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

GLOBAL OFFERING

Sole Sponsor

東吳證券(國際)
SOOCHOW SECURITIES (INTERNATIONAL)

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

東吳證券(國際)
SOOCHOW SECURITIES (INTERNATIONAL)

富滙證券
WealthLink Securities Limited

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

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

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total number of Offer Shares	**:**	**150,000,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Public Offering Shares	**:**	**15,000,000 Shares (subject to reallocation)**
Number of International Placing Shares	**:**	**135,000,000 Shares (subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$1.47 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**1643**

Sole Sponsor

東吳證券(國際) SOOCHOW SECURITIES (INTERNATIONAL)

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

東吳證券(國際) SOOCHOW SECURITIES (INTERNATIONAL)　　富滙證券 WealthLink Securities Limited

Joint Bookrunners and Joint Lead Managers

浦銀國際 SPDB INTERNATIONAL　交銀國際 BOCOM International　越秀證券 YUEXIU SECURITIES　山證國際 SHANXI SECURITIES INTERNATIONAL　申萬宏源香港 SHENWAN HONGYUAN　千里碩 ELSTONE

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraphs headed "Documents Delivered to the Registrar of Companies" and "Documents Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by an agreement between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company on or around Thursday, 7 January 2021, or such other time and date as may be agreed between the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and the Company, but in any event, no later than Monday, 11 January 2021. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before Monday, 11 January 2021, the Global Offering will not become unconditional and will lapse. The Offer Price will be not more than HK$1.47 per Offer Share and is currently expected to be not less than HK$0.92 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Public Offering Shares must pay, on application, the maximum Offer Price of HK$1.47 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK$1.47 per Offer Share.

The Joint Global Coordinators may, with our Company's consent, reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares under the Global Offering at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of reduction in the indicative Offer Price range and/or the number of Offer Shares will be published at the website of the Stock Exchange at **www.hkexnews.hk** and website of our Company at **www.cdysjdyy.com** not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Public Offering Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. Pursuant to the Hong Kong Public Offering Underwriting Agreement, the Joint Global Coordinators have the right in certain circumstances to terminate the obligations of the Hong Kong Public Offering Underwriters at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the section headed "Underwriting – Underwriting arrangements and expenses – Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

31 December 2020

EXPECTED TIMETABLE[1]

*If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement to be published on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.cdysjdyy.com**.*

Date and time[1]

Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from . . . . . 9:00 a.m. on Thursday, 31 December 2020

Latest time for completing electronic applications under the **HK eIPO White Form** service through one of the below ways[2]:

(1) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**

(2) the designated website **www.hkeipo.hk** . . . . . .11:30 a.m. on Thursday, 7 January 2021

Application lists of the Hong Kong Public Offering open[3] . . . . . .11:45 a.m. on Thursday, 7 January 2021

Latest time for (a) lodging **WHITE** and **YELLOW** Application Forms, (b) giving **electronic application instructions** to HKSCC[4] and (c) completing payment of the **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s). . . . . .12:00 noon on Thursday, 7 January 2021

Application lists of the Hong Kong Public Offering close . . . . . .12:00 noon on Thursday, 7 January 2021

Expected Price Determination Date on or about[5] . . . . . Thursday, 7 January 2021

Announcement of the final Offer Price, the indication of the level of interest in the International Placing, the result of applications in respect of the Hong Kong Public Offering and the results and basis of allotment under the Hong Kong Public Offering to be published on the websites of Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.cdysjdyy.com** on or before[9] . . . . . .Thursday, 14 January 2021

Announcement of the results of allocation in the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels including the websites of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.cdysjdyy.com** (see the section headed "How to Apply for Hong Kong Public Offering Shares – 11. Publication of results") in this prospectus from[9] . . . . . Thursday, 14 January 2021

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) will be available at "IPO Results" function in the **IPO App** or at **www.tricor.com.hk/ipo/result** (or **www.hkeipo.hk/IPOResult**)[9] . . Thursday, 14 January 2021

Despatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[6] to [9] . . . . . .Thursday, 14 January 2021

Despatch of the **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications on or before[6] to [9] . . . . . .Thursday, 14 January 2021

Dealings in Shares on the Stock Exchange to commence at 9:00 a.m. on[9] . . . . . .Friday, 15 January 2021

The application for the Hong Kong Public Offering Shares will commence on Thursday, 31 December 2020 and close on Thursday, 7 January 2021, being longer than normal market practice of four days. The Offer Price of our Shares will be determined on the Price Determination Date, which is expected to be on or around Thursday, 7 January 2021, and in any event, no later than Monday, 11 January 2021. The application monies (including the brokerage fee, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving banks on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Thursday, 14 January 2021, and our Shares will not commence trading on the Stock Exchange until the Listing Date, which is expected to be on Friday, 15 January 2021. Accordingly, investors may not be able to sell or deal in our Shares during the period between the Price Determination Date and the Listing Date. Our Shareholders are subject to the risk that the price of our Shares could fall before trading begins, as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the Listing Date.

Notes:

(1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.

(2) You will not be permitted to submit your application through the **IPO App** or the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force and/or Extreme Conditions in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 January 2021, the application lists will not open on that day. Please see the section headed "How to Apply for Hong Kong Public Offering Shares – 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for Hong Kong Public Offering Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Public Offering Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date is expected to be on or around Thursday, 7 January 2021 and, in any event, not later than Monday, 11 January 2021. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us by Monday, 11 January 2021, the Global Offering will not proceed and will lapse.

(6) **Share certificates are expected to be issued on Thursday, 14 January 2021, but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely at their own risk.**

(7) Applicants who apply for 1,000,000 Hong Kong Public Offering Shares or more on **WHITE** Application Forms and have provided all information required may collect their refund cheques (where relevant) and/or Share certificates (where relevant) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 January 2021 or any other day as notified by us as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques.

Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which are eligible for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. Applicants for 1,000,000 Hong Kong Public Offering Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply through the **HK eIPO White Form** service and paid their applications monies through single bank account may have refund monies (if any) dispatched to their application payment bank account, in the form of e-Auto Refund payment instructions; Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the **HK eIPO White Form** Service Provider, in the form of refund cheques, by ordinary post at their own risk. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the subsection "How to Apply for Hong Kong Public Offering Shares – 14. Despatch/Collection of Share Certificates and Refund Monies".

(8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications.

(9) If there is a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions is/are in force between Thursday, 31 December 2020 and Friday, 15 January 2021, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) despatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

You should read carefully the sections headed "Underwriting", "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Public Offering Shares" in this prospectus for details relating to the structure and conditions of the Global Offering, procedures on the applications for Hong Kong Public Offering Shares and the expected timetable, including conditions, effect of bad weather and/or Extreme Conditions and the dispatch of refund cheques and Share certificates.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Joint Global Coordinators, Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Sole Sponsor, the Underwriters, any of our or their respective directors, officers, employees, partners, agents or representatives, or any other party involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial information appearing elsewhere in this prospectus. As this is a summary, it does not contain all the information that may be important to you and we urge you to read the entire prospectus carefully before making your investment decision. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We principally engage in the production of proprietary Chinese medicine (the "**PCM**"), in particular, we offer both OTC and prescribed medicines intended for use by the Middle-aged and the Elderly in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had 59 types of PCM products. Our major products (in terms of revenue) are Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸). Certain of our products are intended to re-balance and integrate different types of Qi (氣), a Traditional Chinese Medical Concept which usually refers to the force binding all the matters in the human body. For more details regarding the concept of Qi (氣) and our products, please refer to the subsection headed "Business – Our products" in this prospectus. According to the Euromonitor Report, we are in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in 2019 in terms of the sales of Qi-deficiency and blood-stasis PCM[(1)] pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM[(2)] capsules (心腦血管中成藥膠囊) in Northeast, the PRC.

The following table sets out the market share of our certain major products in 2019 in their corresponding segments:

Product name	**Revenue in FY2019[(3)]** *(RMB million)*	**Approximate market share in 2019[(4)]** *(%)*
Vigour and Vitality Supplement Pill (補腎填精丸)	49.2	33.1
Cardiotonic Enhancement Capsule (山玫膠囊)	33.2	17.4
Circulation Enhancement Pill (氣血雙補丸)	40.0	15.0
Heart Wellness Capsule (心安膠囊)	14.4	6.6
Kidney Invigoration Pill (金匱腎氣丸)	22.5	2.0
Menstrual Discomfort Relief Pill (加味逍遙丸)	7.3	1.0
Liver Detox Tablet (護肝片)	7.4	0.8

Notes:

(1) The major products having intended therapeutic effects of alleviating Qi-deficiency and blood-stasis conditions are Circulation Enhancement Pill (氣血雙補丸), Vigour and Vitality Supplement Pill (補腎填精丸) and Kidney Invigoration Pill (金匱腎氣丸).

(2) The major products having intended therapeutic effect of alleviating cardio-cerebrovascular conditions are Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊).

(3) There were no rankings for Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) as we recorded no revenue for these products in FY2019.

(4) The relevant market share is calculated by including all the pharmaceutical manufacturers located in the PRC that produce medicine(s) (i) with similar efficacy; or (ii) intended for the same treatment and/or alleviation, set forth in the Chinese Pharmacopoeia (《中國藥典》) and the Drug Standards (《部頒標準》).

OUR BUSINESS

Our history could be traced back to the 1980s. Our principal operating subsidiary was transformed from a state-owned enterprise into a limited liability company in 2001. After several ownership changes, our executive Director, Chairman and Controlling Shareholder, Mr. Xie, acquired our Group's business in June 2014 from Independent Third Parties. Leveraging on our then product portfolio and established brand name in Northeast, Mr. Xie prioritised expanding our business (the promotion of existing products) by enlarging the distribution network to other parts of the PRC. During the Track Record Period, it was our pricing strategy to offer a relatively higher discount rate to our distributors to compete in the market and expand our distribution network. With the assistance of Ms. Zhang, our executive Director and Chief Executive Officer, who joined the predecessor of our principal operating subsidiary in 1986 and Mr. Li, our executive Director who oversees our sales and marketing, our distribution network gradually expanded from Northeast to Huadong (華東), Huanan (華南) and Huabei (華北). Going forward, in addition to providing the Marketing Incentives to our distributors, we consider that it is also necessary for us to engage direct marketing communication to promote or sell our brand to our end users through traditional media as well as new media. Our Directors consider that such marketing efforts will stimulate market demand from the distributors and end users in the long run.

Our business segments

Our products are sold mainly under our brand "Yushi (御室)". During the Track Record Period, all of our pharmaceutical products were sold to our distributors, who onsold to retailers (such as drugstores, pharmacies and clinics), where end-users could purchase our products. We maintain a buyer/seller relationship with our distributors, and our distributors are our customers.

The following sets out a breakdown of our revenue, gross profit and gross profit margin for our major products for the years/periods indicated.

	FY2017				FY2018				FY2019				9M2019				9M2020			
	Approx. revenue *RMB'000*	% of total revenue %	Gross profit *RMB'000*	Gross Profit margin %	Approx. revenue *RMB'000*	% of total revenue %	Gross profit *RMB'000*	Gross Profit margin %	Approx. revenue *RMB'000*	% of total revenue %	Gross profit *RMB'000*	Gross Profit margin %	Approx. revenue *RMB'000*	% of total revenue %	Gross profit *RMB'000*	Gross Profit margin %	Approx. revenue *RMB'000*	% of total revenue %	Gross profit *RMB'000*	Gross Profit margin %
OTC medicine																				
Vigour and Vitality Supplement Pill (補腎填精丸)	24,707	23.2	9,280	37.6	43,674	25.2	12,166	27.9	49,154	22.5	15,857	32.3	43,460	25.1	15,115	34.8	37,733	17.2	5,121	13.6
Circulation Enhancement Pill (氣血雙補丸)	17,295	16.2	4,485	25.9	47,382	27.3	25,247	53.3	40,004	18.3	23,385	58.5	33,717	19.5	19,533	57.9	34,442	15.7	20,644	59.9
Menstrual Discomfort Relief Pill (加味逍遙丸)	5,992	5.6	4,093	68.3	7,273	4.2	3,842	52.8	7,254	3.3	3,633	50.1	5,478	3.2	2,710	49.5	5,955	2.7	3,171	53.2
Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸)	118	0.1	16	13.6	30	0.0*	7	23.3	–	–	–	–	–	–	–	–	31,825	14.5	15,786	49.6
Others[1]	23,343	22.0	9,191	39.4	27,198	15.7	11,137	40.9	32,230	14.7	14,162	43.9	19,678	11.4	9,113	46.3	16,005	7.5	7,796	48.7
Subtotal/Overall	71,455	67.1	27,065	37.9	125,557	72.4	52,399	41.7	128,642	58.8	57,037	44.3	102,333	59.2	46,471	45.4	125,960	57.6	52,518	41.7
Prescribed medicine																				
Cardiotonic Enhancement Capsule (山玫膠囊)	11,325	10.6	7,697	68.0	17,373	10.0	9,278	53.4	33,231	15.2	18,710	56.3	26,653	15.4	14,792	55.5	20,561	9.4	12,904	62.8
Kidney Invigoration Pill (金匱腎氣丸)	5,216	4.9	2,610	50.0	5,667	3.3	2,722	48.0	22,544	10.3	12,578	55.8	20,104	11.6	10,940	54.4	19,332	8.8	12,018	62.2
Heart Wellness Capsule (心安膠囊)	6,830	6.4	4,110	60.2	10,420	6.0	4,742	45.5	14,413	6.6	5,114	35.5	11,837	6.8	4,380	37.0	13,976	6.4	4,133	29.6
Liver Detox Tablet (護肝片)	1,912	1.8	378	19.8	7,237	4.2	1,902	26.3	7,402	3.4	424	5.7	5,601	3.2	452	8.1	5,414	2.5	546	10.1
Fever-removing and Detoxification Pill (清瘟解毒丸)	131	0.1	36	27.5	19	0.0*	4	21.1	–	–	–	–	–	–	–	–	20,953	9.6	11,183	53.4
Others[2]	9,597	9.1	2,531	26.4	7,239	4.1	2,610	36.0	12,535	5.7	5,206	41.5	6,442	3.8	3,392	52.7	12,642	5.7	4,932	39.0
Subtotal/Overall	35,011	32.9	17,362	49.6	47,955	27.6	21,258	44.3	90,125	41.2	42,032	46.6	70,637	40.8	33,956	48.1	92,878	42.4	45,716	49.2
Total/Overall	106,466	100.0	44,427	41.7	173,512	100.0	73,657	42.5	218,767	100.0	99,069	45.3	172,970	100.0	80,427	46.5	218,838	100.0	98,234	44.9

* *Represents negligible amount*

Notes:

(1) Others include Six-Ingredient Rehmannia Pill (六味地黃丸) and other OTC medicine produced by us.

(2) Others include Arborvitae Seed Heart Nourishing Pill (柏子養心丸) and other prescribed medicine produced by us.

The gross profit margin of Circulation Enhancement Pill (氣血雙補丸) in FY2017 was lower mainly due to the fact that we offered higher monetary Marketing Incentives for promotion in FY2017. The gross profit margin of Menstrual Discomfort Relief Pill (加味逍遙丸) decreased in FY2018 mainly due to the fact that we lowered average net selling prices to promote the products and drive up the total revenue. The gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸) for 9M2020 decreased significantly mainly due to the increase in its cost of sales per kg as the purchase price of Deer Antler (鹿茸), one of its major raw materials, increased in the respective period: (i) we started to purchase Deer Antler (鹿茸) from Tieling Chuntian Pharmaceutical Co. Ltd. (鐵嶺春天藥業有限公司), which offered quality Deer Antler (鹿茸) and could ensure a more steady supply as it operates own deer farm for its products, since 2019; (ii) when the utilisation rate of the extraction line was relatively low, we purchased some keenly priced and less purified raw materials for production as we only require the extracted essence from the raw materials; and (iii) the purchase price of Deer Antler (鹿茸) in the market remained at high level after the use of Deer Antler (鹿茸) is no longer subject to wildlife restriction in May 2020. Our Directors considered such price level might be caused by the temporary shortage and hence had not yet adjusted our selling price accordingly. If the purchase price of Deer Antler (鹿茸) persists at high level, our Group will adjust the net selling prices of our products and pass partial/all of the increase in cost to our customers.

The gross profit margin of Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness capsule (心安膠囊) decreased in FY2018 primarily due to the change in our production facilities from coal-heated to gas-heated, which increased the cost of production for these capsule products. The gross profit margin of Cardiotonic Enhancement Capsule (山玫膠囊) increased notably in 9M2020 due to the increase in its average net selling price as we reduced the types of packing offered to distributors (i.e. no longer offering promotional packings with lower average net selling prices) due to the temporary change in market demand. The gross profit margin of Heart Wellness Capsule (心安膠囊) further decreased in FY2019 and 9M2020 due to (i) the increase in monetary Marketing Incentives offered for promotion in FY2019; and (ii) the fact that we adjusted our pricing strategy to decrease the average net selling price of this product for 9M2020 in order to drive up the demand during the period. The change in gross profit margin of Liver Detox Tablet (護肝片) in FY2019 and 9M2020 primarily due to an increase in average cost of sales per kg mainly resulted from increase in purchase price of Chinese Magnoliavine Fruit (五味子), one of its major raw materials, during the respective year/period. We had adjusted its net selling price in order to cope with the increase in average cost.

As compared to those for 9M2019, our gross profit margin for Circulation Enhancement Pill (氣血雙補丸), Menstrual Discomfort Relief Pill (加味逍遙丸) and Kidney Invigoration Pill (金匱腎氣丸) increased in 9M2020 which were mainly due to the decrease in their major cost

of raw materials consumed. In particular, (i) our improved quality control of raw materials led to a decrease in production loss; and (ii) the purchase prices of Dangshen (黨蔘), White Peony Root (白芍), Tuckahoe (茯苓) and Tree Peony Bark (牡丹皮), the major raw materials used in one or more of these three major products, decreased during the respective period.

For 9M2020, Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) were two of our top selling products as they were believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness. Their higher gross profit margins were mainly due to the surging demand and we did not offer any monetary Marketing Incentives during the respective period. The higher gross profit margins of these two products compensated the decrease in gross profit margins of some other major products, namely Vigour and Vitality Supplement Pill (補腎填精丸) and Heart Wellness Capsule (心安膠囊) for 9M2020 and we were able to attain our overall gross profit margin at approximately 44.9%.

Generally, during the Track Record Period, the overall gross profit margin of our OTC medicine was relatively lower than that of our prescribed medicine. This was mainly due to the higher nominal selling prices of prescribed medicine compared to that of OTC medicine, as well as the cost of principal raw materials of different products applied. For example, the principal raw materials of our OTC medicines, such as Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸), are Ginseng (人蔘), Deer Antler (鹿茸), Chinese Angelica (當歸) and honey, which are relatively more expensive than those of our prescribed medicine, such as Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊), which are Hawthorn Leaves (山楂葉) and ethanol (for extraction).

Revenue breakdown by geographic location

Region	FY2017		FY2018		FY2019		9M2019		9M2020	
	Approximate revenue *(RMB'000)*	Approximate % of total revenue	Approximate revenue *(RMB'000)*	Approximate % of total revenue	Approximate revenue *(RMB'000)*	Approximate % of total revenue	Approximate revenue *(RMB'000)*	Approximate % of total revenue	Approximate revenue *(RMB'000)*	Approximate % of total revenue
Northeast[(1)]	53,586	50.3	88,422	51.0	120,252	55.0	96,465	55.8	118,060	53.9
Huadong (華東)[(2)]	15,506	14.6	25,797	14.9	24,885	11.4	20,756	12.0	14,221	6.5
Huanan (華南)[(3)]	10,501	9.9	21,534	12.4	33,500	15.3	25,372	14.6	39,426	18.0
Huabei (華北)[(4)]	26,792	25.1	36,435	21.0	33,178	15.2	25,609	14.8	39,799	18.2
Southwest[(5)(6)]	81	0.1	1,255	0.7	4,303	2.0	2,877	1.7	4,295	2.0
Northwest[(6)]	–	–	69	0.0*	2,649	1.1	1,891	1.1	3,037	1.4
Total	106,466	100.0	173,512	100.0	218,767	100.0	172,970	100.0	218,838	100.0

* *Represents negligible amount*

Notes:

(1) Northeast represents Heilongjiang, Jilin, Liaoning

(2) Huadong (華東) represents Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong

(3) Huanan (華南) represents Henan, Hubei, Hunan, Guangxi, Guangdong, Hainan

(4) Huabei (華北) represents Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia

(5) Southwest represents Chongqing, Sichuan, Guizhou, Yunnan, Tibet

(6) Northwest represents Shaanxi, Gansu, Qinghai, Ningxia Hui, Xinjiang

Throughout the Track Record Period, Northeast contributed more than 50% of our revenue, and we gradually developed Huadong (華東) and Huanan (華南) markets with the aim to broaden our distribution network, and the total revenue generated from these two regions increased from approximately RMB26.0 million in FY2017 to approximately RMB58.4 million in FY2019.

The revenue in FY2019 increased by approximately 26.1% compared to FY2018. It was mainly due to the revenue growth of Northeast and Huanan (華南) by approximately RMB31.8 million and approximately RMB12.0 million, respectively, which were primarily contributed by our Cardiotonic Enhancement Capsule (山玫膠囊) and Kidney Invigoration Pill (金匱腎氣丸). Such increase was partially offset by the decrease in our revenue by approximately RMB3.3 million which was derived from Huabei (華北) as the amount of our transactions with Heilongjiang Jintian Aixin Pharmaceutical Distribution declined in FY2019. The increase in revenue for 9M2020 compared to 9M2019 by approximately 26.5% was mainly due to the growth from Northeast, Huabei (華北) and Huanan (華南) by approximately 22.4%, 55.4% and 55.4%, respectively, which was partially offset by the decrease in revenue generated from Huadong (華東) by approximately 31.5% as we have recorded lower sales in Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸) and Cardiotonic Enhancement Capsule (山玫膠囊) by approximately RMB11.3 million.

OUR CUSTOMERS AND SUPPLIERS

For FY2017, FY2018, FY2019 and 9M2020, the total sales to our Group's five largest customers (i.e. distributors) in aggregate accounted for approximately 79.6%, 64.0%, 40.2% and 43.4%, of our total revenue, respectively. Save as disclosed in the subsection headed "Relationship with our Controlling Shareholders – Mr. Xie's historical passive investment in the parent company of a major distributor" in this prospectus regarding Mr. Xie's interest in Universal Health, all of our five largest customers were Independent Third Parties. Some of our major customers are subsidiaries of listed companies on the Stock Exchange or the PRC's stock markets, or companies invested by provincial finance department in the PRC. As at the Latest Practicable Date, we had established a distribution network of 77 distributors that covers 39 cities in the PRC. Our distributorship agreement is not exclusive and our distributors can manufacture, engage other parties to manufacture or sell similar products so long as they have the licences required.

During the Track Record Period, by broadening our customer base (number and coverage of distributors), we successfully increased the proportion of revenue contributed by non-top five customers and reduced our reliance on any single customer, in particular Heilongjiang Jintian Aixin Pharmaceutical Distribution, who ranked first, first, ninth and 16th respectively in our customer list in terms of sales. Our revenue derived from sales to Heilongjiang Jintian Aixin Pharmaceutical Distribution amounted to approximately RMB47.5 million, RMB29.4 million, RMB7.9 million and RMB3.9 million, representing approximately 44.6%, 16.9%, 3.6% and 1.8% of our total revenue for FY2017, FY2018, FY2019 and 9M2020, respectively. Such decrease was primarily due to (i) the success of our strategy to broaden our customer base and expand our distribution network in the PRC. In particular, we have given higher priority to promote our products to new distributors with potential or distributors located in our Group's targeted markets, such as new market regions/provinces which we did not explore heavily during the relevant time; (ii) we observed that Universal Health's revenue decreased during the same period, which rendered a reduction in their transactions with us; and (iii) to the best of

our knowledge and understanding, Universal Health had been undergoing a realignment of its sales network in Northeast (covering the areas of Heilongjiang and Jilin) in view of the market competition and development during the relevant time.

During the Track Record Period, our suppliers primarily provided us with raw materials, including medicinal herbs, animal substances, consumable/additive and packaging materials. For FY2017, FY2018, FY2019 and 9M2020, the total purchases from our Group's five largest suppliers in aggregate accounted for approximately 65.1%, 80.2%, 58.0% and 65.4% of our total purchases, respectively. Some of our major suppliers are subsidiaries of listed companies in the PRC. During the Track Record Period and up to the Latest Practicable Date, all of our five largest suppliers were Independent Third Parties.

During the Track Record Period, the associate companies of some of our major customers also supplied us with raw materials including empty capsules and packaging materials for our products, thus, some of our major customers were also our suppliers during the Track Record Period. According to the Euromonitor Report, having overlapping customers and suppliers is common in the Chinese pharmaceutical industry as the value chain is undergoing vertical/horizontal integration, and procuring from existing customers can reduce risk of procuring from unknown suppliers. Please refer to the section headed "Business – Overlapping of Customers and Suppliers" in this prospectus for more details.

OUR DISTRIBUTION NETWORK

The following table sets out the movement of the number of our distributors for the three years ended 31 December 2019 and up to the Latest Practicable Date:

	2017	2018	2019	From 1 January 2020 up to the Latest Practicable Date
As at the beginning of the year/period	22	29	75	78
Additions of distributors	9	47	7	1
(Non-renewal of existing distributors)	(2)	(1)	(4)	(2)
Net increase/(decrease) in distributors	7	46	3	(1)
As at the end of the year/period[(1)]	29	75	78	77

Note:

(1) As at 31 December 2017, 31 December 2018, 31 December 2019 and the Latest Practicable Date, we had 29, 75, 78 and 77 distributors respectively by counting them individually; however, as 6, 6, 5 and 5 distributors were under the same listed group – Universal Health and one distributor in FY2019 and up to the Latest Practicable Date was an associate company of Customer A, the number of our distributors in aggregate were 24, 70, 73 and 72 as at the respective years/period end dates.

The notable increase in the number of distributors during FY2018 was due to the fact that we had started to hire additional marketing employee in FY2016, and it took time to negotiate new distribution agreements and these new distribution agreements were only confirmed and signed between FY2017 and FY2018.

MARKETING AND PRICING POLICY

In determining our product prices, we take into account a number of factors including market demand, the cost of raw materials, operating expenses, target profit margin, general market trends, seasonal factors, geographical location, competition and other expenses and costs. During the Track Record Period, we provided certain Marketing Incentives to selected distributors (i.e. those who procured specific products), to compensate the marketing efforts incurred by them. For example, during the Track Record Period, our monetary Marketing Incentives, which were in the form of trade discount, rebates and/or other price incentives, amounted to approximately RMB44.3 million, RMB26.8 million, RMB29.8 million and RMB16.9 million, respectively, meanwhile, the cost of our non-monetary Marketing Incentives amounted to nil, approximately RMB1.0 million, approximately RMB0.7 million and nil, respectively. Set out below is our price structure for illustrative*(Note)* purpose.

Our wholesale prices to distributors (net of monetary Marketing Incentives and non-monetary Marketing Incentives)	RMB12 – 17
Distributors' selling prices to retailers	RMB35 – 45
Average retail prices	RMB100

As advised by Euromonitor, we offered lower wholesale prices (net of monetary Marketing Incentives and non-monetary Marketing Incentives) to our distributors than the industry average, in other words, the discount rate we offered to our distributors were higher than our competitors in the industry. Furthermore, the distributors' selling prices to retailers were generally in line with the industry. Please refer to the subsections headed "Business – Marketing Incentives" and "Financial Information – Significant Factors Affecting Our Results of Operations and Financial Conditions" in this prospectus for further details.

In addition, we also provide non-monetary Marketing Incentives to certain distributors, where we offered complimentary manufacturing services to them if they so preferred. Despite our owned brand products and non-owned brand products may constitute competition, we consider such competition (if any) is minimal as it only accounted for approximately 1.7% to 1.8% of our annual production during the Track Record Period. For details, please refer to the sub-section headed "Business – Marketing Incentives" in this prospectus.

Note: Figures shown are for illustration purpose only and do not reflect the actual retail or wholesale price of any particular products.

OUR PRODUCTION FACILITIES AND PRODUCTION CAPACITY

We produce all our products in our GMP certified production facilities in Chengde City with an aggregate gross floor area of approximately 10,694.3 sq.m.. The following table sets out the designed production capacity, actual production volume and utilisation rate of our production lines for the years/periods indicated:

	FY2017			FY2018			FY2019			9M2019			9M2020		
	Designed production capacity[1] *('000 kg (approximately))*	Actual production volume[1] *('000 kg (approximately))*	Utilisation rate[1]	Designed production capacity[1] *('000 kg (approximately))*	Actual production volume[1] *('000 kg (approximately))*	Utilisation rate[1]	Designed production capacity[1] *('000 kg (approximately))*	Actual production volume[1] *('000 kg (approximately))*	Utilisation rate[1]	Designed production capacity[1] *('000 kg (approximately))*	Actual production volume[1] *('000 kg (approximately))*	Utilisation rate[1]	Designed production capacity[1] *('000 kg (approximately))*	Actual production volume[1] *('000 kg (approximately))*	Utilisation rate[1]
Extraction line[2]	396	167	42.2%	396	372	93.9%	396	350	88.4%	297	272	91.6%	297	292	98.3%
Production line for capsule products[3],[5]	133	23	17.3%	133	76	57.1%	133	126	94.7%	100	94	94.0%	100	81	81.0%
Production line for tablet products[3],[6]	98	7	7.1%	98	54	55.1%	98	43	43.9%	74	35	47.3%	74	35	47.3%
Production line for pill products[4],[7]	3,712	1,009	27.2%	3,712	1,647	44.4%	3,712	1,852	49.9%	2,784	1,243	44.7%	5,568	2,889	51.9%

Notes:

(1) For details in relation to the calculations of the designed production capacity, actual production volume and utilisation rate, please refer to the subsection headed "Business – Production – Production capacity and utilisation rate" in this prospectus.

(2) Our extraction line is used for extraction and further processing, which is a necessary procedure for producing a majority of our major products. The actual production volume of our production line had been approaching its limit as slack/cleaning time (approximately 2 hours to 2.5 hours for each extraction batch) was required between each extraction batch and therefore had been limiting our utilisation rate and the actual production volume of the production lines for our products during the Track Record Period.

(3) The fluctuations in the utilisation rate of the production lines for capsule and tablet products were attributable to the changes in sales volume. Please see the subsections headed "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – 9M2020 compared to 9M2019 – Revenue", "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – FY2019 compared to FY2018 – Revenue" and "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – FY2018 compared to FY2017 – Revenue" in this prospectus for further information.

(4) We assume the daily operating hours for our production line for pill products to be 8 hours (1 shift) for FY2017, FY2018, FY2019 and 9M2019, and 16 hours (2 shifts) for 9M2020 due to the increased demand for Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

(5) Capsule refers to a solid dosage form in which medicine is enclosed in a hard or soft soluble container.

(6) Tablet refers to dose of medicine in flat circular or disk shape form.

(7) Pill refers to a medicinal substance in a small round or oval mass meant to be swallowed.

MAJOR COST COMPONENTS

During the Track Record Period, our major cost components were the cost of raw materials, direct labour and other overheads. Our cost of sales represented approximately 58.3%, 57.5%, 54.7%, 53.5% and 55.1% of our total revenue, for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

During the Track Record Period, our cost of raw materials (as a percentage of revenue) was higher than other market players mainly due to (i) other listed PCM companies in the PRC mainly use medicinal herbs, while our raw materials include animals substance; and (ii) our major raw materials such as Ginseng (人蔘) and Deer Antler (鹿茸) have relatively higher value as compared with the raw materials used by other PCM companies which mainly use medicinal herbs.

OUR COMPETITIVE STRENGTHS

We believe that the followings are our key competitive strengths that contributed to our success:

(i) Leading position in terms of sales of Qi-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast;

(ii) Stringent quality management system;
(iii) Experienced and dedicated management team; and
(iv) Strategically-located production facilities.

Please refer to the subsection headed "Business – Our Competitive Strengths" in this prospectus for details.

OUR STRATEGIES

We aim to become a leading pharmaceutical company in the PRC. We intend to achieve our goal by pursuing the following principal strategies:

(i) Enhancing and expanding our production capacity;
(ii) Broadening our distribution network in Huanan (華南) and Huadong (華東);
(iii) Raising our brand awareness through media marketing and promotion efforts;
(iv) Further raising our R&D efforts, procure quality management equipment and broaden our product portfolio; and
(v) Upgrading our IT system.

Please refer to the subsection headed "Business – Our Strategies" in this prospectus for details.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The tables below include, for the years/periods indicated, selected financial data derived from our combined statements of profit or loss and other comprehensive income, the details of which are set forth in Appendix I, and these should be read in conjunction with the financial statements in Appendix I, including the related notes.

Summary of Combined Statements of Profit or Loss and Other Comprehensive Income

	FY2017	**FY2018**	**FY2019**	**9M2019**	**9M2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	106,466	173,512	218,767	172,970	218,838
Gross Profit	44,427	73,657	99,069	80,427	98,234
Profit before tax	34,770	64,507	65,256	56,629	72,874
Profit for the year/period[(1) and (2)]	25,881	48,237	46,237	40,925	52,771

Notes:

(1) The decrease in profit for the year in FY2019 was mainly due to the listing expenses amounted to approximately RMB11.8 million during the year.

(2) The increase in profit for the period in 9M2020 was mainly due to the increase in sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

Summary of Combined Statements of Financial Position

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets	16,968	15,383	18,549	20,274
Current Assets[(1) and (2)]	99,275	157,631	104,561	156,001
Current Liabilities	40,661	49,195	54,256	54,131
Net Current Assets[(1) and (2)]	58,614	108,436	50,305	101,870
Net Assets[(1) and (2)]	75,582	123,819	68,854	121,856

Notes:

(1) The decrease in current assets, net current assets and net assets in FY2019 was mainly due to payment of dividends of approximately RMB103.3 million to a shareholder of Chengde Yushi during the year.

(2) The increase in current assets, net current assets and net assets in 9M2020 was mainly due to increase in trade and other receivables, resulting from the sharp increase in sales transactions following the gradual release of travel restrictions across the PRC since March 2020 and fulfillment of orders before national holidays.

Summary of Combined Statements of Cash Flows

	FY2017	FY2018	FY2019	9M2019	9M2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating cash inflows before movements in working capital	37,450	66,094	66,629	57,676	74,456
Changes in working capital[(1)]	(53,921)	25,414	(5,549)	3,910	(36,552)
Income tax paid	(8,984)	(14,396)	(20,840)	(16,340)	(19,692)
Net cash (used in) generated from operating activities[(2)]	(25,455)	77,112	40,240	45,246	18,212
Net cash (used in) generated from investing activities[(3) and (4)]	(1,542)	(37)	(1,207)	1,078	(362)
Net cash (used in) generated from financing activities[(5), (6) and (7)]	(41,989)	–	(92,943)	(98,465)	7,978
Cash and cash equivalents at the end of the reporting period	12,865	89,940	35,891	37,799	62,149

Notes:

(1) The net decrease in working capital of approximately RMB36.6 million for 9M2020 was mainly due to an increase of approximately RMB28.3 million in trade and other receivables, resulting from the sharp increase in sales transactions following the gradual release of travel restrictions across the provinces in the PRC since March 2020 and fulfillment of orders before national holidays.

(2) The net cash used in operating activities in FY2017 mainly related to the refund of contract liabilities in relation to a refundable receipts in advance of approximately RMB40.0 million to Heilongjiang Jintian Aixin Pharmaceutical Distribution. To cope with the net cash used in operating activities, we closely monitor the collection status of the outstanding trade receivables. Please refer to the subsection headed "Financial Information – Liquidity and Capital Resources – Cash flows" in this prospectus for details.

(3) The net cash used in investing activities in FY2017 and FY2019 were mainly due to purchase of property, plant and equipment. Please refer to the subsection headed "Financial Information – Liquidity and Capital Resources – Cash flows" in this prospectus for details.

(4) The net cash generated from investing activities for 9M2019 was mainly attributable to the proceeds received from disposal of Non-core Assets. Please refer to the subsection headed "Financial Information – Liquidity and Capital Resources – Cash flows" in this prospectus for details.

(5) The net cash used in financing activities in FY2017 mainly related to repayment of RMB35.0 million interest-bearing borrowings. Please refer to the subsection headed "Financial Information – Liquidity and Capital Resources – Cash flows" in this prospectus for details.

(6) The net cash used in financing activities in FY2019 mainly related to payment of dividends amounted to approximately RMB103.3 million to a shareholder of Chengde Yushi. Please refer to the subsection headed "Financial Information – Liquidity and Capital Resources – Cash flows" in this prospectus for details.

(7) The net cash generated from financing activities for 9M2020 was mainly attributable to the advance from the Ultimate Controlling Party, which will be fully settled prior to the Listing. Please refer to the subsection headed "Financial Information – Liquidity and Capital Resources – Cash flows" in this prospectus for details.

