with effect from 3 November 2023 and as such, the Company has complied with all code provisions as set out in the CG Code since 3 November 2023 and, where appropriate, the applicable recommended best practices of the CG Code.

Appointment and Re-election of Directors

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

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

Corporate Governance Report (Continued)

Training and Continuing Professional Development of Directors

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

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

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

The Directors are required to submit to the Company details of the training they received in each financial year for the Company's maintenance of proper training records of the Directors.

The training records of the Directors for the Year 2023 are summarised as follows:

| Directors | Type of Training^(Note) |
|--------------------------------------------|------------------------------------------|
| Executive Directors | |
| Ms. Sun | A&B |
| Ms. Zhang Hongli | A&B |
| Ms. Jia | A&B |
| Mr. Li Jinglian* | B |
| Mr. Jiang Zhendong* | B |
| Independent Non-Executive Directors | |
| Ms. Liu Ling | A&B |
| Mr. Leung Tsz Wing | A&B |
| Mr. Wong Chi Kin | A&B |
| Mr. Chan Kam Leung* | B |

* Mr. Li Jinglian resigned on 3 November 2023.

* Mr. Jiang Zhendong resigned on 3 November 2023.

* Mr. Chan Kam Leung resigned on 13 April 2023.

Notes:

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops.

B: Reading materials related to different types of topics, including corporate governance, directors' duties, Listing Rules, and other relevant laws.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, they confirmed that they had complied with the provisions of the Model Code during the Year 2023.

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

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

During the Year 2023, the Board held four regular meetings. Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, and a majority of Directors.

Board Practices and Conduct of Meetings

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

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

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

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

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

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

Corporate Governance Report (Continued)

Attendance Records of Directors and Committee Members

The attendance records of each Director at the Board, Board committees meetings and annual general meeting of the Company held during the Year 2023 are set out in the table below:

| Name of Director | Attendance/Number of Meetings | | | | |
|--------------------|-------------------------------|-----------------|------------------------|----------------------|------------------------|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | Annual General Meeting |
| Ms. Sun | 1/6 | – | – | – | 0/1 |
| Ms. Zhang Hongli | 6/6 | – | 3/3 | – | 1/1 |
| Ms. Jia | 2/6 | – | – | 1/3 | 0/1 |
| Mr. Li Jinglian | 6/6 | – | – | – | 1/1 |
| Mr. Jiang Zhendong | 6/6 | – | – | 3/3 | 1/1 |
| Ms. Liu Ling | 6/6 | 2/2 | 3/3 | 3/3 | 1/1 |
| Mr. Leung Tsz Wing | 6/6 | 2/2 | – | – | 1/1 |
| Mr. Wong Chi Kin | 4/6 | 1/2 | 1/2 | 2/3 | 1/1 |
| Mr. Chan Kam Leung | 2/6 | 1/2 | 3/3 | 2/3 | 0/1 |

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

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

Audit Committee

During the Year 2023, the Audit Committee comprised of three independent non-executive Directors, namely Mr. Leung Tsz Wing (Chairman), Ms. Liu Ling and Mr. Wong Chi Kin. Mr. Leung Tsz Wing possesses the appropriate professional qualifications as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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

During the Year 2023, two Audit Committee meetings were held on 23 March 2023 and 28 August 2023. At the March meeting, the Audit Committee reviewed the annual financial results and reports for the Year 2022, major audit findings, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and re-appointment of external auditors, and continuing connected transactions. At the August meeting, the Audit Committee reviewed the interim financial results and reports for the period from 1 January 2023 to 30 June 2023. The external auditors were invited to attend the Audit Committee meeting without the presence of executive Directors to discuss with the Audit Committee issues arising from the audit and financial reporting matters. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of external auditors.

Remuneration Committee

During the Year 2023, the Remuneration Committee comprised of one executive Director and two independent non-executive Directors, namely Ms. Liu Ling (Chairlady), Ms. Zhong Hongli and Mr. Wong Chi Kin.

The main duties of the Remuneration Committee are to (i) assess performance of executive Directors and approve the terms of executive Directors' service contracts; (ii) review and approve performance-based remuneration by referencing to corporate goals and objectives; (iii) make recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of all Directors and senior management (i.e. the model described in the code provision E.1.2(c) (ii) of the CG Code is adopted); (iv) review and approve that the share options offered by the Company to its Directors or Senior Management (if any) are in accordance with Chapter 17 of the Listing Rules, or the employees incentive schemes are in compliance with applicable laws and regulations, as applicable; and (v) establish a formal and transparent procedure for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which will be determined with reference to the performance of the individual and the Group as well as market practice and conditions.

In determining the emolument payable to the Directors, the Remuneration Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

During the Year 2023, two Remuneration Committee meetings were held on 23 March 2023 and 13 April 2023 during which the Remuneration Committee reviewed and discussed the remuneration policy and structure and the remuneration packages of the Directors and senior management members of the Group.

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skills, knowledge, responsibilities and involvements in the Company's affairs.

Pursuant to code provision E.1.5 of the CG Code, the annual remuneration of the members of senior management by band for the Year 2023 is set out below:

| | Number of individuals |
|------------------------|----------------------------------|
| HK\$0 to HK\$1,000,000 | 4 |

Details of the remuneration of each director and member of the senior management of the Company for the Year 2023 are set out in notes 7 and 24 to the consolidated financial statements contained in this annual report.

Corporate Governance Report (Continued)

Nomination Committee

During the Year 2023, the Nomination Committee comprised of one executive Director and two independent non-executive Directors, namely Mr. Wong Chi Kin (Chairman), Ms. Jia and Ms. Liu Ling.

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

The Company recognises and embraces the benefits of having a diverse Board to enhance its performance and has adopted a board diversity policy aiming to set out the approach to achieve diversity on the Board. The implementation of such policy is monitored by the Nomination Committee. In designing the Board's composition, board diversity has been considered from a number of measurable objectives, including but not limited to gender, age, cultural and educational background, ethnicity, length of service and professional experience. The Company believes that a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background and other qualities of Directors. The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board. The Nomination Committee considered the balance of diversity perspectives of the Board appropriate for the Year 2023.

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

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

Currently, the Board has a diversity of perspectives appropriate to the requirements of the business of the Company. Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of PCM production and sales, food engineering, Chinese medicine research, investment and accounting. They obtained degrees in different fields including business administration, medicine, pharmacy and engineering.

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:–

- at least 2 of members of the Board shall be female;
- at least one-third of the members of the Board shall be independent non-executive Directors;
- at least one of the members of the Board shall have obtained accounting or other professional qualifications;
- at least 50% of the members of the Board shall have more than 10 years of experience in the industry he/she is specialised in; and
- at least 75% of the members of the Board shall have China-related work experience.

Our board diversity policy is well implemented as evidenced by the fact that there are 4 female and 2 male Directors ranging from 38 years old to 63 years old with experience from different industries and sectors.

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this annual report:

| | Female | Male |
|--------------------------|---------------|-------------|
| Board | 67% (4) | 33% (2) |
| Employees | 70% (129) | 30% (56) |
| Overall workforce | 70% (133) | 30% (58) |

Further details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report of the Company.

We will continue to implement measures and steps to promote and enhance gender diversity at all levels of our Company.

During the Year 2023, three Nomination Committee meetings were held on 23 March 2023, 13 April 2023 and 3 November 2023 during which the Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group; reviewed the Board diversity policy; considered and recommended the re-election of the retiring Directors standing for re-election at the AGM; and assessed the independence of the independent non-executive Directors.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

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

Corporate Governance Report (Continued)

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

The Directors have acknowledged their responsibilities for preparing the consolidated financial statements of the Company for the Year 2023.

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

The Company has assessed the adequacy and effectiveness of its risk management and internal control systems.

The Board, as assisted by the Audit Committee and the management, has reviewed the report from the management and the internal audit findings, and reviewed the risk management and internal control systems of the Group, including the financial, operational and compliance controls for the Year 2023. The annual review also covered areas on the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions. The Board considered such systems adequate and effective and ongoing review of the same nature would be conducted, at least on an annual basis, in subsequent years.

The Company has put in place the whistleblowing policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Company.

The Company has also in place the anti-corruption policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make anonymous reports to the internal anti-corruption department, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

During the Year 2023, the Company held three and sixteen anti-corruption training(s) or briefing(s) to Directors and employees respectively. There were no non-compliance cases in relation to bribery and corruption.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the Company's consolidated financial statements for the Year 2023 is set out in the section headed "Independent Auditor's Report" in this annual report.

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

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

| Nature of Services | Amount of Fee (HK\$) |
|--------------------------------------------------------------------------------------------------------------|---------------------------------|
| Audit services – Annual audit services for the Year 2023 | 1,500,000 |
| Non-audit services – Review on interim financial information for the six months ended 30 June 2023 | 400,000 |
| Non audit services – Reporting on statement of sufficiency of working capital and statements of indebtedness | 215,000 |
| Total: | 2,115,000 |

COMPANY SECRETARY

Ms. Jia and Ms. Chan Tsz Hei Sammi ("**Ms. Chan**") were appointed as the Company's joint company secretaries on 30 August 2023. The company secretary's primary contact person at the Company is Ms. Jia. During the Year 2023, each of Ms. Jia and Ms. Chan has taken no less than 15 hours of relevant professional trainings to enhance her skills and knowledge.

The biographical details of Ms. Jia are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 13 to 16 of this annual report.

The biographical details of Ms. Chan are as follows:

Ms. Chan is a practising solicitor admitted in the Hong Kong Special Administrative Region and a member of the Law Society of Hong Kong. She has also been a Certified Management Accountant since 2016 and a Lawyer of the Supreme Court of New South Wales since 2014. Ms Chan has a Postgraduate Certificate in Laws and a Bachelor of Laws degree from the City University of Hong Kong and a Bachelor of Business Administration in Accounting and Finance degree from the University of Hong Kong.

Corporate Governance Report (Continued)

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

Address: No. 88 Jinwei Road, Chengde City, Hebei Province, PRC

Email: IR@cdysjdy.com

The annual general meetings of the Company provide an opportunity for communication between the Board and the Shareholders. The chairman of the Board, as well as chairman of the Audit Committee, Remuneration Committee and Nomination Committee, and, in their absence, other members of the respective committees or board, are available to answer questions at general meetings. The chairman of the meeting will provide the detailed procedures for conducting a poll and answer any questions from the Shareholders on voting by poll. A notice to Shareholders is sent by the Company at least 21 days before the annual general meeting and at least 14 days in all other general meetings.

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

POLICIES RELATING TO SHAREHOLDERS

The Company has in place a shareholders' communication policy to promote effective communication with the Shareholders and other stakeholders, encourages the Shareholders to engage actively with the Company and enables the Shareholders to exercise their rights as shareholders effectively. The policy is regularly reviewed to ensure its effectiveness.

The Board had reviewed the policy and considered that the implementation of the policy was effective.

The Company has used the following methods to communicate with the Shareholders:-

- publication of announcements, interim reports and annual reports;
- publication of key corporate governance policies on the Company's website; and
- holding of annual general meetings and other general meetings of the Company.

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

The Directors do not recommend the payment of final dividend for the Year 2023.

SHAREHOLDERS' RIGHTS

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

- (i) Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition shall be made in writing to the Board or the company secretary via mail to the Company's corporate headquarters at No. 88 Jinwei Road, Chengde City, Hebei Province, PRC.
- (ii) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged with the Company's corporate headquarters at No. 88 Jinwei Road, Chengde City, Hebei Province, PRC or the Company's Hong Kong branch share registrar (i.e. Tricor Investor Services Limited) at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong at least 7 days prior to the date of the general meeting. If the notices are submitted after the dispatch of the notice of the general meeting appointed for such election, the period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end no later than 7 days prior to the date of such general meeting.

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

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company's corporate headquarters at No. 88 Jinwei Road, Chengde City, Hebei Province, PRC by post or IR@cdysjdy.com by email.

During the Year 2023, the Company has not made any changes to its articles of association. An up-to-date version of the Company's articles of association is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cdysjdy.com).

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

CONSTITUTIONAL DOCUMENTS

On 13 April 2023, the Board proposed to amend the Company's memorandum and articles of association (the "M&A") in order to, inter alia, (i) conform with the core shareholder protection standards set out in the then Appendix 3 (now Appendix A1) to the Listing Rules; (ii) bring the M&A in line with the latest legal and regulatory requirements under the applicable laws of the Cayman Islands and the Listing Rules; and (iii) incorporate certain consequential, tidy-up and housekeeping amendment. Details of the amendments are set out in the circular of the Company dated 27 April 2023. The second amended and restated M&A were adopted by a special resolution passed at the annual general meeting of the Company held on 28 May 2023. An up-to-date version of the second amended and restated M&A is available on the respective websites of the Stock Exchange and the Company.

Saved as disclosed above, no other changes were made to the constitutional documents of the Company for the Year 2023.

Environmental, Social and Governance Report

INTRODUCTION

As a leading manufacturer of PCM in the Northeast China, the Group is pleased to present this Environmental, Social and Governance (“ESG”) report. The objective of the report is to provide our stakeholders with a comprehensive understanding of the ESG performances and practices of the Group, and to illustrate the Group’s long-standing commitment as being an environmentally, socially, and economically sustainable business.

SCOPE OF REPORT

The report mainly focused on the social, environmental and governance performance of the Group’s core business which is the production of PCM for the middle-aged and elderly in the PRC. The information compiled in the report spans from 1 January 2023 to 31 December 2023 (the “Reporting Period”). The report was prepared based on the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. This report was approved by the board of directors on 22 March 2024 upon confirmation by the management.