KEY FINANCIAL RATIOS

The following table sets out our gross profit margin, net profit margin, return on equity, return on total assets, current ratio, and quick ratio for the Track Record Period:

	As at/For the year ended 31 December			As at 30 September 2020/For 9M2020
	2017	2018	2019	
Gross Profit Margin	41.7%	42.5%	45.3%	44.9%
Net Profit Margin	24.3%	27.8%	21.1%	24.1%
Return on Equity	34.2%	39.0%	67.2%	57.7%
Return on Total Assets	22.3%	27.9%	37.6%	39.9%
Current Ratio	2.4 times	3.2 times	1.9 times	2.9 times
Quick Ratio	1.1 times	2.4 times	1.2 times	2.2 times

The increase in gross profit margin in FY2019 was mainly due to the fact that the proportion of the revenue derived from prescribed medicine (which has relatively higher gross profit margins) to total revenue increased. The decrease in net profit margin in FY2019 was mainly due to the listing expenses. The gross profit margin remained stable and net profit margin increased for 9M2020 mainly attributable to the increase in gross profit for the period which is primarily due to the increase in sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

As compared to other listed PCM companies in the PRC, our gross profit margin was lower than other market players, while our net profit margin was higher than other market players, during the Track Record Period. Such variations were attributable to the different cost structure with other market players, for example, we had less R&D expenses and capital expenditures during the Track Record Period as our primary objective is to expand market share by broadening our distribution network. Our marketing expenses (as a percentage of revenue) were relatively lower than that of other listed companies in the PRC during the Track Record Period. Our Directors considered that this is mainly attributable to the fact that (i) we do not operate retail outlets as other market players do and promotion of retail outlets usually requires additional marketing expenses; and (ii) our operation scale (in terms of geographic coverage) are not nationwide whereas other market players are.

The increase in return on equity in FY2019 was mainly due to the payment of dividends of approximately RMB103.3 million to a shareholder of Chengde Yushi during the year. As there was no payment of dividend for 9M2020, netting off with the increase in the annualised net profits, the return on equity decreased in 9M2020. The return on total assets increased in FY2019 mainly attributable to the decrease in bank balances and cash. Our return on total assets further increased in 9M2020 mainly due to the increase in our annualised net profits.

Please see the subsection headed "Financial Information – Selected Financial Ratios Discussion" in this prospectus for descriptions of the calculations of the above ratios.

RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. The major risks include:

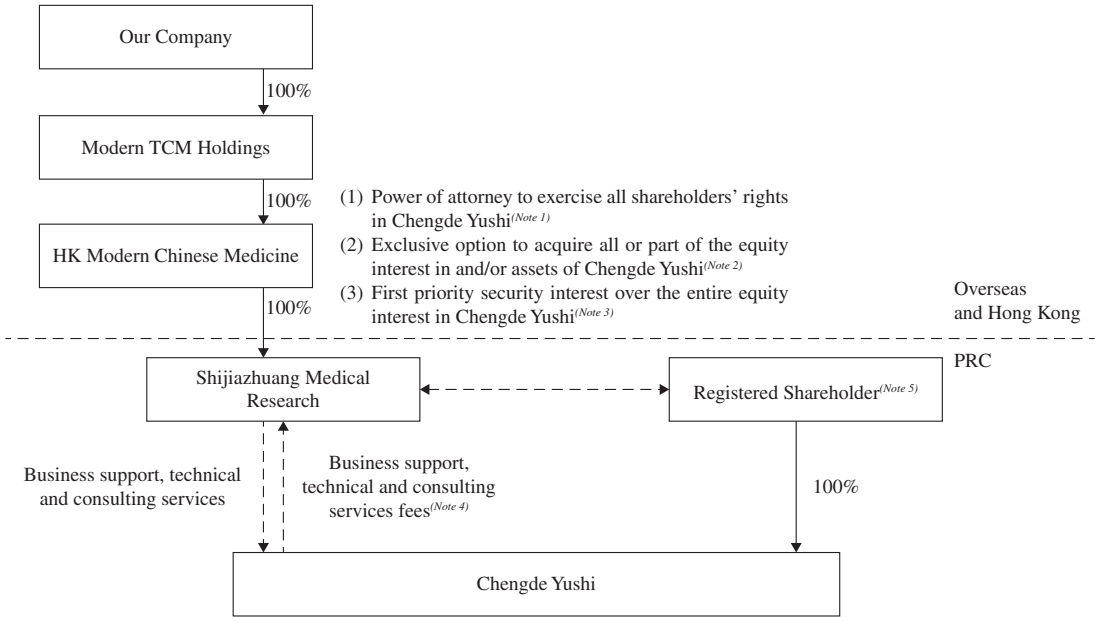
- The PRC Government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.
- A considerable portion of our revenue was derived from Northeast and two types of OTC medicine.
- We rely on our distributors to onsell and distribute 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.
- 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.
- The Traditional Chinese Medicine industry is highly regulated and the regulatory framework, requirements and enforcement trend may be tightened in the future.

For further information regarding to these and other risk factors, please refer to the section headed "Risk Factors" in this prospectus.

CONTRACTUAL ARRANGEMENTS

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 our Group (which is conducted through Chengde Yushi) during the Track Record Period. Although the entire equity interest in Chengde Yushi is held by our Controlling Shareholder, Mr. Xie, by implementation of the Contractual Arrangements as set out in the section headed "Contractual Arrangements" in this prospectus, Shijiazhuang Medical Research 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 following diagram illustrates the operation of the Contractual Arrangements which results in the control over Chengde Yushi by our Group and the flow of all economic benefits from Chengde Yushi to our Group stipulated under the Contractual Arrangements:



Notes:

(1), (2), (3) and (4) Please refer to the subsection headed "Details of the Contractual Arrangements – Power of Attorney", "Details of the Contractual Arrangements – Exclusive Option Agreement", "Details of the Contractual Arrangements – Equity Pledge Agreement", "Details of the Contractual Arrangements – Exclusive Business Cooperation Agreement" under Contractual Arrangements for details.

(5) The Relevant Shareholder is Mr. Xie, a PRC national, holding the entire equity interest in Chengde Yushi.

"⟶" denotes direct legal and beneficial ownership in the equity interest and "⇢" denotes contractual relationship.

Our PRC Legal Advisers have confirmed that the Contractual Arrangements are in compliance with and enforceable under the applicable PRC laws and regulations, except for the enforceability of the injunctive relief and other temporary measures contained therein. For further details, please refer to the subsection headed "Contractual Arrangements – Legality of the Contractual Arrangements" in this prospectus. After due and careful consideration of all relevant factors together with the legal opinion obtained, the management of our Group assessed and concluded that the Contractual Arrangements are valid, legal and enforceable in the PRC.

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

As our 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 our 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.

SHAREHOLDERS' INFORMATION AND NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), Modern Biotechnology will directly hold approximately 75% of the total issued share capital of our Company. Modern Biotechnology is wholly-owned by Mr. Xie. Accordingly, Modern Biotechnology and Mr. Xie are considered as our Controlling Shareholders for the purpose of the Listing Rules. Transactions contemplated under the Contractual Arrangements will constitute non-exempt continuing connected transactions, which are subject to reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon the Listing. For further information regarding our Controlling Shareholders, please refer to the section headed "Relationship with our Controlling Shareholders" in this prospectus.

REASONS FOR THE LISTING AND THE GLOBAL OFFERING

We believe that using the proceeds from the Global Offering is a feasible option for our Group to expand and compete against our competitors for the following reasons:

(i) we need to enhance and expand our production facilities and capacity from time to time to maintain our competitiveness;
(ii) the Listing can enhance our Group's corporate profile, credibility, brand awareness and market status;

(iii) the Listing will allow us to raise funds in the capital market for future business development; and
(iv) a Hong Kong listing status will enable us to have a better position when negotiating with more sizeable suppliers and/or distributors.

For details, please refer to subsection headed "Future Plans and Use of Proceeds – Reasons for the Listing and the Global Offering" in this prospectus.

USE OF PROCEEDS

Assuming the Offer Price of HK$1.20 per Offer Share (being the mid-point of the indicative Offer Price range between HK$0.92 and HK$1.47 per Offer Share), we estimate that we will receive net proceeds from the Global Offering of approximately HK$120.0 million after deducting underwriting fees[(1)] and estimated expenses in connection with the Global Offering payable by us (assuming that there is no exercise of the Over-allotment Option). In the event that the Over-allotment Option is exercised in full, we estimate that we will receive net proceeds of approximately HK$143.2 million. We currently intend to apply the net proceeds to the below mentioned purposes as soon as practicable following the completion of the Global Offering.

Estimated net proceeds *(HK$)*	**Approximate % of net proceeds**	**Intended use of proceeds**
51.7 million	43.1%	Enhancing and expanding our production capacity to further produce our major prescribed medicine, in particular our major capsule products with the intended effect of treating/alleviating cardio-cerebrovascular (心腦血管) condition
19.7 million	16.4%	Broadening our distribution network in Huanan (華南) and Huadong (華東)
12.0 million	10.0%	Raising our brand awareness through media marketing and promotion efforts
23.4 million	19.5%	Further raising our R&D efforts, procuring quality management equipment and broadening our product portfolio
4.0 million	3.3%	Upgrading our IT system
9.2 million	7.7%	Increasing general working capital

For details, please refer to subsection headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus.

Note:

(1) The underwriting fee is calculated assuming a commission of 7.0% and incentive fee of 7.0% are payable by our Company to Hong Kong Public Offering Underwriters and International Placing Underwriters.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Business Updates

The COVID-19 ("**COVID-19**") pandemic, since the beginning of 2020, did negatively impact our normal business operations, as we have only entered into distribution agreement with one new distributor since 1 January 2020 and up to the Latest Practicable Date. However, we were still able to renew most of our distribution agreements with existing distributors during FY2019, except two distributors, one of which had its business license suspended in 2020 due to late filings of annual returns, and the other one removed the "sales of Chinese patent medicine" from its business scope due to organization restructuring. For FY2017, FY2018 and FY2019, our revenue derived from these distributors in aggregate was approximately RMB0.2 million, RMB1.5 million and RMB2.4 million, respectively, representing approximately 0.2%, 0.9% and 1.1% of our total revenue. Nonetheless, our Directors consider that the COVID-19 pandemic had brought new business opportunities to our Company, raised public health awareness in the PRC and increased our customers' awareness of our diversed product portfolio, such as Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), a product that has similar major API as a state-recommended PCM for COVID-19 announced by the PRC Government.

In January 2020, in response to the COVID-19 pandemic, the Forestry and Grassland Bureau of Hebei Province (河北省林業和草原局) (the "**Bureau**") issued a temporary administrative notice (the "**Notice**") that suspended trading of all wild animals and production of wildlife products except utilising inventory on hand. As a result, our Group was temporarily unable to procure Deer Antler (鹿茸), one of the principal raw materials for our Group's major product, Vigour and Vitality Supplement Pill (補腎填精丸). However, as confirmed by our PRC Legal Advisers, red deer (Cervus elaphus) (from which the Deer Antler used in the production of Vigour and Vitality Supplement Pill (補腎填精丸) are derived) has been re-classified from wildlife to livestock since May 2020, the sale, purchase or use of Deer Antler, and its products thereof is no longer subject to the regulation of wildlife protection authorities. Moreover, the prohibition on the trading of/use of wild animals stipulated in the Notice was lifted in June 2020. It was thereafter certain that (i) the use of Deer Antler is no longer subject to wildlife restriction in May 2020 and (ii) the Notice was lifted in June 2020, our Group has resumed purchasing Deer Antler (鹿茸) in June 2020, and we maintain an inventory level which is sufficient for production of approximately six months as at the Latest Practicable Date.

Our business operations in Hubei Province was also impacted by the COVID-19 pandemic. During the Track Record Period, we had two, seven, eight and eight distributors in Hubei Province, which contributed in aggregate approximately RMB0.4 million, RMB1.8 million, RMB9.4 million and RMB8.4 million, respectively, representing approximately 0.3%, 1.0%, 4.3% and 3.8% of our total revenue. Notwithstanding our sales to Hubei distributors in January 2020 increased slightly as compared to the same period in 2019, we did not receive any new order from Hubei distributors during February and March 2020, as they were not able to conduct business as usual due to various restrictions. As the travel restrictions of Hubei Province have been gradually released since March 2020, for 10M2020, our revenue derived

from our Hubei distributors increased by approximately 22.1% to approximately RMB9.4 million as compared with approximately RMB7.7 million for 10M2019. For 10M2020, our revenue derived from Hubei Province has already represented approximately 100.0% of our revenue derived from Hubei Province in FY2019.

Financial Updates

Based on our unaudited management account for 10M2020, our revenue increased by approximately RMB54.9 million or 29.2% as compared to our revenue for 10M2019. The said revenue amount is extracted from the unaudited management accounts of our Group and has been reviewed by our Reporting Accountants, Mazars CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Such increase was primarily attributable to the increase in sales of certain of our PCM products, in particular, (i) during 10M2020, approximately RMB31.8 million revenue generated from the sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) which generated no revenue during 10M2019; and (ii) revenue generated from our prescribed medicine, in particular, Fever-removing and Detoxification Pill (清瘟解毒丸) showed a significant increase in revenue of approximately RMB21.0 million for 10M2020. The increase in revenue of these two products during 10M2020 compensated the decrease in revenue generated from Vigour and Vitality Supplement Pill (補腎填精丸), mainly due to the continuous spread of COVID-19 in the PRC and the issuance of the Notice adversely affected the Group's business activities in early 2020. The increase in our sales transactions, and fulfillment of orders prior to national holidays rendered an increase in trade receivables as at 30 September 2020. As at the Latest Practicable Date, our trade receivables as at 30 September 2020 have been fully settled.

Our Group's average monthly net profit, excluding the listing expenses, incurred in the last quarter of FY2020 decreased as compared to 9M2020. Such decrease was mainly due to the increase in our Group's other operating expenses, primarily representing (i) legal and professional fees, such as auditor's remuneration, compliance adviser fee and other professional fees for compliance of listing requirements subsequent to the Listing whose services are considered to provide during FY2020; and (ii) advertising and promotion expenses, which our Group incurred during the last quarter of FY2020.

Our Group had cash and bank balances of approximately RMB68.8 million as at 31 October 2020. Our Directors consider that we have sufficient working capital for our operations. In the worst case that our operations become fully suspended, our Directors estimate that our Group can still remain financially viable for at least 12 months taking into consideration, amongst others, estimated net proceeds allocated for general working capital purpose, our cash and bank balances, unutilised banking facilities, collection of trade receivables and settlement of trade payables based on historical settlement patterns as well as payment of staff costs and interest on interest-bearing borrowings.

Our Directors confirm that since 30 September 2020 (being the date of our latest audited combined financial statements) and up to the date of this prospectus, there has been no material adverse change in our business operations, financial or trading position and prospects of the overall PRC market. Our directors consider that the listing expenses did not have a material adverse impact on our results of operations for FY2020 and do not expect that the listing expenses would have a material adverse impact on our results of operations for FY2021 and there had been no event since 30 September 2020 (being the date of our latest audited combined financial statements) which would materially affect the information shown in the accountants' report in Appendix I to this prospectus.

DIVIDENDS AND DIVIDEND POLICY

During FY2017, FY2018, FY2019 and 9M2020, we declared and paid dividends in the amount of nil, nil, approximately RMB103.3 million and nil, respectively.

The declaration, payment and amount of dividends are subject to the discretion of our Directors and depend on our financial condition, earnings and capital requirements as well as contractual and legal restrictions and our ability to receive dividend payments from our subsidiaries in addition to other factors. Subject to the factors described above, we expect that, in the future, interim and final dividends will be paid from time to time in an aggregate amount of approximately 30% of profits attributable to the equity holders of our Company. Cash dividends in respect of the Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Company's Shareholders by any means we deem legal, fair and practicable.

Please refer to the subsection headed "Financial Information – Dividend Policy" in this prospectus for further information.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(a) the Hong Kong Public Offering of 15,000,000 Hong Kong Public Offering Shares (subject to reallocation as mentioned below) in Hong Kong as described under the subsection headed "Structure and Conditions of the Global Offering – The Hong Kong Public Offering" in this prospectus; and

(b) the International Placing of an aggregate of 135,000,000 International Placing Shares (subject to reallocation as mentioned below and the Over-allotment Option) which will conditionally be placed with selected professional, institutional and other investors under the International Placing.

Investors may apply for the Hong Kong Public Offering Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to reallocation as described in the subsection headed "Structure and Conditions of the Global Offering – The Hong Kong Public Offering – Reallocation" in this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued by us pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued upon exercise of the options which may be granted under the Share Option Scheme on the Stock Exchange.

GLOBAL OFFERING STATISTICS[(1)]

	Based on the Offer Price of HK$0.92	**Based on the Offer Price of HK$1.47**
Market capitalisation of our Shares[(2)]	HK$552 million	HK$882 million
Unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company per Share[(3)]	HK$0.40	HK$0.52

Notes:

(1) All statistics in this table are calculated on the assumption that the options which may be granted under the Share Option Scheme and the Over-allotment Option are not exercised.

(2) The calculation of market capitalisation is based on 600,000,000 Shares expected to be in issue immediately after completion of the Capitalisation Issue and the Global Offering.

(3) The calculation of the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share is based on 600,000,000 Shares expected to be in issue after the completion of the Capitalisation Issue and the Global Offering. It has not taken into account any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates given to the Directors.

If the Over-allotment Option is exercised in full, the pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share will be HK$0.42 per Share based on the Offer Price of HK$0.92 and HK$0.55 per Share based on the Offer Price of HK$1.47.

LISTING EXPENSES

Assuming no exercise of the Over-allotment Option and assuming the Offer Price of HK$1.20 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the listing expenses (including underwriting commission(1) in respect of International Placing Shares and Hong Kong Public Offering Shares), which are non-recurring in nature, are expected to be approximately HK$60.0 million or RMB54.0 million equivalently, representing approximately 33.3% of our gross proceeds from the Global Offering.

Of the total listing expenses, approximately RMB11.8 million and RMB10.4 million have been charged to profit or loss for FY2019 and FY2020, respectively. We expect to further incur listing expenses of approximately RMB31.8 million, of which (i) approximately RMB1.9 million will be charged to profit or loss for the year ending 31 December 2021; and (ii) approximately RMB29.9 million will be recorded as net deduction to equity upon Listing. The listing expenses stated above are the current estimation for reference purposes and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Further, our profit increased by 28.2% from approximately RMB47.5 million for 9M2019 to approximately RMB60.9 million for 9M2020, before deducting listing expenses incurred. After listing expenses of approximately RMB6.6 million and RMB8.1 million were charged to profit or loss for 9M2019 and 9M2020 respectively, our profit still increased by 29.1% from approximately RMB40.9 million for 9M2019 to approximately RMB52.8 million for 9M2020. Therefore, our Directors consider that the listing expenses did not have a material adverse impact on our results of operations for FY2020 and do not expect that the listing expenses would have a material adverse impact on our results of operation for FY2021.

Note:

(1) The underwriting commission is calculated assuming a commission of 7.0% and incentive fee of 7.0% are payable by our Company to Hong Kong Public Offering Underwriters and International Placing Underwriters.

In this prospectus, the following expressions shall have the meanings set out below unless the context otherwise requires.

"9M2019"	the nine months ended 30 September 2019
"9M2020"	the nine months ended 30 September 2020
"10M2019"	the ten months ended 31 October 2019
"10M2020"	the ten months ended 31 October 2020
"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** application form(s) relating to the Hong Kong Public Offering or, where the context so requires, any of them
"Application Lists"	the application lists for the Hong Kong Public Offering
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company conditionally adopted on 18 December 2020 and effective upon Listing (as amended, supplemented or otherwise modified from time to time), a summary of which is set out in Appendix III to this prospectus
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Beijing Yushi"	Yushi (Beijing) Holding Group Co., Ltd.* (御室(北京)控股集團有限公司), a company established in the PRC on 17 March 2014, and is an Independent Third Party as at the Latest Practicable Date
"Board"	the board of Directors
"Business Day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate

"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of part of the share premium account of our Company referred to in the subsection headed "A. Further Information about our Group – 3. Resolutions in writing of our Shareholder passed on 18 December 2020" in Appendix IV to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, which may be an individual, joint individuals or a corporation
"CCASS Operational Procedures"	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CFDA"	the China Food and Drug Administration (國家食品藥品監督管理總局), later renamed as NMPA
"Chengde Biotechnology"	Chengde Yushi Biotechnology Co., Ltd.* (承德御室生物科技有限公司), a company established in the PRC on 17 April 2017, in which Chengde Yushi held 30% of its equity interest before completion of the Reorganisation
"Chengde Yushi"	Chengde Yushi Jindan Pharmaceutical Co., Ltd.* (承德御室金丹藥業有限公司) (formerly known as Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company* (承德藥業集團六合製藥有限責任公司)), a company established in the PRC on 8 March 2001 and is our Consolidated Affiliated Entity

"China" or "the PRC"	the People's Republic of China excluding, for the purposes of this prospectus, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Companies Act"	the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
"Co-Lead Managers"	CNI Securities Group Limited and Fuyuan Securities Limited
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"Company" or "our Company"	Modern Chinese Medicine Group Co., Ltd. (現代中藥集團有限公司), an exempted company incorporated in the Cayman Islands on 12 August 2019, and references to "we", "us" or "our" refer to our Group or, where the context requires, our Company
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transaction(s)"	has the meaning ascribed thereto under the Listing Rules
"Consolidated Affiliated Entity"	the entity we control through the Contractual Arrangements, namely Chengde Yushi
"Contractual Arrangements"	the series of contractual arrangements entered into by Shijiazhuang Medical Research, Chengde Yushi and the Registered Shareholder, the details of which are described in the section headed "Contractual Arrangements" in this prospectus

"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Xie and Modern Biotechnology (for more details, see the subsection headed "Relationship with our Controlling Shareholders – Overview" in this prospectus) and "Controlling Shareholder" means any one of them
"core connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Deed of Indemnity"	the deed of indemnity dated 18 December 2020 and executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), particulars of which are set out in the subsection headed "E. Other information – 2. Tax and other indemnities" as set out in Appendix IV to this prospectus
"Director(s)"	the director(s) of our Company
"EIT"	enterprise income tax in the PRC
"EIT Law"	the PRC Enterprise Income Tax Law
"Elders/Elderly"	people who are 65 years old or above according to Euromonitor Report
"Equity Pledge Agreement"	an equity pledge agreement dated 14 February 2020, entered into among the Registered Shareholder, Shijiazhuang Medical Research and Chengde Yushi, as further described in the subsection headed "Contractual Arrangements – Arrangements under the Contractual Arrangements – Details of the Contractual Arrangements – Equity Pledge Agreement" in this prospectus
"Euromonitor"	Euromonitor International Limited, a global market research and consulting company, which is an Independent Third Party
"Euromonitor Report"	the report commissioned by Euromonitor, a summary of which is set out in the section headed "Industry Overview" in this prospectus

"Exclusive Business Cooperation Agreement"	an exclusive business cooperation agreement dated 14 February 2020, entered into between Shijiazhuang Medical Research and Chengde Yushi, as further described in the subsection headed "Contractual Arrangements – Arrangements under the Contractual Arrangements – Details of the Contractual Arrangements – Exclusive Business Cooperation Agreement" in this prospectus
"Exclusive Option Agreement"	an exclusive option agreement dated 14 February 2020, entered into among Shijiazhuang Medical Research, the Registered Shareholder and Chengde Yushi, as further described in the subsection headed "Contractual Arrangements – Arrangements under the Contractual Arrangements – Details of the Contractual Arrangements – Exclusive Option Agreement" in this prospectus
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
"FIL"	the Foreign Investment Law of the PRC (中華人民共和國外商投資法) promulgated by the NPC on 15 March 2019 and became effective on 1 January 2020
"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"FY2019"	the financial year ended 31 December 2019
"FY2020"	the financial year ended 31 December 2020
"FY2021"	the financial year ending 31 December 2021
"FY2022"	the financial year ending 31 December 2022
"GDP"	Gross Domestic Product
"General Rules of CCASS"	General Rules of CCASS published by the Stock Exchange and as amended from time to time
"Global Offering"	the Hong Kong Public Offering and the International Placing

"**GREEN** application form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider designated by our Company
"Group", "our Group", "our", "we", or "us"	our Company and all of our subsidiaries, or any one of them as the context may require or, where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries, or any one of them as the context may require, were or was engaged in and which were subsequently assumed by it
"HBDA"	the Drug Administration of Hebei Province (河北省藥品監督管理局)
"Hebei Yushi"	Hebei Yushi Jindan Pharmaceutical Co., Ltd.* (河北御室金丹醫藥有限公司), a company established in the PRC on 7 April 2006, in which Chengde Yushi held 80% of its equity interest prior to its deregistration on 3 September 2019
"Heilongjiang Jintian Aixin Pharmaceutical Distribution"	Heilongjiang Jintian Aixin Pharmaceutical Distribution Co., Ltd. (黑龍江省金天愛心醫藥經銷有限公司), an indirect wholly-owned subsidiary of Universal Health which distributes and sells PCM in Northeast and Huabei (華北) of the PRC
"**HK eIPO White Form**"	the application for the Hong Kong Public Offering Shares to be issued in applicant's own name by submitting applications online through the **IPO App** or the designated website at **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified in the **IPO App** or on the designated website at **www.hkeipo.hk**
"HK Modern Chinese Medicine"	HK Modern Chinese Medicine Co., Limited (香港現代中藥有限公司), a company incorporated in Hong Kong on 9 September 2019 and an indirect wholly-owned subsidiary of our Company

"HKFRSs"	Hong Kong Financial Reporting Standards (including individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA)
"HKICPA"	The Hong Kong Institute of Certified Public Accountants
"HKSCC"	the Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of the HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Public Offering Shares to the public in Hong Kong (subject to reallocation as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus) at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the subsection headed "Structure and Conditions of the Global Offering – The Hong Kong Public Offering" in this prospectus
"Hong Kong Public Offering Shares"	the 15,000,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
"Hong Kong Public Offering Underwriters"	the underwriters of the Hong Kong Public Offering listed in the subsection headed "Underwriting – Hong Kong Public Offering Underwriters" in this prospectus

"Hong Kong Public Offering Underwriting Agreement"	the underwriting agreement dated 30 December 2020, relating to the Hong Kong Public Offering and entered into among our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, and the Hong Kong Public Offering Underwriters as further described in the subsection headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering" in this prospectus
"Hong Kong Share Registrar"	Tricor Investor Services Limited
"Huabei (華北)"	Beijing City, Tianjin City, Shanxi Province, Hebei Province and Inner Mongolia Autonomous Region, the PRC
"Huadong (華東)"	Shanghai City, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province, the PRC
"Huanan (華南)"	Henan Province, Hubei Province, Hunan Province, Guangxi Autonomous Region, Guangdong Province and Hainan Province, the PRC
"Independent Third Party" or "Independent Third Parties"	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, is/are not a connected person(s) of our Company within the meaning ascribed under the Listing Rules
"International Placing"	conditional placing of the International Placing Shares at the Offer Price to selected professional, institutional and other investors as set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus
"International Placing Shares"	the 135,000,000 Shares initially being offered by our Company for subscription under the International Placing, subject to the Over-allotment Option and the re-allocation as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus

"International Placing Underwriters"	the underwriters of the International Placing
"International Placing Underwriting Agreement"	the conditional underwriting and placing agreement relating to the International Placing expected to be entered into on or about 7 January 2021 by, among others, our Company, and the International Placing Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"**IPO App**"	the mobile application for the **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
"Joint Bookrunners"	Soochow Securities International Brokerage Limited, Wealth Link Securities Limited, SPDB International Capital Limited, BOCOM International Securities Limited, Yue Xiu Securities Company Limited, Shanxi Securities International Limited, Shenwan Hongyuan Securities (H.K.) Limited and Elstone Securities Limited
"Joint Global Coordinators"	Soochow Securities International Brokerage Limited and Wealth Link Securities Limited
"Joint Lead Managers"	Soochow Securities International Brokerage Limited, Wealth Link Securities Limited, SPDB International Capital Limited, BOCOM International Securities Limited, Yue Xiu Securities Company Limited, Shanxi Securities International Limited, Shenwan Hongyuan Securities (H.K.) Limited, Elstone Securities Limited, ZMF Asset Management Limited, DL Securities (HK) Limited and Forthright Securities Company Limited
"Latest Practicable Date"	Monday, 21 December 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	listing of the Shares on the Stock Exchange
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about Friday, 15 January 2021, on which the Shares will be listed and dealings in the Shares first commence on the Stock Exchange

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company adopted on 18 December 2020 (as amended from time to time)
"Middle-aged"	people who fall within the ages of 30 to 65 years old (not including 65 years old) according to Euromonitor Report
"Modern Biotechnology"	Modern Biotechnology Group Holdings Co., Ltd (现代生物科技集团控股有限公司), a company incorporated in the BVI on 2 August 2019, wholly-owned by Mr. Xie as at the Latest Practicable Date and one of our Controlling Shareholders
"Modern TCM Holdings"	Modern TCM Holdings Group Co., Ltd. (现代中药控股集团有限公司), a direct wholly-owned subsidiary of our Company incorporated in the BVI on 20 August 2019
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOH"	the Ministry of Health of the People's Republic of China (中華人民共和國衛生部), one of the predecessors of the NHFPC
"Mr. Li"	Mr. Li Jinglian (栗景連) (formerly known as Li Jinglian (栗景蓮)), our executive Director and our Chief Operating Officer
"Mr. Xie"	Mr. Xie Wei (謝偉), our executive Director, Chairman and one of our Controlling Shareholders
"Ms. Zhang" or "Chief Executive Officer"	Ms. Zhang Hongli (張宏麗), our executive Director and our Chief Executive Officer
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

"NHC"	the National Health Commission of the PRC (中華人民共和國國家衛生健康委員會) (formerly known as the NHFPC)
"NHFPC"	the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會) (currently known as the NHC)
"NMPA"	the National Medical Products Administration (國家藥品監督管理局) the successor to the CFDA
"Non-core Assets"	equity interests of the companies, namely Yushi Wine, Hebei Yushi, Yushi Health and Chengde Biotechnology, which are not directly related to, nor form part of, the Group's principal PCM business, held by Chengde Yushi during the Track Record Period
"Northeast"	Heilongjiang Province, Jilin Province and Liaoning Province, the PRC
"Northwest"	Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region, the PRC
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"Offer Price"	the offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$1.47 per Share and expected to be not less than HK$0.92 per Share, at which the Offer Shares are to be subscribed, to be determined in the manner further described in the subsection headed "Structure and Conditions of the Global Offering – Pricing and allocation" in this prospectus
"Offer Shares"	the Hong Kong Public Offering Shares and the International Placing Shares together with, where relevant, any additional Shares issued pursuant to the exercise of the Over-allotment Option

"Over-allotment Option"	the option expected to be granted by our Company to the International Placing Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Placing Underwriters) subject to the terms and conditions of the International Placing Underwriting Agreement pursuant to which our Company may be required to allot and issue up to an aggregate of 22,500,000 additional Offer Shares (representing 15% of the initial number of Offer Shares) to cover over-allocation in the International Placing, and/or to satisfy the obligation of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement, particulars of which are set out in the "Structure and Conditions of the Global Offering" section in this prospectus
"PBOC"	People's Bank of China (中國人民銀行)
"Power of Attorney"	a power of attorney dated 14 February 2020, entered into among the Registered Shareholder, Shijiazhuang Medical Research and Chengde Yushi, as further described in the subsection headed "Contractual Arrangements – Arrangements under the Contractual Arrangements – Details of the Contractual Arrangements – Power of Attorney" in this prospectus
"PRC Government"	the government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"PRC Legal Advisers"	Commerce & Finance Law Offices, our legal advisers as to PRC Laws
"Price Determination Agreement"	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date

"Price Determination Date"	the date, expected to be on or around Thursday, 7 January 2021 (or such later time or date as may be agreed between our Group and the Joint Global Coordinators (on behalf of the Underwriters), but in any event, no later than Monday, 11 January 2021), on which the Offer Price will be determined for the purpose of the Global Offering
"province"	each being a province or, where the context requires, a provincial-level autonomous region or municipality under the direct supervision of the central government of the PRC
"Registered Shareholder"	Mr. Xie, as the registered shareholder of Chengde Yushi
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganisation"	the reorganisation arrangements undertaken by the Group in preparation for the Listing, details of which are set out in the subsection headed "History, Development and Reorganisation – Reorganisation" in this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) (currently known as the State Administration for Market Regulation (國家市場監督管理總局))
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家税務總局)
"SCNPC"	the Standing Committee of the NPC (中華人民共和國全國人民代表大會常務委員會)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission

"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"Share(s)"	ordinary share(s) with a nominal value of HK$0.01 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 18 December 2020 and effective upon the Listing, the principal terms of which are summarised under the subsection headed "Statutory and General Information – D. Share Option Scheme" in Appendix IV to this prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Shijiazhuang Medical Research"	Shijiazhuang Medical Research Advisory Company Limited (石家莊藥研諮詢有限公司), a company established in the PRC on 16 December 2019 and an indirect wholly-owned subsidiary of our Company
"Sole Sponsor"	Soochow Securities International Capital Limited, a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities
"Southwest"	Chongqing City, Sichuan Province, Guizhou Province and Yunnan Province, the PRC
"Spouse's Undertaking"	an undertaking letter dated 14 February 2020 made to our Company and Shijiazhuang Medical Research by Ms. Sun Xinlei (孫新磊), as further described in the subsection headed "Contractual Arrangements – Arrangements under the Contractual Arrangements – Details of the Contractual Arrangements – Succession, bankruptcy and divorce" in this prospectus
"sq.m."	square metres
"Stabilising Manager"	Wealth Link Securities Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)

"Stock Borrowing Agreement"	means the stock borrowing agreement expected to be entered into between the Stabilising Manager and Modern Biotechnology as the lender on or about the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed thereto under the Listing Rules
"substantial shareholders"	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers and Share Buy-backs, as published by the SFC (as amended, supplemented or otherwise modified from time to time)
"Track Record Period"	FY2017, FY2018, FY2019 and 9M2020
"U.S. dollars", "US$" or "USD"	United States dollars, the lawful currency of the United States
"U.S. Exchange Act"	the United States Securities Exchange Act of 1934, as amended or supplemented from time to time and the rules and regulations promulgated thereunder
"U.S. Securities Act"	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Underwriters"	the Hong Kong Public Offering Underwriters and the International Placing Underwriters, details of which are set out in the section headed "Underwriting" in this prospectus
"Underwriting Agreements"	the Hong Kong Public Offering Underwriting Agreement and the International Placing Underwriting Agreement
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"Universal Health"	Universal Health International Group Holding Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 2211). Universal Health has operated 850 retail pharmacies, mainly located in Northeast and Huabei (華北), as disclosed in its latest published financial statements for the six months ended 31 December 2019

"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Public Offering Shares to be issued in the applicant's/applicants' own name(s)
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who requires such Hong Kong Public Offering Shares to be deposited directly in CCASS
"Yushi Health"	Hebei Yushi Health Industry Co., Ltd.* (河北御室健康產業有限公司), a company established in the PRC on 17 April 2017, in which Chengde Yushi held 35% of its equity interest before completion of the Reorganisation
"Yushi Wine"	Heilongjiang Yushi Wine Co., Ltd.* (黑龍江省御室酒業有限公司), a company established in the PRC on 22 August 2012 and a wholly-owned subsidiary of Chengde Yushi before completion of the Reorganisation
"%"	per cent.

The English names of PRC laws, regulations, governmental authorities, institutions, our products, and of companies or entities established in the PRC included in this prospectus, including those marked with "*", are translations of their Chinese names or vice versa and are included for identification purposes only. In the event of inconsistency between the Chinese names and their English translations, the Chinese versions shall prevail.