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ANALYSIS

The Group takes into account of its key stakeholders to enhance the Group’s relationship with the employees, shareholders, suppliers, customers, government authorities and society as a whole. The Group has conducted annual review to identify the major concerns and interests of stakeholders on ESG issues by inviting stakeholders to participate in an assessment survey. The purpose of the survey is to determine their concerns and to provide remedial actions to address the issues raised. Continuous improvements to these communication channels have been conducted regularly to maintain a long-lasting relationship with each stakeholder.

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

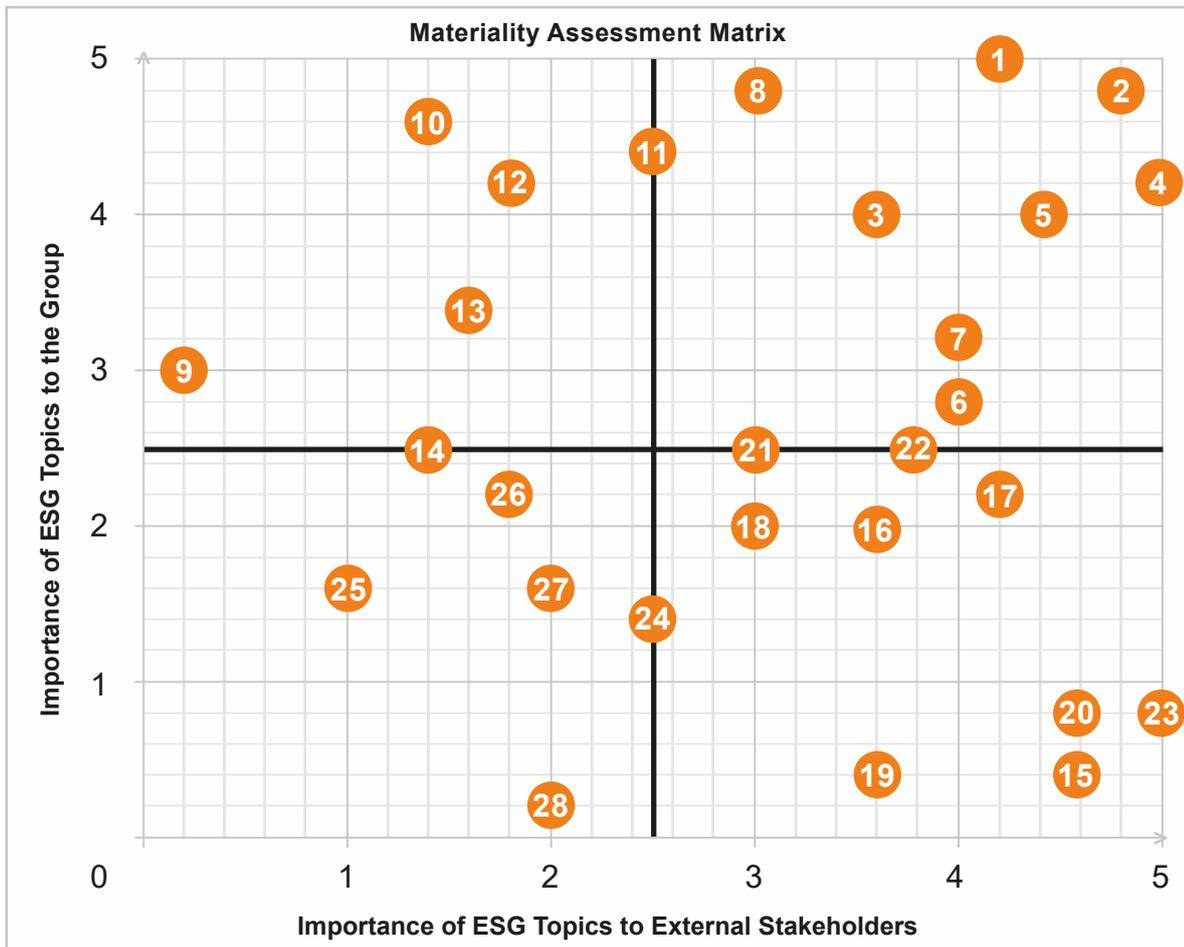
| Key Stakeholders | | Major Communication Channels | Major Concerns |
|-----------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Internal Stakeholders | Employees | <ul style="list-style-type: none">Employee ActivitiesMeetings and BriefingsFocus GroupPerformance Appraisals and EvaluationStaff Trainings | <ul style="list-style-type: none">Health & Safety Work EnvironmentCareer Development and Training OpportunitiesCompensation and BenefitsPersonal Data Protection and Security |
| | Shareholders and Investors | <ul style="list-style-type: none">Annual General MeetingsShareholders’ MeetingsInvestor Information SessionAnnual, Interim and Other Published ReportsEmail and Telephone Enquiries | <ul style="list-style-type: none">Protection of Shareholders’ Rights and InterestsRisk ManagementDividend PolicyEconomic Performance and Financial StabilityDisclosure of Interest and Information Transparency |

Environmental, Social and Governance Report (Continued)

| Key Stakeholders | | Major Communication Channels | Major Concerns |
|-----------------------|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| External Stakeholders | Government and Supervisory Institutions | <ul style="list-style-type: none"> • Policy Consultation • Onsite Visits • Face to Face Meetings | <ul style="list-style-type: none"> • Corporate Governance • Compliance with Law and Regulations • Environmental Standards • Anti-Corruption Measures • Corporate Social Responsibilities |
| | Suppliers | <ul style="list-style-type: none"> • Tendering Meetings • Onsite Visits • Phone Calls and Emails • Annual Supplier Evaluation System • Industry Seminars | <ul style="list-style-type: none"> • Transparent and Fair Supplier Selection Procedure • Long term Partnership |
| | Public Community | <ul style="list-style-type: none"> • Community Events • Voluntary activities | <ul style="list-style-type: none"> • Environmental Impact • Corporate Social Responsibilities • Community Involvements |
| | Customers | <ul style="list-style-type: none"> • Customer Service Hotlines • Customer Satisfaction Surveys • Emails • Marketing Seminars | <ul style="list-style-type: none"> • Product Quality • Privacy Measures |

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

Analysis of Key ESG Areas



Environmental, Social and Governance Report (Continued)

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

According to the materiality matrix, the issues located at the top right corner are the relatively more important ESG areas. These issues are 'occupational health and safety', 'customer satisfaction', 'product health and safety' and 'employee remuneration, benefits and rights'. The aforementioned aspects will be prioritised as the key drivers for the Group's sustainable business development and will be further elaborated in the sections below.

STAKEHOLDER'S FEEDBACK

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

Email: IR@cdysjdy.com

Website: www.cdysjdy.com

Address: No. 88 Jinwei Road, Longhua County, Chengde City, the PRC

Telephone Number: +86-0314-7162222

Fax: +86-0314-7162969

Environmental, Social and Governance Report (Continued)

STATEMENT OF THE BOARD OF DIRECTORS

The Board attaches great importance to sustainable development performance and fully recognises the Board takes the overall responsibility for the sustainability of the Group including developing the sustainability strategy and reporting, evaluation and determining the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. In addition, we will regularly review sustainability trends and continue to increase our investment in sustainable development.

During the Reporting Period, the Group conducted interviews and questionnaires for the management and internal and external stakeholders of the Group to understand their views towards the sustainable development of the Group, and also take such opportunity to identify ESG issues that are material to the Group's operations and stakeholders, which facilitated us to understand and evaluate the Group's ESG performance and formulate relevant strategies. Also, the Board urged all responsible departments to take the initiative in achieving environmental goals and dealing with climate change. Looking ahead, we will keep pace with the ongoing sustainability effort amidst the pandemic and display resilience in managing our business.

A. ENVIRONMENTAL ASPECTS

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

As the production facilities and headquarters of the Group are located in Chengde City of Hebei Province, the PRC, it is required to comply with relevant rules and regulations related to pollutant emissions in Hebei Province. Supervisions by independent third parties and government authorities have been conducted to ensure the Group's production facilities are in compliance with the applicable law. During the Reporting Period, the Group adhered to the relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, including but not limited to the:

1. Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)
2. Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法)
3. Law of the People's Republic of China on Conserving Energy (中華人民共和國節約能源法)
4. Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法)
5. Atmospheric Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國大氣污染防治法)

The Group is not aware of any material non-compliance of environmental laws and regulations during the Reporting Period.

Environmental, Social and Governance Report (Continued)

Emissions

The Group makes every endeavor to take effective measures to reduce exhaust and greenhouse gas emissions, and fulfill its on-going commitments to reduce emission. As the Group operates with a high environmental standard, all the production facilities have obtained a pollutant emission permit from the government and established a pollution control system to keep track of the level of pollutant emissions to the environment. During the Reporting Period, the Group has proactively consulted other parties and timely tracked the pollution emission sources for the aim of minimising the level of emissions.

The Group's total emissions for 2023 are summarised below:

| Emission Category | Key Performance Indicator (KPI) | Unit | 2023 | | 2022 | |
|--------------------------------|-------------------------------------------------|--------------------|-----------------|------------------------------------------|-----------------|------------------------------------------|
| | | | Amount | Intensity ¹ (Per Employee) | Amount | Intensity ¹ (Per Employee) |
| Air Pollutants Emissions | Nitrogen Oxides (NOx) | Kg | 363.08 | 1.90 | 388.58 | 2.00 |
| | Sulphur Oxides (SOx) | | 1.81 | 0.009 | 1.89 | 0.097 |
| | Particulate Matter (PM) | | 8.20 | 0.04 | 1.71 | 0.009 |
| | Total Air Pollutants Emissions | | 373.09 | 1.95 | 392.19 | 2.0216 |
| Greenhouse Gas Emissions (GHG) | Scope 1 ² (Direct Emissions) | tCO ₂ e | 4,684.41 | 24.53 | 4,929.65 | 25.41 |
| | Scope 2 ³ (Other Indirect Emissions) | | 1,275.73 | 6.68 | 216.75 | 1.12 |
| | Scope 3 ⁴ (Other Indirect Emissions) | | 7.86 | 0.04 | 11.95 | 0.06 |
| | Total Greenhouse Gas Emissions | | 5,968.00 | 31.25 | 5,185.35 | 26.7 |

Notes:

- 1 Intensity is calculated by dividing the respective KPI by 191 and 194 employees which is the total workforce of the Group in 2023 and 2022, respectively.
- 2 Scope 1 comprises of GHG emissions from stationary combustion sources and transportation. Since the Group planted trees, a reduction in greenhouse gas has been taken into account.
- 3 Scope 2 includes GHG emissions from electricity.
- 4 Scope 3 includes GHG emissions from paper waste disposed at landfills, electricity used for fresh water processing and sewage.

Environmental, Social and Governance Report (Continued)

Air Pollutant Emissions

During the Reporting Period, the total air pollutant emissions amounted to 373kg (2022: total air pollutant emissions amounted to 392kg). Approximately 95% (2022: 91%) of the air pollutant emissions came from the gaseous fuel consumption which was primarily generated from the boiler and the gas stove. These equipments are an integral part of the core production process. As a result, the Group utilised conservation measures to minimise the consumption of gas for these equipment. The remaining 5% (2022: 9%) of the air pollutant emissions came from vehicle usage. The Group's mode of transportation were passenger cars and light goods vehicles.

Greenhouse Gas Emissions

As we know, climate change driven by greenhouse gas emissions is affecting our health, economy and ecosystem. During the Reporting Period, the Group emitted a total of 5,968 (2022: 5,185) tonnes of carbon dioxide equivalent ("tCO₂e").

Scope 1 is the largest component of GHG emissions. This is primarily due to the GHG emissions from boiler and gas stove, which are part of the production process. Compared with scope 1, the level of GHG emissions from scope 2 and scope 3 are relatively low. Scope 2 includes GHG emissions from electricity which is utilised in the production facility for lights, equipment and machineries. In addition, scope 3 includes the GHG emissions from electricity used for water processing. The Group was taking effective measures to reduce greenhouse gas emissions during the Reporting Period.

Waste

| Emission Category | Key Performance Indicator (KPI) | Unit | 2023 | | 2022 | |
|-----------------------------|---------------------------------|--------|--------------|------------------------------------------|--------------|------------------------------------------|
| | | | Amount | Intensity ¹ (Per Employee) | Amount | Intensity ¹ (Per Employee) |
| Hazardous waste | Experimental Waste | tonnes | 0.62 | 0.003 | 0.45 | 0.002 |
| Non-hazardous waste | Construction waste | | 10.50 | 0.05 | 42.22 | 0.22 |
| | Food waste | | 4.30 | 0.02 | 4.58 | 0.02 |
| | General office waste | | 2.50 | 0.01 | 3.11 | 0.02 |
| Total waste produced | | | 17.92 | 0.09 | 50.36 | 0.26 |

Note:

¹ Intensity is calculated by dividing the respective KPI by 191 and 194 employees which is the total workforce of the Group in 2023 and 2022, respectively.

Environmental, Social and Governance Report (Continued)

The Group strives to minimise the waste disposal to the environment. For hazardous waste, the Group dedicates another system for the surveillance and treatment of these pollutant discharge. All hazardous waste labels are standardized in order to reduce non-standardized collection of hazardous wastes. The production, collection, storage and handling of hazardous wastes have been properly carried out in order to reduce the negative impacts towards soil, water and air.

Non-hazardous wastes include mainly construction waste, food waste and general office waste. Non-hazardous wastes are classified into non-recyclable and recyclable wastes. Non-recyclable wastes are collected and disposed of by garbage collection companies. Recyclable scrap parts are collected and sold to recycling companies.

The Group has taken precautionary measures to process and discharge the experimental waste according to the applicable laws and regulation such as Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法).