This glossary contains certain definitions and technical terms used in this prospectus in connection with our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

"Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸)"	English translation of one of our products, Jiawei Huoxiang ZhengQi Wan (加味藿香正氣丸)
"Adhesive Rehmannia Root (生地黃)"	*rehmanniae radix*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"API"	active pharmaceutical ingredients
"Atractylodes Rhizome (白朮)"	*atractylodes macrocephala Koidz*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Baikal Skullcap root (黃芩)"	*scutellaria baicalensis*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Barbary Wolfberry Fruit (枸杞子)"	*fructus lycii*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Bull Pizzle (牛鞭)"	*penis et testis bull*, an animal substance in TCM and a raw material used in the production of our PCM products
"Capillary Wormwood Herb (茵陳)"	*artemisia capillaris thunb*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"capsule(s)"	a solid dosage form in which medicine is enclosed in a hard or soft soluble container
"Cardiotonic Enhancement Capsule (山玫膠囊)"	English translation of one of our major products, Shanmei Jiaonang (山玫膠囊)
"Chinese Angelica (當歸)"	*angellica sinensis*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Chinese Magnoliavine Fruit (五味子)"	*schisandra chinensis*, a medicinal herb in TCM and a raw material used in the production of our PCM products

"Chinese medicine(s)"	medicines whose clinical function and application are expressed in terms of Chinese medicine theories originated from traditional medical practices in China and which are applied in accordance with Chinese medicine theories
"Chinese Pharmacopoeia"	the Pharmacopoeia of the PRC (中國藥典) comprised by the Pharmacopoeia Commission of the Ministry of Health of the PRC, an official compendium of drugs covering TCM and western medicines and giving information on, among others, the standards of purity, description, test dosage, precaution, storage, for each drug
"Chinese Thorowax Root (柴胡)"	*thorowax*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Cimeiguo (刺玫果)"	*osa maximowicziana regel*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Circulation Enhancement Pill (氣血雙補丸)"	English translation of one of our major products, Qixue Shuangbu Wan (氣血雙補丸)
"Common Gardenia Fruit (梔子)"	*gardeniae fructus*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Common Yan Rhizome (山藥)"	*dioscoreae rhizone*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Dangshen (黨蔘)"	*codonopsis pilosula*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Deer Antler (鹿茸)"	*cervi cornu pantotrichum*, an animal substance in TCM and a raw material used in the production of our PCM products
"distributors' selling price"	the price at which pharmaceutical products are sold by our distributors to drugstores, pharmacies and clinics for retail purpose
"Drug Standards"	Drug Standards of the Ministry of Health of the PRC (部頒標準)

"Fever-removing and Detoxification Pill (清瘟解毒丸)"	English translation of one of our major products, Qingwen JieDu Wan (清瘟解毒丸)
"Figwort (玄參)"	*scrophularia ningpoensis*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Ginseng (人蔘)"	*ginseng*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"GMP"	Good Manufacturing Practice of Pharmaceutical Products (藥品生產質量管理規範), which are guidelines and regulations issued to ensure that pharmaceutical products within those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use
"GSP"	Good Supply Practices for Pharmaceutical Products (藥品經營質量管理規範), which are guidelines and regulations issued as part of quality assurance to ensure that pharmaceutical distribution enterprises distribute pharmaceutical products in compliance with those guidelines and regulations
"Hawthorn Leaves (山楂葉)"	*crataegi folium*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Heart Wellness Capsule (心安膠囊)"	English translation of one of our major products, Xinan Jiaonang (心安膠囊)
"Indigowoad Root (板藍根)"	*indigowoad root*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Kidney Invigoration Pill (金匱腎氣丸)"	English translation of one of our major products, Jinkui Shenqi Wan (金匱腎氣丸)
"Liver Detox Tablet (護肝片)"	English translation of one of our major products, Hugan Pian (護肝片)
"Lobed Kudzuvine Root (葛根)"	*puerariae lobatae radix*, a medicinal herb in TCM and a raw material used in the production of our PCM products

"Marketing Incentives"	the marketing incentives, in monetary and/or non-monetary forms, provided by our Group to selected distributors who procured specific products to compensate the marketing efforts incurred by those distributors
"Medical Dogwood (山茱萸)"	*cornus officinalis*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"medical institution(s)"	institutions created for the practice of medicine, and for the purpose of this prospectus, exclude hospitals
"Menstrual Discomfort Relief Pill (加味逍遙丸)"	English translation of one of our major products, Jiawei Xiaoyao Wan (加味逍遥丸)
"Mongolian Milkvetch Root (黃芪)"	*astragalus mongholicus*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"National Essential Medicine List"	The National Essential Medicine List (2018 Edition) (《國家基本藥物目錄(2018年版)》) issued by the NHC and the State National Administration of TCM (國家中醫藥管理局) on 30 September 2018
"National Insurance Medicine List"	Medicine List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2019 Edition) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2019年版)》) issued by the Ministry of Human Resources and Social Security and National Healthcare Security Administration (國家醫療保障局) on 20 August 2019
"OTC medicine"	over-the-counter medicine, referring to over-the-counter medicine products that do not require a prescription in the context of the pharmaceutical industry
"Patchouli (廣藿香)"	*pogostemon cablin*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"PCM"	proprietary Chinese medicine, which is based on Traditional Chinese Medicine theories that retain the properties of TCM, and is produced using modern production processes and techniques and typically in modern formulations, such as pills, capsules, tablets, powder, oral solutions and syrup

"pill(s)"	a medicinal substance in a small round or oval mass meant to be swallowed
"prescribed medicine"	medicine which may be prescribed only by qualified medical practitioners
"Qi (氣)"	the force which binds together all the matters in human body under the Traditional Chinese Medical Concept as referred to in The Yellow Emperor's Inner Canon: Basic Questions (黃帝內經：素問)
"R&D"	Research and Development
"Red Peony Root (赤芍)"	*paeonia anomala*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Registration Measures"	Measures on the Administration of Pharmaceutical Products Registration (藥品註冊管理辦法), promulgated by the SAIC on 22 January 2020 and effective from 1 July 2020
"Rehmannia (熟地黃)"	*rehmannia*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"retail price"	the price at which drugstores, pharmacies and clinics sell their pharmaceutical products to end users
"Shorthorn Barrenwort (淫羊藿)"	*berberidaceae*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Stroke Prevention Capsule (耆丹禦風膠囊)"	English translation of our new pharmaceutical product, Qidan Yufeng Jiaonang (耆丹禦風膠囊)
"tablet(s)"	dose of medicine in flat circular or disk shape form
"Ternate Pinellia (半夏)"	*pinelliae Rhizoma*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Tianma (天麻)"	*gastrodia elata*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Traditional Chinese Medical Concept"	ideas and practices of healing reflected in TCM

"Traditional Chinese Medicine" or "TCM"	a branch of traditional medicine in China involving the use of medicinal herbs, animals substances, and minerals extracts
"Tree Peony Bark (牡丹皮)"	*moutan cortex*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Tuber Fleeceflower Root (何首烏)"	*polygonum multiflorum*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Tuckahoe (茯苓)"	*poria*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Vigour and Vitality Supplement Pill (補腎填精丸)"	English translation of one of our major products, Bushen Tianjing Wan (補腎填精丸)
"White Peony Root (白芍)"	*paeoniae alba radix*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"wholesale price"	the price at which pharmaceutical manufacturers sell their pharmaceutical products to distributors
"Yuanzhi (遠志)"	*polygala tenuifolia*, a medicinal herb in TCM and a raw material used in the production of our PCM products
"Zhudanfen (豬膽粉)"	*pulvis fellis suis*, an animal substance in TCM and a raw material used in the production of our PCM products

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS ARE SUBJECT TO RISKS AND UNCERTAINTIES

This prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for the periods of time to which such statements relate. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business strategies and plans to achieve these strategies;
- our operation and business prospects;
- our future debt levels and capital needs;
- changes to the political and regulatory environment in the industry and markets in which we operate;
- our expectations with respect to our ability to acquire and maintain regulatory licenses or permits;
- changes in competitive conditions and our ability to compete under these conditions;
- future developments, trends and conditions in the industry and markets in which we operate;
- general economic, political and business conditions in the markets in which we operate;
- effects of the global financial markets and economic crisis;
- our financial conditions and performance;
- our dividend policy; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

In some cases, we use the words "aim", "anticipate", "believe", "can", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would", and similar expressions to identify forward-looking statements. In particular, we use these forward-looking statements in the "Business" and "Financial Information" sections of this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

We confirm that the forward-looking statements are made after reasonable care and due consideration. Nonetheless, due to the risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all.

Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

Prospective investors should consider carefully all the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Hong Kong Public Offering. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and prospects of our Group.

This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares may significantly decline due to any of these risks, and you may lose all or part of your investment.

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to our Contractual Arrangements; (iv) risks relating to conducting business in the PRC; (v) risks relating to the Global Offering and our Shares; and (vi) risks relating to statements made in this prospectus.

RISKS RELATING TO OUR BUSINESS

We derived a considerable portion of our revenue from two types of OTC medicine.

Throughout the Track Record Period, we derived a considerable portion of our revenue from two major products, namely, Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸). For FY2017, FY2018, FY2019, 9M2019 and 9M2020, sales of our Vigour and Vitality Supplement Pill (補腎填精丸) represented approximately 23.2%, 25.2%, 22.5%, 25.1% and 17.2% of our total revenue, and sales of our Circulation Enhancement Pill (氣血雙補丸) represented approximately 16.2%, 27.3%, 18.3%, 19.5% and 15.7% of our total revenue, respectively. Sales of these two types of OTC medicine in aggregate represented approximately 39.4%, 52.5%, 40.8%, 44.6% and 32.9% of our total revenue, respectively, for the same years/periods.

We expect that the sales of these two major products will continue to contribute to a considerable portion of our revenue in the near future. Our business will therefore remain sensitive to the sales volume and pricing of these two major products. Sales volume and pricing of these two major products could be materially and adversely affected in the event that other Chinese pharmaceutical products manufacturers produce similar products or products having comparable or better efficacy, which may be used as direct or indirect substitutes of our products, and such products are launched in the PRC market at prices comparable to, or lower

than, our prices. If we are unable to maintain our current sales volume and/or pricing of these two major products, our business, financial condition and results of operations may be materially and adversely affected.

A considerable portion of our revenue was generated from our sales in Northeast. Any adverse change in the economic, political or social conditions in this region may materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we derived a considerable portion of our sales revenue in Northeast. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our revenue derived from Northeast was approximately RMB53.6 million, RMB88.4 million, RMB120.3 million, RMB96.5 million and RMB118.1 million, respectively, representing approximately 50.3%, 51.0%, 55.0%, 55.8% and 53.9% of our total revenue. Our revenue derived from Northeast may be affected by a number of factors and many of which are beyond our control. Examples of such factors include changes in the laws and regulations governing the TCM industry as promulgated by the national, provincial or local government in this region, changes in local customer preference and spending patterns, natural disasters or any other adverse change in the economic, political or social conditions in this region. Any of these factors may materially and adversely affect our business, financial condition and results of operations.

We rely on our distributors to sell our products.

We sell all of our PCM through our distributors in the PRC. As at the Latest Practicable Date, we had 77 distributors. Due to our dependence on distributors for the sale and distribution of our products, any of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial condition and results of operations:

- reduction, delay or cancellation of orders from one or more of our distributors;
- selection or increased sales by our distributors of our competitors' products;
- failure to renew distribution agreements at favourable terms and maintain the established relationships with our existing distributors; or
- inability to timely identify and appoint additional or replacement distributors upon the loss of one or more of them.

Our competitors may launch competitive marketing campaigns and provide more favorable terms to the distributors. We cannot assure that we will not lose any of our distributors to our competitors in the future. In addition, we may not be able to successfully manage our distributors and the cost of any consolidation or further expansion of our distribution network may exceed the revenue generated therefrom. Furthermore, if the sales volume of our products is not maintained at a satisfactory level, our distributors may not place orders for new products, may reduce orders, or ask for further discount. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products and therefore adversely affect our financial condition and results of operations.

We have limited control over our distributors.

It may be difficult for us to monitor our distributors' practices and manner of the sales extensively and substantively due to the large number of our distributors and the regions they cover. In addition, we cannot assure that our distributors will fully comply with the distribution agreements. As a result, our control over the ultimate retail sales of our products is limited. Please refer to the subsection headed "Our employees or distributors could engage in corrupt or other improper conduct that could harm our reputation, business, financial condition and results of operations" in this section for further details.

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.

We are exposed to risks inherent in the production, packaging, sale and marketing of our products, such as unsafe, ineffective, defective or contaminated products, insufficient or improper labelling of products, inadequate warnings or insufficient or misleading disclosures of side effects. If any of these happens, we may be subject to product recall or withdrawal, removal of regulatory approvals for such products or the relevant production facilities and exposure to lawsuits relating to such products. In the event that any use or abuse of our products results in personal injury or death, product liability claims may be brought against us for damages. As at the Latest Practicable Date, however, we do not maintain product liability insurance.

In the event of facing allegations that any of our products are harmful, we may experience reduced demand for our products or these products may be recalled from the market. We give no assurance that we will not be subject to any product liability claims. Any claims against us or product recalls, regardless of merit, could strain our financial resources as well as consume the time and attention of our management. If any claims against us were to prevail, we may incur monetary liabilities, and our reputation may be severely damaged. In such event, our business reputation, financial condition and results of operations could be adversely affected.

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

We are obliged to comply with the regulatory requirements stipulated by the relevant PRC Government authorities (such as registration of Drug Approval Number requirement stipulated by the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》) and medicine labelling requirement stipulated by the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》)); and GMP standards for drug production stipulated by the NMPA). Please refer to the section headed "Regulatory Overview" in this prospectus for details regarding the key requirements and standards relating to our business operation.

Our compliance status with GMP standards and other regulatory requirements, however, are subject to periodic reassessment by the relevant government authorities which may result in substantial compliance burdens and additional costs on our business. The relevant government authorities may also conduct regular on-site inspections, reassessments and examinations to ensure our continuing compliance with such requirements and standards. The standards of the aforementioned reassessment may change from time to time and there is no assurance that the government authorities will not tighten, or impose more stringent laws, rules, regulations, regulatory framework or industry standards in this regard.

We cannot assure that we will be able to continuously pass all the required inspections and reassessments, and any inability to comply with the regulatory requirements from the government authorities that are material to our operation could severely disrupt, as well as prevent us from conducting our business. In addition, while the effective period of a Drug Approval Number issued by the relevant drug administration is five years and the applicant shall submit a re-registration application for a Drug Approval Number six months prior to the expiry date, there is no guarantee (i) whether such renewal will be granted by the relevant drug administration or (ii) whether our Drug Approval Number will be revoked or removed from the register of relevant drug administration during the effective period such as from PCM to Chinese healthcare products. Any discontinuation, recall, suspension, revocation, cancellation or withdrawal of any of our Drug Approval Number from the register could adversely affect the positioning and demand of our products, which may result in a drop in selling price, loss of revenue and deterioration of our financial condition and results of operations. Furthermore, if any interruption or implementation of the relevant regulations or tightened regulation requires us to comply with additional regulatory requirements from the government authorities, we cannot assure that we will be able to comply with them. Even if we comply with such regulatory requirements and/or standards, significant additional costs and expenses may be involved, which may adversely affect our financial condition and results of operations.

The outbreak of COVID-19 in the PRC could adversely affect our business.

An outbreak of respiratory illness caused by COVID-19 in late 2019 which continues to spread across the PRC and globally. The new strain of COVID-19 is considered highly contagious and poses a serious public health threat.

In January 2020, in response to the outbreak of COVID-19, the Forestry and Grassland Bureau of Hebei Province* (河北省林業和草原局) issued a temporary administrative notice stipulating that so long as the epidemic continues, all of the trading of wild animals and production of wildlife products shall be prohibited. Notwithstanding the relevant notice does not retrospectively prohibit the trading or production of relevant wildlife products, we were temporarily unable to further procure Deer Antler (鹿茸), one of the principal raw materials to produce our major product, Vigour and Vitality Supplement Pill (補腎填精丸). As at the Latest Practicable Date, as confirmed by our PRC Legal Advisers, red deer (Cervus elaphus) (from which the Deer Antler used in the production of Vigour and Vitality Supplement Pill (補腎填精丸) are derived) has been re-classified from wildlife to livestock since May 2020, the sale, purchase or use of Deer Antler, and its products thereof is no longer subject to the regulation

of wildlife protection authorities; furthermore, the prohibition on the trading of wild animals stipulated in the Notice was lifted in June 2020, however, we cannot assure you that the same or similar administrative notice would not be reinstated if COVID-19 or similar pandemic continue. For details, please refer to the subsection headed "Summary – Recent Developments and no Material Adverse Change – Business Updates" regarding the latest development on the supply of Vigour and Vitality Supplement Pill (補腎填精丸).

Our business operation is also affected as we have only entered into distribution agreement with one new distributor since 1 January 2020 and up to the Latest Practicable Date.

For FY2019, 8 of our distributors are located in Hubei Province, the PRC and the aggregate revenue generated from these 8 distributors were approximately RMB9.4 million, which accounted for approximately 4.3% of our total revenue during the same year. In February and March 2020, we did not receive any order from our Hubei distributors as they were not able to conduct business as usual due to various restrictions. For more details regarding our business with the Hubei distributors and the lifting of travel restrictions, please refer to the subsection headed "Summary – Recent Developments and no Material Adverse Change – Business Updates".

In view of the latest development, it is uncertain when the said epidemic would be alleviated and contained. If the spread of the epidemic is not controlled in the foreseeable future, our production and revenue generated from the sales of Vigour and Vitality Supplement Pill (補腎填精丸) could be adversely affected. Further, in the long run, it is uncertain how and whether our revenue generated from the distributors located in the Hubei Province and the PRC in general would be adversely affected in light of the travel restrictions and quarantine measures implemented by the PRC Government. If the epidemic continues for a prolonged period of time, our business, financial condition and results of operations could be materially and adversely affected.

Risks relating to any operational breakdowns, natural disaster or other event affecting our production facilities, which are located at one single location, may disrupt our business.

We produce our products at our production facilities located at Chengde City, Hebei Province, the PRC. Our production facilities face the risk of operational breakdowns caused by accidents during the operating process, including but not limited to faulty construction and operational error. In the event of an earthquake, fire, drought, flood and/or any other natural disaster, political instability, extended outages of critical utilities or transportation systems, terrorist attack, or other event beyond our control that limits our ability to operate these facilities, we may need to incur substantial additional expenses to repair or replace the damaged production equipment or facilities, or even evacuate the current premises and relocate our production facilities to an alternative location. We may also have to outsource part or all of our production operations. Any interruption in, or prolonged suspension of any part of

production at, or any damage to or destruction of, any of our production facilities arising from operational breakdowns, unexpected or catastrophic events or otherwise may prevent us from supplying products to our customers, which in turn may adversely affect our business and operation.

Further, our production is subject to risks such as theft, machinery breakdown, defective equipment and shortage of water and fuel, any of which could severely disrupt our operation. We cannot assure that our insurance will adequately compensate us for any loss rising from damage to our facilities or disruptions to our operations. Any such losses could materially and adversely affect our business, financial condition and results of operations.

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 operation.

The quality of all pharmaceutical products manufactured or sold in the PRC is highly regulated by the relevant PRC laws and regulations. In recent years, the PRC Government has been enhancing its supervision on quality and safety standards in the TCM industry. Our operation is also subject to safety standards and compliance checks by the relevant PRC authorities. If the PRC authorities consider that our products do not meet the national and/or provincial standards or fail to comply with the relevant laws and regulations, we could be subject to fines, confiscation of illegal gains, suspension of production and operation for rectification, revocation of relevant licenses and/or approvals or be required to invest additional capital in carrying out necessary improvements to meet such standards, which may have material adverse effect on our results of operations.

Pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), which was promulgated by the SCNPC on 20 September 1984 and came into effect on 1 July 1985, as last amended on 26 August 2019 and came into effect on 1 December 2019; the Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated on 22 February 1993 and became effective from 1 September 1993 by the SCNPC, as subsequently amended on 8 July 2000, 27 August 2009 and 29 December 2018; the Law of the PRC on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), which was promulgated by the SCNPC on 31 October 1993 and became effective on 1 January 1994, as subsequently amended on 27 August 2009 and 25 October 2013; and other relevant laws and regulations, should our products cause any injury, death or property damage due to product defects, we may be subject to damages, confiscation of illegal gains, fines, suspension of operation, revocation of business licenses and drug manufacturing certificates and criminal liability, which could have a material adverse effect on our reputation and brand values, and thus disruption of our business, financial condition and results of operations. For details of the relevant laws and regulations governing our business, please refer to the section headed "Regulatory Overview" in this prospectus.

If our products cause, or are perceived to cause severe side effects, our revenue and profitability could be adversely affected.

Our products, especially our OTC medicine, may cause side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by our quality management system, misuse of our products or mixing up with other drugs and/or alcohol, etc by end users. Our products may also be perceived to cause side effects even without a conclusive determination as to the cause.

In addition, our products may be perceived to cause side effects if (i) similar products containing the same or similar ingredients or raw materials as our products cause or are perceived to have caused side effects; or (ii) one or more regulators, such as the NMPA, determine(s) that products containing the same or similar ingredients as our products could cause or lead to side effects.

If our products cause, or are perceived to cause, severe side effects, we may face a number of consequences, including:

- a severe decrease in the demand for, and sales of, the relevant products;
- the recall or withdrawal of the relevant products;
- removal of regulatory approvals for the relevant products or the relevant production facilities;
- damage to the brand name of our products and our reputation; and
- exposure to lawsuits and regulatory investigation relating to the relevant products that result in liabilities, fines or penalties.

As a result of these consequences, our business, financial condition and results of operations could be adversely affected.

Our Group is exposed to credit risk of our customers.

We are subject to credit risk of our customers and our profitability and cashflow are dependent on our ability to collect payments timely from our customers. If there is any significant delay or default in the payments, our profitability, working capital and cashflow may be adversely affected. There is no assurance that we will be able to collect all or any of our trade receivables in a timely manner, or at all. If any of our customers face unexpected situations, including, but not limited to, financial distress, we may not be able to collect in full or any payment of uncollected sums or enforce any judgment debts against such customers.

Furthermore, as at 31 December 2017, 2018, 2019 and 30 September 2020, our trade receivables (net of allowance for expected credit losses) amounted to approximately RMB29.6 million, RMB28.5 million, RMB22.6 million and RMB50.4 million, respectively. The increase in trade and other receivables as at 30 September 2020 was resulted from the sharp increase in sales transactions following the gradual release of travel restrictions across the provinces in the PRC since March 2020 and fulfillment of orders before the national holidays. During the same periods, our Group had a concentration of credit risk as approximately 24.3%, 17.1%, 11.2% and 9.9% of the total trade receivables was due from our Group's largest trade debtor, and approximately 67.7%, 69.7%, 35.5% and 42.8% of the total trade receivables was due from our Group's five largest trade debtors, respectively.

In any event, global economic downturns or pandemic may cause customers to default on payments, and we may need to make greater provisions of loss allowance for trade receivables, particularly for debtors who may be more significantly impacted by the downturn or pandemic. Significant delay or default in payments from our customers could materially and adversely affect our business, financial condition and results of operations.

Our employees or distributors could engage in corrupt or other improper conduct that could harm our reputation, business, financial condition and results of operations.

We may be unable to effectively control our employees' conduct and prevent them from engaging in corrupt or other improper conduct, such as making/receiving un-authorised payments to/from the distributors to influence their procurement decisions. Our ability in managing distributors' activities and preventing them from engaging in corrupt or other improper conduct is limited as well.

Please refer to the subsection headed "Business – License, Regulatory Approvals and Compliance Record – Anti-corruption compliance" in this prospectus for further details of our anti-corruption measures.

There is no assurance that our employees or distributors had not engaged or will not engage in corrupt or other improper conduct or had not violated or will not violate the applicable anti-corruption laws in the past or in the future. If our employees or distributors engage in corrupt or other improper conduct or violate the applicable anti-corruption laws, we could be required to pay damages or fines, which may have a material adverse effect on our business, financial condition and results of operations.

It is possible that the PRC Government could adopt new or different regulations affecting the way in which pharmaceutical products are sold to address anti-corruption or other concerns, which could affect our current business and sales practice. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Reduction in the number of intermediaries (i.e. distributors and/or retailers) on whom we rely may materially and adversely affect our business, financial condition and results of operations.

Our intermediaries are required to obtain, maintain and renew various permits, licenses and certificates in order to sell and/or distribute our pharmaceutical products, e.g. our distributors are required to obtain Pharmaceutical Trade License (藥品經營許可證) and comply with the GSP requirements according to relevant PRC laws and regulations. Our distributors and their retailers are also subject to regular inspections, examinations and inquiries by various regulatory bodies and/or supervisory authorities, and any adverse outcome of such inspections, examinations and inquiries may result in the loss or non-renewal of the relevant permits, licenses and certificates.

In recent years, the PRC Government has been tightening its supervision on quality, safety standards and sales in the TCM industry. Implementation of new regulations and/or new standards may require our intermediaries to comply with additional regulatory requirements from relevant regulatory bodies and/or supervisory authorities, and we cannot assure you that all our intermediaries will be able to comply with these new regulations and/or new standards. Even if our intermediaries comply with such regulatory requirements and/or standards, significant additional costs and expenses may be involved with their operation.

In light of the above, our distributors and retailers would be pressured to cease operating and thus resulting in a reduction of number of distributors and/or retailers within our distributorship network. As a result of the reduction of intermediaries, we might incur additional costs, extra effort and expenses in engaging additional or replacement distributors to maintain our distributorship network. Any narrowing down of our distributorship network could also lead to a decrease in sales of our products to end-users. As such, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to maintain or increase our marketing activities and capabilities, our market share and our reputation, business, financial condition and results of operations may be materially and adversely affected.

The success and lifespan of our products are dependent on our efforts in sales and marketing. As such, we intend to utilise approximately HK$12.0 million, representing approximately 10.0% of the net proceeds from the Global Offering, to strengthen our sales and marketing activities. However, there is no assurance that our planned spending on marketing activities will be adequate to support our future growth. Any factors adversely affecting our ability to maintain or increase our marketing activities and capabilities will have an adverse effect on the brand name, reputation and market share of our products, which may result in a decrease in demand for our products and may materially and adversely affect our business, financial condition and results of operations.

Our marketing activities rely on our sales and marketing team, which comprised 37 staff members as at the Latest Practicable Date. Our marketing staff directly markets and promotes our pharmaceutical products to our distributors by sharing information regarding our products, such as features or unpublished data, while our distributors are responsible for onselling and

distributing these products to the retailers, who intend to sell to the end users. For details, please refer to the subsection headed "Business – Sales and Distribution – Our Marketing Activities" in this prospectus for information about the functions of our sales and marketing team.

We believe that hiring and retaining employees with the right marketing expertise and industry knowledge is vital to maintain and continue to develop our marketing plans. There is no assurance that we will continue to be able to recruit and/or retain suitable marketing employees in the future.

Violations of laws relating to wrongful advertisement may have a material and adverse effect on our business, financial condition and results of operations.

Relevant laws, rules and regulations may require advertising content to be fair and accurate, and not misleading. For details of the laws relating to drug advertisements in the PRC, please refer to the subsection headed "Regulatory Overview – Laws and Regulations related to Drug Advertisements". Violation of these laws or regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to publish an advertisement correcting the misleading information, and even criminal liabilities. We cannot assure you that regulators will not interpret relevant laws and regulations differently than we do. We cannot ensure regulators will deem our advertising content to be fair, accurate and not misleading. If we are found to have committed any such violations, regulators may, among other things, discontinue certain of our advertising activities, restrict us from broadcasting and/or publishing new advertisements of our products or impose fines on us. As such, our business, reputation, financial condition and results of operations could be materially and adversely affected.

The Traditional Chinese Medical Concept may not be as well-recognised overseas as compared to within the PRC, and market receptiveness of TCM in the PRC may change.

The Traditional Chinese Medical Concept has a very long history in the Chinese community. The acceptance of the Traditional Chinese Medical Concept is also closely associated with the understanding of Chinese habit and acceptance of Chinese culture. Therefore, foreigners may have difficulties in understanding and may not easily accept the concept.

In addition, the usage, efficacy and safety of TCM may not be comparable to those of Western medicine or treatments such as injection and/or surgical operation, which is based on different foundation and medical theories from the Traditional Chinese Medical Concept which advocates, among others, the rebalancing of Qi. Western medicine and treatments with similar medical therapeutic effect as TCM may also generally be more accepted in overseas markets. Overseas patients and consumers are also accustomed to adopt Western medicine and treatment as their primary choice, if not, the only choice of treatment.

On the other hand, our continued success depends on the acceptance of the Traditional Chinese Medical Concept, and the popularity of and demand for TCM, in particular, in the PRC. Yet, consumer preferences and demand may shift away from TCM given the increasing acceptance of Western medical concepts. Western medicine with similar medical therapeutic effect may also be used as substitutes to our products. Further, consumer perception of TCM products could be significantly influenced by scientific research or findings, medical coverage and other publicity regarding the Traditional Chinese Medical Concept and TCM. Scientific research reports, findings or publicity, regardless of their merits, may associate illness or other adverse effects with the consumption of TCM or our products. Consumer may have reservation regarding the safety and effectiveness of TCM or our products if such adverse publicity arises in the future. Such findings or reports could adversely affect the receptiveness of the Traditional Chinese Medical Concept and the demand for TCM and our products, and in turn bring adverse impacts to our business, financial condition and results of operations.

Our R&D activities may not result in the successful development of new products, applications of existing products, formulation of product, production methods or techniques.

We intend to utilise approximately HK$23.4 million, representing approximately 19.5% of the net proceeds from the Global Offering, to strengthen our R&D and broaden our product portfolio. Our ability to successfully develop new pharmaceutical products, applications of existing products, products formulation, production methods or techniques would influence our growth and future prospects, which can be affected by many factors beyond our control. These include failure to meet clinical safety, efficacy or other standards and requirements during testing and clinical trials, or failure to obtain regulatory approvals, including approval from NMPA. In addition, clinical trials are lengthy and expensive, and their results can be highly unpredictable.

There is also no assurance that any R&D activities conducted or commissioned by us will be completed within the anticipated time frame or that the costs of such R&D activities can be fully or partially recovered. If our R&D activities do not result in the successful development of new products, applications of existing products, product formulation, production methods or techniques, we may not be able to recover the related costs of such R&D activities, which could materially and adversely affect our financial condition and results of operations.

We have formed collaboration with a number of institutions to jointly develop and/or enhance new pharmaceutical products, production methods or techniques, with the aim to capitalise on their expertise, skills, resources and knowledge. Please refer to the subsection headed "Business – R&D – Collaboration with Research Institutions" in this prospectus for further details. However, there is no assurance that we will be able to maintain such relationships or enter into new relationships with suitable research partners. Any deterioration in our existing relationships, misappropriation of research results or failure to enter into new

relationships with suitable research partners on acceptable terms to us for future R&D projects may have an adverse impact on our ability to successfully develop new pharmaceutical products and production methods or techniques which in turn may materially and adversely affect our growth prospects.

We rely on a stable supply of quality raw materials to produce our products, any decrease in the supply, or increase in the cost, of these raw materials could materially and adversely affect our business, financial condition and results of operations.

Our principal raw materials are medicinal herbs, animal substances, consumable/additive and packaging materials, which the purchase cost of medicinal herbs and animal substances account for a significant portion of our total cost of sales. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our cost of raw materials were approximately RMB53.5 million, RMB88.1 million, RMB106.3 million, RMB83.0 million and RMB110.5 million, representing approximately 86.2%, 88.2%, 88.8%, 89.7% and 91.6% of our total cost of sales, respectively.

The availability and market prices of our principal raw materials may be adversely affected by factors beyond our control, such as weather conditions, natural disasters, or a sudden surge in demand. We are also vulnerable to price fluctuations and supply shortages resulting from any speculative or price manipulation activities engaged by these suppliers.

We cannot assure that our suppliers will continue to supply materials to us on terms and conditions commercially acceptable to us. In addition, we cannot assure that we will be able to pass on any increase in raw material costs to our customers. Significant increases in raw material prices would have a direct and negative impact on our gross profit margin. Ultimately, we may need to raise our product prices to recover the higher raw material costs and maintain our gross profit margin, which may lower the demand for our products. If we are unable to pass the increase in the cost of raw materials to our customers, our profit margins and profitability would be adversely affected.

Our product components are extracted from medicinal herbs and animal substances. We are subject to evolving laws and regulations governing the purchase or use of products of wild animals and our operations may be severely affected if there are any significant changes in the relevant laws and regulations.

Our product components are extracted from medicinal herbs and animal substances. We are required to comply with laws and regulations that regulate the purchase or use of products of wild animals under the state priority protections. During the Track Record Period and up to the Latest Practicable Date, we have purchased all the animal substances from qualified suppliers. We have also obtained all the permits necessary for the purchase and use of product of wild animals under the state priority protection during the Track Record Period[Note]. Amendments from time to time to existing laws, regulations and treaties or new laws,

Note: Red deer (Cervus elaphus) (from which the Deer Antler used in the production of Vigour and Vitality Supplement Pill (補腎填精丸) are derived) has been re-classified from wildlife to livestock since May 2020, the sale, purchase or use of Deer Antler, and its products thereof is no longer subject to wildlife restriction.

regulations and treaties may potentially restrict our ability to purchase or use any animal substances of such kind. Furthermore, replacing or locating alternative raw materials would inevitably require us to divert attention and resources from our business. If we are unable to identify alternative materials or suppliers and secure approval for their use in a timely manner, our results of operations, profit margins and profitability could be adversely affected.

Animal protection activists and other third-party groups may boycott our products, protest against our operations, make claims before governmental authorities, and/or bring lawsuits against us. Such boycotts, protests, claims and lawsuits might be based on allegations that we have been using products of prohibited animal substances and/or committing acts of cruelty to animals. Currently, we purchase all the animal substances from qualified suppliers and are not involved in any claims and lawsuits of such kind. While we seek to comply with all laws and regulations, and defend ourselves when sued, there are no assurances as to the outcome of future claims and lawsuits that could be brought against us. In addition, associated negative publicity could damage our reputation and negatively affect our results of operations.

Our five largest suppliers accounted for a considerable portion of our cost of sales and we have not entered into long-term supply contracts with our suppliers.

A considerable portion of our purchase was transacted with a small number of suppliers during the Track Record Period and we have not entered into long-term supply contracts with these suppliers. For FY2017, FY2018, FY2019 and 9M2020, purchases from our five largest suppliers represented approximately 65.1%, 80.2%, 58.0% and 65.4% of our total purchase amount of raw materials, respectively. A considerable portion of our total purchase concentrated on a small number of suppliers during the Track Record Period may expose us to the risk of unexpected price increases for purchases of, or shortage in supply of, raw materials. If any of our major suppliers fail to meet our purchase orders on a timely basis, offers us terms not commercially acceptable or provide us with sub-standard raw materials or terminates its business relationship with us, we may be unable to source raw materials from comparable alternative suppliers on a timely basis and on commercially acceptable terms. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our production requires a stable supply of quality medicinal herbs and animal substances, and the availability of these quality raw materials are crucial to our business, results of operations and financial condition.

Our business is dependent on maintaining a stable supply of quality raw materials, in particular quality animal substances such as Deer Antler (鹿茸). We source our Chinese pharmaceutical raw materials from our pre-approved suppliers. As at the Latest Practicable Date, we had 29 pre-approved suppliers, among which 15 are suppliers of medicinal herbs or animal substances.

In the event that (i) we are unable to maintain our relationship with any of our major suppliers or if any of them otherwise ceases to supply quality raw materials to us in a timely manner on the same or similar terms, or at all, or (ii) there is any shortage or disruption in supplying quality animal substances to us, we may not be able to provide quality products to customers, which could have a material adverse effect on our business, results of operations and financial condition. For instance, low-quality or poor-quality Deer Antler (鹿茸) containing high-level of impurities could affect the efficiency of our production processes as well as the intended therapeutic effect of our products. Furthermore, replacing or locating a supplier that can provide quality animal substances would inevitably require us to divert attention and resources from our business. If we are unable to maintain or obtain stable supply for quality animal substances, our results of operations, profit margins and profitability could be adversely affected.

Our success and business operations are dependent on our executive directors and our business and prospects may be severely disrupted if we lose their services.

Our success depends on the continued services of our executive Directors, in particular Mr. Xie, our executive Director, Chairman and Controlling Shareholders, and Ms. Zhang, our Chief Executive Officer and executive Director. We rely on their pharmaceutical industry-related experience as well as their accumulated knowledge and operational expertise. Our ability to attract and retain key personnel is a critical aspect of our competitiveness. The competition in the human resources market for individuals like Mr. Xie and Ms. Zhang would require us to offer higher compensation and other benefits in order to attract and retain them, which could increase our operating expenses and, in turn, materially and adversely affect our business, financial condition and results of operations. We may be unable to attract or retain the specialised personnel required to achieve our business objectives, and failure to do so could adversely affect our business. The loss of any of our key employees could severely harm our business. If we lose the services of Mr. Xie or Ms. Zhang or any of our executive Directors, we may not be able to identify suitable or qualified replacements, and may incur additional expenses to recruit and retain new personnel, which could disrupt our operation. Furthermore, if Mr. Xie or Ms. Zhang or any of our executive Directors joins a competitor or forms a company competing with us, we may lose a significant number of our existing customers, which could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to adequately protect our intellectual property rights and be involved in litigation(s) related to intellectual property, which tends to be costly and uncertain.

Our success depends upon obtaining and maintaining intellectual property rights and other forms of protection afforded to our products, technologies, inventions and improvements under the PRC laws for protecting these rights. We have certain trademarks, patents and copyrights registered in the PRC. We were also in the process of applying and registering 2 patents and 29 trademarks in the PRC as at the Latest Practicable Date. The expiration or loss of, or failure to register our intellectual property rights may materially and adversely affect our

business and results of operation. For further information on our trademarks and patents, please refer to the subsection headed "Appendix IV – Statutory and General Information – B. Further Information about Our Business – 2. Material Intellectual Property Rights" for further details.