Production and operation processes are reviewed and analyzed to develop environmental-friendly and cost-effective technology so as to reduce emissions, usage of hazardous materials, energy consumption and wastes production. Going forward, the Group targets that the amounts of waste of raw and hazardous materials in 2024 will not be significantly higher than 2023.

Resource Consumption

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

| Use of Resources | Types of fuels | Unit | 2023 | | 2022 | |
|---------------------------------|----------------|------|------------------|------------------------------------------|------------------|------------------------------------------|
| | | | Amount | Intensity ¹ (Per Employee) | Amount | Intensity ¹ (Per Employee) |
| Energy | Petrol | Mwh | 66.78 | 0.40 | 63.54 | 0.33 |
| | Diesel | | 15.26 | 0.08 | 13.41 | 0.07 |
| | Gas | | 26,385.22 | 138.14 | 27,835.07 | 143.48 |
| | LPG | | 53.64 | 0.28 | 54.56 | 0.28 |
| | Electricity | | 2,091.04 | 10.95 | 355.27 | 1.83 |
| Total Energy Consumption | | | 28,611.94 | 149.85 | 28,321.85 | 145.99 |

Note:

¹ Intensity is calculated by dividing the respective KPI by 191 and 194 employees which is the total workforce of the Group in 2023 and 2022, respectively.

From this table, the energy consumption from gas is relatively higher than other categories. The consumption of gas is used for the boiler and gas stove which is consistent with the above descriptions. Going forward, the Group targets that the amount of energy consumption in 2024 will not be significantly higher than 2023.

Environmental, Social and Governance Report (Continued)

Electricity consumption

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

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

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

Water Consumption

| Use of Resources | Key Performance Indicator (KPI) | Unit | 2023 | | 2022 | |
|------------------|---------------------------------|----------------|--------|------------------------------------------|--------|------------------------------------------|
| | | | Amount | Intensity ¹ (Per Employee) | Amount | Intensity ¹ (Per Employee) |
| Water | Water | m ³ | 12,674 | 66.36 | 19,263 | 99.29 |

Note:

¹ Intensity is calculated by dividing the respective KPI by 191 and 194 employees which is the total workforce of the Group in 2023 and 2022, respectively.

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

1. Regular maintenance of the taps and pipes to prevent leakage
2. Trained employees on methods to conserve water in the office
3. Water-saving washing facilities are used
4. Recycling and reusing water resources
5. Putting up posters in our offices to remind employees not to consume unnecessary resources;

By 2030, our group aims to reduce water consumption (tonnes) as well as water consumption intensity (tonnes/million revenue) by 15% compared to 2023, and build more water recycling facilities.

Paper Usage

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

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

Packaging Material

| Use of Resources | Key Performance Indicator (KPI) | Unit | 2023 | | 2022 | |
|--------------------------------------|---------------------------------|--------|--------------|------------------------------------------|--------------|------------------------------------------|
| | | | Amount | Intensity ¹ (Per Employee) | Amount | Intensity ¹ (Per Employee) |
| Packaging material | Plastic | Tonnes | 1,131 | 5.92 | 1,026 | 5.29 |
| | Paper | | 1,525 | 7.98 | 1,485 | 7.65 |
| | Metal | | 156 | 0.82 | 251 | 1.29 |
| Total packaging material used | | | 2,812 | 14.72 | 2,762 | 14.23 |

Note:

¹ Intensity is calculated by dividing the respective KPI by 191 and 194 employees which is the total workforce of the Group in 2023 and 2022, respectively.

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

The Environment and Natural Resources

With the aforementioned measures to reduce emissions, waste generation and resources consumption, the Group strives to enhance environmental sustainability and minimise its impacts on the environment and natural resources. The Group has also integrated the concept of environmental protection into its internal management and daily operation activities and is committed to achieving the goal of environmental sustainability. An environmental protection management system was devised to identifying, monitoring and mitigating the environmental risks.

Environmental, Social and Governance Report (Continued)

Climate Change

The Group recognises the importance of the identification and mitigation of significant climate-related issues, therefore, the Group is committed to managing the potential climate-related risks which may impact the Group's business activities. The Board meets regularly and co-operates closely with key management to identify and evaluates climate-related risks and to formulate strategies to manage the identified risks.

The United Nations Environment Programme's "Emissions Gap Report 2021" points out that there is still a large gap between our actions and the 1.5 degree Celsius global temperature control target. As a major player in economic activity and a key driver of technological progress, companies need to take effective and coordinated action to contribute to global eco-civilization governance. In the context of the "double carbon" target, the Group is actively laying out management mechanisms to address climate change, helping enterprises to identify and assess the impact of climate-related risks on their business, and scientifically building relevant management mechanisms to strengthen their climate change response capabilities in two major directions: climate change adaptation and mitigation.

- Our group aims for its carbon peak in 2030 and for carbon neutrality in 2050.
- Greenhouse gas emissions Scope I and Scope II for the Company are reduced by 20% by 2030 compared to 2023.

The Group has categorised climate related risk into physical and transition risks which are as follows:

Physical Risk

Acute physical risks, which arise from particular events, especially weather-related events such as storms, floods, fires or heatwaves that may damage production facilities and disrupt value chains. The Group has established contingency measures that encompasses a variety of weather related events to reduce the resilient risk.

Chronic physical risks, which arise from longer-term changes in the climate, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity. These factors would also have an impact on the storage and manufactory environment. The Group has adopted measures to ensure that the changes in weather related patterns have minimal impact on the storage environment.

Transition Risk

Policy and legal risk: The traditional chinese medicine industry is highly regulated and the regulatory framework requirements and enforcement trend may be tightened in the future. Although there may be regulatory changes due to climate change in the business operating environment, the Group's business lines are agile and are able to adapt to the policy changes. During the Reporting Period, the Group is not aware of any third party litigations on climate change.

Technology Risk: The gradual transition to a low carbon economy has accelerated and increased our investment in technology. The Group has been committed to improving the technology in production of PCM, and the Group will consider continuing to invest and develop in the future to reduce environmental pollution caused by production of PCM.

Market Risk: The production of PCM has minimal impact on market risk from climate change. However, the Group will continue to monitor market-related risks and take actions to reduce market-related risks when necessary.

Reputational risk: During the Reporting Period, the Group has taken measures to transform its business segments and incorporate environmental protection measures into business operations. This aims to align the Group's environmental values with the public's perception of potential changes in climate change.

B. SOCIAL ASPECT

Employment and Labour Practices

The Group's business success stems from the reliable, quality and consistent services of the employees. They are one of the most valuable assets for the Group's sustainable development. During the Reporting Period, the Group had 191 (2022: 194) full time employees in the PRC.

| Key Performance Indicator | Category | 2023 | 2022 |
|---------------------------|-------------------|---------------------|------|
| | | Number of Employees | |
| Gender | Male | 58 | 62 |
| | Female | 133 | 132 |
| Employment type | Full time | 191 | 194 |
| | Part time | – | – |
| Age group | Below 30 | 20 | 21 |
| | Between 31 and 40 | 73 | 73 |
| | Between 41 and 50 | 61 | 62 |
| | Above 51 | 37 | 38 |
| Geographical region | Mainland China | 189 | 192 |
| | Hong Kong, China | 2 | 2 |

The Group offers an array of incentives that is designed to integrate the employee's development goal and the Group's goals. The Group's competitive remuneration package is benchmarked to the industry average and will adjust according to each employee's performance. Other fringe benefits include accommodations, travel allowances and meals are also provided by the Group.

The Group adopts a policy of equal employment opportunities to ensure that every job applicant and employee has equal employment and promotion opportunities. Personal capability and suitability are the bases for consideration. Both female and male from the same position receive the same remuneration package, insurance coverage, working hours, statutory holidays and other types of leaves. The Group also entitles maternity leave for employees and ensure that their job will be retained. Additionally, the Group places great emphasis on transparency as well. All employees will receive a "Employee Handbook" which set out the Group' core values, policies, benefits and rules regarding employment when they are onboarded.

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

Environmental, Social and Governance Report (Continued)

Furthermore, the Group aims to empower female employees through diverse teams and leadership roles. The Group recognises gender equality and have aligned its standards to an international level. The Group strives to ensure that everyone works in an environment that free of discrimination and harassment.

During the Reporting Period, the Group had complied with relevant laws and regulations of the PRC and Hong Kong that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.

Health and Safety

The safety and well-being of our employees has always been our highest priority. The Group has stepped up the preventive measures in the working environment to minimise the transmission risk of COVID-19 (or any kind of infectious respiratory illness). To ensure a healthy and safe workspace for the Group's employees, the following precautionary measures have been implemented:

- All employees and visitors entering the facility premises were requested to take temperature and wear surgical masks. Adequate face masks and disinfectant were provided in workplace;
- Employees showing symptoms of COVID-19 are prohibited to enter the facility premises;
- All public spaces and bathrooms are frequently sterilised;
- Depending on the job responsibility, the Group has permitted employees to work from home when necessary;
- Employees that have been in close proximity with people tested positive with COVID-19 are permitted to leave work for COVID-19 testing and special leave arrangement is provided; and
- Social distancing policies have been implemented within the workspace.

As a PCM manufacturer, the Group attaches great importance to the health and safety environment of the production facility and workspace. In addition, the Group has established health regulations and occupational standards that comply with national standards.

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

In addition, the Group also focuses on the mental health of the employees. The Group recognises that both mental and physical health are of equal importance to promote a healthy, safe and productive working environment. The working culture revolves around a work-life balance philosophy and in this regard, the Group organised an array of events throughout the Year 2022 to reduce pressure and to provide opportunities for them to celebrate different festivals. The Group also strives to grant leave based on the employee's preference and adjust the operation schedules accordingly to minimise the impact to the business. Special leaves related to personal or family issues are permitted on a case by case basis. Furthermore, the Group provides a mentally healthy work space. The Group also provides counselling services to its employees where needed. During the past three years including the reporting period, there were no work-related fatalities and the Group did not record any lost days during its manufacturing process due to work injury.

During the Reporting Period, the Group had complied with relevant laws and regulations of the PRC and Hong Kong that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.

Development and Training

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

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

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

The Group ensures the pertinence and practicability when designing training sessions. Every year the Group combines with the need of business development and sets up corresponding learning projects according to different business sections, specialties, titles and levels, job categories so as to make sure employees of various positions can obtain corresponding training and learning opportunities and resources according to their job types. Each staff members has received on average of approximately 32 hours (2022: 33 hours) training hours annually. The percentage of total employee who take part in training is 100% (2022: 100%). For all the internal training projects, the Group conducts research before training and makes evaluation after training, and listens to opinions and suggestions of attendants about learning arrangements. The Group aims to retain existing employees and attract other talented individuals as much as possible.

| Category | Key Performance Indicators | 2023 | | 2022 | |
|---------------------|-------------------------------|------------|----------------|------------|----------------|
| | | Percentage | Training Hours | Percentage | Training Hours |
| Gender Category | Male | 30.4% | 31 | 31.9% | 31 |
| | Female | 69.6% | 32 | 68.1% | 34 |
| Employment category | Senior management | 2.6% | 36 | 2.7% | 36 |
| | Middle management | 7.9% | 32 | 8.0% | 33 |
| | Frontline and other employees | 89.5% | 32 | 89.4% | 33 |

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

Environmental, Social and Governance Report (Continued)

Labour Standards

The Group strictly complies with The Labour Law of the People's Republic of China (中華人民共和國勞動法), The labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法) and other legal employment requirements. Any employee harassment, discrimination or offenses against the law of China is prohibited in the Group. This includes discrimination in terms of disability, political inclination, sexual identity, sexual orientation and pregnancy. Child labour and forced labour are strictly prohibited. As for prevention of child labour or forced labour, the Group will verify the identity and age of applicants and ensure that applicants have the right to interview and apply for a job voluntarily. If we identify any incident of child labour or forced labour, we will terminate such employment immediately and punish the persons responsible. During the Reporting Period, the Group did not have any such incident. Meanwhile, it sets up a strict approval procedure for labour employment. Once the applicant signs the contract, they will be employed. The terms and conditions of the contract are stipulated in the Employee Handbook which is given to each employee when they are onboarded.

Eliminating Child Labour and Prohibiting Forced Labour

Our group strictly abides by the "Labour Law of the People's Republic of China", the "Law of the People's Republic of China on the Protection of Minors", the "Provisions on the Prohibition of Using Child Labour" and other relevant laws and regulations in the employment of labour, and strictly prohibits the employment of child labour. We firmly resist and oppose any form of forced labour practices, including forced labour, undue punitive measures, etc. We strictly implement the recruitment and employment process in our "Employee Handbook", strictly control all aspects of recruitment, registration and labour contracts, and carefully check and verify employee identification information before joining the Company to ensure that personal information is true and valid, so as to avoid employing child labour due to work errors.

Our Group has established remedial procedures and measures for the employment of child labor. Once the employment of child labor is found, the Company will immediately stop his work and report to the local labor department for review and confirmation. At the same time, the Company will conduct health examination and psychological counseling for him, to ensure that his body and mind are not harmed. If confirmed by the labor department, the Company will make the following arrangements according to the opinions of the labor department: Pay all salaries in full; Escort him home and hand him over to his guardian; Deal with the individuals or groups who introduce child labor into the factory in accordance with relevant laws and regulations; Investigate the causes of the misuse of child labor, and deal with those who neglect their duties.

During the Reporting Period, no cases of employment non-compliance within the Group and no material violations of recruitment or child or forced labour-related regulations occurred.

Supply Chain Management

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

Supply Chain Management System

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

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

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

- a. Production permits
- b. Trading permits
- c. Business license
- d. Quality standard
- e. Active pharmaceutical ingredient registrations
- f. Good Manufacturing Practice of Pharmaceutical Products' (藥品生產質量管理規範) compliance

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

Our Group incorporates supplier performance in quality, environment, safety and compliance into the supplier entry requirements, and strictly controls the supplier selection and review process to promote green manufacturing and the introduction of environmentally friendly production equipment and technology to create a sustainable supply chain. In addition, the Group holds annual supplier evaluation meetings to review each qualified supplier according to the content of the following evaluation indicators:

- The suppliers of oil and chemical products should be qualified to prevent environmental pollution or accidents during transportation.
- The products and raw materials, production process and services provided by the supplier shall meet the requirements of national laws and regulations on environmental protection and occupational health and safety.
- Reduce packaging materials under the premise of ensuring product quality.
- In the course of production, activities or services, the suppliers must establish plans and undertake measures to ensure that the pollutants emitted meet national or local emission standards.
- In the process of production, the suppliers should give priority to pollution free or less polluting production processes and construction equipment as well as advanced construction methods etc.
- During the production process, necessary measures to reduce pollution and to properly dispose waste from the production site must be undertaken.

Environmental, Social and Governance Report (Continued)

Suppliers

The Group's supplier base is diversified across the PRC. During the Reporting Period, the Group has a total of 28 preapproved suppliers. For each major type of raw material, the Group purchases from at least three suppliers to maintain a constant inflow of supplies. A contingency plan has also been established to maintain a reliable supply of raw material supply to minimise any production disruption. The Group conducts regular audits of its suppliers' production sites to ensure their continuous compliance with the quality and environmental regulatory requirements. Throughout the year ended 31 December 2023, the Group has been continuously refining the supply chain management system to accommodate the Group's business development.

| Number of Suppliers | 2023 |
|--------------------------------------------------|------|
| Suppliers in Northeast region <i>(Note (i))</i> | 4 |
| Suppliers in Eastern region <i>(Note (ii))</i> | 12 |
| Suppliers in Southern region <i>(Note (iii))</i> | 2 |
| Suppliers in Northern region <i>(Note (iv))</i> | 10 |
| Suppliers in Southwest region <i>(Note (v))</i> | – |
| Suppliers in Northwest region <i>(Note (vi))</i> | – |
| | 28 |

Notes:

- (i) Northeast region represents Heilongjiang, Jilin, Liaoning, the PRC
- (ii) Eastern region represents Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong, the PRC
- (iii) Southern region represents Henan, Hubei, Hunan, Guangxi, Guangdong, Hainan, the PRC
- (iv) Northern region represents Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia, the PRC
- (v) Southwest region represents Chongqing, Sichuan, Guizhou, Yunnan, Tibet, the PRC
- (vi) Northwest region represents Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, the PRC

Product Responsibility

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

Intellectual property

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

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

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

Besides, during the Reporting Period, the Group had complied with the relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress, including the above.

Quality management system

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

Pre-production

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

Production

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

Environmental, Social and Governance Report (Continued)

After-sale service

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

Recall procedure

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

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

Protection of Customers' Data

The Group complies with the relevant rules and regulation, including Personal Information Protection Law of the People's Republic of China (個人信息保護法), with respect to privacy in all aspects that relate to the Group. It is committed to the full compliance of privacy policies that are established for customers, suppliers, distributors and other relevant parties. A secure environment with data protection measure is set up to store these data in the internal system.

Only authorised staff have the right to gain access to the data. The Group will not release the personal data of its employees, customers and suppliers to external parties without the permission of the relevant parties (unless otherwise required by law). This is to prevent any accidental or unauthorised access, amendments or usage of these data.

Anti-Corruption & Anti-Money Laundering

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

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

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

Environmental, Social and Governance Report (Continued)

A safe and secure whistle-blowing platform has been established for employees to raise any concerns related to corruption or business irregularities. All reported cases will be investigated by a special investigation group. Our Directors and employees have undergone anti-corruption training or briefing to strength our corporate governance which is presented in the table below:

| Category | Number |
|-----------|--------|
| Directors | 3 |
| Employees | 16 |

| Category | Total training hours |
|-----------|----------------------|
| Directors | 10 |
| Employees | 12 |

Approximately 8% (2022: 8%) of overall employees attended relevant training or briefing, they belong to administration department, production department, sales and marketing department, finance department and equipment engineering department. During the Reporting Period, the Group was not aware of any misconduct or breach of rules and regulation related to fraud, corruption or related matters.

During the Reporting Period, the Group rigorously complied with relevant laws and regulations of the PRC and Hong Kong that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering, including but not limited to the Prevention of Bribery Ordinance of Hong Kong and the Anti-Money Laundering Law of the PRC. No legal actions involving corrupt activities were brought against the Group or our employees.

Community

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

Environmental, Social and Governance Report (Continued)

Appendix of ESG Reporting Guide

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

| KPI | Description | Section |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| A. Environmental | | |
| Aspect A1: Emissions | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | A. Environmental Aspects |
| KPI A1.1 | The types of emissions and respective emissions data. | Emissions |
| KPI A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Emissions |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility) | Waste |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Waste |
| KPI A1.5 | Description of emission target(s) set and steps taken to achieve them. | Waste |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Waste |

Environmental, Social and Governance Report (Continued)

| KPI | Description | Section |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Aspect A2: Use of Resources | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | Resource Consumption |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Resource Consumption |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Resource Consumption |
| KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | Resource Consumption |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | Water Consumption |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Packaging Material |
| Aspect A3 The Environment and Natural Resources | | |
| General Disclosure | General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources. | Resource Consumption, Paper Usage |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Resource Consumption |
| Aspect A4 Climate Change | | |
| General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Climate Change |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | Climate Change |

Environmental, Social and Governance Report (Continued)

| KPI | Description | Section |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| B. Social | | |
| Aspect B1: Employment | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Employment and Labour Practices |
| KPI B1.1 | Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region. | Employment and Labour Practices |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Employment and Labour Practices |
| Aspect B2: Health and Safety | | |
| General Disclosure | Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | Health and Safety |
| KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | Health and Safety |
| KPI B2.2 | Lost days due to work injury. | Health and Safety |
| KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | Health and Safety |

Environmental, Social and Governance Report (Continued)

| KPI | Description | Section |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Aspect B3: Development and Training | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities | Development and Training |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Development and Training |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Development and Training |
| Aspect B4: Labour Standard | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Labour Standards |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Labour Standards |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Labour Standards |
| Aspect B5: Supply Chain Management | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Supply Chain Management |
| KPI B5.1 | Number of suppliers by geographical region. | Suppliers |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | Supply Chain Management, Supply Chain Management System |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | Supply Chain Management |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | Supply Chain Management |

Environmental, Social and Governance Report (Continued)

| KPI | Description | Section |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Aspect B6: Product Responsibility | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | Intellectual property, Product Responsibility, Intellectual property Quality management system, Protection of Customers' Data |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Product Responsibility |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Product Responsibility |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Intellectual property |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Quality Management System |
| KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | Protection of Customers' Data |
| Aspect B7: Anti-Corruption | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering | Anti-Corruption & Anti-Money Laundering |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Anti-Corruption & Anti-Money Laundering |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Anti-Corruption & Anti-Money Laundering |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff. | Anti-Corruption & Anti-Money Laundering |

Environmental, Social and Governance Report (Continued)

| KPI | Description | Section |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Aspect B8: Community Investment | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Community |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Community |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | Community |

Directors' Report

The Directors present this annual report and the audited consolidated financial statements for the Year 2023.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Group's performance during the Year 2022 and the material factors underlying its results and financial position can be found in the management discussion and analysis set out on pages 5 to 12 of this annual report. These discussions form part of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

- The traditional Chinese medicine industry is highly regulated and the regulatory framework, requirements and enforcement trend may be tightened in the future.
- We may not be able to remain in full compliance with the evolving GMP standards or other regulatory requirements (such as the requirement for registration of Drug Approval Number) which are material to our business.
- Failure to comply with the relevant quality and safety standards of the PRC could lead to fines, lawsuits or other penalties that may adversely affect our operations.
- We rely on our distributors to onsell and distribute our products and we have limited control over them.
- If our products are produced improperly or contaminated, we may incur losses resulting from product recalls or product liability claims. Our reputation, business, financial condition and results of operations may be materially and adversely affected as a result.
- The PRC Government may determine that the Contractual Arrangements (as defined under the section headed "Continuing Connected Transactions" below) are not in compliance with applicable PRC laws, rules, regulations or policies.

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

CORPORATE REORGANISATION

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

The Company completed the corporate reorganisation (the "**Reorganisation**") on 26 February 2020 in preparation for the listing of the Company's shares (the "**Shares**") on the Stock Exchange pursuant to which the Company became the holding company of the companies now comprising the Group.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES AND PERFORMANCES

The Group is committed to ensuring that all business activities are economically, socially and environmentally sustainable. It has identified various ESG areas and has taken measures to control the environmental and social impacts during its operations. During the Year 2023, the Group has ensured that all applicable ESG laws and regulations are strictly complied with and notable effort is spent on various aspects of the corporate social responsibility, including greenhouse gas reduction, development and training opportunities for employees, environmental compliance, health and safe work environment for employees.

Further details are set out in the ESG Report on page 30 to 55 of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the Year 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on page 77 of this annual report.

The Board does not recommend the payment of a final dividend for the Year 2023 (2022: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 24 May 2024 to Thursday, 30 May 2024, both days inclusive, during which no transfer of shares of the Company will be registered. In order to determine the identity of members who are entitled to attend and vote at the AGM to be held on Thursday, 30 May 2024, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Thursday, 23 May 2024 for registration.

Directors' Report (Continued)

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 12 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2023 are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements during the Year 2023 in the share capital of the Company are explained in note 22 to the consolidated financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the Year 2023 are set out in the consolidated statement of changes in equity on pages 79 to 80 of this annual report.

The Company's reserves available for distribution to the Shareholders as at 31 December 2023 amounted to approximately RMB74,562,000 (2022: RMB78,180,000).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 128 of this annual report.

DIRECTORS

The Directors during the Year 2023 and up to the date of this report were:

Executive Directors:

Ms. Sun Xinlei (孫新磊) (*Chairman*) (*Appointed on 3 November 2023*)

Ms. Zhang Hongli (張宏麗) (*Chief Executive Officer*)

Ms. Jia Yanru (賈豔茹) (*Appointed on 3 November 2023*)

Mr. Li Jinglian (栗景連) (*Resigned on 3 November 2023*)

Mr. Jiang Zhendong (姜振東) (*Resigned on 3 November 2023*)

Independent Non-executive Directors:

Ms. Liu Ling (劉凌)

Mr. Leung Tsz Wing (梁子榮)

Mr. Wong Chi Kin (黃志堅) (*Appointed on 13 April 2023*)

Mr. Chan Kam Leung (陳錦良) (*Resigned on 13 April 2023*)

In accordance with article 108 (a) and (b) and article 112 of the articles of association of the Company, Ms. Sun, Ms. Zhang Hongli and Ms. Jia will retire from office as executive Directors and Ms. Liu Ling will retire from office as an independent non-executive Director at the forthcoming annual general meeting of the Company, and being eligible, offer themselves for re-election.

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

CHANGES IN DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Save for the Directors' biographies set out on pages 13 to 16 of this annual report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 13 to 16 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, 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 for the Year 2023.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Apart from the Contractual Arrangements (as defined under the section headed "Continuing Connected Transactions" below) set out in the section headed "Continuing Connected Transactions" below, there was no transaction, arrangement or contract of significance to which the Company or any related companies (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year 2023 or at any time during the Year 2023.

Directors' Report (Continued)

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

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in Shares, underlying Shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or under the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in the Shares

| Name | Capacity/Nature of interest | Number of Shares interested in | Percentage of interest in the Company |
|---------------------------|--------------------------------------|--------------------------------|---------------------------------------|
| Ms. Sun ^(Note) | Interest in a controlled corporation | 450,000,000 (long position) | 75% |

Note:

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

(b) Interests in the shares of associated corporations

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

Notes:

1. Chengde Yushi is a limited liability company established in the PRC. It is regarded as an indirect wholly-owned subsidiary of the Group by virtue of the Contractual Arrangements (as defined under the section headed "Continuing Connected Transactions" in the Directors' Report) entered into with the Group.
2. The percentage of shareholding is determined with reference to the percentage of subscribed registered capital of the shareholder.

SHARE OPTION SCHEME

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

(a) Purpose of the Scheme

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

(b) Eligible participants to the Scheme

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

(c) Maximum number of Shares

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

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

Directors' Report (Continued)

(d) Maximum entitlement of a grantee

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

(e) Exercise price

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

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a Business Day;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the date of the offer; and
- (iii) the nominal value of a Share prevailing on the date of the offer.

(f) Rights are personal to grantee

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

(g) Duration

The Scheme shall be valid and effective for a period of ten years commencing on the effective date of the Scheme (i.e. 15 January 2021), after which no further options may be offered or granted under the Scheme but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the terms and conditions of the Scheme. As at 31 December 2023, the remaining life of the Scheme was approximately 7 years.

No option has been granted by the Company under the Scheme since its inception. Accordingly, the number of shares that may be issued under the Scheme divided by the weighted average number of shares in issue during the Year 2023 was nil.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in the Directors' Report, at no time during the Year 2023 was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the Directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the Year 2023.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

A remuneration committee of the Company was set up for reviewing the Group's remuneration 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 committee regularly reviews its compensation and benefit policies to ensure that the remuneration package offered remains competitive and in line with referent labour regulations.

Details of the emoluments of the Directors, and the five highest paid individuals for the Year 2023 are set out in notes 7 and 8 to the consolidated financial statements of this annual report.