However, the above measures may not be adequate to protect our intellectual property rights related to our business and products due to the following reasons:

- we may not be able to identify any unauthorised use of our patents, trademarks and other intellectual property rights and take appropriate actions to enforce our rights on a timely basis;

- our registered patents, trademarks or copyrights or our application for registration of patents or trademarks may not adequately describe, enable or otherwise provide coverage for our techniques and products and thus, we may not be able to exclude others from developing or commercialising these techniques and products; and

- our competitors may independently develop proprietary techniques similar to ours, misappropriate our proprietary information or processes or infringe on our patents and trademarks, or produce similar products that do not infringe on our patents or successfully challenge our patents.

On the other hand, infringement of intellectual property rights by legal entities or individuals occurs frequently in the PRC. We may encounter future litigation with third parties in order to protect our intellectual property rights. We cannot assure that we will be able to continuously prevent or deter infringement or other misappropriation of our intellectual property rights in the future. In the event that any misappropriation or infringement of our intellectual property occurs in the future, we may need to protect our intellectual property or other ownership rights through litigation. The outcome of litigation is uncertain and may divert our management's attention from our business operation and possibly result in significant legal costs. In addition, infringement of our intellectual property rights may impair the market value and share of our medicinal products, damage our reputation and adversely affect our business, financial condition and results of operations.

Similarly, we may also encounter future litigation initiated by third parties asserting that our products or activities infringe the intellectual property rights of others or that we or our employees have misappropriated the trade secrets of others. It is difficult to predict how such disputes would be resolved. The prosecution and defence of intellectual property rights are costly and will divert technical and management personnel from their normal responsibilities. We may not prevail in any such litigation or proceedings. An adverse decision with respect to any litigation or proceedings against us, resulting in a finding of non-infringement by others or invalidity of our trademarks, may result in the use by third-party companies of brand names, technology or products substantially similar to ours.

In addition, a determination that we have infringed on the intellectual property rights of another may require us to do one or more of the followings:

- pay monetary damages to settle the results of such adverse determination, which could adversely affect our business, financial condition and results of operations;

- cease selling, incorporating or using any of our products that incorporate the challenged intellectual property, which would adversely affect our turnover or costs, or both;

- obtain a license from the holder of the infringed intellectual property right, which might be costly or might not be available on reasonable terms, or at all; or

- redesign our products to make them non-infringing, which would be costly and time-consuming, or may not be possible at all.

We may not be able to maintain proper inventory levels for our operations.

We consider a number of factors when we manage the inventory levels for our production and sales operation, including the lead time to procure principal raw materials, our production schedule and price trends of principal raw materials.

We face difficulty in accurately projecting optimal inventory levels to stock in our warehouse. Inventory levels in excess of the demand of distributors may result in inventory obsolescence, inventory write-downs or expiration of products. High inventory levels may also require us to commit substantial capital resources, preventing us from deploying our capital resources for other important business opportunities. Conversely, if we underestimate the demand for our products or if our suppliers fail to provide us with raw materials in a timely manner, we may experience inventory shortages. Such inventory shortages might result in unfilled customer orders and have a negative impact on our relationship with distributors. We cannot assure you that we will be able to maintain proper inventory levels for our operations and such failure may have an adverse effect on our business, financial condition and results of operations.

We have limited ability to track the inventory levels of our distributors.

Although we have arranged with our distributors to update us their inventory consumption from time to time, there is no assurance that such information would be reported to us accurately and/or in a timely manner.

As our ability to regularly track the inventory levels of distributors is limited and may not be on a real-time basis, it is difficult for us to gather sufficient information and data regarding the market acceptance of our products. As the tracking of inventory levels would provide us

with useful information on the market acceptance of our products in a particular region, limitation in accurately tracking the sales and inventory levels of distributors may make it difficult for us to predict sales trends, and we may not be able to implement effective marketing or product strategies.

We are subject to environmental regulations and may be exposed to liability and potential costs for environmental compliance.

We are required to comply with the PRC laws and regulations concerning the discharge of air emission, waste water and solid waste during our production processes and the controlled use, storage, handling and disposal of hazardous materials and chemicals. Certain clearances and authorisations from governmental authorities are required for the treatment and disposal of any discharge. Any violation of these regulations may result in fines, criminal sanctions, revocation of pollutant discharge permit, shutdown of our facilities, obligation to take corrective measures, and indemnification of damages caused. There is no assurance that we will not incur future obligations or material liabilities relating to environmental laws and regulations.

Further, the government may adopt more stringent environmental regulations and there is no assurance that we will be in full compliance with these regulatory requirements at all times. Due to the possibility of unanticipated regulatory developments, the amount and timing of future environmental expenditures to be incurred may vary substantially from those currently anticipated. We may be required to incur additional capital expenditures to, among others, install, replace, upgrade or supplement our equipment relating to pollution control and the use, storage, handling and disposal of hazardous materials and chemicals, or make operational changes to limit any adverse impact or potential adverse impact on the environment in order to comply with new environmental protection laws and regulations. If such costs become prohibitively expensive, we may be forced to modify, curtail or cease certain aspects of our business operations.

Our insurance coverage may not be sufficient.

Our operation is subject to hazards and risks associated with our production processes and operation, which may cause significant harm or damage to our employees or properties. We currently maintain the following insurance policies: (i) the statutory insurance for our automobiles; (ii) government-mandated insurance and benefits for our employees, including medical insurance, pension insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund as required by the relevant PRC laws and regulations; and (iii) insurance for our major assets. However, there is no assurance that our insurance policies will be adequate to cover all losses incurred. Losses incurred and associated liabilities may have a material adverse effect on our results of operations if such losses or liabilities are not covered by our insurance policies.

Past performance is not necessarily indicative of future results and our past growth rate may not be repeated in the future.

Although our revenue has increased during the Track Record Period, this only reflects our past performance. Past performance is not necessarily indicative of future results. The effects of the evolving regulatory, economic and other unpredictable factors may have a material effect on our business and hence affect our future financial performance. Moreover, our financial and operating results may not meet the expectations of public market analysis or investors, which could cause the future price of our Shares to decline. Our revenue, expenses and operating results may vary from period to period in response to a variety of factors beyond our control. Investors should not rely on our historical results to predict the future performance of our Shares.

We may not be able to expand our production capacity and ramp up our operation as anticipated.

We plan to expand the production capacity of our production facilities by establishing one new production line and one extraction line. We may not be able to obtain all the required permits or licenses for the expansion in a timely manner, or at all. In addition, the expansion may not complete within the anticipated time frame or within budget. Moreover, we may not be able to obtain the necessary approvals and permits in a timely manner, or at all, from the NMPA, the NDRC, the relevant environmental protection authorities and other relevant government authorities before we can commence production.

We may not be able to fully utilise the increased production capacity depending on the integration of our existing productions and market reactions of our products. The expansion plan will also affect our depreciation expenses. Any substantial increase in costs associated with optimising and expanding our production capacity and ramping up our operations, and any material delays thereof, could materially and adversely affect our business, financial condition and results of operations, and may result in the loss of business opportunities.

We may not be able to successfully implement our business plans on a timely basis.

The successful implementation of our business strategies depends on a number of factors including, among others, the continued growth of the pharmaceutical products market, the availability of funds, market competition and the relevant government policies. We cannot assure you that our business strategies can be implemented successfully as we have contemplated, or at all. Any delays or failure to successfully implement these business strategies could result in the loss or delayed receipt of revenue, increase in financing costs or failure to grow our business. Implementing our business strategies also involves significant expenses, including sales and marketing costs and the cost of acquiring additional property,

plant and equipment. Unexpected expenses could prevent us from implementing our business strategies within our budget or at all, which may materially and adversely affect our business, financial condition and results of operations. Please refer to the subsection headed "Business – Our Strategies" and "Future Plans and Use of Proceeds" in the prospectus for further details.

Our efforts to increase our market share may not be successful.

We intend to extend our geographic coverage by penetrating into new regions (such as Huadong (華東) and Huanan (華南)) to increase our market share and competitiveness. However, we may not have sufficient experience to operate in these new target markets and could face considerable challenges during our expansion, including, among others:

- shortage of personnel with the necessary technical capabilities;
- changes in political, regulatory or economic conditions in the PRC;
- decrease in actual market demand for our Circulation Enhancement Pill (氣血雙補丸), Vigour and Vitality Supplement Pill (補腎填精丸), and other major products;
- greater difficulty in collecting accounts receivables;
- fail to adapt to local market conditions, business culture, dialect, end users' preference on selecting medical option(s) and endemic (風土病); and
- unable to tap into these target markets effectively due to high-competitiveness of other local market players and our less established brand outside of Northeast.

Any of the foregoing risks could have a negative impact on our efforts to expand our markets in the PRC, which in turn may materially and adversely affect our business, financial condition and results of operations.

We may not be able to secure additional funding in the future for our operation or expansion plans.

Our expansion plans may change in light of evolving circumstances, development of our business, contingencies or new opportunities. If there is a change of our expansion plans, we may need to obtain additional debt or equity financing. If we are unable to obtain such additional financing on acceptable terms, or at all, we may not be able to expand our business and our operation may be adversely affected. The availability of funding is subject to various factors, some of which are beyond our control, including governmental approvals, prevailing market conditions, credit availability, interest rates and the performance of our business. Our inability to procure additional financing in a timely manner on terms that are satisfactory to us could materially and adversely affect our expansion plans and in turn our business, financial condition and results of operations.

Our information system may experience failure or breakdown and cause interruptions to our business.

We use our information system in the daily operation of our business. This information system records various operational data, including but not limited to sales information, payment records as well as inventory records, which allows us to analyse our business performance, and make timely business and financial decisions. Any system setback or failure, or other damage from unforeseen events, which causes delays or interruptions to the input, retrieval and transmission of data, could disrupt our operations.

We cannot assure you that our information system recovery plan can effectively resolve all system failures, or that we will be able to restore our operational capacity in a timely manner to avoid disruption of our business. In addition, if the capacity of our information system fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Any labour shortages, increased labour costs or other factors affecting labour supply for our production could adversely affect our business, financial condition, results of operations and prospects.

Our production process is labour intensive. Labour supply is the key to being able to ensure the continued supply and quality of our products. Our performance relies on the steady supply of labour in Chengde City, Hebei Province, the PRC. Our direct labour costs accounted for approximately 7.8%, 7.0%, 6.6%, 6.4% and 5.6% of our total cost of sales for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively. We cannot assure that our supply of labour would not be disrupted or that our labour costs would not increase. If we fail to retain our existing workers and/or recruit sufficient workers in a timely manner, we might not be able to accommodate sudden increases in demand for our products or execute our expansion plans.

Labour costs are primarily affected by the demand for and supply of labour, laws and regulations governing the industries and other economic factors such as standard of living. Labour costs may increase due to a shortage of labour or growing industry demands for workers.

Any failure to identify and recruit replacement workers immediately following an unexpected loss of workers could reduce our competitiveness and have an adverse effect on our business and operations. In addition, labour costs and minimum wage requirements in the PRC are expected to continuously increase. Although we generally pay our workers at or above the minimum wage stipulated by the applicable laws and regulations in Chengde City, Hebei Province, the PRC, any further increase in minimum wage requirements may indirectly result in further increases to our labour costs. In these circumstances, we might not be able to increase the prices of our products and transfer such increased cost to our customers correspondingly. If we fail to pass on all or part of these increased labour costs to our customers, our business, financial condition, results of operations and prospects could be adversely affected.

Any increase in selling and distribution expenses could adversely affect our business, financial condition, results of operations and prospects.

The sales of our products rely on distributors, in relation to which the sales and distribution activities require a large amount of expenses, including but not limited to logistic expenses, staff costs, and expenses for advertising and promotions. Our selling and distribution expenses accounted for approximately 4.0%, 2.8%, 3.7%, 3.8% and 2.4% of our total revenue for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively. If our selling and distribution expenses increase in the future and we cannot pass on such increases to our customers, we may not be able to maintain our current net profit margins, and our business, results of operations and prospects may be materially and adversely affected.

Failure to comply with the relevant laws and regulations relating to social insurance and housing provident fund may subject us to penalty and adversely affect our business, financial condition, results of operations and prospects.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Administration Regulations of Housing Provident Funds (《住房公積金管理條例》), we are required to make full contributions to the social insurance fund and the housing provident funds for our employees. For details relating to these relevant laws and regulations, please refer to the subsection headed "Regulatory Overview – Regulations in relation to Social Insurance and Housing Provident Funds" in this prospectus.

During the Track Record Period, we failed to make contributions to the social insurance fund for our employees in full. In addition, we failed to (i) register with the relevant housing provident fund authority and go through the formalities of opening housing provident fund accounts on behalf of our employees; and (ii) make housing provident fund contributions in full for our employees. For more details of the aforementioned non-compliance incidents, please refer to the subsection headed "Business – Legal Proceedings and Non-compliance – Systemic Non-compliance".

According to the relevant laws and regulations and as advised by our PRC Legal Advisers, for the social insurance fund, we may be ordered to pay the overdue amount and an overdue fine equivalent to 0.05% of the overdue amount per day calculated from the date such social insurance amount has become overdue within a prescribed time limit. If the employer still fails to do so within the prescribed time limit, the relevant administrative authorities may impose a fine of one to three times of the overdue amount. For the housing provident fund, we may be ordered to go through all the formalities aforementioned within a prescribed time limit. If we fail to do so, at the expiration of the time limit, we may be ordered to pay a fine of not less than RMB10,000 but not more than RMB50,000. If we fail to pay or pay in full the housing provident fund contributions in accordance with the relevant PRC laws and regulations, the relevant housing provident fund authority may order us to make payment of contributions within a prescribed time limit. If we fail to do so, the relevant housing provident fund authority may apply to the court for mandatory enforcement of such payment.

We cannot assure you that we will not be subject to penalties or late fees imposed by the relevant government authorities for our past non-compliance in the above regards. We may also incur additional costs to comply with the relevant laws and regulations. Any such development could adversely affect our business, financial condition, results of operations and prospects.

RISKS RELATING TO OUR INDUSTRY

The PCM industry is highly fragmented and competitive.

The PCM industry in the PRC is highly fragmented and competitive. Our key competitors include national and regional manufacturers of same/similar type of pharmaceutical products and pharmaceutical products with similar curative effects which can be used as substitutes to our pharmaceutical products. We cannot assure that we will be able to remain competitive by continuously distinguishing our products and services, or maintain our supplier and customer relationships, nor can we assure that we will be able to increase or maintain our existing market share. Competition is likely to intensify if (i) the number of competitors of same/similar products or suitable substitutes increases due to the increase in market demand; or (ii) competitors drastically reduce prices due to the oversupply of products or in response to competition.

We expect to face a highly competitive market environment in the foreseeable future. If we fail to react to the rapidly changing market condition, control procurement costs or manage our business operation, our business, financial condition and results of operations could be materially and adversely affected.

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

The TCM industry in the PRC is subject to extensive government regulations and supervision. We are governed by various local, regional and national regulatory regimes in relation to different aspects of our operations. We cannot assure that the legal framework, licensing and certification requirements and enforcement trends in the TCM industry will not change in the future, or that we will be able to respond on time to such changes.

There is also no assurance that the government of the PRC will not tighten, or impose more stringent laws, rules, regulations, regulatory framework or industry standards in connection with the TCM industry in the PRC. There is also no assurance that we will be able to adapt to such changes in a timely manner. In addition, while the effective period of a Drug Approval Number issued by the relevant drug administration is five years and the applicant shall submit a re-registration application for a Drug Approval Number six months prior to the expiry date, there is no guarantee (i) whether such renewal will be granted by the relevant drug administration or (ii) whether our Drug Approval Number will be revoked or removed from the register of relevant drug administration during the effective period such as from PCM to Chinese healthcare products. Any discontinuation, recall, suspension, revocation, cancellation or withdrawal of any of our Drug Approval Number from the register could adversely affect

the positioning and demand of our products, which may result in a drop in selling price, loss of revenue and deterioration of our financial condition and results of operations. Even if we are able to be compliant with such new laws, rules, regulations, regulatory framework or industry standards, it may result in an increase in the costs of compliance and delays in operations, which would adversely affect our business, financial condition and results of operations.

Furthermore, pursuant to the Drug Pricing Reform Notice, the price controls on all pharmaceutical products, except for anaesthetics and some types of psychiatric drugs, were lifted effective as of 1 June 2015; however, we cannot assure you that the government of the PRC will not reinstate, tighten or impose more stringent prices controls on pharmaceutical products in the PRC in the future, which may increase or decrease the prices of our products, and as a result, affect the demand for our products.

Drugs listed in the National Insurance Medicine List will be reviewed from time to time, the Group's revenue and profitability could be adversely affected if our products were being removed from the list.

Under the medical insurance programs in the PRC, patients are entitled to reimbursement of all or a portion of the cost of pharmaceutical products listed in the National Insurance Medicine List. As at the Latest Practicable Date, among the 59 types of our PCM products, 45 were included in the National Insurance Medicine List. The amount spent on purchasing these pharmaceutical products from the retailers (such as drug stores, pharmacies, clinics) will be reimbursed by the relevant government authorities in accordance with the regulations in respect of basic medical insurance. Despite the fact that our Group will not receive any reimbursement of such kind directly by the relevant government authorities as all of our pharmaceutical products were sold to our distributors, who onsold to retailers (such as drugstores, pharmacies and clinics), where end-users could purchase our products and reimburse the respective expense as mentioned above, the inclusion or exclusion of a pharmaceutical product in or from the National Insurance Medicine List may significantly affect the choice and demand of a pharmaceutical product in the PRC.

The inclusion of pharmaceutical products by the relevant authorities into the National Insurance Medicine List is based on a variety of factors, including efficacy and price of the pharmaceutical products in the market, which may be outside of our control. There can be no assurance that any of our products currently listed in the National Insurance Medicine List will remain listed. If any of our products are removed from the National Insurance Medicine List, demand for our products may decrease and our revenues and profitability could be adversely affected.

Failure to comply with anti-bribery and anti-corruption laws and regulations could adversely affect our reputation, results of operations and business prospects.

We are subject to the PRC laws and regulations relating to anti-bribery and anti-corruption. These laws and regulations prohibit companies and their intermediaries from making improper payments to other parties for the purpose of obtaining or retaining business. We cannot assure you that the internal control measures and procedures we implement are sufficient to shield us from violations against the anti-bribery or anti-corruption laws and regulations committed by our employees or other parties with whom we have a business relationship. If our employees or other parties are found or alleged to be in violation of such laws and regulations, we may be subject to fines, lawsuits, loss of permits and licenses and loss of key personnel, as well as damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

Our business operations may be adversely affected by present or future environmental regulations or enforcement.

Our operations are subject to the environmental protection laws and regulations in the PRC. These laws and regulations impose pollutant discharge fees or environmental protection tax, permit the levy of fines and claims for damages for serious environmental offences, and permit the relevant PRC Government authorities to close any facility that fails to comply with orders requiring it to correct or to stop operation causing environmental damage, at their discretion. Our operations shall be required to be in compliance with the PRC environmental regulations in all material aspects. The PRC Government has taken steps and may take additional steps towards a more rigorous enforcement of the applicable environmental laws, and towards the adoption of a more stringent environment standard. If the PRC national or local authorities enact additional regulations or enforce current or new regulations in a more rigorous manner, we may be required to incur additional expenditures on environmental matters, which could have an adverse impact on our financial condition and results of operations. In addition, environmental liability insurance is not common in China. Therefore, any significant environmental liability claims successfully brought against us would adversely affect our business, financial condition and results of operations.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

If the PRC Government finds that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of our interest in our Consolidated Affiliated Entity.

As we conduct our business in the PRC mainly through our Consolidated Affiliated Entity based on the Contractual Arrangements, such arrangements enable us, among others, to (i) direct the activities that significantly affect the economic performance of the Consolidated Affiliated Entity; (ii) receive all of the economic benefits from the Consolidated Affiliated

Entity in consideration for the services provided by Shijiazhuang Medical Research; and (iii) have an irrevocable and exclusive right to purchase all or some of the shares of Chengde Yushi from the Registered Shareholder and/or assets of Chengde Yushi at a nominal price to the extent permitted by the PRC law. In light of these Contractual Arrangements, we are the primary beneficiary of the Consolidated Affiliated Entity and can therefore consolidate their results of operations. In addition, our Consolidated Affiliated Entity holds the licenses, approvals and key assets that are essential for our business operations.

If the PRC Government finds that our Contractual Arrangements do not comply with its restrictions on foreign investment in businesses, or if the PRC Government otherwise finds that we or our Consolidated Affiliated Entity are in violation of the PRC laws or regulations or in lack of the necessary permits or licenses to operate our business, the relevant PRC regulatory authorities, including NMPA and its local branch, MOFCOM and its local branch and State Administration for Market Regulation and its local branch, could take actions in response to such violation or failures, including, but without limitation to:

- revoking our business and operating licenses; discontinuing or restricting our operations;

- imposing fines or confiscating any of our income that they deem to have been obtained through illegal operations;

- imposing conditions or requirements with which we or our Consolidated Affiliated Entity may not be able to comply;

- requiring us or our Consolidated Affiliated Entity to restructure the relevant ownership structure or operations in such a way as to compel us to establish new entities, re-apply for the necessary license or relocate our businesses, staff and assets;

- restricting or prohibiting our use of the proceeds from the Global Offering or other financing activities to finance the business and operations of our Consolidated Affiliated Entity; or

- taking other regulatory or enforcement actions that could be harmful to our business.

Any of these actions could cause significant disruption to our business operations, and may materially and adversely affect our business, financial condition and results of operations. In addition, it is uncertain about the impact of the PRC Government's actions on us and on our ability to combine the financial results of our Consolidated Affiliated Entity in our combined financial statements, if the PRC Governmental authorities find our legal structure and Contractual Arrangements to be in violation of PRC laws, rules and regulations.

The Contractual Arrangements may not be as effective in providing operational control as direct ownership.

We rely on a series of agreements comprising the Contractual Arrangements among Shijiazhuang Medical Research, Chengde Yushi and the Registered Shareholder to control and operate our business. These Contractual Arrangements are intended to provide us with effective control over our Consolidated Affiliated Entity and allow us to obtain economic benefits from them. For further details on the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this prospectus.

Notwithstanding the above, these Contractual Arrangements may not be as effective in providing control over our Consolidated Affiliated Entity as direct ownership. If Chengde Yushi or the Registered Shareholder fails to perform its obligations under the Contractual Arrangements, we may need to incur substantial costs and expend substantial resources to enforce our rights. All of these Contractual Arrangements are governed by and interpreted in accordance with the PRC laws, and disputes arising from these Contractual Arrangements will be resolved through arbitration or litigation in China. However, the legal system in China is not as developed as in other jurisdictions, such as the United States. There are very few precedents and little official guidance as to how Contractual Arrangements in the context of a variable interest entity should be interpreted or enforced under the PRC law. There remain significant uncertainties regarding the outcome of arbitration or litigation. These uncertainties could limit our ability to enforce the Contractual Arrangements. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. In the event we are unable to enforce the Contractual Arrangements or we experience significant delays or other obstacles in the process of enforcement, we may not be able to exert effective control over our Consolidated Affiliated Entity and may lose control over the assets owned by our Consolidated Affiliated Entity. As a result, we may be unable to combine our Consolidated Affiliated Entity in our combined financial statements, and our ability to conduct our business may be adversely affected.

Certain terms of the Contractual Arrangements may not be enforceable under PRC law.

Each of the Contractual Arrangements contain provisions to the effect that the arbitral tribunal may award remedies over the equity interests, assets or property interest of our Consolidated Affiliated Entity, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) and/or order the winding up of our Consolidated Affiliated Entity. The Contractual Arrangements also contain provisions to the effect that the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other jurisdiction (being the place of domicile of Chengde Yushi and where the principal assets of Chengde Yushi or Shijiazhuang Medical Research are located) have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of Chengde Yushi.

However, under PRC laws, these terms may not be enforceable. As advised by our PRC Legal Advisers, under PRC laws, an arbitral tribunal does not have the power to grant the aforementioned injunctive relief or to issue a winding up order over Chengde Yushi. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC. Therefore, in the event of any breaches of the Contractual Arrangements by our Consolidated Affiliated Entity and/or the Registered Shareholder, and if we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entity, and our ability to conduct our business, our financial condition and results of operations may be materially and adversely affected.

We may lose the ability to use the assets and licenses held by our Consolidated Affiliated Entity that are material to our business operation if our Consolidated Affiliated Entity declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Our Consolidated Affiliated Entity holds certain assets and licenses that are important to our business operation. Our Contractual Arrangements with our Consolidated Affiliated Entity and the Registered Shareholder contain terms that specifically obligate the Registered Shareholder to ensure the valid existence of our Consolidated Affiliated Entity and our Consolidated Affiliated Entity cannot be voluntarily liquidated. However, if the Registered Shareholder breaches the obligation and voluntarily liquidates our Consolidated Affiliated Entity, or should our Consolidated Affiliated Entity declare bankruptcy, all or part of its assets may become subject to liens or rights of third-party creditors. As a result, we may be unable to continue some or all of our business operations which could materially and adversely affect our business, financial condition and results of operations.

The Registered Shareholder may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Our control over Consolidated Affiliated Entity is based upon the Contractual Arrangements between Shijiazhuang Medical Research, Consolidated Affiliated Entity and the Registered Shareholder. The Registered Shareholder is also a shareholder of our Company, but the equity interests of the Registered Shareholder in our Company will be diluted as a result of the Global Offering as well as future offerings, if any, of our Company's equity securities. The Registered Shareholder may potentially have conflicts of interest with us, and he may breach his contracts with us, if he believes it would further his own interest or if he otherwise acts in bad faith. We cannot assure you that when conflicts of interest arise between us and our Consolidated Affiliated Entity, the Registered Shareholder will act completely in our interests or that the conflicts of interest will be resolved in our favour. If we cannot resolve any conflicts of interest or disputes between us and the Registered Shareholder, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

Substantial uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On 15 March 2019, the FIL was formally passed by the NPC and became effective on 1 January 2020. The FIL replaces the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), the Sino-foreign Equity Joint Ventures Law of the PRC (《中華人民共和國中外合資經營企業法》), the Wholly Foreign-owned Enterprise Law and the Sino-foreign Cooperative Joint Ventures Law of the PRC (《中華人民共和國中外合作經營企業法》) to become the legal foundation for foreign investment in the PRC. The FIL stipulates certain permissible forms of foreign investment but does not explicitly stipulate the contractual arrangements as a permissible form of foreign investment. For further details of the FIL, please refer to the subsection headed "Contractual Arrangements – Development in the PRC Legislation on Foreign Investment" in this prospectus.

Notwithstanding the above, the FIL stipulates that foreign investments include "*any other foreign investments permitted by laws, administrative regulations or provisions as prescribed by the State Council*". Therefore, there are possibilities that future laws, administrative regulations or provisions prescribed by the PRC Government may regard contractual arrangements as a permissible form of foreign investment, and whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how the Contractual Arrangements will be treated are uncertain. There is no guarantee that our Contractual Arrangements and the business of our Consolidated Affiliated Entity will not be materially and adversely affected in the future.

In the extreme case, we may be required to unwind the Contractual Arrangements, which could have a material and adverse effect on our business, financial conditions and results of operations. In the event that our Company no longer has a sustainable business after the aforementioned unwinding, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares or even result in the delisting of our Company.

Our exercise of the option to acquire the shares of our Consolidated Affiliated Entity may be subject to certain limitations and we may incur substantial costs and expand significant resources to enforce the option under the Contractual Arrangements.

We may incur substantial cost on our part to exercise the option to acquire the equity interest in our Consolidated Affiliated Entity. Pursuant to the Exclusive Option Agreement, Shijiazhuang Medical Research or the designated purchaser(s) has an irrevocable and exclusive right to purchase from the Registered Shareholder and/or our Consolidated Affiliated Entity all or any part of their equity interest in and/or assets of our Consolidated Affiliated Entity for a nominal price. The equity transfer between Shijiazhuang Medical Research and the Registered Shareholder may be subject to the approvals from, or filings with, MOFCOM, the SAIC and/or

their local competent counterparts. In addition, the equity transfer consideration may be subject to review and tax adjustment by the relevant tax authorities. The equity transfer consideration under the Contractual Arrangements may also be subject to income tax, and such tax amounts could be substantial.

Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our profits and the value of your investment.

Under the PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements we have with our Consolidated Affiliated Entity do not represent an arms-length transaction and adjust our Consolidated Affiliated Entity's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, the PRC tax authorities may suspect that our subsidiaries or Consolidated Affiliated Entity are dodging their tax obligations and impose late payment fees and other penalties on us for underpaid taxes. Our results of operations may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in economic conditions in the PRC could substantially affect our business.

All of our business, assets and operations are located in the PRC and all of our revenue is derived from our operations in the PRC. Therefore, our business, results of operations, financial condition and prospect are, to a significant extent, subject to the economic conditions in the PRC. The economy of the PRC differs from the economies of most of the developed countries in many aspects, including but not limited to:

- the degree of the PRC Government's involvement;
- the growth rate and degree of development;
- control of foreign exchange; and
- allocation of public resources.

While the economy of the PRC has experienced significant growth over the past three decades and consequently there has been a high demand for Chinese pharmaceutical products, we cannot assure you that the economy of the PRC will continue to develop at its recent fast pace. A number of factors could slow down the economic development of the PRC, such as a global economic recession, a crisis in the financial market or natural disasters. During such times of economic downturn, the demand for our products is likely to drop. As a result, our financial condition and results of operations could be materially and adversely affected.

Our business, financial condition and results of operations may be affected by changes in the PRC's economic and political environment and by newly adopted PRC economic regulation policies.

The economy of the PRC used to be a planned economy and a substantial portion of productive assets in the PRC are still owned by the PRC Government. The PRC Government also exercises substantial control over the PRC's economic growth by allocating resources, setting monetary policies and providing preferential treatment to particular industries or companies. While the PRC Government has implemented economic reform measures to introduce market forces and to establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. We cannot therefore assure you that we may benefit from all, or any, of the measures which are under constant adjustments.

In addition, there can be no assurance that the PRC Government will continue to pursue its current economic reform policies. Our business, financial condition and results of operations could be materially and adversely affected by changes in political, economic and social conditions or relevant government policies, such as changes in laws and regulations or the interpretations thereof, measures which might be introduced to control inflation, changes in the rate or method of taxation and imposition of additional restrictions on currency conversion.

Uncertainties regarding interpretation and enforcement of the PRC laws, rules and regulations may have a material adverse effect on us.

All of our business and operations are conducted in the PRC, and we therefore are subject to the PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes, while court decisions have limited precedential value and are cited for reference only. Due to the limited number of published cases and the non-binding nature of court decisions, there are uncertainties on the interpretation and enforcement of the laws and regulations. The interpretation of the PRC laws, rules and regulations may also be influenced by changes in monetary policy and changes in the domestic, political and social conditions in the PRC. Accordingly, the outcome of dispute resolutions and/or litigation in the PRC may not be consistent or predictable.

Furthermore, the PRC legal system is partly based on government policies and certain internal rules, some of which are not published on a timely basis or at all, and may have retrospective effect. As a result, we may not be aware of any violation of these policies and internal rules until sometime after the violation. Moreover, administrative or court proceedings may be extended, resulting in substantial costs and diversion of resources and management attention if our Group seeks to enforce our legal rights through administrative or court proceedings. In addition, compared to a more developed legal system, the PRC administrative and court authorities have substantially wider discretion in interpreting and implementing statutory and contractual provisions. Therefore, it may be difficult for our Group to evaluate

the outcome of administrative and court proceedings and the level of legal protection offered to our Group. These uncertainties may have a negative impact on our ability to enforce contracts, which could in turn materially and adversely affect our business and results of operations.

It may be difficult to effect service of process or to enforce foreign judgments against our Group and management.

All of our businesses, assets and operations are located in the PRC. Furthermore, the assets of our Directors are mainly located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from other places outside the PRC upon us or our Directors. Moreover, it is understood that the enforcement of foreign judgments in the PRC is subject to uncertainties. A court judgement from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has signed a treaty with the PRC. However, the PRC has not signed any treaties for reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom and many other countries. As a result, recognition and enforcement in the PRC of a court judgement obtained in those jurisdictions mentioned above may be difficult or impossible.

Payment of dividends is subject to restrictions under the PRC law.

As our Company is a holding company, we rely on dividend payment from our subsidiaries in the PRC. Under the current PRC law, dividend may be paid only out of our PRC subsidiaries' accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. Moreover, our PRC subsidiaries are required to set aside a certain amount of their after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, in the future, if our PRC subsidiaries incur debt, the loan agreement may impose restrictions on their ability to pay dividends or make other payments to our Company. The inability of our PRC subsidiaries to distribute dividends or other payments to our Company could significantly affect the amount of capital available to supply the development and growth of our business.

Foreign exchange control by the PRC Government may have a material adverse effect on your investment.

We receive all of our revenue in RMB during the Track Record Period. RMB generally cannot be freely converted into any foreign currencies. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the local branch of SAFE subject to certain procedures. Our PRC subsidiaries are able to pay dividends in foreign currencies to our Company without prior approval from the local branch of SAFE by satisfying certain procedural requirements. However, there is no assurance that the foreign exchange policies regarding payment of dividends in foreign currencies will continue.

Moreover, foreign exchange transactions under the capital account items, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and requirements stipulated by the SAFE. The PRC Government may further implement rules and regulations in the future, which could restrict the use of foreign currency under current account items and capital account items in certain circumstances. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditure. The unavailability of sufficient foreign currency or an inability to transfer sufficient dividends or make other payments to us or to otherwise satisfy foreign currency-denominated obligations would adversely affect our business operation or administration. In addition, we may not be able to pay dividends to our Shareholders.

Fluctuation of the exchange rates may negatively affect our profitability and our ability to pay dividends.

During the Track Record Period, all of our revenue was denominated in RMB. As dividends will be paid to our Shareholders in Hong Kong dollar, any appreciation of the Hong Kong dollar against RMB would have a negative effect on the amount available to us when converted into Hong Kong dollar, and would therefore reduce our dividend payments.

Any future natural disasters, acts of God, outbreak of any contagious disease in the PRC or any other epidemics may adversely affect our business, results of operations and financial condition.

All of our assets and operations are located in the PRC. Accordingly, our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God, which are beyond our control, may adversely affect the economy, infrastructure and livelihood of people in the PRC. People in the PRC may be under threats of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics such as COVID-19, Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, H7N9 avian flu or H1N1 human swine flu.

Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. If in the future any of our employees or our customers in our office are suspected of having severe epidemics or any of our office are identified as a possible source of spreading such epidemics, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected properties and thereby suffer a temporary suspension of our operations. Any quarantine or suspension of our operations will affect our business and results of operations. An outbreak of epidemics in the PRC may result in material disruptions to our operations and delays in meeting our customers' demand, which in turn could have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile.

Prior to the Listing, there has been no public market for the Shares. The listing of, and the permission to deal with, the Shares on the Stock Exchange do not guarantee an active trading market following completion of the Global Offering. The determination of the indicative Offer Price range stated in this prospectus was the negotiation result between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company. As such, the Offer Price may not be an indicative trading price of the Shares on the Stock Exchange. Future sales of a substantial number of the Shares by our Group or its existing Shareholders after the Global Offering could adversely affect the prevailing market price of the Shares from time to time.

In addition, the liquidity, the market price and the trading volume of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business. Factors affecting the volatility of the price and the trading volume of our Shares include:

- fluctuations in our operating results, such as revenue, earnings and cash flows;
- fluctuations in market prices for our products or any of our comparable products;
- changes in pricing policy adopted by us and our competitors;
- investors' perception of our Group and our business plans;
- changes in our senior management personnel; and
- general economic factors in the PRC.

In such cases, investors may not be able to sell their Shares at or above the Offer Price.

Since there will be a gap of several days between the pricing and trading of our Offer Shares, the price of our Offer Shares could fall below the Offer Price when trading commences.

The application for the Hong Kong Public Offering Shares will commence on Thursday, 31 December 2020 and close on Thursday, 7 January 2021, being longer than normal market practice of four days. The Offer Price of our Shares will be determined on the Price Determination Date, which is expected to be on or around Thursday, 7 January 2021, and in any event, no later than Monday, 11 January 2021. The application monies (including the brokerage fee, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving banks on behalf of the Company and the refund monies, if any, will be returned to the applicants

without interest on Thursday, 14 January 2021, and our Shares will not commence trading on the Stock Exchange until the Listing Date, which is expected to be on Friday, 15 January 2021. Accordingly, investors may not be able to sell or deal in our Shares during the period between the Price Determination Date and the Listing Date. Our Shareholders are subject to the risk that the price of our Shares could fall before trading begins, as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the Listing Date.

Investors may experience dilution if we issue additional Shares in the future.

Our Group may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would reduce the percentage ownership of the Shareholders and may dilute the earnings per Share and net asset value per Share.

In addition, our Group may need to raise additional funds in the future to finance expansion, investment and new development of our business. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

Any disposal of a substantial number of Shares by our Controlling Shareholders in the public market could materially and adversely affect the market price of the Shares.