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

As at 31 December 2023, so far as is known to the Directors, the following person (not being a Director or chief executive of the Company) had interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

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

CONTINUING CONNECTED TRANSACTIONS

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

(a) Exclusive Option Agreement

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

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

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

(b) Exclusive Business Cooperation Agreement

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

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

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

Directors' Report (Continued)

(c) Equity Pledge Agreement

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

(d) Power of Attorney

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

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

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

(e) Spouse's Undertaking

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

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

New contractual arrangements

Following Ms. Sun became the registered shareholder of Chengde Yushi in December 2021 and also completed the inheritance of Mr. Xie's estate, in particular all shares Mr. Xie held in Modern Biotechnology, in early July 2023, the Group executed the new contractual arrangements (the "**New Contractual Arrangements**") substantially on the same terms as those currently in place under the Contractual Arrangements, save that (a) the identity of the sole registered shareholder of Chengde Yushi was changed from Mr. Xie to Ms. Sun and (b) Ms. Sun has executed the no spouse undertaking as a replacement to the existing spouse's undertaking as further detailed in the Company's announcement dated 14 June 2023. The New Contractual Arrangements took effect on 4 July 2023 and the Contractual Arrangements were terminated concurrently upon the New Contractual Arrangements taking effect. The Group, through the New Contractual Arrangements, has exposure and rights to variable returns from its involvement with Chengde Yushi and has ability to affect those returns through its power over Chengde Yushi. Therefore, the Group continues to have control over Chengde Yushi.

Confirmation of independent non-executive Directors

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

- the transactions carried out during the Year 2023 have been entered into in accordance with the relevant provisions of the Contractual Arrangements or the New Contractual Arrangements (as the case may be);
- no dividends or other distributions have been made by Chengde Yushi to Mr. Xie or Ms. Sun (as the case may be) which are not otherwise subsequently assigned or transferred to the Group; and
- any new contracts entered into, renewed or reproduced between the Group and Chengde Yushi during the Year 2022 are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

Directors' Report (Continued)

Confirmation of auditor of the Company

Mazars, the Company's independent auditor, was engaged to report on the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the results of the work performed, Mazars has issued a limited assurance report containing an unqualified conclusion in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules in confirming that:

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

MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions are set out in note 24 to the consolidated financial statements of this annual report. Pursuant to Rule 14A.72 of the Listing Rules, the Company confirmed that these related party transactions were continuing connected transactions exempt from the connected transactions requirements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the Year 2023, sales to the Group's five largest customers accounted for approximately 37.8% (2022: 39.6%) of the total revenue of the Group, while the percentage of the total revenue of the Group attributable to the Group's largest customer was approximately 8.7% (Year 2022: 9.8%).

For the Year 2023, purchases from the Group's five largest suppliers accounted for approximately 58.0% (Year 2022: 58.6%) of the total purchases of raw materials of the Group, while the percentage of the total purchases of raw materials of the Group attributable to the Group's largest supplier was approximately 14.6% (Year 2022: 14.9%).

None of the Directors, or any of their associates or any other shareholders, who, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the Year 2023.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

PERMITTED INDEMNITY PROVISION

For the Year 2023, the Company maintains a directors and officers liability insurance. A directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

COMPETING INTERESTS

Other than the equity interest held by Ms. Sun in Chengde Yushi as disclosed under the section headed "Continuing Connected Transactions" in this annual report, none of the controlling shareholders, namely Ms. Sun and Modern Biotechnology, the Directors nor their respective close associates (as defined in the Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the Year 2023 and up to the date of this annual report.

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

During the Year 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

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

Directors' Report (Continued)

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate government practices adopted by the Company is set out in the "Corporate Governance Report" on pages 17 to 29 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event which has taken place subsequent to 31 December 2023 and up to the date of this annual report.

AUDITOR

The consolidated financial statements for the Year 2023 have been audited by Mazars CPA Limited. Mazars CPA Limited shall retire in the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming AGM. There is no change in auditor since 15 January 2021, being the date of listing of the Shares on the Stock Exchange.

On behalf of the Board

Ms. Zhang Hongli

Executive Director

Modern Chinese Medicine Group Co., Ltd.

22 March 2024



MAZARS CPA LIMITED
中審眾環 (香港) 會計師事務所有限公司
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To the members of
Modern Chinese Medicine Group Co., Ltd.
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Modern Chinese Medicine Group Co., Ltd. (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) set out on pages 77 to 127, which comprise the consolidated statement of financial position at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key audit matters

Revenue recognition

Refer to Notes 2 and 4 to the consolidated financial statements.

Revenue of the Group mainly comprises production of proprietary Chinese medicine in the People's Republic of China.

The Group enters into distribution agreements with most of its customers including the terms of delivery and policies for marketing incentives. Purchase orders are then placed with the Group for each purchase by the customers, which specify the terms of sales relating to pricing, return and the location of delivery.

Once the products delivered are accepted by the customers, control over the goods is considered to have been transferred to the customers and revenue is recognized accordingly.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.

How our audit addressed the key audit matter

Our key audit procedures to assess the timing of revenue recognition included the following:

- obtaining an understanding of and assessing the effectiveness of design and, implementation of management's key internal controls in relation to revenue recognition;
- inspecting agreements and purchase orders with customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and/or acceptance and any sales return arrangements to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;
- comparing the revenue recorded during the financial year, on a sample basis, to the purchase orders, goods delivery notes, customers' acknowledge of receipt and delivery records, where applicable;
- inspecting goods delivery notes and/or delivery records, on a sample basis, to assess whether revenue transactions recorded around the financial year end date has been recognised in the appropriate financial period on the basis of the terms of sale as set out in the purchase orders; and
- inspecting underlying documentation for manual journal entries and adjustments relating to revenue raised during the year which met specific risk-based criteria.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters

Determination of whether the Group has control over a subsidiary governed under a series of contractual arrangements

Refer to Notes 2 and 12 to the consolidated financial statements.

The Group, through its indirect wholly-owned subsidiary, Shijiazhuang Medical Research Advisory Company Limited* (石家莊藥研諮詢有限公司), entered into a series of contractual arrangements (the “**Contractual Arrangements**”) with Chengde Yushi Jindan Pharmaceutical Co., Ltd.* (“**Chengde Yushi**”) (承德御室金丹藥業有限公司) and its registered shareholder of Chengde Yushi. The Group, through the Contractual Arrangements, has exposure and rights to variable returns from its involvement with Chengde Yushi and has ability to affect those returns through its power over Chengde Yushi. Therefore, the Group is considered to have control over Chengde Yushi.

In determining the extent of the Group's involvement with and control over Chengde Yushi, the management considered a number of factors including whether the Group has: (i) exercised effective financial and operational control over Chengde Yushi; (ii) exercised equity holders' voting rights of Chengde Yushi; (iii) received substantially all of the economic interest returns generated by Chengde Yushi in accordance to the amount of equity interest held by the Group and/or the Contractual Arrangements; (iv) obtained an irrevocable and exclusive right to purchase the remaining entire equity interest in Chengde Yushi from the respective equity holders; and (v) obtained a pledge over the entire equity interest of Chengde Yushi from their respective equity holders under the Contractual Arrangements, as appropriate.

We identified the above matter as a key audit matter because Chengde Yushi is material to the Group and the determination of whether the Group has power to control over Chengde Yushi involves a significant degree of management's judgement.

How our audit addressed the key audit matter

Our key audit procedures to assess the determination of control over Chengde Yushi included:

- evaluating the terms in the Contractual Arrangements in connection with the Group's control over Chengde Yushi;
- understanding how the Group controls the daily business operation and financing activities of Chengde Yushi;
- evaluating the management's assessment in relation to the control over Chengde Yushi according to HKFRS 10;
- obtaining an updated legal opinion from the Company's PRC legal counsel regarding whether the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally binding and enforceable; and
- evaluating the Company's PRC legal counsel's competence, capabilities and objectivity.

* For identification purpose only

Independent Auditor's Report (Continued)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2023 annual report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report (Continued)

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

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

Mazars CPA Limited

Certified Public Accountants

Hong Kong, 22 March 2024

The engagement director on the audit resulting in this independent auditor's report is:

Law Lai Ting

Practising Certificate number: P07322

Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | Notes | For the year ended 31 December | |
|---------------------------------------------------------------------------------------|-------|-----------------------------------|-----------------|
| | | 2023 RMB'000 | 2022 RMB'000 |
| Revenue | 4 | 344,075 | 399,656 |
| Cost of sales | | (239,900) | (228,870) |
| Gross profit | | 104,175 | 170,786 |
| Other income, gain and losses, net | 5 | (56) | (4,757) |
| Selling and distribution expenses | | (24,378) | (25,432) |
| Administrative and other operating expenses | | (11,430) | (16,259) |
| Finance costs | 6 | (5) | (14) |
| Profit before tax | 6 | 68,306 | 124,324 |
| Income tax expenses | 9 | (19,511) | (36,495) |
| Profit for the year | | 48,795 | 87,829 |
| Other comprehensive income: | | | |
| <i>Item that will not be reclassified to profit or loss</i> | | | |
| Exchange differences on translation from functional currency to presentation currency | | 1,194 | 7,437 |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange differences on consolidation | | (34) | (1,371) |
| Other comprehensive income for the year, net of tax | | 1,160 | 6,066 |
| Total comprehensive income for the year | | 49,955 | 93,895 |
| Earnings per share attributable to owners of the Company | | RMB cents | RMB cents |
| Basic and diluted | 10 | 8.13 | 14.64 |

Consolidated Statement of Financial Position

| | Notes | At 31 December | |
|----------------------------------------------------------------|-------|-----------------|-----------------|
| | | 2023 RMB'000 | 2022 RMB'000 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 85,904 | 78,452 |
| Intangible assets | 14 | 195 | 292 |
| Right-of-use assets | 15 | 1,807 | 2,154 |
| Deposits paid for acquisition of property, plant and equipment | 16 | – | 9,435 |
| Deferred tax assets | 21 | 4,113 | 8,711 |
| | | 92,019 | 99,044 |
| Current assets | | | |
| Inventories | 17 | 46,466 | 41,509 |
| Trade and other receivables | 18 | 103,781 | 78,725 |
| Bank balances and cash | | 286,266 | 282,256 |
| | | 436,513 | 402,490 |
| Current liabilities | | | |
| Trade and other payables | 19 | 48,802 | 64,617 |
| Lease liabilities | 20 | 72 | 393 |
| Income tax payables | | 14 | 8,344 |
| | | 48,888 | 73,354 |
| Net current assets | | | |
| | | 387,625 | 329,136 |
| Total assets less current liabilities | | | |
| | | 479,644 | 428,180 |
| Non-current liability | | | |
| Deferred tax liabilities | 21 | 6,755 | 5,246 |
| | | 6,755 | 5,246 |
| NET ASSETS | | | |
| | | 472,889 | 422,934 |
| Capital and reserves | | | |
| Share capital | 22 | 5,010 | 5,010 |
| Reserves | 23 | 467,879 | 417,924 |
| TOTAL EQUITY | | | |
| | | 472,889 | 422,934 |

The consolidated financial statements on pages 77 to 127 were approved and authorised for issue by the Board of Directors on 22 March 2024 and signed on its behalf by:

Ms. Zhang Hongli
Director

Ms. Sun Xinlei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

| | Reserves | | | | | | Total RMB'000 |
|---------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|--------------------------------------------|---------------------------------------------------|-------------------------------------------------|-----------------------------------|------------------|
| | Share capital RMB'000 (Note 22) | Share premium RMB'000 (Note 23(a)) | Capital reserve RMB'000 (Note 23(b)) | Translation reserve RMB'000 (Note 23(c)) | Statutory reserve RMB'000 (Note 23(d)) | Accumulated profits RMB'000 | |
| At 1 January 2022 | 5,010 | 116,996 | 29,540 | 1,010 | 15,113 | 169,692 | 337,361 |
| Profit for the year | - | - | - | - | - | 87,829 | 87,829 |
| Other comprehensive income: | | | | | | | |
| <i>Item that will not be reclassified to profit or loss</i> | | | | | | | |
| Exchange differences on translation from functional currency to presentation currency | - | - | - | 7,437 | - | - | 7,437 |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | | | | | |
| Exchange differences on consolidation | - | - | - | (1,371) | - | - | (1,371) |
| Other comprehensive income for the year, net of tax | - | - | - | 6,066 | - | - | 6,066 |
| Total comprehensive income for the year | - | - | - | 6,066 | - | 87,829 | 93,895 |
| Transactions with owners: | | | | | | | |
| Contributions and distributions | | | | | | | |
| 2021 final dividend approved and paid (Note 11(b)) | - | (8,322) | - | - | - | - | (8,322) |
| Total transactions with owners | - | (8,322) | - | - | - | - | (8,322) |
| At 31 December 2022 | 5,010 | 108,674 | 29,540 | 7,076 | 15,113 | 257,521 | 422,934 |

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2023

| | Reserves | | | | | | Total RMB'000 |
|---------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|--------------------------------------------|---------------------------------------------------|-------------------------------------------------|-----------------------------------|------------------|
| | Share capital RMB'000 (Note 22) | Share premium RMB'000 (Note 23(a)) | Capital reserve RMB'000 (Note 23(b)) | Translation reserve RMB'000 (Note 23(c)) | Statutory reserve RMB'000 (Note 23(d)) | Accumulated profits RMB'000 | |
| At 1 January 2023 | 5,010 | 108,674 | 29,540 | 7,076 | 15,113 | 257,521 | 422,934 |
| Profit for the year | - | - | - | - | - | 48,795 | 48,795 |
| Other comprehensive income: | | | | | | | |
| <i>Item that will not be reclassified to profit or loss</i> | | | | | | | |
| Exchange differences on translation from functional currency to presentation currency | - | - | - | 1,194 | - | - | 1,194 |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | | | | | |
| Exchange differences on consolidation | - | - | - | (34) | - | - | (34) |
| Other comprehensive income for the year, net of tax | - | - | - | 1,160 | - | - | 1,160 |
| Total comprehensive income for the year | - | - | - | 1,160 | - | 48,795 | 49,955 |
| At 31 December 2023 | 5,010 | 108,674 | 29,540 | 8,236 | 15,113 | 306,316 | 472,889 |