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing. Our Group is unable to predict the impacts, if any, of any future sales of the Shares by any of our Controlling Shareholders, on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Our historical dividend payments should not be taken as an indication of our future dividend policy or our payment of dividends in the future.

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval.

The Board will review dividend policy from time to time in light of various factors such as our financial results, our Shareholders' interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends and other factors

the Board may deem relevant in determining whether dividends are to be declared and paid. Any historical dividend payment should not be regarded as an indication of future dividend policy or our payment of dividends in the future.

Possible termination of the Underwriting Agreements.

Prospective investors of the Global Offering should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by notice in writing to our Company from the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) upon the occurrence of any of the events stated in the relevant underwriting agreements. Such events include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, fire, flood, tsunami, explosions, epidemic, pandemic, acts of terrorism, earthquakes, strikes or lock-outs.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Certain facts and statistics included in this prospectus may not be relied upon.

Certain facts and statistics presented in the section headed "Industry Overview" and elsewhere in this prospectus are derived from the Euromonitor Report compiled by Euromonitor and other publicly available sources. We believe that the sources of these information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, the information has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters or their respective directors, affiliates or advisers or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.

The current market condition may not be reflected in the statistical information included in this prospectus.

The historical information set out in this prospectus relating to market conditions of the PRC may not reflect the current market situation due to rapid changes in the economy of the PRC. In order to provide context to the industry in which we operate, and a greater understanding of our market presence and performance, various statistics and facts have been provided throughout this prospectus. However, this information may not reflect current market condition of the PRC as recent economic development may not be fully factored into these statistics, and the availability of the latest data may lag behind of this prospectus. As such, any information relating to market shares, sizes and growth, or performance in the markets in the PRC and other similar industry data should be viewed as historical figures that may have little value in determining future trends and results.

Forward-looking statements in this prospectus are subject to risks and uncertainties.

This prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "can", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would", and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Please refer to the section headed "Forward-looking Statements" in this prospectus for further details.

Such forward-looking statements reflect current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including other risk factors as described in this prospectus. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking statements and information.

We strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst reports regarding us and the Global Offering.

There may be press articles, media coverage and/or research analyst reports regarding, among others, our Group, our business, our industry, our Controlling Shareholders, our Directors and employees or the Global Offering, which may include certain financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any such information in the relevant publications and we do not accept any responsibility for any such press articles, media coverage and/or research analyst reports or the accuracy or completeness or reliability of any such information or publications. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely on the financial, operational and other information included in this prospectus.

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong and, under normal circumstances, at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since the headquarters of our Group is located in the PRC and substantially all of the business operations of our Group are managed and conducted in the PRC, all of our executive Directors ordinarily reside outside Hong Kong, our Directors consider that it would be practically difficult and commercially unreasonable and undesirable for our Company to arrange for two executive Directors to be ordinarily resident in Hong Kong, either by means of relocation of existing executive Directors or appointment of additional executive Directors merely for the purpose of complying with Rule 8.12 of the Listing Rules. We do not and, in the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, subject to the condition that the following measures and arrangements are made for maintaining regular communications between the Stock Exchange and us:

(a) pursuant to Rule 3.05 of the Listing Rules, we have appointed Ms. Lau Ching Sze, our company secretary, and Ms. Zhang, our executive Director and Chief Executive Officer, as authorised representatives of our Company, to act as the principal channel of communication with the Stock Exchange. Each of them has confirmed that she can be readily contactable by phone, facsimile and/or email to deal promptly with any enquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matters within a reasonable time upon requests. Each of the authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange. Our Company will also inform the Stock Exchange promptly in respect of any change in the authorised representatives;

(b) in addition to the appointment of the authorised representatives, to facilitate communication with the Stock Exchange, the contact details of each Director, including his/her mobile phone number, office phone number, facsimile number and e-mail address, have been provided to each of the authorised representatives and the Compliance Adviser (as defined below) who have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. Each of our Directors and authorised representatives has provided his or her contact details to the Stock Exchange, should the Stock Exchange find it necessary to contact any of them. Furthermore, each Director who

is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time as and when required;

(c) pursuant to Rule 3A.19 of the Listing Rules, our Company has appointed Soochow Securities International Capital Limited as our compliance adviser (the "**Compliance Adviser**") for the period commencing from the date of our Listing until the date on which our Company announces our financial results and distributes our annual report for the first full financial year after the date of our Listing. The Compliance Adviser will act as our Company's additional channel of communication with the Stock Exchange, and its representatives will be readily available to answer enquiries from the Stock Exchange. Our Company will ensure that there are adequate and efficient means of communication between us, our authorised representatives, Directors and other officers and the Compliance Adviser, and will keep the Compliance Adviser fully informed of all communications and dealings between us and the Stock Exchange. Our Company will also inform the Stock Exchange promptly in respect of any change in the Compliance Adviser. Meetings with the Stock Exchange and our Directors can be arranged through our Company's authorised representatives or the Compliance Adviser, or directly with our Directors with reasonable notice; and

(d) in addition to the Compliance Adviser's role and responsibilities after the Listing to provide advice to our Company on the continuing requirements under the Listing Rules and applicable laws and regulations, our Company will retain a legal adviser as to the laws of Hong Kong to advise us on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the Listing.

CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions arising from our Contractual Arrangements that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing as described in the section headed "Connected Transactions" in this prospectus. We expect such non-exempt continuing connected transactions will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance with the applicable requirements under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company. For further details, see the section headed "Connected Transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Company. We, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. Details of the terms of the Global Offering are described in the section headed "Structure and Conditions of the Global Offering" and in the related Application Forms.

The Listing is sponsored by the Sole Sponsor and the Global Offering is lead managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Public Offering Underwriters and the International Placing is expected to be fully underwritten by the International Placing Underwriters.

RESTRICTIONS ON SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any such circumstances such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus or the related Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or the United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

No action has been taken to register or qualify the Offer Shares or the Global Offering, or otherwise to permit a public offering of the Offer Shares, in any jurisdiction outside Hong Kong. The distribution of this prospectus and the related Application Forms in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this

prospectus or any of the related Application Forms should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the applicable securities laws.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offer of the Offer Shares described in this prospectus.

Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

Under Section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the Application Lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Offer Shares or exercising rights attached to them. None of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, officers, employees, partners, agents, advisers or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchasing, holding, disposition of, or dealing in, the Offer Shares or exercising any rights attached to them.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out under the sections headed "Underwriting" and "Structure and Conditions of the Global Offering" in this prospectus.

HONG KONG REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

Our Company's principal register of members will be maintained by its principal share registrar, Ogier Global (Cayman) Limited, in the Cayman Islands. All of the Offer Shares issued pursuant to the Global Offering will be registered on our Company's Hong Kong Share register to be maintained in Hong Kong by its Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Dealings in the Shares registered in our Company's Hong Kong Share register will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on the Hong Kong Share register of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements as such arrangements may affect their rights and interests.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFERING SHARES

The procedures for applying for Hong Kong Public Offering Shares are set out in the section headed "How to Apply for Hong Kong Public Offering Shares" in this prospectus and on the Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure and conditions of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi and Hong Kong dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Unless indicated otherwise, amounts denominated in Hong Kong dollars have been translated for the purpose of illustration only into Renminbi, and vice versa, at the rate of HK$1.0: RMB0.9.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the English names of the PRC nationals, entities, departments, facilities, our products, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Xie Wei (謝偉)	Unit 307, Fuleyayuan, Fuminlukou Yitian Road, Futian District Shenzhen City Guangdong Province China	Chinese
Ms. Zhang Hongli (張宏麗)	No. 3052, 5/F Unit 3, Block D11 Long Xiang Dong Yuan Xiao Qu Longhua Town, Chengde City Hebei Province China	Chinese
Mr. Li Jinglian (栗景連) (formerly known as Li Jinglian (栗景蓮))	Room 1203, Block 16 Zhonghaiziyuhuafu Linhe Street Nanhu Road Erdao District Changchun City Jilin Province China	Chinese
Mr. Jiang Zhendong (姜振東)	Unit 503, Block 1 Fuliqianjia C, Chunguang Community Qianjin District, Jiamusi City Heilongjiang Province China	Chinese
Independent Non-executive Directors		
Ms. Liu Ling (劉凌)	Room 301, Unit 1 Building 5 Wanxiang Xintian Community Changhui Road Chaoyang District Beijing China	Chinese

Name	Address	Nationality
Mr. Leung Tsz Wing (梁子榮)	Flat B, 8/F, Beaudry Tower 38 Bonham Road Mid-Levels Hong Kong	Chinese
Mr. Chan Kam Leung (陳錦良)	Flat D, 10th Floor, Block 9 Dawning Views 23 Yat Ming Road Fanling, New Territories Hong Kong	Chinese

For further information regarding our Directors, please see the section headed "Directors and Senior Management" in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**Soochow Securities International Capital Limited** Level 17, Three Pacific Place 1 Queen's Road East Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	**Soochow Securities International Brokerage Limited** Level 17, Three Pacific Place 1 Queen's Road East Hong Kong **Wealth Link Securities Limited** Suite 1504, 15/F Bangkok Bank Building 28 Des Voeux Road Central Central Hong Kong
Joint Bookrunners and Joint Lead Managers	**SPDB International Capital Limited** 33/F SPD Bank Tower One Hennessy 1 Hennessy Road Hong Kong **BOCOM International Securities Limited** 9/F Man Yee Building 68 Des Voeux Road Central, Hong Kong **Yue Xiu Securities Company Limited** Room 1003, 1004, 1005 Siu On Centre 188 Lockhart Road Wan Chai, Hong Kong **Shanxi Securities International Limited** Unit A 29/F Admiralty Center Tower 1 18 Harcourt Road Admiralty, Hong Kong

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Joint Lead Managers	**ZMF Asset Management Limited** Unit 2502 25/F World Wide House 19 Des Voeux Road Central Central, Hong Kong
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	Forthright Securities Company Limited 19-20/F BOC Group Life Assurance Tower 134-136 Des Voeux Road Central Hong Kong
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Legal Advisers to the Sole Sponsor and the Underwriters

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Auditors and Reporting Accountants	**Mazars CPA Limited** Certified Public Accountants, Hong Kong 42nd Floor, Central Plaza 18 Harbour Road Wanchai Hong Kong
Industry Consultant	**Euromonitor International Limited** 60-61 Britton Street London EC1M 5UX
Receiving Bank(s)	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong **CMB Wing Lung Bank Limited** 45 Des Voeux Road Central Hong Kong

Registered office	89 Nexus Way, Camana Bay Grand Cayman Cayman Islands KY1-9009
Corporate headquarters in the PRC	No. 88 Jinwei Road Chengde City Hebei Province PRC
Principal place of business in Hong Kong	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company's website	**www.cdysjdyy.com** (The contents on this website do not form part of this prospectus)
Compliance adviser	Soochow Securities International Capital Limited Level 17, Three Pacific Place 1 Queen's Road East Hong Kong
Company secretary	Ms. Lau Ching Sze (劉靜詩) *(HKICS, ICSA)* Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Authorised representatives	Ms. Zhang Hongli (張宏麗) No. 3052, 5/F Unit 3, Block D11 Long Xiang Dong Yuan Xiao Qu Longhua Town, Chengde City Hebei Province PRC Ms. Lau Ching Sze (劉靜詩) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

Audit Committee	Mr. Leung Tsz Wing (梁子榮) *(Chairman)* Ms. Liu Ling (劉凌) Mr. Chan Kam Leung (陳錦良)
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Principal banker	**Bank of China Limited** Longhua Branch No. 7 Anzhou North Street, Longhua Town Longhua County, Chengde City Hebei Province PRC

LAWS AND REGULATIONS RELATED TO OUR BUSINESS IN THE PRC

The pharmaceutical industry is highly regulated in the PRC. We are subject to PRC laws and regulations that govern pharmaceutical products as well as those regulating the manufacture, sales and distribution of pharmaceutical products. This section contains a summary of principal laws and regulations which are currently relevant to our Group's operation or were relevant thereto during the Track Record Period.

PRINCIPAL LAWS AND REGULATIONS

- Drug Administration Law of the PRC (《中華人民共和國藥品管理法》, promulgated by the SCNPC on 20 September 1984, and came into effect on 1 July 1985, and last amended on 26 August 2019 and became effective on 1 December 2019) (the "**Drug Administration Law**") provides the basic legal framework for the administration of the manufacture and sale of drug products in the PRC and covers the aspects of Marketing Authorization Holder (the "**MAH**", 藥品上市許可持有人), manufacturing, distributing, packaging, pricing and advertising of drug products. The latest revision of such law mainly focused on adjusting the scope of counterfeit drugs and inferior drugs, encouraging research and development of new drugs, creating the MAH system, allowing online sales of prescription drugs, and aggravating the punishment of illegal activities.

- The Regulations of Implementation of the Drug Administration Law (《中華人民共和國藥品管理法實施條例》, promulgated by the State Council on 4 August 2002, effective on 15 September 2002 and was last amended on 2 March 2019 and became effective on the same date), sets out the detailed implementation rules with respect to the administration of drug products in the PRC.

PRINCIPAL ADMINISTRATIVE AUTHORITIES

- The NMPA, supervised by the State Administration for Market Regulation (國家市場監督管理總局), is responsible for the administrative supervision and technical supervision over the research, production, circulation and usage of drugs, including TCM in the PRC, organising the formulation and publication of the Chinese Pharmacopeia (《中國藥典》) and the selection, approval, publication and revision of the State Over-the-Counter Medicine Catalogue (《國家非處方藥目錄》). Also the NMPA and its local administrative authorities have a variety of enforcement actions available to enforce its regulations and rules, such as fines and injunctions, recalls or seizure of products, imposition of operating restrictions, partial suspension or complete shutdown of production and transfer to the relevant authorities for criminal investigation. The local administrative authorities at the level of provinces, autonomous regions and municipalities directly under the PRC central government are responsible for the supervision and administration of drugs distribution business within their respective administrative regions.

- The NHC is responsible for multiple supervisions over drug regulation, including but not limited to, enforcing the healthcare system reform, establishing the National Essential Drugs System (國家基本藥物制度), implementing the National List of Essential Drugs (國家基本藥物目錄), proposing the pricing policy of drugs within the National List of Essential Drugs and supervising medical institutions.

- The National Administration of TCM of the PRC (中華人民共和國國家中醫藥管理局) (the "**SATCM**"), a bureau under the governance of the NHC, is responsible for the regulation of TCM industry in the PRC.

- The NDRC is responsible for the macro-guidance and administration of the healthcare industry's development planning, technological upgrading, approval of investment programs and the economic operation status of the medical enterprises, the supervision and administration over the price of medicines and formulation of the national unified price for certain drugs.

LAWS AND REGULATIONS RELATED TO DRUG MANUFACTURING

i. Manufacturing License

According to the Drug Administration Law of the PRC, the MAH refers to the enterprises or drug research and development institutions that obtained the Drug Registration Certificate (藥品註冊證書). The MAH shall obtain a Drug Manufacturing License (藥品生產許可證) from the relevant pharmaceutical supervisory and administrative department if it manufactures the drugs by itself. This license is issued only after the relevant production facilities have been inspected and their sanitary conditions, quality assurance systems, management structure and equipment standards have been found to fulfil the required standards. According to the Regulations of Implementation of the Drug Administration Law and the Measures on the Supervision and Administration of the Manufacture of Drugs (《藥品生產監督管理辦法》, promulgated by the State Food and Drug Administration (國家食品藥品監督管理局), the predecessor of CFDA on 5 August 2004, became effective on the same date and was last amended by the CFDA on 17 November 2017 and became effective on the same date, and has been replaced by the Measures on the Supervision and Administration of the Manufacture of Drugs (《藥品生產監督管理辦法》, promulgated by the State Administration for Market Regulation on 22 January 2020) on 1 July 2020), each Drug Manufacturing License is valid for five years. The drug manufacturing enterprise must apply for a renewal six months prior to the expiration of the validity period, and extension is granted only after reevaluation by the relevant authority.

ii. Good Manufacturing Practice (the "GMP")

According to the Drug Administration Law of the PRC, the enterprises engaging in pharmaceutical production shall abide by the Good Manufacturing Practice for Drugs, establish and improve the quality management system for pharmaceutical production. The Good Manufacturing Practice for Drugs (2010 revised edition) (《藥品生產質量管理規範》(2010年

修訂), promulgated on 17 January 2011 by the MOH, and became effective on 1 March 2011) (the "**2010 GMP**") comprises a set of detailed standard guidelines governing the manufacture of drugs, which includes institution and staff qualifications, production premises and facilities, equipment, hygiene conditions, production management, quality controls, product operation, raw material management, maintenance of sales records and manner of handling customer complaints. The Three Appendixes to the 2010 GMP on TCM Decoction Pieces (關於發布《藥品生產質量管理規範(2010年修訂)》中藥飲片等3個附錄的公告) promulgated by the CFDA on 27 June 2014 and became effective on 1 July 2014 specifies the requirements on staff qualifications, production premises and facilities, materials and products, equipment, validation, documentation management, production management, as well as quality control for the production of TCM decoction pieces.

Pursuant to the Notice of the State Food and Drug Administration, the Ministry of Health, and the SATCM on Strengthening the Supervision and Administration of TCM Decoction Pieces (《國家食品藥品監督管理局、衛生部、國家中醫藥管理局關於加強中藥飲片監督管理的通知》) issued on 5 January 2011, manufacturers of TCM decoction pieces shall obtain a Drug Manufacturing License and a GMP certificate. According to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), the issuance of GMP certificate has been terminated on 1 December 2019, but whoever engages in drug production activities shall still comply with the GMP requirements.

LAWS AND REGULATIONS RELATED TO DRUG REGISTRATION

Pursuant to the Drug Administration Law of the PRC and the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》, promulgated by the State Food and Drug Administration on 10 July 2007 and became effective on 1 October 2007, and has been replaced by the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》, promulgated by the State Administration for Market Regulation on 22 January 2020) on 1 July 2020), such laws and measures shall apply to the applications for drug manufacture and registration within the territory of the PRC, as well as drug inspections, supervision and administration. The non-clinical research of drugs shall be subject to the Non-clinical Research Quality Management Norms for Pharmaceuticals (《藥物非臨床研究質量管理規範》), and the clinical trial of drugs shall be subject to the Clinical Trial Quality Management Norms for Pharmaceuticals (《藥物臨床試驗質量管理規範》). The whole pharmaceutical research and development process shall continuously comply with the statutory requirements. Institutions conducting drugs studies shall comply with the relevant laws and regulations, be equipped with staff, premises, equipment, instruments and management systems corresponding to the study, and ensure the veracity of the relevant data, materials and samples. During the Track Record Period and up to and including the Latest Practicable Date, the entire drug research and development process of Chengde Yushi has not involved any clinical trial, and has complied with the relevant laws and regulations of the PRC.

Drug registration applications include applications for new drugs, supplementary applications as well as re-registration applications. All new pharmaceutical products must undergo four phases before the product launch: pre-clinical research, application for clinical

trials, clinical trials and application for production. All new pharmaceuticals must undergo these four phrases and obtain the approval documents and meet quality standards issued by the relevant drug administration before being launched to the market. The effective period of a Drug Approval Number (藥品批准文號) issued by the relevant drug administration is five years. The MAH shall apply for a supplementary application, if there is any variation, addition, or cancellation of the items or contents approved in the original application for new drugs. To continue its drug production, the applicant shall submit a re-registration application for a Drug Approval Number six months prior to the expiry date.

LAWS AND REGULATIONS RELATED TO DRUG RECALL

According to the Measures on Drug Recalls (《藥品召回管理辦法》) promulgated by the State Food and Drug Administration on 10 December 2007 and became effective on the same date, a drug manufacturer should set up and constantly improve its drug recall system, by collecting relevant information about drug safety and conducting investigation and evaluation with regards to any drugs that may be exposed to potential safety hazards. The drug manufacturer shall recall any drugs that were found to be potentially endangering human health and life, have detailed records of the handling of the recalled drug, and report to the relevant drug regulatory department where the drug manufacturer is located. Recalled drugs which must be destroyed shall be destroyed under the supervision of the relevant drug regulatory department.

Drug recalling can be either voluntary or mandatory. A drug manufacturer shall recall any of its drugs which it finds to be potentially endangering human health and life. As confirmed by Chengde Yushi, two batches of Cinnabar Nerve-calming Pill (朱砂安神丸) (Lot number: 160301 and 160302) were voluntarily recalled by Chengde Yushi in November 2017, and the recalled drugs were subsequently destroyed in accordance with the applicable PRC laws and regulations. As advised by our PRC Legal Advisers, the voluntary recall was completely voluntary and was not a penalty imposed by the relevant authorities. Further, based on the compliance certificate issued by the competent authorities in the PRC, no penalty, punishment or sanction was imposed on Chengde Yushi in relation to this voluntary drug recall.

LAWS AND REGULATIONS RELATED TO DRUG ADVERTISEMENTS

Pursuant to the Advertising Law of the PRC (《中華人民共和國廣告法》), promulgated by the SCNPC on 27 October 1994, became effective on 1 February 1995, and was last amended on 26 October 2018 and became effective on the same date, the Interim Administrative Measures for Censorship of Advertisements for Drugs, Medical Devices, Dietary Supplements and Formula Foods for Special Medical Purpose (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), promulgated by the State Administration for Market Regulation on 24 December 2019, became effective on 1 March 2020, an application for a drug advertisement approval number shall be submitted to the drug advertisement examination authority in the place where the drug manufacturer or other advertiser is located. An applicant for a drug advertisement approval number must be a holder of the certificate of drug registration or recordation, or the drug manufacturer or distributor

authorized and consented by such holder. Where the drug advertisement is approved, the drug advertisement examination authority should make public to the society through its website or by other means that are convenient for the public to search. All advertisements related to the drugs manufactured by Chengde Yushi have been approved by the relevant drug advertisement examination authority during the Track Record Period and up to the Latest Practicable Date.

LAWS AND REGULATIONS RELATED TO PRESCRIPTION MEDICINES AND OVER-THE-COUNTER MEDICINES

In order to promote safety, efficacy and convenience in the use of drug products, the State Drug Administration (國家藥品監督管理局), the predecessor of the State Food and Drug Administration, published the Trial Administrative Measures regarding the Classification of Prescription Medicines and Over-the-Counter Medicines (《處方藥與非處方藥分類管理辦法(試行)》) on 18 June 1999, which became effective on 1 January 2000, and the Interim Provisions on the Administration of the Circulation of Prescription Medicines and Over-the-Counter Medicines (《處方藥與非處方藥流通管理暫行規定》) on 28 December 1999, which became effective on 1 January 2000. Pursuant to these administrative measures, the drugs shall be divided into the prescription medicines and over-the-counter medicines and regulated according to their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Prescription medicines related to those of which prescription, purchase and intake require a prescription by qualified medical practitioners. Over-the-counter medicines related to those of which prescription, purchase and intake do not require a prescription by qualified medical practitioners.

Pursuant to the Regulations of Implementation of the Drug Administration Law, depending on the level of the safety, the over-the-counter medicines are further subdivided into type A and type B and are administered separately. The drug wholesalers and the drug retailers are required to obtain a Pharmaceutical Trade Licence (《藥品經營許可證》). In addition, retailers selling type A over-the-counter medicines are required to have professionally trained and suitably qualified staff before engaging in the sale of type A over-the-counter medicines.

REGULATIONS RELATED TO PRECURSOR CHEMICALS

According to the Regulations on the Administration of Precursor Chemicals (《易制毒化學品管理條例》, promulgated by the State Council on 26 August 2005, last amended on 18 September 2018 and became effective on the same date), the precursor chemicals are classified into three categories. Category I includes the major materials that can be used for producing drugs. Categories II and III include the chemical consumable/additives that can be used for producing drugs. An entity purchasing any precursor chemicals in Category II or III shall, prior to the purchase, file an information report about the type and quantity in demand for record, with the public security organ of the local people's government at the county level. During the Track Record Period and up to and including the Latest Practicable Date, Chengde Yushi has purchased certain Categories II and III precursor chemicals, and has filed the relevant information as required for record in accordance with the relevant PRC laws and regulations.

REGULATION RELATED TO THE PROTECTION OF WILDLIFE AND LIVESTOCK AND POULTRY

According to the Law on the Protection of Wildlife of the PRC (《中華人民共和國野生動物保護法), promulgated by the SCNPC on 8 November 1988, and became effective on 1 March 1989, last amended on 26 October 2018 and became effective on the same date, the sale, purchase or use of the wild animals under the state priority protection and the products thereof, for scientific research, artificial breeding, public display, cultural relics protection or under other special circumstances, shall be subject to the approval of the wildlife protection authorities under the people's governments of the provinces, autonomous regions or municipalities directly under the Central Government, and shall be required to obtain and use designated marks to ensure traceability. Deer Antler (鹿茸) is one of the major ingredients for Vigour and Vitality Supplement Pill (補腎填精丸), and Deer Antler (鹿茸) used in the production of Vigour and Vitality Supplement Pill (補腎填精丸) are derived from red deer (Cervus elaphus), which is a kind of wild animals under second class state protection, and Chengde Yushi has obtained all approval as required during the Track Record Period.

According to the Decision of the Standing Committee of the National People's Congress on a Complete Ban of Illegal Wild Animals Trade and the Elimination of the Unhealthy Habit of Excessive Consumption of Wild Animals for the Protection of Human Life and Health (《全國人民代表大會常務委員會關於全面禁止非法野生動物交易、革除濫食野生動物陋習、切實保障人民群眾生命健康安全的決定》), promulgated on 24 February 2020, animals on the list of livestock and poultry genetic resources shall be classified as livestock and poultry and governed by the Animal Husbandry Law of the PRC (《中華人民共和國畜牧法》). Pursuant to the National Variety List of Livestock and Poultry Genetic Resources (《國家畜禽遺傳資源品種名錄》), promulgated by the Office of National Livestock and Poultry Genetic Resources Committee and became effective on 29 May 2020, red deer (Cervus elaphus) (from which the Deer Antler (鹿茸) used in the production of Vigour and Vitality Supplement Pill (補腎填精丸) are derived) now falls within this list.

LAWS RELATED TO PACKAGING OF DRUG PRODUCTS

According to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), drug packaging shall be commensurate with drug quality requirements and for convenience of storage, transport and medical use. According to the Measures for the Administration of Drug Packaging (《藥品包裝管理辦法》, promulgated on 12 February 1988, and became effective on 1 September 1988), drug packaging must comply with the provisions of the national standard and professional standard. If there are no such standards, the enterprise can formulate and execute its own standard after obtaining the approval from the drug administration and standard bureau at the provincial or municipal or autonomous regional level. The enterprise shall reapply to the relevant authorities if it needs to change the packaging standard. Drugs without packaging standard must not be sold in the PRC (except for special military drugs).

According to the Measures for the Management of Packaging Materials and Containers in Direct Contact with Drugs (《直接接觸藥品的包裝材料和容器管理辦法》) promulgated by the State Food and Drug Administration on 20 July 2004 and became effective on the same date, the production and use of drug packaging materials must comply with the national standards for drug packaging materials.

REGULATIONS RELATED TO DRUG DIRECTIONS AND LABELS

According to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), each piece of drug packaging shall, as required, be printed or affixed with a label with an insert sheet attached. Labels and insert sheets for narcotic drugs, psychotropic substances, toxic drugs for medical use, radioactive drugs, drugs for external use and over-the-counter drugs shall be printed with specified marks as required. Pursuant to the Administrative Provisions on Drug Directions and Labels (《藥品説明書和標籤管理規定》, promulgated on 15 March 2006 and became effective on 1 June 2006), drug directions and labels shall be subject to the ratification of the State Food and Drug Administration. The labels of a drug shall be based on its directions, and the contents thereof shall not exceed the scope of the directions, and may not be printed with any word or mark that implies the curative effect, misleads the use or inappropriately advertises the product. The package of a drug must be printed or affixed with the label according to the provisions, and shall not carry other literal or video materials or other information that advertises the product or the enterprise. The smallest packages produced by a drug manufacturing enterprise for sale on the market must be attached with directions. The drug directions, the interior labels and exterior labels as well as names shall comply with the relevant provisions.

REGULATIONS RELATED TO REIMBURSEMENT UNDER THE NATIONAL MEDICAL INSURANCE PROGRAM

According to the Interim Measures for the Administration of Use of Drugs Covered by the Basic Medical Insurance (《基本醫療保險用藥管理暫行辦法》), which was promulgated on 30 July 2020 and came into effect on 1 September 2020 by National Healthcare Security Administration, the National Insurance Medicine List shall be managed by generic name, and drugs with the same generic names as those specified on the National Insurance Medicine List shall automatically fall within the payment scope of the basic medical insurance fund. The expenses for "drugs of Class A" used by the insured shall be paid according to the regulations in respect of basic medical insurance, while those for "drugs of Class B" shall be first paid by the insured in a certain percentage, and the remainder shall be reimbursed in accordance with the regulations in respect of basic medical insurance. The percentage of expenses paid by individuals for "drugs of Class B" is determined by the provincial or pooling region's healthcare security administrative department. The basic medical insurance fund pays expenses of drugs to designated medical institutions and designated retail pharmacies in accordance with payment standards for drugs and the provisions on medical insurance-based payment.

REGULATIONS RELATED TO PRICE CONTROLS

According to the Circular on Issuing the Opinions on Promoting the Drug Pricing Reform (《關於印發推進藥品價格改革意見的通知》) (the "**Drug Pricing Reform Notice**"), which was promulgated and came into effect on 4 May 2015 by the NDRC, the NHFPC, the Ministry of Human Resources and Social Security, the Ministry of Industry and Information Technology of the PRC, the MOF, the MOFCOM and the CFDA, government price controls on pharmaceutical products (other than narcotic drugs and psychiatric drugs of category I) was lifted on June 1, 2015. After such price controls are lifted, prices of pharmaceutical products are mainly determined by market competition. Instead of direct price controls, the government regulates prices of pharmaceutical products mainly by establishing a consolidated procurement mechanism, revising medical insurance reimbursement standards and strengthening regulation of medical and pricing practices.

LAWS AND REGULATIONS RELATED TO FOREIGN INVESTMENT

Foreign-invested enterprises in the PRC must follow all the applicable PRC laws and regulations and must not engage in activities detrimental to China's public interest.

i. The PRC Company Law

The establishment and management of companies in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》, which was enacted by the SCNPC on 29 December 1993 and was implemented since 1 July 1994) (the "**PRC Company Law**"). The SCNPC amended the PRC Company Law on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 respectively. The PRC Company Law provides for the establishment, corporate structure and corporate management of companies. The PRC Company Law also applies to foreign-invested enterprises. Where laws relating to foreign-invested enterprises otherwise stipulate, such stipulations shall apply.

ii. Guidance of Foreign Investment Industries

Foreign investors shall not be allowed to invest in industries in the prohibited category. The Catalogue of Industries for Encouraging Foreign Investment (2019 Version) (the "**Encouraged Catalogue**") (《鼓勵外商投資產業目錄(2019年版)》) was promulgated by the NDRC and the MOFCOM on 30 June 2019 and became effective on 30 July 2019. And the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Version) (the "**2020 Negative List**") (《外商投資准入特別管理措施(負面清單)(2020年版)》) was promulgated by the NDRC and the MOFCOM on 23 June 2020 and became effective on 23 July 2020. Any industry not listed in the 2020 Negative List or the Encouraged Catalogue is generally deemed to be permitted and open to foreign investment, unless otherwise restricted or prohibited by laws and regulations. According to the 2020 Negative List, foreign investment in industry involving the application of processing techniques for TCM decoction pieces, including steaming, frying, simmering and calcining is prohibited.

iii. Laws Related To The Foreign-Invested Enterprise

The establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, labour matters and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the "**Wholly Foreign-owned Enterprise Law**"), which was promulgated by the NPC on 12 April 1986 and amended by the SCNPC on 31 October 2000 and 3 September 2016, and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated by the Department of the Foreign Economic and Trade of the PRC on 12 December 1990 and amended by the State Council on 12 April 2001 and 19 February 2014. Where the establishment of foreign-owned enterprise is not subject to the implementation of special management measures for access as stipulated by the State, the examination and approval matters stipulated in Article 6, Article 10 and Article 20 of the Wholly Foreign-owned Enterprise Law shall be subject to filing administration. Special management measures for access stipulated by the State shall be promulgated by the State Council or promulgated with approval by the State Council.

On 8 October 2016, the MOFCOM promulgated the Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the "**Interim Measures**"), which was amended on 30 July 2017 and 29 June 2018, effective as from 30 June 2018. In accordance with the Interim Measures, the formation and modification of foreign-invested enterprises that do not involve the implementation of special management measures for access as prescribed by the state shall be appropriately recorded with competent authorities. But on 30 December 2019, the Ministry of Commerce and the State Administration for Market Regulation promulgated the Measures for Reporting of Information on Foreign Investment (《外商投資信息報告辦法》 (the "**Measures**")), which became effective on 1 January 2020 and repealed the Interim Measures simultaneously. In accordance with the Measures, where foreign investors make investments in China directly or indirectly, such foreign investors or foreign-invested enterprises shall submit their investment information to the competent commerce authorities in accordance with the Measures.

On 15 March 2019, the NPC promulgated the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**"), which became effective on 1 January 2020. And on 26 December 2019, the State Council promulgated Implementing Regulations of the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法實施條例》), which became effective on 1 January 2020. Because the Foreign Investment Law and its implementing regulations have come into effect, the Sino-foreign Equity Joint Ventures Law of the PRC (《中華人民共和國中外合資經營企業法》), the Wholly Foreign-owned Enterprise Law and the Sino-foreign Cooperative Joint Ventures Law of the PRC (《中華人民共和國中外合作經營企業法》) and their respective implementation regulations have been repealed simultaneously. Subject to the Foreign Investment Law, the foreign invested enterprises, established in accordance with three Laws above before the

effective date of Foreign Investment Law, may keep their original organizational forms for five years after the Foreign Investment Law takes effect and the specific implementing measures shall be developed by the State Council.

LAWS RELATED TO PRODUCT LIABILITY

In accordance with the Product Quality Law of the PRC (《中華人民共和國產品質量法》, which was promulgated on 22 February 1993 by the SCNPC, last amended on 29 December 2018 and effective on the same date), and the Tort Liability Law of the PRC (《中華人民共和國侵權責任法》, which was promulgated by the SCNPC on 26 December 2009 and became effective on 1 July 2010), where a product with any defect caused by the fault of the seller causes any harm to another person, the seller shall assume the tort liability where the product defect causing harm to a person was caused by the seller. If a seller can neither specify the manufacturer nor specify the suppliers of a defective product, the seller shall assume the tort liability caused by such defective product.

Where any harm is caused by a defective product, the victim may claim compensation from the manufacturer or the seller of such defective product. If the defect of the product is caused by the manufacturer and the seller has made the compensation for the defect, the seller shall be entitled to be reimbursed from the manufacturer; if the defect of the product is caused by the fault of the seller and the manufacturer has made the compensation for the defect, the manufacturer shall be entitled to be reimbursed by the seller. But if there are different provisions in the contracts between manufacturers, sellers or between manufacturers and sellers, the parties to the contracts shall implement the provisions of the contracts.

If any product defect is found after such product has been put into circulation, the manufacturer or seller shall take such remedial measures as warning and recall in a timely manner. The manufacturer or seller, who fails to take remedial measures in a timely manner or take sufficient and effective measures and has caused any harm, shall assume the tort liability. In the case that a manufacturer or seller, knowing any defect of a product, continues to manufacture or sells the product and the defect causes a death or any serious damage to the health of another person, the victim shall be entitled to require the corresponding punitive compensation. In addition, operators who sell defective products may be subject to confiscation of earnings from such sales, revocation of business licences and imposition of fines, and in severe circumstances, may be subject to criminal liability.

LAWS RELATED TO CONSUMERS PROTECTION

The Law of the PRC on Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》, which was promulgated by the SCNPC on 31 October 1993 and was last amended on 25 October 2013, and became effective on 15 March 2014) protects the legitimate rights and interests of consumers when they purchase or use goods and receive services for daily consumption. All business operators must comply with this law when they provide goods which are manufactured or sold by them and/or provide services to customers.

According to the said law on Protection of Consumer Rights and Interests, consumers whose lawful rights and interests are infringed upon in purchasing or using commodities may claim compensation from the sellers, and the sellers, after paying compensation, have the right to be reimbursed by the liable manufacturers or other sellers supplying the commodities to them, where the liability falls on the manufacturer or any other seller which provides the goods to the seller. Consumers or other victims suffering personal injuries or property damage from defects of commodities may claim compensation from the sellers and manufacturers. If the manufacturers are liable, the sellers shall, after paying compensation, have the right to be reimbursed by the manufacturers. If the sellers are liable, the manufacturers shall, after paying compensation, have the right to be reimbursed by the sellers. In extreme situations, drug manufacturers and operators may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

LAW AND REGULATION RELATED TO EMPLOYEES' HEALTH AND SAFETY

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》, promulgated by the SCNPC on 29 June 2002, and amended respectively on 27 August 2009 and 31 August 2014 and became effective on 1 December 2014) (the "**Production Safety Law**"), any production and business operation entity with more than 100 employees shall establish an administrative organ of safe production or have full-time personnel for the administration of safe production. Production and business operation entities shall inculcate their employees with the requirements to strictly implement rules and regulations for production safety and safety operating regulations formulated by the entities, and they shall truthfully inform their employees of the factors of danger existing at the work places and work posts as well as the precautions and the emergency response measures to be taken in the event of accidents. Production and business operation entities shall provide labour protection articles that satisfy the national standards or industrial standards for the employees thereof, supervise and educate them to wear or use these articles in accordance with the prescribed rules. Production and business operation entities shall allocate funds for buying labour protection articles and organizing training on production safety. Production and business operation entities shall buy insurance for work-related injuries according to the laws and pay insurance premiums for the employees thereof. Violation of the Production Safety Law may result in the imposition of fines and penalties, suspension of operation, and order to cease operation, or even criminal liability in severe cases.

Pursuant to the Interim Measures for the Drug Industry Production Safety Management (《醫藥行業安全生產管理暫行辦法》), promulgated and became effective on 20 November 1987), in order to improve the production safety management and protect the health and safety of the employees of drug companies, all the drug companies and their employees are required to satisfy the specified requirements, including the requirements on premises and facilities, sanitation, safety education, safety precautions, safety inspection, accident management, etc. Any violation of the provision of this law which leads to the damage of the state's or people's properties or lives shall be subject to the administrative sanctions, financial penalties or criminal liability.

LAWS AND REGULATIONS RELATED TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "**Environmental Protection Law**"), which was passed and came into effect on 26 December 1989 by the SCNPC and then amended on 24 April 2014 and came into effect on 1 January 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The Environmental Protection Law requires enterprises that discharge pollutants in their production process to adopt environmental protection measures and establish an accountability system for environmental protection. The Environmental Protection Law makes it clear that the legal liabilities of any violation of the said law include warning, fine, rectification within a time limit, compulsory cease operation, compulsory reinstallation of dismantled installations of the prevention and control of pollution or compulsory reinstallation of those left idle, compulsory shutout or close down, or even criminal punishment.

The Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), which was passed by the SCNPC on 28 October 2002 with effect from 1 September 2003 and then amended on 2 July 2016 and 29 December 2018, and the Regulations on the Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated on and implemented since 29 November 1998 and then amended on 16 July 2017 and came into effect on 1 October 2017, require enterprises that planning construction projects to provide assessment reports, statements or registration forms on the environmental impact of such projects. The assessment reports or assessment statements must be approved by the competent environmental protection authorities prior to the commencement of construction work, while the registration forms must be filed with the competent environmental protection authorities for a record.

Under the Provisions on the Inspection and Acceptance of Environmental Protection of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated on 27 December 2001, and came into effect on 1 February 2002 and later amended on 22 December 2010, and the Interim Measures for the Completion Inspections of Environment Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收暫行辦法》), which was promulgated on 20 November 2017, unless otherwise provided by laws and regulations, enterprises with construction projects, which are required to make an assessment reports or statements, shall undertake self-inspections of the environmental protection facilities upon the completion of the construction. A construction project may be formally put into production or use only if its corresponding environmental protection facilities have passed the acceptance examination.

Furthermore, pursuant to the Discharge Standard of Water Pollutants for Drug Industry Chinese Medicine Category (《中藥類製藥工業水污染物排放標準》) (the "**Discharge Standard**") promulgated on 25 June 2008 and effective on 1 August 2008, the discharge of water pollutants by each enterprise manufacturing Chinese medicine is required to carry out according to the Discharge Standard.

LAWS RELATED TO FIRE PREVENTION

In accordance with the Fire Prevention Law of the PRC (《中華人民共和國消防法》, promulgated on 29 April 1998, and was last amended on 23 April 2019 and became effective on the same date) (the "**Fire Prevention Law**") and other relevant laws and regulations of the PRC, the Ministry of Emergency Management of the PRC (中華人民共和國應急管理部) and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The fire rescue units of the people's government at the corresponding level are responsible for implementation.

The Fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards. For a construction project that needs a fire prevention design under the national fire protection technical standards for project construction shall implement the fire protection design review and acceptance system. No construction commencement permit or construction commencement approval report shall be given for the construction projects for which the prevention design has not been approved or are considered unqualified after the review, nor shall such construction entity commence their construction. Upon completion of a construction project, according to the requirements of the Fire Prevention Law, such project must go through an acceptance check on fire prevention by, or filed with, the relevant housing and urban-rural development authorities. No construction project subject to the acceptance check on fire prevention may be put into use before it is accepted by the relevant housing and urban-rural development authorities.

LAWS AND REGULATIONS RELATED TO ANTI-BRIBERY, ANTI-CORRUPTION AND ANTI-UNFAIR COMPETITION

According to the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》, promulgated by the SCNPC on 2 September 1993, last amended on 23 April 2019 and became effective on the same date), business operators shall not seek transaction opportunities or competitive edges by bribing the following entities or individuals with property or by any other means: (a) staff of a transaction counterparty, (b) entities or individuals entrusted by a transaction counterparty to handle the relevant affairs, or (c) entities or individuals who make use of their official powers or influence to affect a transaction. Where a business operator violates the provisions of this Law in committing bribery, the regulatory authorities shall confiscate the illegal income and impose a fine ranging from RMB100,000 to RMB3,000,000. In serious cases, the business license of the business operator shall be revoked.

The Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) (the "**Interim Provisions**"), promulgated by the SAIC on 15 November 1996 and came into effect on the same date, provides a detailed scope of "property or using any other method". As defined in the Interim Provisions, the term "property" refers to cash and material objects, including property given by a business operator to another entity or individual under the guise of promotion fees, publicity fees, sponsorship fees, research fees, service charges, consulting fees, commissions or reimbursements, in order to sell or purchase commodities, and

the term "other method" refers to any means other than giving property, such as offering domestic or international tours or site visits in various forms. In addition, the Interim Provisions also made it clear that commercial bribery committed by any employee of a business operator for selling or purchasing commodities for the business operator shall be regarded as the business operator's act.

REGULATIONS RELATED TO FOREIGN EXCHANGE CONTROLS

The PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of foreign currency out of the PRC. The SAFE is responsible for administering all matters relating to foreign exchange, including the enforcement of the PRC foreign exchange control regulations.

The principal regulations governing foreign currency exchanges in the PRC are the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was subsequently amended on 14 January 1997 and 5 August 2008, and the Regulation on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) which was promulgated on 20 June 1996 and became effective on 1 July 1996.

Under these existing PRC foreign exchange control regulations, all international payments and transfers are classified into current account items and capital account items. Foreign currency payments under current account items by domestic institutions, including payments for imports and exports of goods and services and payments of income and current transfers into and outside the PRC must be either paid with their own foreign currency with valid documentation or with the foreign currency purchased from financial institutions. Foreign currency income under current account items may be retained or sold to financial institutions. Foreign currency payments under capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans, and must be made out of a domestic institution's own foreign currency with valid documentation or be made with foreign currency purchased from any financial institution. The payments of current account items can be made in foreign currencies without the prior approval from the SAFE, by complying with certain procedural requirements. However, payments under the capital account items are subject to significant foreign exchange controls and require the prior approval from the SAFE or the registration with the SAFE or its designated banks.

On 4 July 2014, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**SAFE Circular No. 37**"), according to which, (i) "SPVs" is defined as "offshore enterprise directly established or indirectly controlled by domestic residents (including domestic institution and individual resident) with their legally owned assets or equity of domestic enterprises, or legally owned offshore assets or equity, for the purpose of investment

and financing"; (ii) a domestic resident must register with the foreign exchange administrative departments before he or she contributes assets or equity interests to SPVs; (iii) following the initial registration, any changes such as change in the overseas SPV's domestic resident shareholders, names of the overseas SPVs and terms of operation or any increase or reduction of the overseas SPV's registered capital, share transfer or swap, merger or division, shall be report to the SAFE or its branches for modification registration in time, and failing to comply with the registration procedures as set out in the SAFE Circular No. 37 may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**SAFE Circular No. 13**"), which was promulgated on 13 February 2015 and with effect from 1 June 2015, the foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with the SAFE Circular No. 13 and its attachment, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

SAFE promulgated the Notice on Reforming the Mode of Administration of Foreign Exchange Settlement of Capital of Foreign invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**SAFE Circular No. 19**") on 30 March 2015, further expanding the extent of convertibility under direct investment. SAFE Circular No. 19 stipulates that the use of capital funds and exchange settlement funds by foreign-invested enterprises shall be subject to foreign exchange management regulations, and follow the principles of authenticity and self-use within the business scope of the enterprises.

On 9 June 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the "**SAFE Circular No. 16**"). SAFE Circular No. 16 stipulates that the use of foreign exchange incomes of capital accounts by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in Renminbi obtained by the Foreign-invested Enterprise from foreign exchange settlement shall not be used for the following purposes:

(i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;

(ii) unless otherwise provided, directly or indirectly used for investment in securities or financial schemes other than banks' principal-secured products;

(iii) used for granting loans to non-affiliated enterprises, unless otherwise permitted by its business scope; and

(iv) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

On 23 October 2019, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (the "**SAFE Circular No. 28**"), which came into force on 23 October 2019 except for Article 8, paragraph 2. SAFE Circular No. 28 cancels the restriction on domestic equity investment made with capital funds by non-investment foreign-invested enterprises, expands the pilot program for facilitation of domestic payment under capital account, and relaxes the restriction on settlement and use of foreign exchange funds under capital account, etc.

As the cross-border capital flows are common to the company based on the company's business model, the PRC laws and regulations in relation to the foreign exchange are material to our Group's business.

PROVISIONS ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On 8 August 2006, six PRC regulatory authorities jointly promulgated Regulations on the Merger or Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**"), which was implemented since 8 September 2006 and was subsequently amended on 22 June 2009. Foreign investors must comply with the M&A Rules when they purchase the equity interests of a domestic company or subscribe for the increased capital of a domestic company, thereby transforming the domestic company into a foreign-invested enterprise; or when they establish a foreign-invested enterprise in the PRC, purchase assets of a domestic company by agreement and operate the assets; or when they purchase assets of domestic companies by agreement, establish a foreign-invested enterprise by injecting such assets and operate the assets.

LAWS AND REGULATIONS RELATED TO TAX

i. Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》, promulgated by the NPC on 16 March 2007, amended by the SCNPC respectively on 24 February 2017 and 29 December 2018 and came into effect on 29 December 2018), and its Implementation Regulations (《企業所得税法實施條例》, promulgated by the State Council on 6 December 2007, became effective on 1 January 2008, amended on 23 April 2019 and became effective on the same date) (collectively, the "**EIT Law**"), enterprises are classified into resident enterprises and non-resident enterprises. Enterprises, which are incorporated in the PRC or which are incorporated pursuant to the foreign laws with their "de facto management bodies" located in the PRC, are deemed "resident enterprise" and subject to an enterprise income tax rate of 25% on their global income. Non-resident enterprises are subject to (i) an enterprise income tax rate of 25% on their income generated by their establishments or places of business in the PRC and its income derived outside the PRC which are effectively connected with their establishments or places of business in the PRC; and (ii) an enterprise income tax rate of 10% on their income derived from the PRC but not connected with its

establishments or places of business located in the PRC. Non-resident enterprises without an establishment or place of business in the PRC are subject to an enterprise income tax of 10% on their income derived from the PRC. Furthermore, the corporate income tax may be reduced or exempted if the enterprise income from agriculture, forestry, husbandry, and fishery projects.

Pursuant to the EIT Law, income from equity investment between qualified resident enterprise such as dividends and bonuses, which refers to investment income derived by a resident enterprise from its direct investment in another resident enterprise, is tax-exempt income.

ii. Withholding Income Tax

Pursuant to the EIT Law, dividends generated after 1 January 2008 and payable by a foreign invested enterprise in the PRC to its foreign investors are subject to a 10% withholding income tax, unless otherwise provided in the tax treaty concluded between the PRC and such foreign investor's jurisdiction of incorporation.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》) (the "**Tax Treaty**") concluded on 21 August 2006, the applicable withholding income tax payable by a PRC resident company which pays the dividends to a Hong Kong resident enterprise shall be not more than 5% of the total amount of dividends where a beneficial owner is an enterprise directly holding at least 25% capital of such PRC company, and in other cases, such applicable withholding income tax shall be not more than 10% of the total amount of dividends.

Based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行税收協定股息條款有關問題的通知》) issued on 20 February 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a trade or arrangement of which primary purpose is to attain a preferential tax status, such PRC tax authorities may adjust the preferential tax treatment; and the SAT has promulgated the Notice on the Issues of Beneficial Owners in Tax Treaties (《國家税務總局關於税收協定中"受益所有人"有關問題的公告》) on 3 February 2018, which specifies the conditions for determining the identity of beneficial owner and list the negative factors that may affect the recognition of such identity. For determining the identity of the beneficial owner of the contracting parties' residents who are entitle to enjoy the treatments under the tax treaties (the "**Applicant**"), the Applicant shall submit the relevant certification materials to the tax authorities prescribed by laws. The tax authorities shall comprehensively analysis both the negative factors and the practical conditions of specific case, except as otherwise provided.

Pursuant to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (《非居民納税人享受税收協定待遇管理辦法》), which came into force on 1 November 2015 and latest amended on 5 June 2018, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. On 14 October 2019, SAT promulgated the Announcement of the State Taxation Administration on Promulgation of the Administrative Measures on Entitlement of Non-resident Taxpayers to Treaty Benefits (《國家税務總局關於發佈<非居民納税人享受協定待遇管理辦法>》的公告》) (the "**SAT Announcement No. 35**"), which came into force on 1 January 2020 and repealed the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements. According to the SAT Announcement No. 35, non-resident taxpayers enjoying its tax treaty benefits shall adopt the method of "self-assessment, claims by declaration and retention of the relevant materials for future inspection". Where a non-resident taxpayer deems that it is eligible for tax treaty benefits through self-assessment, it may, at the time of filing tax return or making withholding declaration by a withholding agent, enjoy tax treaty benefits, and simultaneously collect and retain the relevant materials for future inspection, and be subject to follow-up administration by the tax authorities.

iii. Value-added Tax

The Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值税暫行條例》, promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and last amended on 19 November 2017, and came into effect on the same day), and the Implementation Rules of the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值税暫行條例實施細則》, which were promulgated by the MOF and became effective on 25 December 1993, and were amended on 15 December 2008 and 28 October 2011, and became effective from 1 November 2011), set out that sale of goods, provision of processing services, repair and replacement services, sale of services, intangible assets, real estate and import goods within the PRC are subject to the payment of value-added tax (the "**VAT**"). The VAT payable is calculated as "output VAT" minus "input VAT". The VAT rate for the sale of goods or the import of goods is normally 17%, for the export of goods is normally 0%.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《財政部、税務總局關於調整增值税税率的通知》), which was jointly issued by the Ministry of Finance and SAT on 4 April 2018 and became effective from 1 May 2018, VAT taxpayer who engages in taxable sales of goods and originally applies the tax rate of 17% and 11%, is subject to a VAT tax rate of 16% and 10% respectively.

On 20 March 2019, the MOF, the SAT and the General Administration of Customs jointly promulgated the Announcement on Deepening the Policies Related to the Value-added Tax Reform (《財政部、國家税務總局、海關總署關於深化增值税改革有關政策的公告》), which is effective as from 1 April 2019, pursuant to which the tax rate of 16% and 10% applicable to the VAT taxpayers who engage in taxable sales of goods are adjust to 13% and 9% respectively.

iv. Environmental Protection Tax

According to the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護税法》, promulgated by SCNPC on 25 December 2016, amended on 26 October 2018 and the last amendment came into force on 26 October 2018) (the "**Environmental Protection Tax Law**"), within the territory of the PRC and other sea areas under the jurisdiction of the PRC, the enterprises, public institutions and other producers and operators that directly discharge pollutants to the environment such as air pollutants, water pollutants, solid wastes and noises as prescribed in the Schedule of Tax Items and Tax Amounts of Environmental Protection Tax and the Schedule of Taxable Pollutants and Equivalent Values shall pay environmental pollution tax. However, if an enterprise, public institution or any other producer or operator falls under any of the following circumstances, it shall not be deemed as directly discharging pollutants to the environment and shall be released from the environmental protection tax on the corresponding pollutants: (i) it discharges taxable pollutants to a centralized sewage or domestic garbage treatment site established in accordance with the law; (ii) it stores or disposes of solid wastes at any facility or site that meets the national and local environmental protection standards.

v. Stamp Duty

According to the Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花税暫行條例》) promulgated on 6 August 1988 and became effective on 1 October 1988 and revised on 8 January 2011 and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花税暫行條例施行細則》) promulgated on 29 September 1988 and became effective on 1 October 1988, all units and individuals which conclude or receive any of the following documents in the PRC shall pay stamp duty: documents issued for purchase and sale transactions, process contracting, construction project contracting, property leasing, commodity transportation, storage and custody of goods, loans, property insurance, technology contracts and other documents of a contractual nature; documents of transfer of property title; books of accounts for business; documentation of rights or licences; other documents determined by the Ministry of Finance to be taxable. Pursuant to the Table of Items and Rates of Stamp Duty, stamp duty for purchase and sale contract and technology contract shall be paid at 0.03% of the purchase and sale amount and the contract amount, respectively; stamp duty for survey and design contract of construction project shall be paid at 0.05% of the charged amount; stamp duty for construction and installation contracting contract shall be paid at 0.03% of the contracting amount; stamp

duty for loan contract shall be paid at 0.005% of the loan amount; and in respect of property transfer, the contracting parties shall pay stamp duty at 0.05% of the contract price of the property transferred; stamp duty for property leasing shall be paid at 0.1% of the lease amount.

vi. City Maintenance and Construction Tax

According to the Provisional Regulations of the PRC on City Maintenance and Construction Tax (《中華人民共和國城市維護建設税暫行條例》) promulgated by the State Council on 8 February 1985 and became effective in 1985 and revised on 8 January 2011, all units and individuals who are taxpayers of consumption tax, value-added tax, and/or business tax shall pay city maintenance and construction tax. The rate for taxpayers located in urban areas is 7%. The rate for taxpayers located in counties or townships is 5%. The rate for taxpayers located in areas other than urban area, county or township is 1%.

According to the Notice on Unifying the City Maintenance and Construction Tax and Educational Surcharges from Chinese to Foreign-funded Enterprises and Citizens (《關於統一內外資企業和個人城市維護建設税和教育費附加制度的通知》) (No. 35 (2010) of the State Council) (the "**Notice No. 35**") promulgated by the State Council on 18 October 2010, from 1 December 2010, the Provisional Regulations of the People's Republic of China on City Maintenance and Construction Tax is applicable to enterprises with foreign investment, foreign enterprises and individual foreigners and the regulations, rules and policies issued by the State Council and the taxation and finance authorities of the State Council in respect of the city maintenance and construction tax and educational surcharges are also applicable to enterprises with foreign investment, foreign enterprises and individual foreigners.

vii. Educational Surcharges

According to the Provisional Regulations on the Collection of Educational Surcharges (《徵收教育費附加的暫行規定》) promulgated by the State Council on 28 April 1986 which became effective on 1 July 1986 and revised on 7 June 1990, 20 August 2005 and 8 January 2011, all units or individuals who are taxpayers of consumption tax, value-added tax or business tax shall pay educational surcharges at a tax rate of 3% except for units paying surcharges for rural education as provided by the Notice of the State Council on Raising Funds for Running Schools in Rural Areas (《國務院關於籌措農村學校辦學經費的通知》).

According to the Notice No. 35, from 1 December 2010, the Provisional Regulations on the Collection of Educational Surcharges is applicable to enterprises with foreign investment, foreign enterprises and individual foreigners and the regulations, rules and policies issued by the State Council and the taxation and finance authorities of the State Council in respect of the educational surcharges are also applicable to enterprises with foreign investment, foreign enterprises and individual foreigners.

LAWS AND REGULATIONS RELATED TO LABOUR PROTECTION

As our business operates on a labour-intensive basis and the number of the employees based in the PRC accounts for the majority of the number of our total employees, the PRC labour laws and regulations, especially the Labour Law of the PRC (《中華人民共和國勞動法》) (the "**Labour Law**"), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (the "**Labour Contract Law**") and the laws and regulations in relation to the social insurance and the housing provident fund, are material to our business.

i. Labour Law

The Labour Law, which was passed by the SCNPC on 5 July 1994, came into effect on 1 January 1995, and was amended on 27 August 2009 and 29 December 2018 respectively, provides that employees are entitled to gain equal opportunities in employment, choose occupations, receive labour remuneration, have rest days and holidays, acquire the protection of occupational safety and healthcare, enjoy social insurance and welfare, etc. Employers must establish and improve the system for occupational safety and healthcare, provide training on occupational safety and healthcare to employees, comply with national and/or local regulations on occupational safety and healthcare, and provide necessary labour protective supplies to employees.

ii. Labour Contract Law

The Labour Contract Law which was passed by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council on 18 September 2008, and came into effect on the same day, provide that the labour contracts must be executed in order to establish the labour relationship between employers and employees. The Labour Contract Law stipulates that an employer shall inform the employees truthfully the scope of work, working conditions, workplace, occupational hazards, production safety conditions, labour remuneration and other information requested by the employees. The Labour Contract Law also stipulates that employer and employee shall fully perform their respective obligations in accordance with the terms set forth in the labour contract. In addition, the employer shall pay employees the labour remuneration timely and in full amount in accordance with terms in the labour contract. The Labour Contract Law also provides for the scenario of rescission and termination of a labour contract, except the situation explicitly stipulated in the Labour Contract Law and its implementation regulations which will not subject to economic compensation, the economic compensation shall be paid to the employee whose labour contract has been revoked or terminated by the employer.

REGULATIONS IN RELATION TO SOCIAL INSURANCE AND HOUSING PROVIDENT FUNDS

Under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the Regulations on Work-Related Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》), the Provisional Measures on Maternity Insurance of Employees (《企業職工生育保險試行辦法》), the Interim Regulation on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Opinions on comprehensively promoting the combination of maternity insurance and basic medical insurance for employees (《關於全面推進生育保險和職工基本醫療保險合併實施的意見》), an employer is required to make contributions to social insurance funds for its employees, including basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. Pursuant to the Social Insurance Law of the PRC, if the employer fails to make social insurance contributions in full and on time, the social insurance authorities may demand the employer to make payments or supplementary payments for the unpaid social insurance within a specified period together with a 0.05% surcharge of the unpaid social insurance per day from the date on which the payment is due. If the employer fails to settle the overdue payment within such time limit, the relevant regulatory authorities may impose a fine from one to three times the amount of overdue payment on such employer.

Under the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》, promulgated by the State Council on 3 April 1999 and was last amended on 24 March 2019 and became effective on the same date), employers are required to make contribution to housing provident funds for their employees. Where an employer fails to pay up housing provident funds within the prescribed time limit, the housing fund administration centre shall order it to make payment within a certain period of time. If the employer still fails to do so, the housing fund administration centre may apply to the court for compulsory enforcement of the unpaid amount.

LAWS AND REGULATION RELATED TO THE INTELLECTUAL PROPERTY

i. Patent

The Patent Law of the PRC (《中華人民共和國專利法》) (the "**Patent Law**") was promulgated by the SCNPC on 12 March 1984 which became effective on 1 April 1985 and amended on 4 September 1992, 25 August 2000, 27 December 2008 and 17 October 2020, and the latest Patent Law will become effective on 1 June 2021. The purpose of the Patent Law, and its Implementation Rules (《中華人民共和國專利法實施細則》) are to protect and encourage inventions, foster applications of inventions and promote the development of science and technology. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. The State Intellectual Property Office is responsible for receiving, examining and approving patent applications. The validity period of patent rights for an invention shall be 20 years, the validity period of patent rights for a utility model or design shall be 10 years (the validity period of patent rights for design will be 15 years as of

1 June 2021.), the validity period shall commence from the date of application. A third-party user must obtain consent or a proper license from the patent owner to use the patent except certain specific circumstances provided by law. For example, for the purpose of public health, the patent administrative department of the State Council may grant a compulsory license for a patented medicine so as to produce and export it to the country or region which conforms to the provisions of the relevant international treaty to which the PRC has acceded. Otherwise, the use will constitute an infringement of the patent rights.

ii. Trademark

The Trademark Law of the PRC (《中華人民共和國商標法》) (the "**Trademark Law**") was promulgated by the SCNPC on 23 August 1982 and newly amended on 23 April 2019. The Trademark Law and its Implementation Rules (《中華人民共和國商標法實施條例》) seek to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers, producers and operators. The validity period of a registered trademark in the PRC is ten years, counted from the date of registration. Where the registrant intends to continue to use the registered trademark beyond the expiration of the validity period, an application for renewal of the registration shall be made within twelve months before the said expiration. Where no application therefore has been filed within the said period, a grace period of six months will be allowed. The validity period of each renewal of registration shall be ten years, counted from the next day of the expiration day of the last term. If no application has been filed by the expiration of the grace period, the registered trademark shall be deregistered.

iii. Copyright and Software Registration

The SCNPC promulgated the Copyright Law of the PRC (《中華人民共和國著作權法》) on 7 September 1990 and revised it on 27 October 2001, 26 February 2010 and 11 November 2020 respectively, of which latest version will become effective on 1 June 2021. The amended Copyright Law continues to extend copyright protection to internet activities, products disseminated over the internet and software products.

On 20 December 2001, the State Council promulgated Computer Software Protection Regulations (《計算機軟件保護條例》) which came into effect on January 1, 2002 and was later amended on 8 January 2011 and 30 January 2013. These regulations are formulated for protecting the rights and interests of computer software copyright owners, encouraging the development and application of computer software and promoting the development of software business. In order to further implement the Computer Software Protection Regulations, the National Copyright Administration issued the Computer Software Copyright Registration Procedures (《計算機軟件著作權登記辦法》) on 20 February 2002 and amended on 18 June 2004, which apply to software copyright registration, license contract registration and transfer contract registration.

iv. Domain Name

Pursuant to the Administrative Measures on Internet Domain Names (《互聯網域名管理辦法》), which was promulgated by the Ministry of Industry and Information Technology of the PRC (the "**MIIT**", 中華人民共和國工業和信息化部) on 24 August 2017 and became effective on 1 November 2017, and the Implementation Rules on National Top-Level Domain Name Registration (國家頂級域名註冊實施細則) which was promulgated by the China Internet Network Information Center and became effective on 18 June 2019, domain name owners are required to register their domain names and the MIIT is in charge of the administration of PRC internet domain names. The domain name services follow a "first apply, first register" principle, unless otherwise stipulated by the implementation rules of the domain name registration. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names and enter into registration agreements with domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure. Pursuant to the Measures for Domain Name Disputes Resolution of China Internet Network Information Center (中國互聯網絡信息中心域名爭議解決辦法), which was promulgated by China Internet Network Information Center and became effective on 1 September 2014, domain name disputes shall be accepted and resolved by a dispute resolution agency as accredited by China Internet Network Information Center.

The information that appears in this Industry Overview has been prepared by Euromonitor International Limited and reflects estimates of market conditions based on publicly available sources and trade opinion surveys and is prepared primarily as a market research tool. References to Euromonitor International Limited should not be considered as the opinion of Euromonitor International Limited as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor International Limited and set out in this Industry Overview has not been independently verified by the Group, the Joint Global Coordinators, the Underwriters or any other party (other than Euromonitor) involved in the Global Offering and they do not give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

We have commissioned Euromonitor, an Independent Third Party, to prepare a report evaluating the TCM market in the PRC for the purpose of preparing this prospectus. Information disclosed in this section has been extracted from such report (the "**Euromonitor Report**") and published with the consent of Euromonitor. Euromonitor, founded in 1972, is a private independent provider of business intelligence on industries, countries and consumers. The total consideration that our Company paid to Euromonitor for preparing and issuing the report was RMB615,000 (inclusive of tax), and such consideration was paid regardless of the results of the Euromonitor Report. Euromonitor primarily undertook both primary and secondary research to prepare its report. Primary research involved interviews with a sample of leading industry participants and industry experts for the latest data and insights on future trends and to verify and cross check the consistency of data and research estimates. Secondary research involved reviewing published sources including authority statistics of the PRC, specialist trade press and associations, our audited financial statements where available, independent research reports, and data based on its research database. Euromonitor has used multiple primary and secondary sources to validate the data or information collected. Furthermore, a test of each interviewee's information and views against those of others was conducted by Euromonitor and was applied to ensure reliability and to eliminate bias.

The factors that were considered by Euromonitor for the forecast include (i) macro-economy and regulations; (ii) analysis of historical development of the market; (iii) the economic environment and underlying market drivers; (iv) established industry data; and (v) interviews with industry experts. The forecast was based on certain assumptions, including (i) the PRC economy is expected to maintain steady growth over the forecast period; (ii) the PRC social, economic and political environments are expected to remain stable in the forecast period; (iii) there will be no external shock, such as financial crisis or raw material shortage,

which affects the demand and supply for TCM products (including, among others, PCM products) in the PRC during the forecast period; and (iv) key market drivers, such as increasing consumer awareness about PCM products, growing ageing population, government supports to the TCM products and healthcare products industries, are expected to continuously boost the development of the relevant markets in the PRC. Our Directors have exercised reasonable care in reviewing and discussing with Euromonitor on such assumptions and factors, and believe that, to their satisfaction, there is no misleading information or material omission in disclosing such information.

All statistics are reliable and are based on information available as at the date of the Euromonitor Report. Other sources of information, including the government, trade associates or market place participants, may have provided some of the information on which the analysis or data is based. As at the Latest Practicable Date, our Directors, after reasonable consideration, confirm that they were not aware of any adverse change to the market information since the date of the Euromonitor Report which may qualify, contradict or have an impact on the information in this section.

THE TRADITIONAL CHINESE MEDICINE MARKET IN THE PRC

Overview

TCM has been well recognised by the Chinese community for prevention and treatment of diseases as well as health enhancement for a long period of time. TCM are perceived to have less side effects compared to western medicine. Under TCM Concept, Qi (氣) is usually referred to as one of the fundamental substances of an individual. Generally, Qi is the force which binds together all the matters in human body; and any imbalance or disorder may adversely affect our health. If there is any imbalance (deficiency or overflow) of Qi, various symptoms may develop depending on the type of Qi in concern. The rebalancing and integration of Qi has a long history within the Chinese community.

TCM market in the PRC can be broadly classified into (i) PCM; (ii) TCM decoction pieces; and (iii) Chinese healthcare products.

PCM is manufactured using Chinese medicinal materials as major ingredients and based on the standards, quality and formulae set forth in the Chinese Pharmacopoeia 《中國藥典》 and the Drug Standards 《部頒標準》. The products can be in various forms, such as pills, capsules, tablets, powder, oral solutions and syrup. Currently, PCM is widely applied in treating/alleviating conditions such as (i) cardio-cerebrovascular condition; (ii) digestive and gastrointestinal condition; and (iii) gynaecological condition, etc. Apart from treating/alleviating these conditions, PCM also provides supplementary effects, eg. replenishing Qi (補氣), replenishing blood (補血) and enhancing kidney functions (補腎). PCM accounted for approximately 63.4% in TCM market in the PRC in 2019, in terms of manufacturers' sales value.

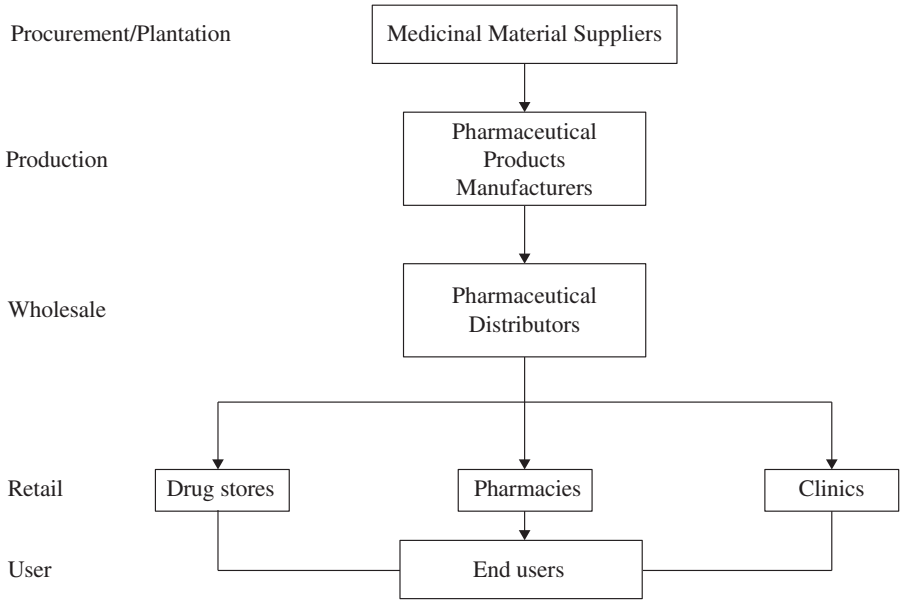
TCM decoction pieces are medicinal herbs and animal substances that are processed according to TCM procedures, including boiling, steaming, frying, chopping and slicing. TCM decoction pieces accounted for approximately 14.7% in TCM market in the PRC in 2019, in terms of manufacturers' sales value.

Chinese healthcare products contain TCM extract or medicinal herbs and animal substances as its functional ingredients. Chinese healthcare products are usually divided into two categories: functional products and maintenance products. Chinese healthcare products accounted for approximately 21.9% in TCM market in the PRC in 2019, in terms of manufacturers' sales value.

Further, it is worth noting that the demand for pharmaceutical products generally surges upon the outbreak of major public health events.

Value chain analysis of the TCM industry in the PRC

The typical value chain of the TCM industry in the PRC can be broadly categorised into different sectors: (i) medicinal material suppliers; (ii) pharmaceutical product manufacturers; (iii) pharmaceutical distributors; and (iv) retailers which include drugs stores, pharmacies and clinics.



Distributorship business model

Distributors have an important role in the value chain of the TCM industry. Distributorship model is an industry norm because distributors usually have access to logistics network facilitating prompt delivery of Chinese medicines from multiple manufacturers to numerous and dispersed points of sale. This can relieve the burden of individual manufacturer to deliver products to and collect payments from the retailers on an individual basis. PRC TCM manufacturers may provide complimentary manufacturing services(1) proactively or on request basis to their distributors in the PRC. Manufacturers can therefore concentrate their resources on R&D, manufacturing and distributing of their products. However, manufacturers are not likely to enter long-term agreements with distributors in the TCM industry due to a large number of distributors available in the PRC. PRC TCM manufacturers may establish office in different regions to broaden their distribution network.

Currently, there is an increasing trend for Chinese pharmaceutical companies in the PRC to merge with or/and acquire, horizontally or/and vertically, other companies in the same industry to enlarge its market share and strengthen its supply chain (e.g. a company may engage in different parts of the sales and manufacturing cycle of Chinese pharmaceutical products) due to the following reasons:

- The Chinese pharmaceutical industry (including the TCM industry) is highly regulated in the PRC.

- Given the fluctuation of supply in quality Chinese pharmaceutical raw materials and the highly fragmented and competitive PCM industry, overlapping customer-supplier business relationship and arrangement are common which would allow the Chinese pharmaceutical manufacturers to maintain a stable supply of quality raw materials and source of revenue.

- Sourcing from qualified suppliers with which they are familiar (i.e. existing customers) can reduce the risks associated with procuring raw materials from unknown suppliers.

- In view of the increasing trend for Chinese pharmaceutical company to adopt vertically integrated structure, a medical group may supply Chinese pharmaceutical raw material on one hand and sell Chinese pharmaceutical products on the other hand.

Note:

(1) Complimentary manufacturing services are commonly observed in the PRC TCM industry, where the relevant distributor provides raw materials in most cases, then the manufacturer produces non-owned brand pharmaceutical product for the distributor. Depending on commercial negotiation, the manufacturer might charge fully/partially/waive for the production cost, packaging cost, overheads or any other costs for the production process.