Consolidated Statement of Cash Flows

Year ended 31 December 2023

| | 2023 RMB'000 | 2022 RMB'000 |
|--------------------------------------------------------------------------------------------|-----------------|-----------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 68,306 | 124,324 |
| Adjustments for: | | |
| Depreciation | 6,343 | 5,594 |
| Amortisation | 97 | 97 |
| Finance costs | 5 | 14 |
| Interest income | (906) | (675) |
| Provision for loss allowance of trade receivables, net | 126 | 33 |
| Exchange difference | 1,160 | 6,066 |
| Operating cash inflows before movements in working capital | 75,131 | 135,453 |
| Changes in working capital: | | |
| Inventories | (4,957) | 17,183 |
| Trade and other receivables | (25,176) | (6,689) |
| Trade and other payables | (14,788) | 13,561 |
| Cash generated from operations | 30,210 | 159,508 |
| Income tax paid | (21,734) | (33,722) |
| Net cash from operating activities | 8,476 | 125,786 |
| INVESTING ACTIVITIES | | |
| Payment for purchase of property, plant and equipment | (5,098) | (11,723) |
| Interest received | 906 | 675 |
| Net cash used in investing activities | (4,192) | (11,048) |
| FINANCING ACTIVITIES | | |
| Payment of lease liabilities | (321) | (390) |
| Interest paid | (5) | (14) |
| Dividend paid | – | (8,322) |
| Net cash used in financing activities | (326) | (8,726) |
| Net increase in cash and cash equivalents | 3,958 | 106,012 |
| Cash and cash equivalents at the beginning of year | 282,256 | 176,091 |
| Effect on exchange rate changes | 52 | 153 |
| Cash and cash equivalents at the end of year, represented by bank balances and cash | 286,266 | 282,256 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1. CORPORATE INFORMATION

Modern Chinese Medicine Group Co., Ltd. (the “**Company**”, together with its subsidiaries are collectively referred to as the “**Group**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 January 2021 (the “**Listing**”). The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1 – 9009, Cayman Islands. The principal place of business in Hong Kong of the Company is changed from 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong to 2404, 24th Floor, World-Wide House, 19 Des Voeus Road Central, Central, Hong Kong. The Group’s headquarter is situated at No. 88 Jinwei Road, Chengde City, Hebei Province, the People’s Republic of China (the “**PRC**”).

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

The immediate and ultimate holding company of the Company is Modern Biotechnology Group Holdings Co., Ltd. (“**Modern Biotechnology**”), which is incorporated in the British Virgin Islands (the “**BVI**”). As detailed in the Company’s announcement dated 24 December 2021, Mr. Xie Wei (“**Mr. Xie**”), the ultimate controlling party (the “**Ultimate Controlling Party**”), passed away on 24 December 2021. As further detailed in the Company’s announcement dated 18 July 2023, Ms. Sun Xinlei (孫新磊) (“**Ms. Sun**”), the widow of Mr. Xie, completed the inheritance of all the issued shares of Modern Biotechnology and has been the Ultimate Controlling Party with effect from 4 July 2023.

2. MATERIAL ACCOUNTING POLICIES

Statement of compliance

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

The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated financial statements are presented in Renminbi (“**RMB**”) and all amounts have been rounded to the nearest thousand (“**RMB’000**”), unless otherwise indicated.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2022 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies

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

| | |
|-----------------------|----------------------------------------------------------------------------------|
| Amendments to HKAS 1 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform – Pillar Two Model Rules |

Amendments to HKAS 1: Disclosure of Accounting Policies

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendments have no effect on the measurement, recognition or presentation of any items in the consolidated financial statements. Management has reviewed the disclosure of accounting policy information and considered it is consistent with the amendments.

Amendments to HKAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

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

Amendments to HKAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of HKAS 12 so that it no longer applies to transactions that, on recognition, give rise to equal taxable and deductible temporary differences.

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

Amendments to HKAS 12: International Tax Reform – Pillar Two Model Rules

The amendments provide entities with temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's Pillar Two model rules. The Amendments also introduce targeted disclosure requirements to help investors understand an entity's exposure to income taxes arising from the rules.

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

Basis of measurement

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Basis of consolidations

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

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

Subsidiaries

A subsidiary is an entity (including a structured entity), that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

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

Property, plant and equipment

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Intangible assets

Research and development costs

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

During the years ended 31 December 2023 and 2022, no development cost was capitalised by the Group.

Software

The initial cost of acquiring software is capitalised. Software with finite useful life is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 5 years.

Financial instruments

Financial assets

Recognition and derecognition

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Recognition and derecognition (Continued)

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

Financial assets measured at amortised cost

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

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial liabilities

Recognition and derecognition

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

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

Classification and measurement

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

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

Measurement of ECL

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

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

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

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

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

Definition of default

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

- (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or
- (ii) there is a breach of financial covenants by the counterparty.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account in the assessment:

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

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

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

Low credit risk

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

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Simplified approach of ECL

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

Credit-impaired financial asset

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

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

Cash equivalents

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition

Interest income

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

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

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

Identification of performance obligations

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

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

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

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

2. MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers within HKFRS 15 (Continued)

Timing of revenue recognition

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

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

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

Transaction price: significant financing components

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers within HKFRS 15 (Continued)

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

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

Contract assets and contract liabilities

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

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

The Group receives payments from the customer which are largely in line with the timing of revenue recognition and no significant contract assets are recognised.

Foreign currency translation

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

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

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

Inventories

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of other assets

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

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

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

Government grants

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

Borrowing costs

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

Leases

The Group as lessee

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (Continued)

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

The Group accounts for each lease component within a lease contract as a lease separately. 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.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises:

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a. fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- b. variable lease payments that depend on an index or a rate;
- c. amounts expected to be payable under residual value guarantees;
- d. exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- e. payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (Continued)

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether the Group will be reasonably certain to exercise a purchase option.

A lease modification is accounted for as a separate lease if

- a. the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b. the consideration for the lease 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.

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

- (a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above.
- (b) the Group determines the lease term of the modified contract.
- (c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term.
- (d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss.
- (e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

The Group has applied the practical expedient provided in Amendments to HKFRS 16: *Covid-19-Related Rent Concessions beyond 30 June 2021* and does not assess whether eligible rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modification. The Group accounts for any change in lease payments resulting from the rent concession the same way it would account for the change applying HKFRS 16 if the change were not a lease modification.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (Continued)

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient consistently to all eligible rent concessions with similar characteristics and in similar circumstances.

Employee benefits

Short term employee benefits

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

Defined contribution plans

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

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

Taxation

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Related parties

A related party is a person or entity that is related to the Group.

- a. A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a holding company of the Group.
- b. An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

2. MATERIAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

b. (Continued)

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

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

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

Segment reporting

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

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

Critical accounting estimates and judgements

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

Key sources of estimation uncertainty

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

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

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

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

(iii) *Allowance for inventories*

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

(iv) *Loss allowance for ECL*

The management of the Group estimates the loss allowance for trade and other receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables. Details of the key assumption and inputs used in estimating ECL are set out in Note 26 to the consolidated financial statements. If the ECL rates on the trade receivables had been 0.5% higher/(lower) at the end of the reporting period, with other assumptions held constant, the loss allowance would have been HK\$515,000 (2022: HK\$390,000) higher/(lower).

(v) *Income taxes*

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgements (Continued)

Critical judgements made in applying accounting policies

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

The prevailing rules and regulations prohibit foreign ownership of companies that engage in the production of PCM that involves processing techniques such as steaming, frying, simmering and calcining, which are the core business of the Group (which is conducted through Chengde Yushi) during the years ended 31 December 2023 and 2022.

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

The Company’s legal advisors as to the applicable laws and regulations in the PRC have confirmed that the Contractual Arrangements are remained in full force and effect during the entire 2023 under the applicable PRC laws and regulations. After due and careful consideration of all relevant factors together with the legal opinion obtained, the management of the Group assesses and concludes that the Contractual Arrangements are valid, legal and enforceable in the PRC.

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

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

* For identification purpose only

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs

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

| | |
|------------------------------------|------------------------------------------------------------------------------------------------------|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current ^[1] |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants ^[1] |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements ^[1] |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback ^[1] |
| Amendments to HKAS 21 | Lack of Exchangeability ^[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ^[3] |

^[1] Effective for annual periods beginning on or after 1 January 2024

^[2] Effective for annual periods beginning on or after 1 January 2025

^[3] The effective date to be determined

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

3. SEGMENT INFORMATION

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

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

The Group did not have any single external customer contributing 10% or more of the total revenue of the Group during the year ended 31 December 2023 and 2022.

4. REVENUE

| | 2023 RMB'000 | 2022 RMB'000 |
|-----------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Revenue from contracts with customers within HKFRS 15 <i>At a point in time</i> – Production of PCM | 344,075 | 399,656 |

5. OTHER INCOME, GAINS AND LOSSES, NET

| | 2023 RMB'000 | 2022 RMB'000 |
|-----------------------------------|-----------------|-----------------|
| Interest income | 906 | 675 |
| Government grants received (Note) | – | 62 |
| Exchange loss, net | (1,234) | (5,913) |
| Sundry income | 272 | 419 |
| | (56) | (4,757) |

Note: The amount represented the government grant obtained from Employment Support Scheme under the Anti-epidemic Fund launched by the Government of Hong Kong Special Administrative Region in supporting the salary cost of the Group during the year ended 31 December 2022.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

6. PROFIT BEFORE TAX

This is stated after charging (crediting):

| | 2023 RMB'000 | 2022 RMB'000 |
|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Finance costs | | |
| Interest on lease liabilities | 5 | 14 |
| Staff costs (including directors' emoluments) | | |
| Salaries, allowances, discretionary bonus, and other benefits in kind | 14,037 | 15,568 |
| Contributions to defined contribution plans | 3,025 | 2,896 |
| | 17,062 | 18,464 |
| Other items | | |
| Auditor's remuneration - audit services | 1,350 | 1,288 |
| Cost of inventories (Note) | 239,900 | 228,870 |
| Depreciation of right-of-use assets (charged to "administrative and other operating expenses") | 347 | 480 |
| Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate) | 5,996 | 5,114 |
| Amortisation of intangible assets (charged to "administrative and other operating expenses") | 97 | 97 |
| Expenses recognised under short-term leases | 247 | 92 |
| Provision for loss allowance for trade receivables, net | 126 | 33 |
| Advertising and promotion expenses (charged to "selling and distribution expenses") | 15,908 | 15,908 |
| Research and development expenses | 1,500 | 3,000 |

Note: Cost of inventories included approximately RMB11,635,000 and RMB5,954,000 (2022: RMB12,850,000 and RMB5,073,000) relating to staff costs and depreciation, respectively, which were included in the respective amounts as disclosed above for the year ended 31 December 2023.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

7. DIRECTORS' REMUNERATION

Certain directors of the Company received remuneration from the entities now comprising the Group during the years ended 31 December 2023 and 2022 for their appointment as employees of these entities. The aggregate amounts of remuneration received and receivable by the directors of the Company during the years ended 31 December 2023 and 2022 are set out below.

Year ended 31 December 2023

| | Directors' fees RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Discretionary bonus RMB'000 | Contributions to defined contribution plans RMB'000 | Total RMB'000 |
|-----------------------------------------------------|----------------------------|------------------------------------------------------------|--------------------------------|--------------------------------------------------------|------------------|
| <i>Executive directors</i> | | | | | |
| Ms. Zhang Hongli | – | 288 | – | – | 288 |
| Mr. Li Jinglian (Resigned on 3 November 2023) | – | 645 | – | 43 | 688 |
| Mr. Jiang Zhendong (Resigned on 3 November 2023) | – | 222 | – | 43 | 265 |
| Ms. Sun Xinlei (Appointed on 3 November 2023) | – | 36 | – | 5 | 41 |
| Ms. Jia Yanru (Appointed on 3 November 2023) | – | 26 | – | 3 | 29 |
| <i>Independent non-executive directors</i> | | | | | |
| Ms. Liu Ling | 108 | – | – | – | 108 |
| Mr. Leung Tsz Wing | 108 | – | – | – | 108 |
| Mr. Chan Kam Leung (Resigned on 13 April 2023) | 31 | – | – | 2 | 33 |
| Mr. Wong Chi Kin (Appointed on 13 April 2023) | 77 | – | – | – | 77 |
| | 324 | 1,217 | – | 96 | 1,637 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

7. DIRECTORS' REMUNERATION (Continued)

Year ended 31 December 2022

| | Directors' fees RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Discretionary bonus RMB'000 | Contributions to defined contribution plans RMB'000 | Total RMB'000 |
|-----------------------------------------------------|----------------------------|------------------------------------------------------------|--------------------------------|--------------------------------------------------------|------------------|
| <i>Executive directors</i> | | | | | |
| Ms. Zhang Hongli | – | 283 | – | – | 283 |
| Mr. Li Jinglian (Resigned on 3 November 2023) | – | 736 | – | 43 | 779 |
| Mr. Jiang Zhendong (Resigned on 3 November 2023) | – | 247 | – | 43 | 290 |
| <i>Independent non-executive directors</i> | | | | | |
| Ms. Liu Ling | 103 | – | – | – | 103 |
| Mr. Leung Tsz Wing | 103 | – | – | – | 103 |
| Mr. Chan Kam Leung (Resigned on 13 April 2023) | 103 | – | – | 5 | 108 |
| | 309 | 1,266 | – | 91 | 1,666 |

During the years ended 31 December 2023 and 2022, no remuneration was paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2023 and 2022.

8. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals during the years ended 31 December 2023 and 2022 is as follows:

| | Number of individuals | |
|--------------|-----------------------|------|
| | 2023 | 2022 |
| Director | 4 | 3 |
| Non-director | 1 | 2 |
| | 5 | 5 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

8. FIVE HIGHEST PAID INDIVIDUALS (Continued)

For the year ended 31 December 2023, the five highest paid individuals of the Group included four (2022: three) executive directors, and their emoluments are set out in Note 7 above. Details of the remuneration of the above highest paid non-director individuals are as follows:

| | 2023 RMB'000 | 2022 RMB'000 |
|---------------------------------------------------------------------------|-----------------|-----------------|
| Salaries, housing allowances, other allowances and other benefits in kind | 180 | 735 |
| Contributions to defined contribution plans | 5 | 31 |
| | 185 | 766 |

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

| | 2023 | 2022 |
|----------------------|------|------|
| Nil to HK\$1,000,000 | 1 | 2 |

During the years ended 31 December 2023 and 2022, no remuneration was paid by the Group to any of these highest paid non-director individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which any of these highest paid non-director individuals waived or has agreed to waive any emoluments during the years ended 31 December 2023 and 2022.

9. INCOME TAX EXPENSES

| | 2023 RMB'000 | 2022 RMB'000 |
|------------------------------------------------------------|-----------------|-----------------|
| Current tax | | |
| PRC enterprise income tax ("PRC EIT") | 13,404 | 34,790 |
| Deferred tax | | |
| Origination and changes in temporary differences (Note 21) | 6,107 | 1,705 |
| Total income tax expenses for the year | 19,511 | 36,495 |

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

The Group's entities established in the PRC are subject to PRC EIT at a statutory rate of 25% during the years ended 31 December 2023 and 2022.

Hong Kong Profits Tax has not been provided as the Group had no assessable profits arising from Hong Kong for the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

9. INCOME TAX EXPENSES (Continued)

Reconciliation of income tax expenses

| | 2023 RMB'000 | 2022 RMB'000 |
|---------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Profit before tax | 68,306 | 124,324 |
| Income tax at statutory tax rate applicable in respective tax jurisdictions | 17,077 | 31,081 |
| Non-deductible expenses | 1,593 | 2,904 |
| Deferred tax charged in respect of withholding tax on undistributed profits from a PRC subsidiary | 1,509 | 2,717 |
| Tax exempt revenue | (668) | (207) |
| Income tax expenses for the year | 19,511 | 36,495 |

10. EARNINGS PER SHARE

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

| | 2023 RMB'000 | 2022 RMB'000 |
|---------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Profit for the year attributable to owners of the Company, used in basic and diluted earnings per share calculation | 48,795 | 87,829 |
| <i>Number of shares:</i> | '000 | '000 |
| Weighted average number of ordinary shares for basic and diluted earnings per share calculation | 600,000 | 600,000 |

The calculation of basic earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

11. DIVIDENDS

- (a) The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 and 2022.
- (b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year:

| | 2023 RMB'000 | 2022 RMB'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$nil (2022: HK\$0.0167) per ordinary share | – | 8,322 |

12. SUBSIDIARIES

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

| Name of subsidiary | Place of incorporation/ operation | Date of incorporation/ establishment | Issued and paid-up share capital | Equity interest attributable to the Company | Principal activities |
|------------------------------------------------------------|-----------------------------------|--------------------------------------|----------------------------------|---------------------------------------------|------------------------------------------------------------------|
| Directly held | | | | | |
| Modern TCM Holdings Group Co., Ltd (“Modern TCM Holdings”) | The BVI | 20 August 2019 | United States dollar (US\$) 1 | 100% (2022: 100%) | Investment holding |
| Indirectly held | | | | | |
| HK Modern Chinese Medicine Co., Ltd. | Hong Kong | 9 September 2019 | HK\$1 | 100% (2022: 100%) | Investment holding |
| Shijiazhuang Medical Research# (Note) | The PRC | 16 December 2019 | HK\$1,000,000 | 100% (2022: 100%) | Provision of business support, technical and consulting services |
| Chengde Yushi (Note) | The PRC | 8 March 2001 | RMB28,000,000 | 100% (2022: 100%) | Production of PCM |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

12. SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation/ operation | Date of incorporation/ establishment | Issued and paid-up share capital | Equity interest attributable to the Company | Principal activities |
|------------------------------------------------------------------------|--------------------------------------|-----------------------------------------|----------------------------------|---------------------------------------------|----------------------|
| 承德御室網絡科技有限公司 [®] | The PRC | 22 March 2023 | Nil | 50.33% (2022: N/A) | Inactive |
| 河北御勇網絡科技有限公司 [®] | The PRC | 11 February 2015 | Nil | 99% (2022: N/A) | Inactive |
| Zhonghua Bencao Holdings Group Limited 中華本草控股集團有限公司 | The BVI | 28 July 2023 | US\$10,000 | 100% (2022: N/A) | Investment holding |
| Zhonghua Bencao (Hong Kong) Holdings Group Limited 中華本草(香港)控股集團有限公司 | Hong Kong | 10 August 2023 | HK\$10,000 | 100% (2022: N/A) | Investment holding |
| 現代本草(深圳)商業管理有限公司 [#] | The PRC | 2 November 2023 | Nil | 100% (2022: N/A) | Inactive |

[#] Wholly foreign owned enterprise with limited liability established in the PRC

[®] Non-wholly owned enterprise with limited liability established in the PRC

Note:

Subsidiary governed under the contractual arrangements (comprising the Previous Contractual Arrangements which took effect in 2010 and subsequently replaced by the New Contractual Arrangements in July 2023 as defined below) (collectively referred as the “**Contractual Arrangements**”):

The Group’s indirect wholly-owned subsidiary, Shijiazhuang Medical Research, entered into a series of contractual arrangements with Chengde Yushi and/or Mr. Xie, the then Ultimate Controlling Party (the “**Previous Contractual Arrangements**”) in 2020, and during the year ended 31 December 2023 as set out in Note 1, upon the completion of inheritance, Shijiazhuang Medical Research entered into a new series of contractual arrangements with Chengde Yushi and/or Ms. Sun, the Ultimate Controlling Party (the “**New Contractual Arrangements**”) in July 2023. The Group executed the New Contractual Arrangements substantially on the same terms as those previously in place under the Previous Contractual Arrangements to replace the Previous Contractual Arrangements, which enable Shijiazhuang Medical Research to:

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and office equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|-----------------------------------------------------------------|----------------------|-----------------------------------|--------------------------------------------------------------|------------------------------|------------------|
| Reconciliation of carrying amount – year ended 31 December 2022 | | | | | |
| At 1 January 2022 | 64,896 | 5,602 | 25 | 1,320 | 71,843 |
| Additions | 11,212 | 511 | – | – | 11,723 |
| Depreciation | (3,571) | (1,179) | (10) | (354) | (5,114) |
| At 31 December 2022 | 72,537 | 4,934 | 15 | 966 | 78,452 |
| Reconciliation of carrying amount – year ended 31 December 2023 | | | | | |
| At 1 January 2023 | 72,537 | 4,934 | 15 | 966 | 78,452 |
| Additions | 4,586 | 8,862 | – | – | 13,448 |
| Depreciation | (4,014) | (1,618) | (10) | (354) | (5,996) |
| At 31 December 2023 | 73,109 | 12,178 | 5 | 612 | 85,904 |
| At 31 December 2022 | | | | | |
| Cost | 89,749 | 15,256 | 1,522 | 1,889 | 108,416 |
| Accumulated depreciation | (17,212) | (10,322) | (1,507) | (923) | (29,964) |
| Net carrying amounts | 72,537 | 4,934 | 15 | 966 | 78,452 |
| At 31 December 2023 | | | | | |
| Cost | 94,335 | 24,118 | 1,522 | 1,889 | 121,864 |
| Accumulated depreciation | (21,226) | (11,938) | (1,518) | (1,278) | (35,960) |
| Net carrying amounts | 73,109 | 12,180 | 4 | 611 | 85,904 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

14. INTANGIBLE ASSETS

| | Software RMB'000 |
|------------------------------------------------------------------------|---------------------|
| Reconciliation of carrying amount – year ended 31 December 2023 | |
| At 1 January 2023 | 292 |
| Amortisation | (97) |
| At 31 December 2023 | 195 |
| Reconciliation of carrying amount – year ended 31 December 2022 | |
| At 1 January 2022 | 389 |
| Amortisation | (97) |
| At 31 December 2022 | 292 |
| At 31 December 2023 | |
| Cost | 486 |
| Accumulated amortisation | (291) |
| Net carrying amount | 195 |
| At 31 December 2022 | |
| Cost | 486 |
| Accumulated amortisation | (194) |
| Net carrying amount | 292 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

15. RIGHT-OF-USE ASSETS

Right-of-use assets represent lump sum considerations paid/payable by the Group to acquire leasehold lands and lease of office premises located in the PRC. The leasehold lands are with initial lease period of 50 years and there are no ongoing payments to be made under terms of the land leases. The Group leases various office premises for its daily operations and lease terms are 3 years.

| | Leasehold lands RMB'000 | Office premises RMB'000 | Total RMB'000 |
|-------------------------------------------------------------|-------------------------------|-------------------------------|------------------|
| Cost | | | |
| At 1 January 2022 | 2,945 | 1,074 | 4,019 |
| Reassessment of lease liabilities | – | 373 | 373 |
| Disposal | – | (141) | (141) |
| At 31 December 2022, 1 January 2023 and 31 December 2023 | 2,945 | 1,306 | 4,251 |
| Accumulated depreciation | | | |
| At 1 January 2022 | 1,080 | 678 | 1,758 |
| Depreciation | 60 | 420 | 480 |
| Disposal | – | (141) | (141) |
| At 31 December 2022 and 1 January 2023 | 1,140 | 957 | 2,097 |
| Depreciation | 60 | 287 | 347 |
| At 31 December 2023 | 1,200 | 1,244 | 2,444 |
| Net carrying amounts | | | |
| At 31 December 2023 | 1,745 | 62 | 1,807 |
| At 31 December 2022 | 1,805 | 349 | 2,154 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

15. RIGHT-OF-USE ASSETS (Continued)

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

Most of the leases impose a restriction that, unless approval is obtained from the lessor, the office premises can only be used by the Group and the Group is prohibited from selling or pledging the underlying assets. The Group is also required to keep those office premises in a good state of repair and return the office premises in their original condition at the end of the lease.

At 31 December 2023 and 2022, the Group has no commitment to lease contracts in relation to leased assets that have not yet commenced.

At 31 December 2023, the Group was committed to short-term leases or low-value asset leases of approximately RMB15,000 (2022: RMB20,000).

During the years ended 31 December 2023 and 2022, no lease contract contains variable lease payment terms.

16. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

| | 2023 RMB'000 | 2022 RMB'000 |
|--------------|-----------------|-----------------|
| Deposit paid | - | 9,435 |

Note:

At 31 December 2022, full proceeds of approximately RMB9,435,000 have been paid by the Group to a supplier for purchasing plant and machinery (the "Plant and Machinery"). During the year ended 31 December 2023, the Plant and Machinery has been delivered to the Group and ready for commercial operation, and therefore the deposit paid has been reclassified to property, plant and equipment and value-added tax payable respectively.

17. INVENTORIES

| | 2023 RMB'000 | 2022 RMB'000 |
|------------------|-----------------|-----------------|
| Raw materials | 25,958 | 22,126 |
| Work-in-progress | 1,087 | 6,159 |
| Finished goods | 19,421 | 13,224 |
| | 46,466 | 41,509 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

18. TRADE AND OTHER RECEIVABLES

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|--------------------------------|-------|-----------------|-----------------|
| Trade receivables | | | |
| From third parties | | 103,603 | 78,479 |
| Less: Loss allowances | 26 | (518) | (392) |
| | 18(a) | 103,085 | 78,087 |
| Other receivables | | | |
| Prepayments | | 361 | 354 |
| Other deposits and receivables | | 335 | 284 |
| | | 696 | 638 |
| | | 103,781 | 78,725 |

18(a) Trade receivables

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

| | 2023 RMB'000 | 2022 RMB'000 |
|----------------|-----------------|-----------------|
| Within 30 days | 38,038 | 42,171 |
| 31 to 60 days | 32,987 | 35,916 |
| 61 to 90 days | 32,060 | – |
| | 103,085 | 78,087 |

The Group normally grants credit terms up to 90 days (2022: 60 days) from the date of issuance of invoices.

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

| | 2023 RMB'000 | 2022 RMB'000 |
|------------------|-----------------|-----------------|
| Not yet past due | 103,085 | 78,087 |

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

19. TRADE AND OTHER PAYABLES

| | Note | 2023 RMB'000 | 2022 RMB'000 |
|-------------------------------------------------|-------|-----------------|-----------------|
| Trade payables | | | |
| To third parties | 19(a) | 31,278 | 39,261 |
| Other payables | | | |
| Monetary marketing incentives payables (Note i) | | 7,499 | 8,779 |
| Value-added tax and other tax payables | | 2,776 | 3,168 |
| Salary payables | | 2,237 | 2,165 |
| Accruals and other payables | | 5,012 | 11,244 |
| | | 17,524 | 25,356 |
| | | 48,802 | 64,617 |

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

19(a) Trade payables

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

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

| | 2023 RMB'000 | 2022 RMB'000 |
|----------------|-----------------|-----------------|
| Within 30 days | 31,210 | 39,261 |
| 31 to 60 days | 68 | – |
| | 31,278 | 39,261 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

20. LEASE LIABILITIES

The Group as lessee

In addition to the information disclosed in Note 6, the Group had the following amounts relating to leases during the years ended 31 December 2023 and 2022:

| | 2023 RMB'000 | 2022 RMB'000 |
|--------------------------|-----------------|-----------------|
| Lease liabilities | | |
| Current portion | 72 | 393 |

Commitments and present value of lease liabilities:

| | Lease payments | | Present value of lease payments | |
|--------------------------------|-----------------|-----------------|---------------------------------|-----------------|
| | 2023 RMB'000 | 2022 RMB'000 | 2023 RMB'000 | 2022 RMB'000 |
| Amounts payable: | | | | |
| Within one year | 72 | 398 | 72 | 393 |
| | 72 | 398 | 72 | 393 |
| Less: future finance charges | —* | (5) | — | — |
| Total lease liabilities | 72 | 393 | 72 | 393 |

The total cash outflows for leases were approximately RMB573,000 (2022: RMB496,000) for the year ended 31 December 2023.

At 31 December 2023, the weighted average effective interest rate for the lease liabilities of the Group was 4.80% (2022: 4.80%) per annum.

* Amounts have been rounded to the nearest thousand.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

21. DEFERRED TAX ASSETS

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

| | Assets | | Liabilities | |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2023 RMB'000 | 2022 RMB'000 | 2023 RMB'000 | 2022 RMB'000 |
| Deferred tax assets (liabilities) | 4,113 | 8,711 | (6,755) | (5,246) |

| | Research and development expenses RMB'000 | Accrued revenue and costs RMB'000 | Withholding tax on undistributed profits of a PRC subsidiary RMB'000 | Total RMB'000 |
|-------------------------------------------|----------------------------------------------|--------------------------------------|-------------------------------------------------------------------------|------------------|
| At 1 January 2022 | 7,250 | 449 | (2,529) | 5,170 |
| Credit (charge) to profit or loss | 750 | 262 | (2,717) | (1,705) |
| At 31 December 2022 and 1 January 2023 | 8,000 | 711 | (5,246) | 3,465 |
| (Charge) credit to profit or loss | (4,625) | 27 | (1,509) | (6,107) |
| At 31 December 2023 | 3,375 | 738 | (6,755) | (2,642) |

Pursuant to the PRC EIT Law, a 10% withholding tax is levied on dividends distributed to foreign investors in respect of profits earned by PRC subsidiaries.

For the Group's PRC subsidiaries, the applicable rate is 10%. Deferred tax liability is provided on earnings that the relevant Group's entities are expected to distribute in the foreseeable future.

In the opinion of the management of the Group, it is probable that the remaining unremitted earnings (the "Remaining Earnings") of the Group's PRC subsidiaries of approximately RMB273,951,000 (2022: RMB221,543,000) will not be distributed in the foreseeable future. Accordingly, no provisions for additional deferred taxation have been made. The estimated withholding tax effects on the distribution of Remaining Earnings were approximately RMB27,395,100 (2022: RMB22,154,300) at 31 December 2023.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

22. SHARE CAPITAL

| | Number of shares '000 | Amount HK\$'000 | Equivalent to RMB RMB'000 |
|-----------------------------------------------------------------------------|-----------------------------|--------------------|---------------------------------|
| Ordinary share of HK\$0.01 each | | | |
| Authorised: | | | |
| At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023 | 10,000,000 | 100,000 | 84,349 |
| Issued and fully paid: | | | |
| At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023 | 600,000 | 6,000 | 5,010 |

23. RESERVES

23(a) Share premium

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

23(b) Capital reserve

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

23(c) Translation reserve

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

23(d) Statutory reserve

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

At 31 December 2023 and 2022, the accumulated statutory reserve has reached 50% of the registered share capital of the respective PRC subsidiary.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

24. RELATED PARTY INFORMATION

In addition to the transactions/information disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2023 and 2022, further information of the related parties is set out below.

Related party transactions

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

| | 2023 RMB'000 | 2022 RMB'000 |
|-------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Salaries, housing allowances, other allowances, discretionary bonus, and other benefits in kind | 2,010 | 2,108 |
| Contributions to defined contribution plans | 186 | 101 |
| | 2,196 | 2,209 |

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

25. ADDITIONAL INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2022, the Group entered into lease arrangements in respect of right-of-use assets with total capital value of the extension/inception of leases of approximately RMB373,000.

During the year ended 31 December 2023, the deposits paid for acquisition of Plant and Machinery of HK\$9,435,000 has been reclassified to property, plant and equipment and value-added tax payables respectively.

(b) Reconciliation of liabilities arising from financing activities

The movements in the Group's liabilities arising from financing activities during the years ended 31 December 2023 and 2022 are as follows:

| | At 1 January 2023 RMB'000 | Net cash flows RMB'000 | At 31 December 2023 RMB'000 |
|----------------------------------------------------|---------------------------------|---------------------------|--------------------------------------|
| Year ended 31 December 2023 | | | |
| Lease liabilities | 393 | (321) | 72 |
| Total liabilities from financing activities | 393 | (321) | 72 |

| | At 1 January 2022 RMB'000 | Net cash flows RMB'000 | Non-cash changes Reassessment of lease liabilities RMB'000 | At 31 December 2022 RMB'000 |
|----------------------------------------------------|------------------------------------|------------------------------|---------------------------------------------------------------------------|--------------------------------------|
| Year ended 31 December 2022 | | | | |
| Lease liabilities | 410 | (390) | 373 | 393 |
| Total liabilities from financing activities | 410 | (390) | 373 | 393 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

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

| | 2023 RMB'000 | 2022 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Trade and other receivables | 103,420 | 78,371 |
| Bank balances and cash | 286,266 | 282,256 |
| | 389,686 | 360,627 |

Trade receivables

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

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

At 31 December 2023, the Group had a concentration of credit risk as approximately 9% (2022: 10%) of the total trade receivables was due from the Group's largest trade debtor and approximately 39% (2022: 40%) of the total trade receivables was due from the Group's five largest trade debtors.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Trade receivables (Continued)

The Group's customer base consists of a wide range of customers and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies a simplified approach in calculating ECL of trade receivables and recognises loss allowances based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected loss rate used in the provision matrix is calculated for each category based on actual credit loss experience over the expected lives of the trade receivables and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's estimate on future economic conditions over the expected lives of the receivables. There was no change in the estimation techniques or significant assumptions made during the years ended 31 December 2023 and 2022.

Considered no significant default history and no forward-looking factors that give rise to significant default risk on trade receivables, for both past due or not yet past due balances, at 31 December 2023 and 2022, and no material change in late payment and default risk as well as forward-looking factors throughout the years ended 31 December 2023 and 2022, the management of the Group estimates that the ECL for those balances is insignificant and assign 0.5% as the expected loss rate, which represented a reasonable estimation of credit risk exposure, for the years ended 31 December 2023 and 2022.

The Group does not hold any collateral over trade receivables at 31 December 2023 and 2022.

Having considered the expected loss rate of 0.5% for the year ended 31 December 2023, the Group recognised the loss allowance of approximately RMB518,000 (2022: RMB392,000) on the trade receivables at 31 December 2023. The movement in the loss allowance for trade receivables during the reporting period is summarised below.

| | 2023 | 2022 |
|-----------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| At the beginning of year | 392 | 359 |
| Provision for loss allowance, net | 126 | 33 |
| At the end of year | 518 | 392 |

None of the trade receivables were written off during the years ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Other financial assets carried at amortised cost

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

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

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

In estimating the ECL, the Group has taken into account the historical actual credit loss experience and the financial position of the counterparties, past collection history, current creditworthiness, adjusted for forward-looking factors that are specific to the counterparties and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default. The management of the Group considers the ECL of other financial assets to be negligible after taking into account the financial position, credit quality and past settlement records of the counterparties. There was no change in the estimation techniques or significant assumptions made during the years ended 31 December 2023 and 2022.

Liquidity risk

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

| | Total carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | On demand or less than 1 year RMB'000 |
|----------------------------|-------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------|
| At 31 December 2023 | | | |
| Trade and other payables | 43,790 | 43,790 | 43,790 |
| Lease liabilities | 72 | 72 | 72 |
| | 43,862 | 43,862 | 43,862 |
| At 31 December 2022 | | | |
| Trade and other payables | 59,284 | 59,284 | 59,284 |
| Lease liabilities | 393 | 398 | 398 |
| | 59,677 | 59,682 | 59,682 |

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

27. FAIR VALUE MEASUREMENT

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

28. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for equity owners. The Group manages its capital structure and makes adjustments, including payment of dividend, call for additional capital from equity owners or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2023 and 2022.

29. COMMITMENTS

Capital expenditure commitments

| | 2023 RMB'000 | 2022 RMB'000 |
|----------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Contracted but not provided net of deposit paid for construction of property, plants and equipment | 120,638 | – |

At the end of the reporting period, the Group had commitment of approximately RMB120,638,000 regarding the construction agreement dated 3 November 2023 entered into between the Chengde Yushi and National Power Runke Engineering (Beijing) Company Limited* (國電潤科電力設備工程北京股份有限公司), a company incorporated in the PRC with limited liability (“**NPR Engineering**”) in relation to the water supply and electrical engineering services for the expansion of Chengde Yushi's pharmaceutical manufacturing building (“**Engineering Contract**”) with NPR Engineering, pursuant to which NPR Engineering agreed to provide water supply and electrical engineering services for the renovation of Chengde Yushi's pharmaceutical manufacturing building with gross area of approximately 3,500m² at the total consideration of approximately RMB120,638,000 located at Longhua County, Chengde City, Hebei Province, the PRC.

* English name for identification purpose

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|--------------------------------|-------|-----------------|-----------------|
| Non-current assets | | | |
| Investment in a subsidiary | 30(a) | —* | —* |
| Amount due from a subsidiary | 30(b) | 80,128 | 84,157 |
| | | 80,128 | 84,157 |
| Current assets | | | |
| Amounts due from subsidiaries | 30(c) | 1,139 | 1,051 |
| Other receivables | | 232 | 259 |
| Bank balances and cash | | 633 | 154 |
| | | 2,004 | 1,464 |
| Current liability | | | |
| Accrued expenses | | 2,560 | 2,431 |
| Net current liabilities | | | |
| | | (556) | (967) |
| NET ASSETS | | | |
| | | 79,572 | 83,190 |
| Capital and reserves | | | |
| Share capital | 22 | 5,010 | 5,010 |
| Reserves | 30(d) | 74,562 | 78,180 |
| TOTAL EQUITY | | | |
| | | 79,572 | 83,190 |

* Represent amounts less than RMB1,000.

The statement of financial position was approved and authorised for issue by the Board of Directors on 22 March 2024 and signed on its behalf by

Ms. Zhang Hongli
Director

Ms. Sun Xinlei
Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2023

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

30(a) Investment in a subsidiary

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

30(b) Amount due from a subsidiary

The amount due is non-trade in nature, unsecured, interest bearing of 0.15% per annum and repayable between 2024 and 2026.

30(c) Amounts due from subsidiaries

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

30(d) Reserves of the Company

| | Share premium RMB'000 (Note 23(a)) | Translation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|-------------------------------------------------------|------------------------------------------|-----------------------------------|----------------------------------|------------------|
| At 1 January 2022 | 116,996 | (345) | (32,171) | 84,480 |
| Loss for the year | – | – | (5,415) | (5,415) |
| Other comprehensive loss for the year | – | 7,437 | – | 7,437 |
| 2021 final dividend declared and paid (Note 11(b)) | (8,322) | – | – | (8,322) |
| At 31 December 2022 | 108,674 | 7,092 | (37,586) | 78,180 |

| | Share premium RMB'000 (Note 23(a)) | Translation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---------------------------------------|---------------------------------------------|-----------------------------------|----------------------------------|------------------|
| At 1 January 2023 | 108,674 | 7,092 | (37,586) | 78,180 |
| Loss for the year | – | – | (4,792) | (4,792) |
| Other comprehensive loss for the year | – | 1,174 | – | 1,174 |
| At 31 December 2023 | 108,674 | 8,266 | (42,378) | 74,562 |

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

Five Years Financial Summary

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below.

Results of the Group for the year ended 31 December

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|------------------------------------------------|-----------------|----------|----------|----------|----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 344,075 | 399,656 | 360,695 | 308,692 | 218,767 |
| Profit before taxation | 68,306 | 124,324 | 114,222 | 90,478 | 65,256 |
| Income tax expenses | (19,511) | (36,495) | (32,446) | (26,901) | (19,019) |
| Profit for the year | 48,795 | 87,829 | 81,776 | 63,577 | 46,237 |
| Other comprehensive income (loss) | 1,160 | 6,066 | (411) | 1,559 | (138) |
| Total comprehensive income for the year | 49,955 | 93,895 | 81,365 | 65,136 | 46,099 |

Assets and liabilities of the Group at 31 December

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--------------------------------|----------------|---------|---------|---------|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | 92,019 | 99,044 | 89,098 | 20,394 | 18,549 |
| Current assets | 436,513 | 402,490 | 306,845 | 188,864 | 104,561 |
| Total assets | 528,532 | 501,534 | 395,943 | 209,258 | 123,110 |
| Current liabilities | 48,888 | 73,354 | 58,513 | 74,223 | 54,256 |
| Non-current liabilities | 6,755 | 5,246 | 69 | 203 | – |
| Net assets | 472,889 | 422,934 | 337,361 | 134,832 | 68,854 |