Prospect of the Chinese medicine industry in the PRC

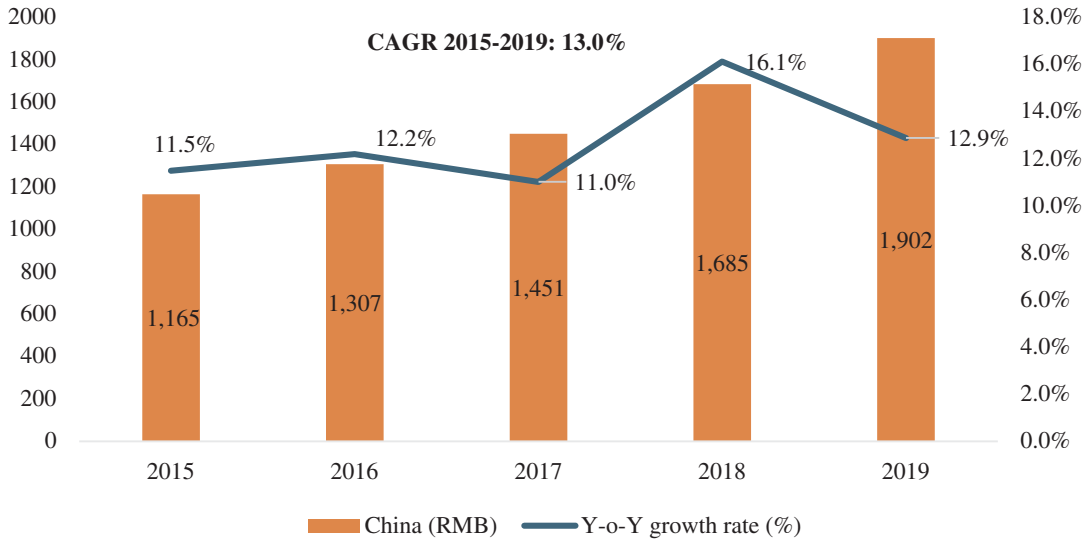
Growing economy in the PRC and rising purchasing power of PRC citizens

The PRC was the second largest economy in the world with a GDP reaching approximately RMB99.0 trillion in 2019. Average annual per capita disposable income in the PRC increased from approximately RMB21,966 in 2015 to approximately RMB30,733 in 2019, representing a CAGR of approximately 8.8%. The average per capita consumption expenditure in the PRC increased from approximately RMB15,712 in 2015 to approximately RMB21,559 in 2019. It is expected that the PRC economy will keep growing.

Growing awareness of personal health

Having experienced the outbreak of various epidemics, such as avian flu, swine influenza and various infectious diseases, the PRC residents are getting more health-conscious and they are willing to increase their spending on pharmaceutical and healthcare products including Chinese medicines, for maintaining and improving health. Average annual consumption expenditure per capita on healthcare/medical products and services in the PRC increased from approximately RMB1,165 in 2015 to approximately RMB1,902 in 2019, representing a CAGR of approximately 13.0%.

Average annual per capita consumption expenditure on healthcare/medical products and services in the PRC, 2015-2019



Source: National Bureau of Statistics of China

Growing proportion of Middle-aged and Elderly population in the PRC

The population of the elderly (aged 65 and above) is increasing in the PRC. The PRC population aged 65 and above increased at a CAGR of approximately 5.2% from approximately 143.9 million in 2015 to 176.0 million in 2019. Ageing population has increased the demand for PCM products in the PRC. According to the World Health Organization, China population is ageing much faster than other low-and middle-income countries. The proportion of the population aged 60 years and over in China will increase from 12.4% in 2010 to 28% in 2040.

Increasing PRC Government support and favourable national policies and healthcare reform plans

In recent years, the PRC Government has reformed its healthcare system by introducing a series of measures, namely (i) The Thirteen Five-Year Plan for the Development of TCM (中醫藥發展"十三五"規劃); (ii) The Strategic Development Framework of TCM 2016-2030 (中醫藥發展戰略規劃綱要(2016-2030年)); and (iii) Laws of the People's Republic of China on TCM (中華人民共和國中醫藥法).

The PRC healthcare system reform aims to improve the affordability and accessibility of medical services in various ways, including increasing the coverage of benefits under the social medical insurance programme, broadening the number of TCM covered in the National Insurance Medicine List, and building more medical facilities. The improvement of access to medical services led to the increase in PRC citizens' expenditures on medical services and pharmaceutical products, which in turn stimulating the growth of PRC pharmaceutical industry.

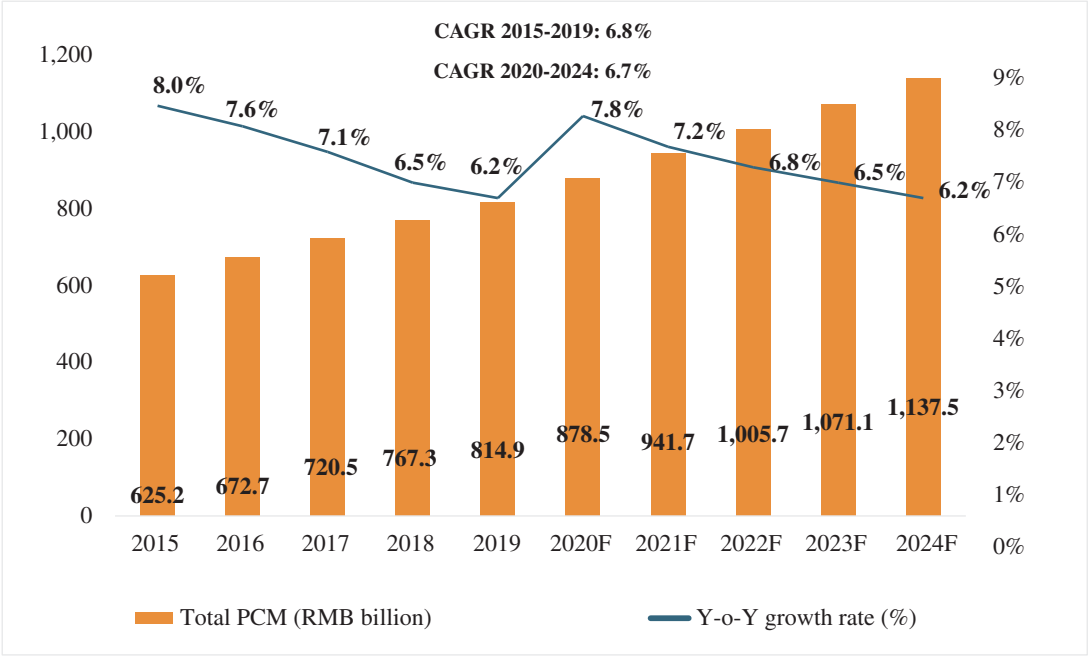
The reform towards Dual Invoice System (兩票制), which allows only a single level of distributors between the manufacturers and the medical institutions for the sale of pharmaceutical products, eliminated the multi-level distribution model, and therefore reduced the price competition under this single level distribution model.

Pursuant to the Drug Pricing Reform Notice, the price controls on all pharmaceutical products, except for anaesthetics and some types of psychiatric drugs, were lifted from 1 June 2015. This encourages pharmaceutical manufacturers to increase the supplies of pharmaceutical products in the market.

Future growth of the PCM market in the PRC

The PCM market in the PRC has experienced rapid growth from 2015 to 2019. It is estimated that the total market size of PCM in the PRC has increased from approximately RMB625.2 billion in 2015 to approximately RMB814.9 billion in 2019, representing a CAGR of approximately 6.8%. The total market size of PCM is expected to further increase at a CAGR of approximately 6.7% from approximately RMB878.5 billion in 2020 to approximately RMB1,137.5 billion in 2024.

Market size for the PCM market in the PRC, by manufacturers' sales value, 2015-2024F



Source: Euromonitor

MARKET OVERVIEW OF PROPRIETARY CHINESE MEDICINE IN NORTHEAST CHINA

Market Overview

There are a large number of PCM manufacturers producing various types of PCM in Northeast. Chengde Yushi is principally engaged in manufacturing Qi-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) ("**QDBS PCM**")[(1)] and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) ("**CC PCM**")[(2)]; and it was one of the leading non-listed companies engaged in the production of such PCM[(1)(2)] in terms of the sales in Northeast (including Heilongjiang Province, Jilin Province and Liaoning Province) in 2018. For the three years ended 31 December 2019, Chengde Yushi derived over 50% of its revenue from Northeast.

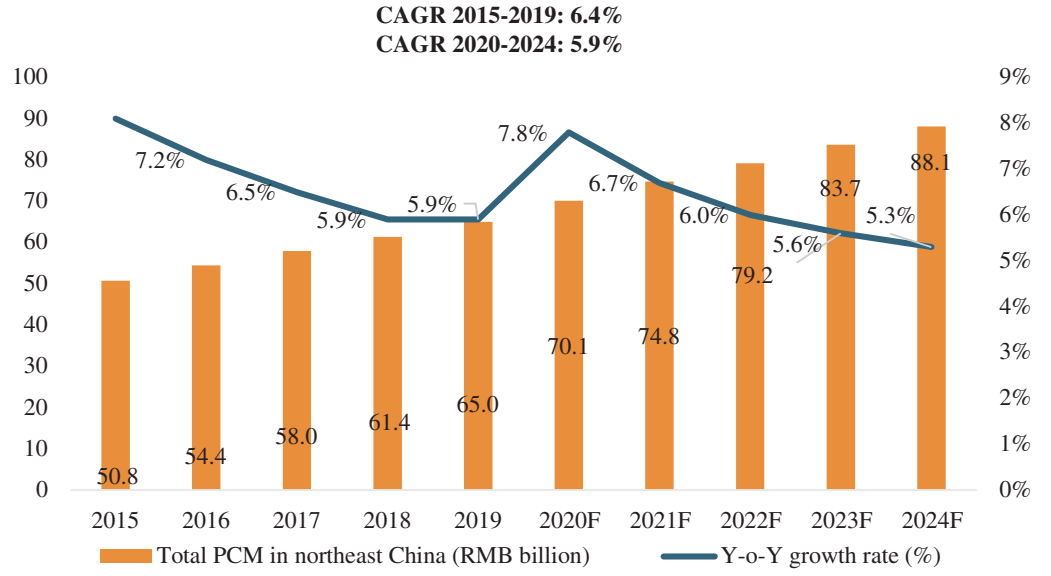
Notes:

(1) The major products having intended therapeutic effects of alleviating Qi-deficiency and blood-stasis conditions are Circulation Enhancement Pill (氣血雙補丸), Vigour and Vitality Supplement Pill (補腎填精丸) and Kidney Invigoration Pill (金匱腎氣丸).

(2) The major products having intended therapeutic effect of alleviating cardio-cerebrovascular conditions are Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊).

The manufacturers' sales value of PCM in Northeast increased from approximately RMB50.8 billion in 2015 to approximately RMB65.0 billion in 2019, witnessing a CAGR of 6.4%. It is expected that the market size will further increase from approximately RMB70.1 billion in 2020, to approximately RMB88.1 billion in 2024 at a CAGR of 5.9%.

Market size for total PCM in Northeast, the PRC, by manufacturers' sales value, 2015-2024F

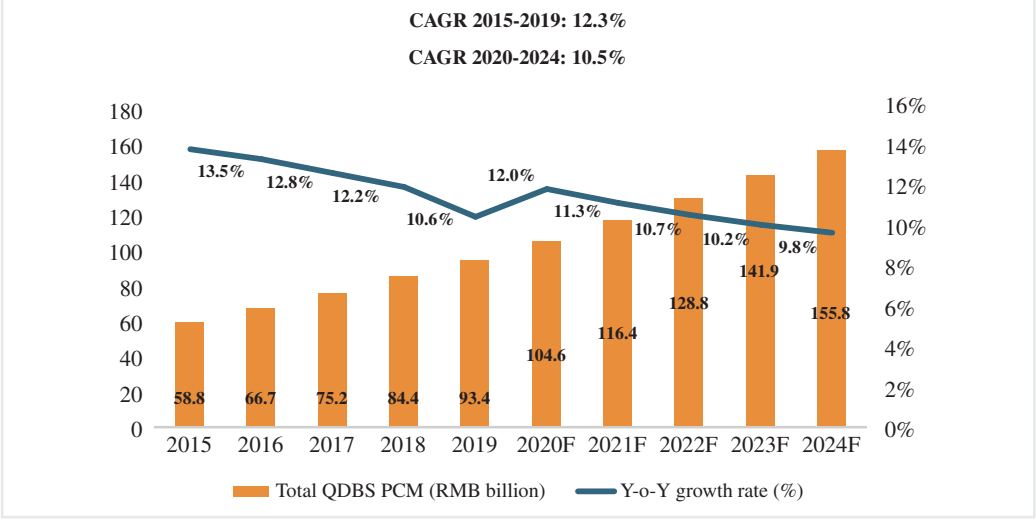


Source: Euromonitor

Market development of QDBS PCM and CC PCM in the PRC and Northeast

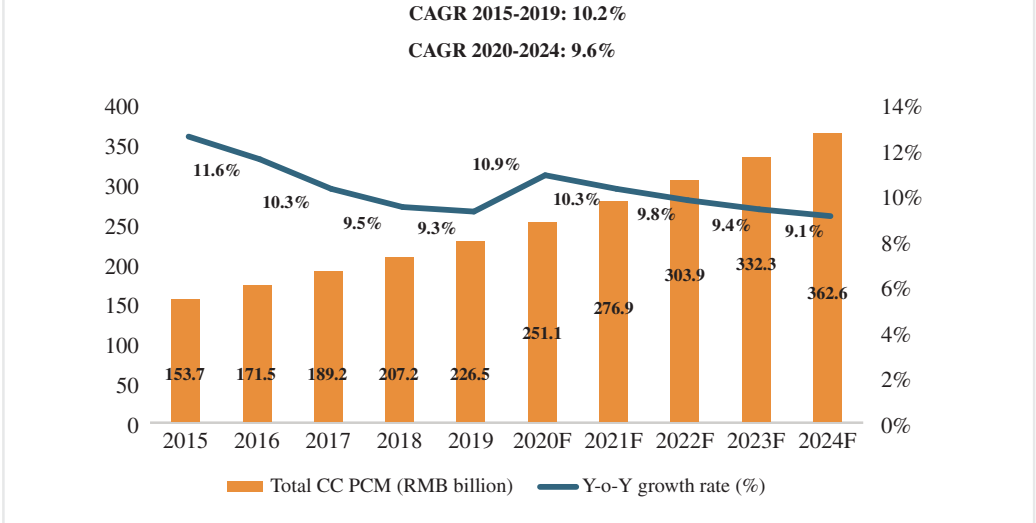
The market size of QDBS PCM increased from approximately RMB58.8 billion in 2015 to approximately RMB93.4 billion in 2019 at a CAGR of 12.3%, while that of CC PCM in the PRC increased from approximately RMB153.7 billion in 2015 to approximately RMB226.5 billion in 2019 at a CAGR of 10.2%. The market size of QDBS PCM is forecasted to increase in a solid pace from approximately RMB104.6 billion in 2020 to approximately RMB155.8 billion in 2024, with a CAGR of 10.5%, mainly due to the increasing awareness of the importance of personal health, and Chinese citizens' growing purchasing power. The market size of CC PCM in the PRC is expected to increase from approximately RMB251.1 billion in 2020 to approximately RMB362.6 billion in 2024, at a CAGR of 9.6%. According to the China Cardiovascular Disease Report 2018 (中國心血管病報告 2018), there might be approximately 290 million patients with cardiovascular and cerebrovascular disease in the PRC, and the number of patients is estimated to continue to grow over 30% in the next 10 years.

Market size for total QDBS PCM in the PRC, by manufacturers' sales value, 2015-2024F



Source: Euromonitor

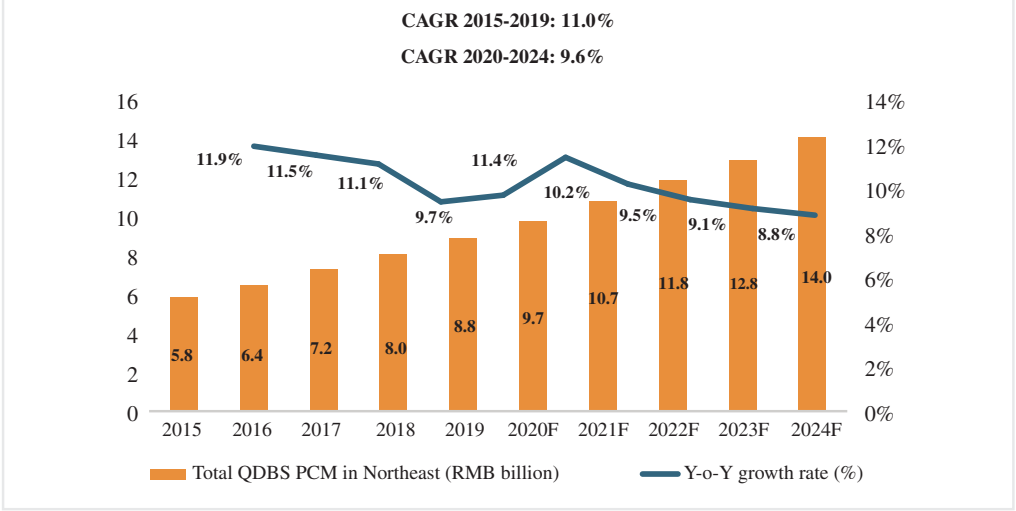
Market size for total CC PCM in the PRC, by manufacturers' sales value, 2015-2024F



Source: Euromonitor

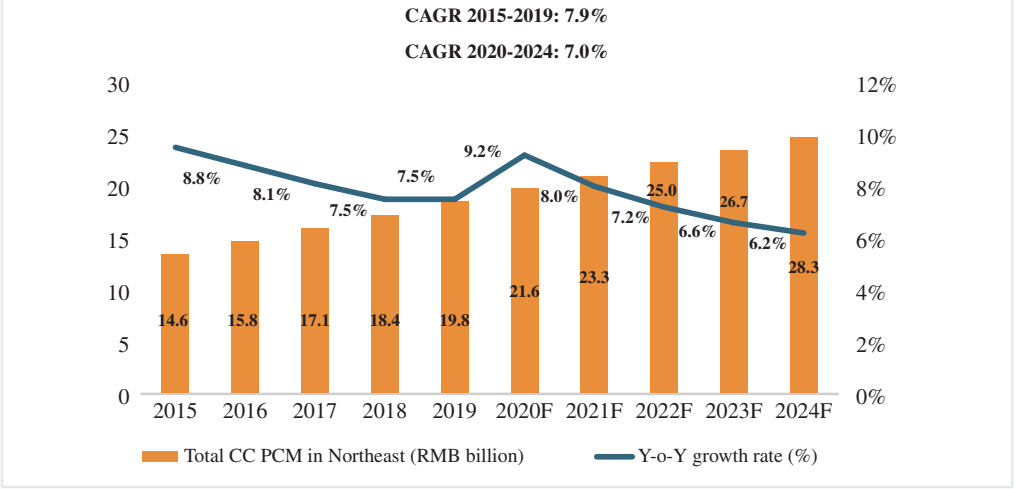
The market size of QDBS PCM increased from approximately RMB5.8 billion in 2015 to approximately RMB8.8 billion in 2019, at a CAGR of 11.0%, while that of CC PCM in Northeast increased from approximately RMB14.6 billion in 2015 to approximately RMB19.8 billion in 2019, at a CAGR of 7.9%. With the favorable government policies(1) and the increasing market size of QDBS PCM and CC PCM in the PRC, it is expected that the market size of QDBS PCM in Northeast will increase from approximately RMB9.7 billion in 2020 to approximately RMB14.0 billion in 2024, at a CAGR of 9.6%, while that of CC PCM in Northeast will increase from approximately RMB21.6 billion in 2020 to approximately RMB28.3 billion in 2024 at a CAGR of 7.0%.

Market size for total QDBS PCM in Northeast, the PRC, by manufacturers' sales value, 2015-2024F



Source: Euromonitor

Market size for total CC PCM in Northeast, the PRC, by manufacturers' sales value, 2015-2024F



Source: Euromonitor

Note:

(1) Provincial governments in Northeast introduced a series of healthcare measures to reform the TCM system, including The Development Plan for Traditional Chinese Medicine (黑龍江省中醫藥產業發展規劃) and Notification of Strengthening the Education of Traditional Chinese Medicine Doctors (關於加強遼寧省中醫藥師承教育工作的通知).

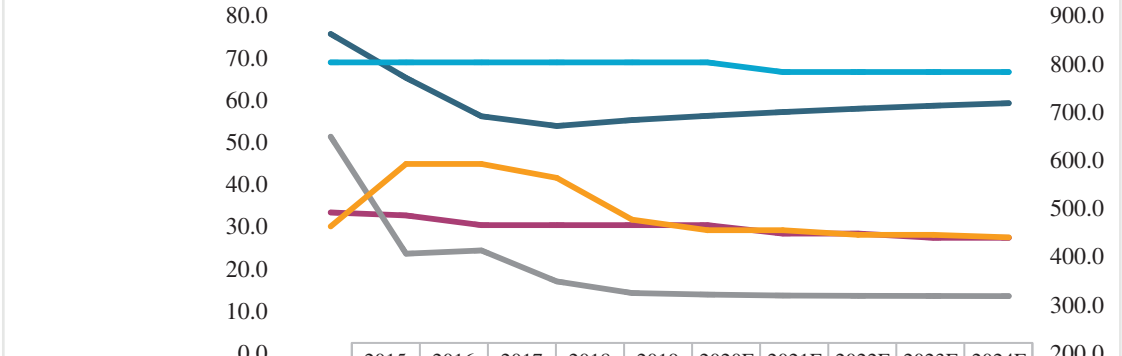
The growth rate for QDBS PCM and CC PCM from 2020 to 2024 will be lower than that from 2015 to 2019 due to the expected slowing down in the growth rate of the PRC economy.

Major raw materials

PCM utilises a variety of medicinal herbs based on different formulae. For instance, Ginseng (人蔘), Mongolian Milkvetch Root (黃芪) and Hawthorn Leaves (山楂葉)[(Note)] are raw materials commonly applied in the major products of our Group. Chengde City, where the headquarters and production facilities of our Group is located at, is one of the well-known breeding places of Hawthorn Leaves (山楂葉) and sourcing places of Ginseng (人蔘) and Mongolian Milkvetch Root (黃芪) in the PRC.

The chart below sets out the price trend of some commonly used raw materials, namely honey, Barbary Wolfberry Fruit (枸杞子), Chinese Angelica (當歸), Deer Antler (鹿茸) and Ginseng (人蔘).

Price changes of commonly used raw materials of PCM in China, 2015-2024F



	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Honey(RMB/Kg)	33.0	32.3	30.0	30.0	30.0	30.0	28.0	28.0	27.0	27.0
Barbary Wolfberry Fruit(RMB/Kg)	75.3	64.9	55.8	53.5	54.9	55.9	56.8	57.6	58.3	58.9
Chinese Angelica(RMB/Kg)	29.7	44.5	44.5	41.2	31.3	28.8	28.8	27.7	27.7	27.1
Deer Antler(RMB/Kg)	800.0	800.0	800.0	800.0	800.0	800.0	780.0	780.0	780.0	780.0
Ginseng(RMB/Kg)	645.8	403.3	410.0	345.8	321.7	318.5	316.5	315.9	315.6	315.3

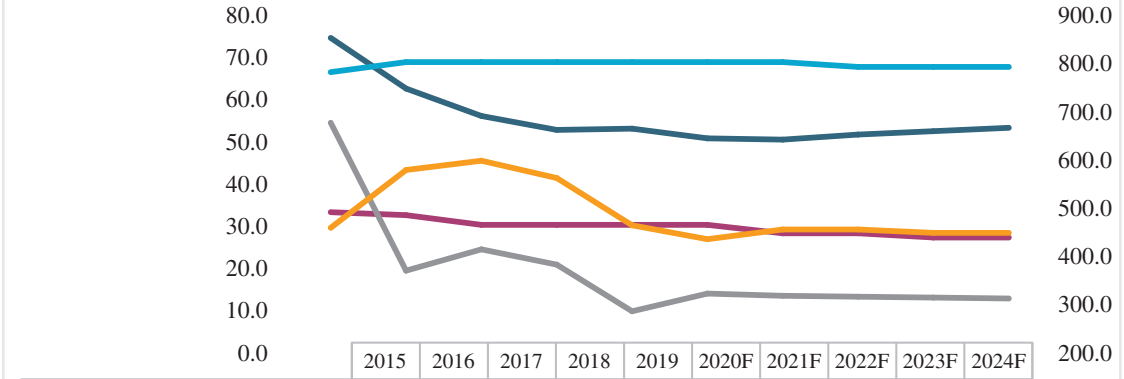
Source: Euromonitor and www.zyctd.com (中藥材天地網)

The price trend indicated above reflected the change in the historical average price in the PRC, which has not taken into account the quality of raw materials and seasonal factors.

Note: The major API of our Group's CCPCM is Hawthorn Leaves (山楂葉), of which flavonoids are one of the chemical constituents. Flavonoids in Hawthorn Leaves (山楂葉) can exert outstanding therapeutic effects on cardiovascular and cerebrovascular diseases, such as coronary heart disease, and angina.

Bozhou is known as the capital of Traditional Chinese Medicine (中華藥都) and the largest distribution centre of Chinese medicinal herbs. The following chart sets out the price trend of the same raw materials as above in Bozhou.

Price changes of commonly used raw materials of PCM in Bozhou, 2015-2024F



	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
Honey(RMB/Kg)	33.0	32.3	30.0	30.0	30.0	30.0	28.0	28.0	27.0	27.0
Barbary Wolfberry Fruit(RMB/Kg)	74.3	62.3	55.8	52.5	52.8	50.5	50.2	51.4	52.2	53.0
Chinese Angelica(RMB/Kg)	29.3	43.0	45.2	41.1	29.9	26.6	28.9	28.9	28.1	28.1
Deer Antler(RMB/Kg)	779.2	800.0	800.0	800.0	800.0	800.0	800.0	790.0	790.0	790.0
Ginseng(RMB/Kg)	674.2	367.5	411.7	380.0	283.3	320.0	315.4	313.5	311.7	309.8

Source: Euromonitor and www.zyctd.com (中藥材天地網)

The above charts set out the historical average prices of commonly used raw materials of PCM in PRC and Bozhou City which took into account the wholesale price and retail price. The actual purchase prices of raw materials for manufactures might below such average prices.

After the purchase of Deer Antler is no longer subject to wildlife restriction in May 2020, the average price of Deer Antler was approximately RMB850.0/kg in the second half of 2020.

The PCM market in Northeast, the PRC is expected to enjoy continuous growth with the support from local government

People's Government of Heilongjiang Province issued *The Development Plan of TCM (黑龍江省中醫藥產業發展規劃)* in May 2019 and put forward that Heilongjiang province will strive to achieve a sales value of approximately RMB100 billion in the TCM industry in 2030. This plan will not only focus on the development of the upstream TCM industry by expanding the planting of Chinese medicinal herbs but also emphasise the downstream industry chain to strive to develop the TCM health care services and establish the preventive disease centre in third-level TCM hospitals.

Entry Barriers

The proprietary Chinese medicine market in China is highly regulated

According to the PRC laws, all pharmaceutical manufacturers have to obtain and maintain at all times the Drug Manufacturing License (藥品生產許可証) in order to operate. Furthermore, all pharmaceutical manufacturers must satisfy the requirements of GMP certification, which cover raw materials, equipment, production environment, and quality control, etc. Without the GMP certificate, a company is not allowed to produce pharmaceutical products. The issuance of GMP certificate has been terminated on 1 December 2019, but all pharmaceutical manufacturers are required to exercise self-discipline to comply with the GMP standards.

PCM industry is highly fragmented

The PCM industry is highly fragmented and competitive, with over 1,600 manufacturers in the market due to a wide range of product offerings by many manufacturers.

Market Overview of Proprietary Chinese Medicine in Huanan (華南) and Huadong (華東)

According to the Statistical Reports of Medicine Distribution Industry (藥品流通行業運行統計報告) by MOFCOM, the PCM markets of Huanan (華南) and Huadong (華東) accounted for approximately 57.4% of the PRC PCM market, in terms of revenue in 2019. The PCM market size of Huanan (華南) increased from approximately RMB140.4 billion in 2015 to approximately RMB187.2 billion in 2019, and experienced a CAGR of 7.5%. It is expected that the PCM market size in Huanan (華南) will further increase from approximately RMB202.7 billion in 2020 to approximately RMB272.8 billion in 2024 at a CAGR of 7.7%. The PCM market size in Huadong (華東) increased from approximately RMB202.6 billion in 2015 to approximately RMB280.7 billion in 2019 at a CAGR of 8.5%. It is estimated that the PCM market size in Huadong (華東) will further increase from approximately RMB308.3 billion in 2020 to approximately RMB425.7 billion in 2024 at a CAGR of 8.4%. The PCM markets of Huanan (華南) and Huadong (華東) are forecasted to expand in a steady pace.

THE COMPETITIVE LANDSCAPE OF PCM IN THE PRC

In 2019, based on the unlisted QDBS PCM pills manufacturers market size in Northeast, Company A still took the top place with a market share of approximately 6.29%. We were ranked second with a market share of approximately 1.96%. Company B was ranked third, occupying a market share of approximately 1.60%. Company C and Company D were ranked fourth and fifth respectively, representing a market share of approximately 1.37% and approximately 1.07%, respectively.

In 2019, based on the unlisted CC PCM capsules manufacturers market size in Northeast, Company A was listed as the top manufacturer, representing a market share of approximately 3.06%. Company E, Company F and Company G were ranked second, third and fourth respectively. We were ranked fifth, with a market share of approximately 0.43%.

Please see below a detailed elaboration on the above rankings.

QDBS PCM Pills

Rank	Company name	Background	Revenue in 2019 *(RMB million)*	Approximate market share in 2019
1	Company A	A private company which manufactures and distributes pharmaceutical products in China. It produces PCM, Western medicine, health care products, medical apparatus and instruments, wine and household chemicals production and selling.	201.9	6.29%
2	Our Group	PCM production in Northeast, and other regions in the PRC.	63.0 (for Northeast only)	1.96%
3	Company B	A private company which manufactures drugs in China. It produces warming agents, tinctures, phlegm medicines, tranquillizers, heat clearing agents, cardiovascular drugs, gynaecological drugs, and other products.	51.4	1.60%
4	Company C	A private company which engages in researching, manufacturing, and distributing pharmaceutical products in China. It produces prescription medicines, over the counter drugs, and other pharmaceuticals.	44.0	1.37%
5	Company D	A private company which produces drugs in China. It also manufacturers health medicine and wine products.	34.3	1.07%
	Others		2,816.5	87.71%
		Total	3,211.1	100%

CC PCM Pills

Rank	Company name	Background	Revenue in 2019 *(RMB million)*	Approximate market share in 2019
1	Company A	A private company which manufactures and distributes pharmaceutical products in China. It produces PCM, Western medicine, health care products, medical apparatus and instruments, wine and household chemicals production and selling.	183.8	3.06%
2	Company E	A private company which is principally engaged in PCM production and selling in China.	62.6	1.04%
3	Company F	A private company headquartered in China. Its line of business includes the manufacturing of bulk organic and inorganic medicinal chemicals.	34.3	0.57%
4	Company G	A private company which manufactures pharmaceuticals in China. It principally engages in researching, developing, manufacturing, and marketing drugs used for cardiovascular and cerebrovascular diseases and treatment areas.	30.0	0.50%
5	Our Group	PCM production in Northeast, and other regions in the PRC.	25.8 (for Northeast only)	0.43%
	Others	–	5,666.6	94.40%
		Total	6,003.1	100%

The market share of the top five non-listed QDBS PCM pills manufacturers only occupied approximately 12.29% of the market share in terms of revenue in 2019; and the top five non-listed CC PCM capsule manufacturers only occupied approximately 5.60% of the market share in terms of revenue in 2019 in Northeast, respectively. It shows that the market is fragmented and has not been dominated by one single player. However, the product position of our Group is competitive. Among the top seven products of our Group, three of them had over 10% of market share in 2019.

The following table sets out the market share of certain major products of our Group in 2019 in their corresponding segments:

Product name	**Revenue in FY2019[3]** *(RMB million)*	**Approximate market share in 2019[4]** *(%)*
Vigour and Vitality Supplement Pill (補腎填精丸)[1]	49.2	33.1%
Cardiotonic Enhancement Capsule (山玫膠囊)[2]	33.2	17.4%
Circulation Enhancement Pill (氣血雙補丸)[1]	40.0	15.0%
Heart Wellness Capsule (心安膠囊)[2]	14.4	6.6%
Kidney Invigoration Pill (金匱腎氣丸)[1]	22.5	2.0%
Menstrual Discomfort Relief Pill (加味逍遙丸)	7.3	1.0%
Liver Detox Tablet (護肝片)	7.4	0.8%

In relation to our distributorship business model, there are two points worth mentioning:

- The wholesale (ex-factory) price (net of monetary Marketing Incentives) of our Group to distributors was lower than the industry average, in other words, we provided a higher discount rate to our distributors. Furthermore the distributors' selling price to retailers are generally in line with the industry.

- It is essential for a pharmaceutical company to strengthen its R&D efforts internally or by collaborating with external research institutes for sustainable growth and development.

Notes:

(1) This product has intended therapeutic effect of alleviating Qi-deficiency and blood-stasis conditions.

(2) This product has intended therapeutic effect of alleviating cardio-cerebrovascular conditions.

(3) No ranking for Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) as we recorded nil revenue in FY2019.

(4) The relevant market share was calculated by including all the pharmaceutical manufacturers located in the PRC that produce medicine(s) (i) with similar efficacy; or (ii) intended for the same treatment and/or alleviation set forth in the Chinese Pharmacopoeia (《中國藥典》) and the Drug Standards (《部頒標準》).

OVERVIEW

Our Company was incorporated in the Cayman Islands on 12 August 2019. We currently conduct our business and operations mainly through the Consolidated Affiliated Entity, namely Chengde Yushi, through the Contractual Arrangements. A summary of our history is set out below.

Our history could be traced back to Jinghai Youyi Pharmaceutical Factory* (京海友誼製藥廠) a predecessor of a state-owned enterprise engaging in the manufacture of pharmaceutical products in the 1980s in Hebei, the PRC, which was later transformed into Chengde Yaoye Group Liuhe Pharmaceutical Factory* (承德藥業集團六合製藥廠) ("**Chengde Liuhe Factory**"), a state-owned enterprise. In 2001, the then shareholders of Chengde Yushi (who were employees of Chengde Liuhe Factory at the material time, the "**Initial Shareholders**") acquired the assets of Chengde Liuhe Factory which included 55 drug approval numbers currently owned by us. Chengde Liuhe Factory was transformed into a limited liability company, with the initial name of Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company* (承德藥業集團六合製藥有限責任公司) ("**Chengde Liuhe Company**") with a registered capital of RMB1.06 million in March 2001. The Initial Shareholders also contributed the assets acquired from Chengde Liuhe factory to Chengde Liuhe Company. The transformation was approved by the relevant government authorities. Ms. Zhang, our Chief Executive Officer and executive Director, was a member of the staff of Chengde Liuhe Factory and one of the Initial Shareholders of Chengde Liuhe Company by contributing RMB10,000 from her personal wealth. At that time, the business scope of Chengde Liuhe Company was the production of PCM, small molecular materials and procurement of Chinese medicinal materials (中成藥、化學藥制劑製造、地產中藥材收購). The brand of "Yushi" (御室) was established by Chengde Liuhe Company. In January 2004, Chengde Liuhe Company assigned its then employee Ms. Yao Yonghong (姚永紅) ("**Ms. Yao**") to handle the "Yushi" (御室) trademark registration. Ms. Yao was an employee of Chengde Liuhe Company, responsible for providing administrative support, from July 2003 to January 2005. Ms. Yao registered the "Yushi" (御室) trademark under her personal name due to inadvertent oversight. Ms. Yao is an Independent Third Party, and to the best knowledge of our Directors after making all reasonable enquiries, she has no relationship, business, employment or otherwise, with Mr. Jin Dongtao, Mr. Jin Dongkun and/or Universal Health. Chengde Liuhe Company was acquired by Mr. Jin Dongtao and Mr. Jin Dongkun and renamed to its current name of Chengde Yushi in February 2005. In May 2007, the trademark "Yushi" (御室) was transferred from Ms. Yao to Chengde Yushi at nil consideration after the registration was completed.

Since its establishment, the equity interest in Chengde Yushi had undergone several transfers. In June 2014, upon completion of the transfer of equity interest in Chengde Yushi from Mr. Geng Liyuan and Mr. Geng Changsheng, both being Independent Third Parties, to Beijing Yushi, Chengde Yushi became a wholly-owned subsidiary of Beijing Yushi, a company then wholly-owned by Mr. Xie. Mr. Xie was acquainted with Mr. Geng Liyuan through Mr. Geng Changsheng, with whom he became acquainted in a social golf event in 2008. To the best knowledge of our Directors, Mr. Geng Liyuan and Mr. Geng Changsheng decided to dispose of their entire equity interest in Chengde Yushi as they did not have extensive expertise in the

PCM industry, which was subject to increasingly stringent regulatory requirements at the relevant time. For further details of these transfers of equity interest, please refer to the subsection headed "Corporate history and shareholding changes of our Group companies – Chengde Yushi" in this section. Mr. Xie was the controlling shareholder and legal representative of Beijing Yushi from March 2014 to June 2019. He acquired Beijing Yushi with his family funds with the vision to leverage on the established brand name and distribution network of Chengde Yushi to further develop the business. By leveraging on Mr. Xie's background, experience, business connections and social network, our Group has gradually enlarged our distribution network by expanding our geographic footprint in different regions in the PRC and increasing the number of our distributors during the Track Record Period and up to the Latest Practicable Date.

In order to focus on the business of our Group, being the production of PCM in the PRC and to streamline the business of our Group, Mr. Xie acquired the entire equity interest in Chengde Yushi from Beijing Yushi on 22 May 2019. Upon completion of this transfer, Chengde Yushi became wholly-owned by Mr. Xie. For further details of the Reorganisation, please refer to the subsection headed "Reorganisation – Onshore Reorganisation – Acquisition of Chengde Yushi by Mr. Xie" in this section.

After years of continuous efforts, we became one of the leading non-listed companies engaged in the production of PCM in 2019 in terms of the sales of Qi-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC, according to the Euromonitor Report. During the Track Record Period, we had 59 types of PCM products. We engage in research, development, production of a wide variety of PCM in the PRC. As at the Latest Practicable Date, we had 77 distributors. For further details of the principal business of our Group, please refer to the section headed "Business" in this prospectus.

KEY MILESTONES

The table below sets out the key milestones of our business development:

Year	Events
1986	Our Chief Executive Officer, Ms. Zhang, joined Jinghai Youyi Pharmaceutical Factory* (京海友誼製藥廠), the predecessor of Chengde Yushi
1995	Cardiotonic Enhancement Capsule (山玫膠囊), one of our major products, obtained the New Drug certificate (新藥證書) issued by the Ministry of Health of the People's Republic of China (中華人民共和國衛生部)

Year	Events
2000	Transformation of Jinghai Youyi Pharmaceutical Manufacturer Factory* (京海友誼製藥廠) to Chengde Yaoye Group Liuhe Pharmaceutical Factory* (承德藥業集團六合製藥廠)
2001	Transformation of Chengde Yaoye Group Liuhe Pharmaceutical Factory* (承德藥業集團六合製藥廠) to Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company* (承德藥業集團六合製藥有限責任公司), a limited liability company
2005	Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company (承德藥業集團六合製藥有限責任公司) was renamed as Chengde Yushi Jindan Pharmaceutical Co., Ltd.* (承德御室金丹藥業有限公司).
2014	We obtained the GMP Certificate under the Good Manufacturing Practice for Drugs (2010 revised edition)
2015	Our product Heart Wellness Capsule (心安膠囊) was awarded Famous Product of Small and Medium-sized Enterprise in Hebei Province* (河北省中小企業名牌產品) by the Small and Medium-sized Enterprise Bureau of Hebei Province* (河北省中小企業局)
2016	Our product Cardiotonic Enhancement Capsule (山玫膠囊) was awarded Famous Product of Small and Medium-sized Enterprise in Hebei Province* (河北省中小企業名牌產品) by the Industry and Information Technology Department of Hebei Province* (河北省工業和信息化廳)
2019	Chengde Yushi was accredited as the Hebei Provincial Leading Enterprise in Agricultural Industrialization* (河北省農業產業化重點龍頭企業) by the People's Government of Hebei Province (河北省人民政府)

CORPORATE HISTORY AND SHAREHOLDING CHANGES OF OUR GROUP COMPANIES

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019 with an initial authorised share capital of HK$380,000 divided into 38,000,000 Shares of par value HK$0.01 each. On the date of its incorporation, one Share was allotted and issued to the initial subscriber at par, credited as fully paid. On the

same day, the initial subscriber transferred that Share to Modern Biotechnology at the consideration of HK$0.01. Since its incorporation and up to the Latest Practicable Date, our Company was wholly owned by Modern Biotechnology.

Our Company is an investment holding company.

Modern TCM Holdings

Modern TCM Holdings was incorporated under the laws of the BVI with limited liability on 20 August 2019 and is authorised to issue a maximum of 50,000 shares with a par value of US$1.00 each. On the date of its incorporation, one ordinary share of US$1.00 each was allotted and issued to our Company at par. Since its incorporation and up to the Latest Practicable Date, Modern TCM Holdings was directly and wholly owned by our Company.

Modern TCM Holdings is an investment holding company.

HK Modern Chinese Medicine

HK Modern Chinese Medicine was incorporated in Hong Kong on 9 September 2019 as a limited liability company. On the date of its incorporation, one share was allotted and issued to Modern TCM Holdings at HK$1.00. Since its incorporation and up to the Latest Practicable Date, HK Modern Chinese Medicine was directly and wholly owned by Modern TCM Holdings.

HK Modern Chinese Medicine is an investment holding company.

Shijiazhuang Medical Research

Shijiazhuang Medical Research was established in the PRC on 16 December 2019 as a wholly foreign owned enterprise with an initial registered capital of HK$1 million. Since its establishment, Shijiazhuang Medical Research has been directly and wholly owned by HK Modern Chinese Medicine. As advised by our PRC Legal Advisers, the registered capital of Shijiazhuang Medical Research of HK$1 million had been fully paid up as at the Latest Practicable Date.

Shijiazhuang Medical Research principally engages in the provision of business support, technical and consulting services to Chengde Yushi pursuant to the Contractual Arrangements.

Chengde Yushi

Chengde Yushi was established as a limited liability company in the PRC on 8 March 2001, with an initial registered capital of RMB1.06 million.

The following table sets out the material changes in registered capital and shareholders of Chengde Yushi since its establishment and up to the Latest Practicable Date:

Date	Change	Registered capital immediately after the change	Registered and beneficial holders of equity interest and their percentage holdings[1] immediately after the change
8 March 2001	–	RMB1.06 million	i. Li Yanmin[2] (18.87%) ii. Zhang Weizheng[2] (18.87%) iii. Rong Deshan[2] (14.15%) iv. Sun Jixiang[2] (10.38%) v. Liu Haijing[2] (9.43%) vi. Shi Yongmin[2] (9.43%) vii. Qu Zhifu[2] (2.83%) viii. Yu Xiuling[2] (2.83%) ix. Ji Jingqiu[2] (1.89%) x. Du Zhijing[2] (1.89%) xi. Liu Peidong[2] (0.94%) xii. Guo Yongyan[2] (0.94%) xiii. Wen Jing[2] (0.94%) xiv. Bi Cuihua[2] (0.94%) xv. Zhang Jinghua[2] (0.94%) xvi. Zhao Baogang[2] (0.94%) xvii. Xia Rongsheng[2] (0.94%) xviii. Wang Bing[2] (0.94%) xix. Ms. Zhang[2] (0.94%) xx. Zhang Jianbo[2] (0.94%) (collectively, the "**Initial Shareholders**")

Date	Change	Registered capital immediately after the change	Registered and beneficial holders of equity interest and their percentage holdings[1] immediately after the change
22 February 2005	Transfer of equity interest by all the Initial Shareholders to Jin Dongtao, who paid in aggregate RMB0.848 million; and to Jin Dongkun, who paid in aggregate RMB0.212 million	RMB1.06 million	i. Jin Dongtao, the chairman, chief executive officer, executive director and a substantial shareholder of Universal Health as at the Latest Practicable Date and the brother of Jin Dongkun[3] (80%) ii. Jin Dongkun, the vice chairman, executive director and a shareholder of Universal Health as at the Latest Practicable Date and the brother of Jin Dongtao[3] (20%)
6 July 2005	Increase in registered capital to RMB20 million which were fully contributed by Jin Dongtao and Jin Dongkun	RMB20 million	i. Jin Dongtao, the chairman, chief executive officer, executive director and a substantial shareholder of Universal Health as at the Latest Practicable Date and the brother of Jin Dongkun[3] (80%) ii. Jin Dongkun, the vice chairman, executive director and a shareholder of Universal Health as at the Latest Practicable Date and the brother of Jin Dongtao[3] (20%)

Date	Change	Registered capital immediately after the change	Registered and beneficial holders of equity interest and their percentage holdings[1] immediately after the change
27 December 2007	Increase in registered capital to RMB28 million which were fully contributed by Jin Dongtao and Jin Dongkun	RMB28 million	i. Jin Dongtao, the chairman, chief executive officer, executive director and a substantial shareholder of Universal Health as at the Latest Practicable Date and the brother of Jin Dongkun[3] (80%) ii. Jin Dongkun, the vice chairman, executive director and a shareholder of Universal Health as at the Latest Practicable Date and the brother of Jin Dongtao[3] (20%)
11 August 2008	Transfer of equity interest by Jin Dongtao to Chen Xiaoyan as to 80% at nil consideration and by Jin Dongkun to Chen Xiaoyan as to 15% and to Geng Changsheng as to 5%, both at nil consideration	RMB28 million	i. Chen Xiaoyan, a substantial shareholder of Universal Health as at the Latest Practicable Date and the spouse of Jin Dongtao[4] (95%) ii. Geng Changsheng, the cousin of Jin Dongtao and Jin Dongkun[5] (5%)
17 May 2013	Transfer of equity interest by Chen Xiaoyan as to 95% to Geng Liyuan at RMB26.6 million with reference to the registered capital	RMB28 million	i. Geng Liyuan, the uncle of Jin Dongtao and Jin Dongkun and the father of Geng Changsheng[6] (95%) ii. Geng Changsheng, the cousin of Jin Dongtao and Jin Dongkun[5] (5%)

Date	Change	Registered capital immediately after the change	Registered and beneficial holders of equity interest and their percentage holdings[(1)] immediately after the change
10 June 2014	Transfer of equity interest by Geng Liyuan as to 95% at RMB26.6 million and Geng Changsheng as to 5% to Beijing Yushi at RMB1.4 million with reference to the registered capital	RMB28 million	Beijing Yushi, which was wholly owned by Mr. Xie[(7)] (100%)
22 May 2019	Transfer of equity interest by Beijing Yushi to Mr. Xie at RMB28 million with reference to the registered capital	RMB28 million	Mr. Xie (100%)

Notes:

(1) Percentages may not total 100% due to rounding.

(2) Ms. Zhang is our Chief Executive Officer and executive Director. Apart from Ms. Zhang, the other then shareholders of Chengde Yushi are Independent Third Parties. The Initial Shareholders did not have any relationship with Universal Health prior to the acquisition of Chengde Yushi by Mr. Jin Dongtao and Mr. Jin Dongkun.

(3) To the best knowledge of our Directors after making all reasonable enquiries, Mr. Jin Dongtao and Mr. Jin Dongkun are Independent Third Parties. Mr. Jin Dongtao and Mr. Jin Dongkun were former shareholders of Chengde Yushi under their personal capacity and Chengde Yushi has never been a group company or subsidiary of Universal Health. For further information on our business relationship with Universal Health, please refer to the subsection headed "Business – Relationship with Our Major Distributor in Northeast and Huabei (華北) – Heilongjiang Jintian Aixin Pharmaceutical Distribution" in this prospectus.

(4) To the best knowledge of our Directors after making all reasonable enquiries, Ms. Chen Xiaoyan is an Independent Third Party.

(5) To the best knowledge of our Directors after making all reasonable enquiries, Mr. Geng Changsheng is an Independent Third Party.

(6) To the best knowledge of our Directors after making all reasonable enquiries, Mr. Geng Liyuan is an Independent Third Party.

(7) For further details of Beijing Yushi, please refer to the section headed "Relationship with our Controlling Shareholders – Historical relationship with Beijing Yushi" in this prospectus. Beijing Yushi is an Independent Third Party as at the Latest Practicable Date.

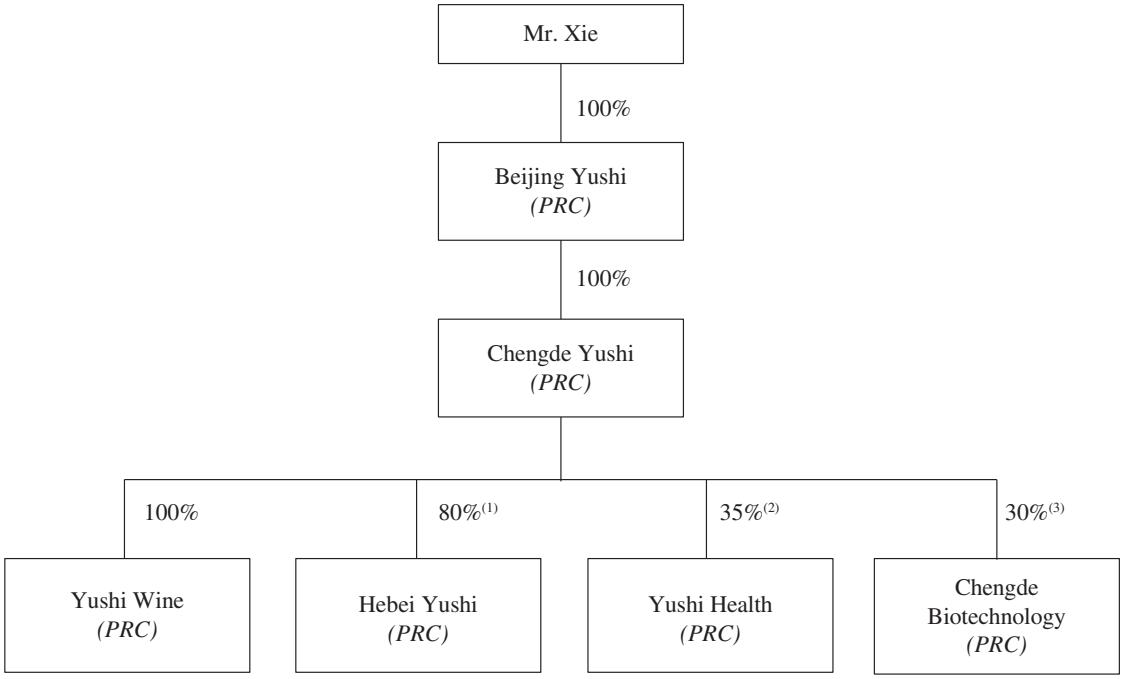
As at the Latest Practicable Date, Chengde Yushi was directly and wholly owned by Mr. Xie. Chengde Yushi is the PRC operating entity of our Group that holds relevant licenses and intellectual property rights that are necessary for us to carry out our business in the PRC, and is responsible for the production of PCM in the PRC. We have, through Shijiazhuang Medical Research (our wholly-owned subsidiary), entered into a series of Contractual Arrangements with Chengde Yushi and the Registered Shareholder to assert management control over the operations of our business conducted through Chengde Yushi, and to enjoy all economic benefits of Chengde Yushi. For further information about the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this prospectus.

MAJOR ACQUISITIONS AND DISPOSALS

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the subsection headed "Reorganisation" in this section and conducted as part of the Reorganisation, we did not conduct any major acquisitions, disposals or mergers.

OUR GROUP STRUCTURE PRIOR TO REORGANISATION

The following chart sets out our Group's corporate and shareholding structure immediately prior to the Reorganisation:



Notes:

(1) The remaining 20% equity interest in Hebei Yushi was owned by an Independent Third Party.

(2) The remaining 65% equity interest in Yushi Health was owned by two Independent Third Parties.

(3) The remaining 70% equity interest in Chengde Biotechnology was owned by two Independent Third Parties.

REORGANISATION

In preparation for the Listing, our Group underwent the Reorganisation, the major steps of which are set out below:

Onshore Reorganisation

Acquisition of Chengde Yushi by Mr. Xie

On 18 April 2019, Beijing Yushi entered into an equity transfer agreement with Mr. Xie where Mr. Xie acquired the entire equity interest of Chengde Yushi from Beijing Yushi at a consideration of RMB28 million, which was determined with reference to the then registered capital of Chengde Yushi. Upon completion of the transfer of equity interest on 22 May 2019, Chengde Yushi become wholly-owned by Mr. Xie.

Disposal of Yushi Wine, Chengde Biotechnology and Yushi Health

Yushi Wine was wholly owned by Chengde Yushi immediately prior to the disposal. Yushi Wine's principal business was the production and wholesale of Chinese yellow wine. Pursuant to an equity transfer agreement dated 24 April 2019 entered into between Chengde Yushi and Ms. Liu Shuxia (劉樹霞), an Independent Third Party, Ms. Liu Shuxia (劉樹霞) acquired the entire equity interest in Yushi Wine from Chengde Yushi at the consideration of approximately RMB1.3 million, which was determined based on its fair value as at 31 March 2019. The transfer of the equity interest in Yushi Wine was completed on 30 April 2019.

Chengde Biotechnology was owned by Chengde Yushi as to 30% and by two Independent Third Parties as to 70% immediately prior to the disposal. Chengde Biotechnology's principal business was biotechnology research. Pursuant to an equity transfer agreement dated 6 June 2019 entered into between Chengde Yushi and Mr. Guo Yurong (國玉榮), an Independent Third Party, Chengde Yushi transferred its 30% equity interest in Chengde Biotechnology to Mr. Guo Yurong (國玉榮) at nil consideration as Chengde Yushi did not contribute to the paid up capital of Chengde Biotechnology and Mr. Guo Yurong (國玉榮) assumed the liability to pay up the unpaid capital of Chengde Biotechnology. The transfer of the equity interest in Chengde Biotechnology was completed on 13 June 2019. To the best knowledge of our Directors, Chengde Biotechnology was deregistered on 6 September 2019.

Yushi Health was owned by Chengde Yushi as to 35% and by two Independent Third Parties as to 65% immediately prior to the disposal. Yushi Health was engaged in the R&D and production of health food products. Pursuant to an equity transfer agreement dated 25 April 2019 entered into between Chengde Yushi and Beijing Yushi, Chengde Yushi transferred its 35% equity interest in Yushi Health to Beijing Yushi at nil consideration as Chengde Yushi did not contribute to paid up capital of Yushi Health and Beijing Yushi assumed the liability to pay up the unpaid capital of Yushi Health. The transfers of the equity interest in Yushi Health were completed in June 2019. For further information of the transfers, please refer to the subsection

headed "Relationship with Controlling Shareholders – Historical relationship with Beijing Yushi" in this prospectus. To the best knowledge of our Directors, Yushi Health was deregistered on 6 September 2019.

Reasons for the disposals

Yushi Wine, Chengde Biotechnology and Yushi Health were disposed of and excluded from our Group as part of the Reorganisation due to the following reasons: (i) there is a clear delineation between the businesses of these three companies and that of our Group in terms of business scope and operation, products, target customers, expertise required, and machineries or appliances used for the production or the research; (ii) these three companies did not have any material operation since their incorporation and with separate books and records; and (iii) our Group's current business plan is to enhance our production capacity and step up our R&D efforts in the production of PCM products, which was our revenue driver during the Track Record Period. Hence, the businesses of these three companies would not be in line with the strategic direction of our Group. In order to streamline our Group's business and to concentrate our resources on effective implementation of our business plan and strategies, our Directors had decided not to pursue the businesses of these three companies further, and disposed of and excluded them from our Group.

As advised by our PRC Legal Advisers, the above disposals were properly and legally settled and completed. To the best knowledge of our Directors, the above companies did not have any material non-compliances, pending or unresolved arbitrations, litigations, investigations, or claims and were not exposed to any actual or contingent liabilities since the commencement of the Track Record Period and up to the date of their respective disposals. Upon completion of the equity interest transfers, Mr. Xie ceased to hold any role in these companies. As at the Latest Practicable Date, Mr. Xie did not have any relationship with these companies.

Please refer to Note 24 in the Accountants' Report set out in Appendix I to this prospectus for the financial impact of the above disposals to our Group.

Deregistration of Hebei Yushi

Hebei Yushi was established in the PRC on 7 April 2006 with registered capital of RMB1 million and was owned by Chengde Yushi and an Independent Third Party as to 80% and 20%, respectively. The principal business of Hebei Yushi was retail of pharmaceutical products and health care products. In order to streamline our Group's corporate structure, our Group deregistered Hebei Yushi as it did not have material business operations during the Track Record Period. On 3 September 2019, Hebei Yushi was deregistered. To the best knowledge of our Directors, Hebei Yushi was not involved in any pending or unresolved arbitration, legal proceeding, investigation or claim prior to its deregistration.

Offshore Reorganisation

Incorporation of our Company

On 12 August 2019, our Company was incorporated under the laws of the Cayman Islands as an exempted company with an initial authorised share capital of HK$380,000 divided into 38,000,000 Shares of par value HK$0.01 each. Upon incorporation of our Company, one Share was allotted and issued to the initial subscriber at par, which was then transferred to Modern Biotechnology. Upon completion of the above allotment, issue and transfer of the Share, our Company was directly wholly-owned by Modern Biotechnology.

Incorporation of Modern TCM Holdings

On 20 August 2019, Modern TCM Holdings was incorporated under the laws of the BVI with limited liability and is authorised to issue a maximum of 50,000 shares of one class with a par value of US$1.00 each. On the same day, one fully paid share in Modern TCM Holdings was allotted and issued at par to our Company. Upon completion of the above allotment and issue of share, Modern TCM Holdings became directly wholly-owned by our Company.

Incorporation of HK Modern Chinese Medicine

On 9 September 2019, HK Modern Chinese Medicine was incorporated under the laws of Hong Kong as a limited liability company. Upon incorporation, one share in HK Modern Chinese Medicine was allotted and issued to Modern TCM Holdings at HK$1.00. Upon completion of the above allotment and issue of share, HK Modern Chinese Medicine became directly wholly-owned by Modern TCM Holdings.

Incorporation of Shijiazhuang Medical Research and implementation of the Contractual Arrangements

On 16 December 2019, Shijiazhuang Medical Research was established under the laws of the PRC as a wholly foreign-owned enterprise. Upon establishment, Shijiazhuang Medical Research had a registered capital of HK$1 million and was a wholly owned subsidiary of HK Modern Chinese Medicine for the purpose of implementation of the Contractual Arrangements. For further information on the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this prospectus.

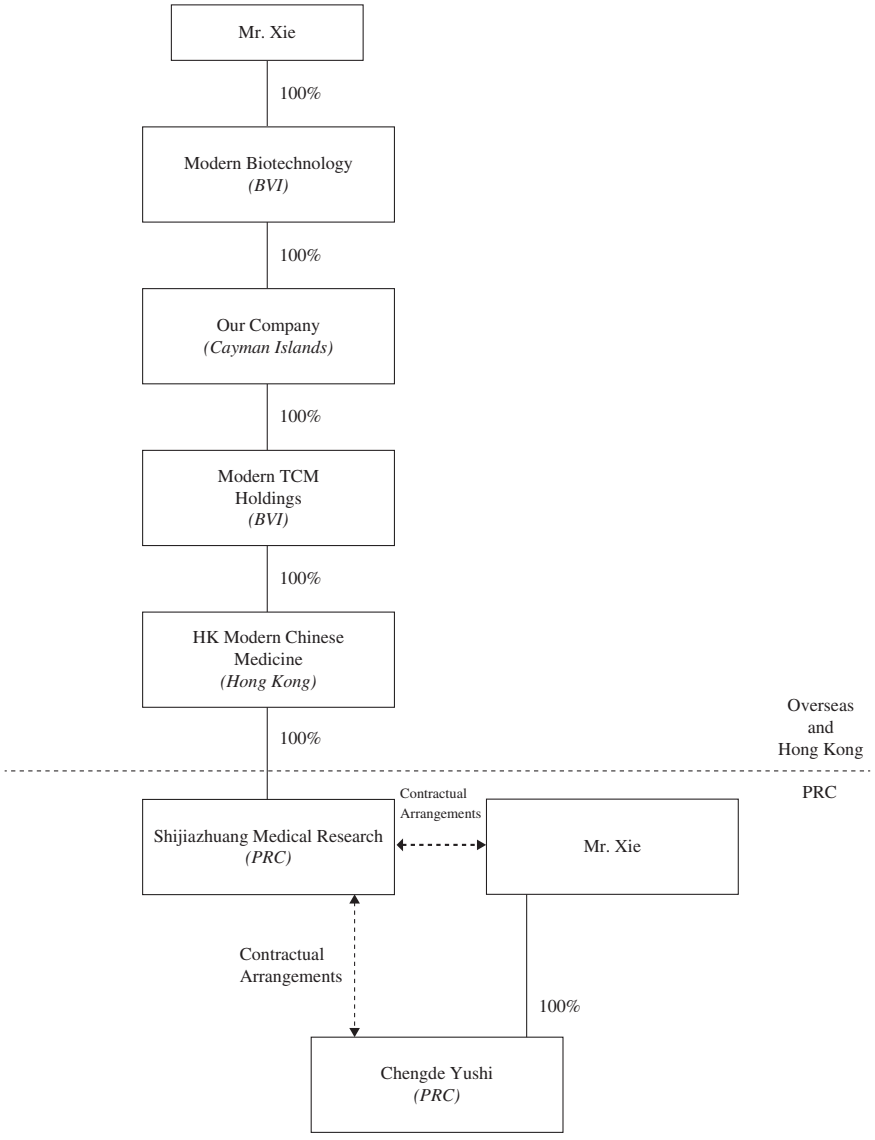
Capitalisation of the loan of HK$1,000,000

On 18 December 2020, Modern Biotechnology entered into a loan capitalisation agreement with our Company, pursuant to which our Company allotted and issued 99 new Shares, credited as fully paid to Modern Biotechnology by way of capitalisation of the loan in the amount of HK$1,000,000 owed by our Company to Modern Biotechnology which was drawn in January 2020.

After the said capitalisation of loan, Modern Biotechnology held 100 Shares representing the entire issued share capital of our Company.

Corporate Structure immediately upon completion of the Reorganisation

The following chart sets out our Group's corporate and shareholding structure immediately after the completion of the Reorganisation, but prior to the Listing:

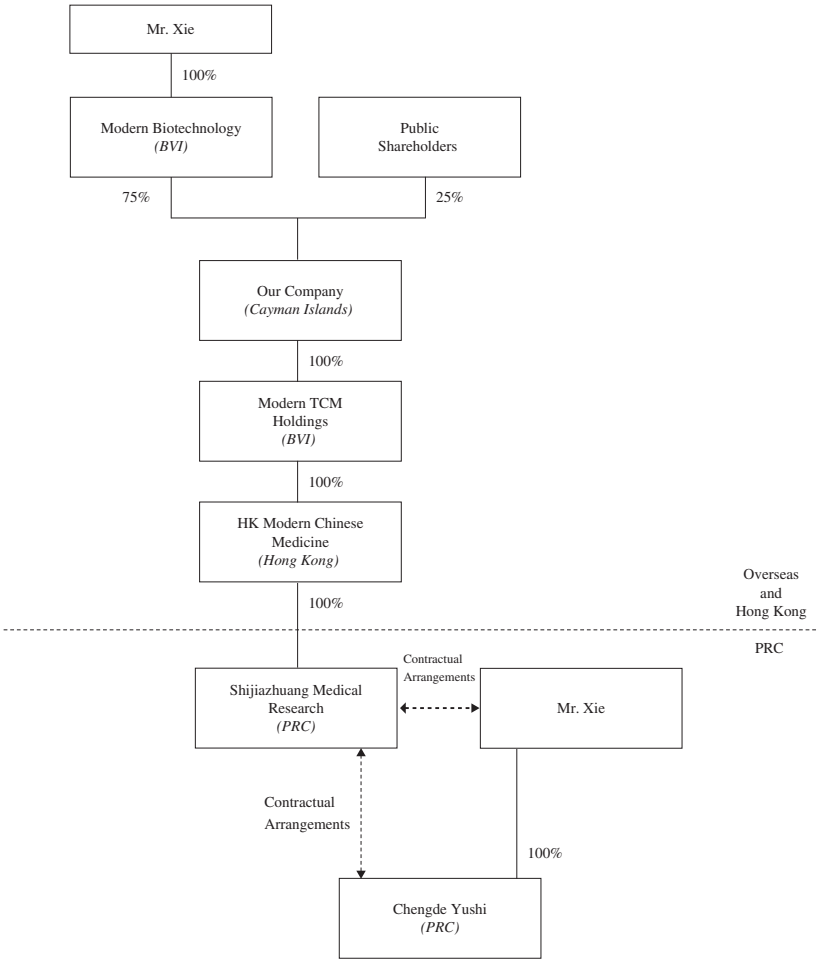


CAPITALISATION ISSUE

Pursuant to the resolutions of our Shareholder passed on 18 December 2020, conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares pursuant to the Global Offering, we were authorised to issue a total of 449,999,900 Shares, credited as fully paid, at par to our Shareholder whose name appear on our share register at close of business on 18 December 2020 by way of capitalisation of the sum of HK$4,499,999 standing to the credit of the share premium account of our Company, and the Shares to be issued pursuant to the Capitalisation Issue shall carry the same rights in all respects as the existing Shares.

CORPORATE STRUCTURE IMMEDIATELY UPON LISTING

The following chart sets out the shareholding and corporate structure of our Group upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any Shares to be issued upon exercise of the options which may be granted under the Share Option Scheme):



PRC REGULATORY REQUIREMENTS

Our PRC Legal Advisers confirm that all the necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation have been obtained, and the Reorganisation has complied with all the applicable PRC laws and regulations.

SAFE REGISTRATION IN THE PRC

Pursuant to the Circular of SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**SAFE Circular 37**") which became effective on 14 July 2014, PRC residents (including PRC institutions and individuals) are required to register with local branches of SAFE in connection with their direct or indirect investment in an overseas special purpose vehicle, ("**SPV**"), which directly established or indirectly controlled by PRC residents with their legally owned assets or interests in domestic enterprises, or their legally owned offshore assets or interests for the purposes of offshore investment and financing. Such PRC residents are also required to amend their registrations with SAFE and its branches when there is any basic or significant change with respect to the SPV. Failure to comply with the registration procedures set out in the SAFE Circular 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, the capital inflow from the offshore entities and settlement of foreign exchange capital, and may also subject relevant onshore company or PRC residents to penalties under PRC foreign exchange administration regulations.

Pursuant to the Circular of SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**SAFE Circular 13**"), which became effective on 1 June 2015, the power to examine and handle foreign exchange registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located and subject to the indirect regulation of the SAFE and its branches over the foreign exchange registration via the banks.

As advised by our PRC Legal Advisers, Mr. Xie completed the registration under the SAFE Circular 37 and SAFE Circular 13 on 25 October 2019.

OVERVIEW

We principally engage in the production of PCM, in particular, we offer both OTC and prescribed medicines intended for use by the Middle-aged and the Elderly in the PRC. During the Track Record Period and as at the Latest Practicable Date, we had 59 types of PCM products. Our major products (in terms of revenue) are Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

According to the Euromonitor Report, we are in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in 2019 in terms of the sales of Qi-deficiency and blood-stasis PCM(1) pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM(2) capsules (心腦血管中成藥膠囊) in Northeast, the PRC.

Generally, the intended therapeutic effects of our major products are for the treatment and/or alleviation of (i) Qi-deficiency and blood-stasis condition; (ii) cardio-cerebrovascular condition; (iii) digestive and gastrointestinal condition; and (iv) gynaecological condition. At the same time, some of our major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness. For more details regarding the concept of Qi (氣) and our products, please refer to the subsection headed "Business – Our products" below.

According to the Euromonitor Report, the following table sets out the market share of our certain major products in 2019 in their corresponding segments:

Product name	**Revenue in FY2019(3)** *(RMB million)*	**Approximate market share in 2019(4)** *(%)*
Vigour and Vitality Supplement Pill (補腎填精丸)	49.2	33.1
Cardiotonic Enhancement Capsule (山玫膠囊)	33.2	17.4
Circulation Enhancement Pill (氣血雙補丸)	40.0	15.0
Heart Wellness Capsule (心安膠囊)	14.4	6.6
Kidney Invigoration Pill (金匱腎氣丸)	22.5	2.0
Menstrual Discomfort Relief Pill (加味逍遙丸)	7.3	1.0
Liver Detox Tablet (護肝片)	7.4	0.8

Notes:

(1) The major products having intended therapeutic effects of alleviating Qi-deficiency and blood-stasis conditions are Circulation Enhancement Pill (氣血雙補丸), Vigour and Vitality Supplement Pill (補腎填精丸) and Kidney Invigoration Pill (金匱腎氣丸).

(2) The major products having intended therapeutic effect of alleviating cardio-cerebrovascular conditions are Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊).

(3) No ranking for Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) as we recorded nil revenue in FY2019.

(4) The relevant market share is calculated by including all the pharmaceutical manufacturers located in the PRC that produce medicine(s) (i) with similar efficacy; or (ii) intended for the same treatment and/or alleviation, set forth in the Chinese Pharmacopoeia (《中國藥典》) and the Drug Standards (《部頒標準》).

For FY2017, FY2018, FY2019, 9M2019 and 9M2020, the sales of our major products represented approximately 68.9%, 80.2%, 79.6%, 84.8% and 86.8% of our total revenue, respectively. Other than these major products mentioned above, we are also engaged in the production of other Chinese pharmaceutical products for the intended treatment and/or alleviation of other conditions, such as (i) psychological condition; (ii) respiratory condition; and (iii) paediatric condition. For further details of our other products, please refer to "List of Our PCM Products" in Appendix V to this prospectus.

Our headquarters and production facilities are strategically located in Chengde City (承德市), Hebei Province (河北省), the PRC. According to the Euromonitor Report, Chengde City is one of the well-known breeding places of Hawthorn Leaves (山楂葉) and sourcing places of Ginseng (人蔘) and Mongolian Milkvetch Root (黃芪) in the PRC, which supplies quality raw materials commonly applied in our major products.

Currently, we have three GMP-certified production lines and one extraction line that are capable of producing all our PCM in tablet, pill and capsule forms as stipulated by the GMP standards. Please refer to "Business – Production – Production Facilities" for further details. Meanwhile, our in-house product packaging processes also enable us to integrate procurement, production, packaging and labelling in our production facilities to avoid contamination and achieve total management in our operation, and to reduce risk related to outsourcing and packaging.

In June 2014, Mr. Xie, our executive Director, Chairman and Controlling Shareholders, acquired Chengde Yushi from Independent Third Parties, namely Mr. Geng Liyuan (耿立元) and Mr. Geng Chang Sheng (耿長勝). Since then, leveraging on Mr. Xie's vision on the established branded products and distribution network, we have gradually broadened our distribution network by expanding our geographic footprint and increasing total number of distributors across the PRC.

Mr. Xie's prior experience and vision on how to compete in the TCM industry has enabled us to capture business growth. For example, in 2015, Mr. Xie considered that Northeast and Huanan (華南) had unfulfilled demand for Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸), and we therefore focused and broadened our distribution network there. Such move was successful as evidenced by the increase in total revenue derived from Northeast and Huanan (華南), which had increased from approximately RMB64.1 million (approximately 60.2% of our total revenue) in FY2017 to approximately RMB110.0 million (approximately 63.4% of our total revenue) in FY2018, and to approximately RMB153.8 million (approximately 70.3% of our total revenue) in FY2019, and to approximately RMB157.5 million (approximately 71.9% of our total revenue) in 9M2020, respectively. In addition, Ms. Zhang, our Chief Executive Officer and executive Director, also plays an important role in our business operation. Ms. Zhang has over 33 years of experience in the pharmaceutical industry and business management and has been working in Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company (承德藥業集團六合製藥有限責任公司), the predecessor of our principal operating subsidiary since August 1986.

As at the Latest Practicable Date, we had established a distribution network of 77 distributors that covers 39 cities in the PRC. We had 37 marketing staff members covering these 39 cities and administering the abovementioned distribution network in the PRC, six of whom have been working in the sales of TCM for more than ten years. We believe our distribution network and our distributorship model had helped us to develop during the Track Record Period and will continue to support our development in the foreseeable future.

We consider our distribution network not only helped our business to develop geographically from Northeast to other areas in the PRC, but also allowed us to penetrate in reasonably extensive width and breadth in Northeast, where we strategically targeted at in view of our established footprint and the large population there. During the Track Record Period, the revenue contribution from Northeast was approximately 50.3%, 51.0%, 55.0% and 53.9%, respectively.

For FY2017, FY2018 and FY2019, our revenue was approximately RMB106.5 million, RMB173.5 million and RMB218.8 million, respectively; whilst our net profit for the same years was approximately RMB25.9 million, RMB48.2 million and RMB46.2 million, respectively. For 9M2019 and 9M2020, our revenue was approximately RMB173.0 million and RMB218.8 million, respectively, whilst our net profit was approximately RMB40.9 million and RMB52.8 million, respectively.

OUR COMPETITIVE STRENGTHS

We attribute our success to and distinguish ourselves by the following key competitive strengths:

Our product position is competitive with a diversified portfolio, strategically-located production facilities and favourable national policies

Competitive position and diversified product portfolio

We had 59 types of PCM products (including OTC and prescribed medicines) during the Track Record Period and up to the Latest Practicable Date in the PRC intended for use by the Middle-aged and the Elderly. Generally, the intended therapeutic effects of our major products are for the treatment and/or alleviation for (i) Qi-deficiency and blood-stasis condition; (ii) cardio-cerebrovascular condition; (iii) digestive and gastrointestinal condition; and (iv) gynaecological condition. At the same time, some of our major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

As shown in our FY2019 market share and revenue table for our certain major products in the above overview section, among our major products, three of them are having around or over 10% of the overall market share. Our Heart Wellness Capsule (心安膠囊) also has secured a meaningful market share during the relevant period. Other than our major products, the revenue derived from non-major products were approximately RMB32.9 million, RMB34.4 million, RMB44.8 million, RMB26.1 million and RMB28.6 million in FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

We believe that our competitive position and diversified product portfolio strengthened our brand recognition in the PRC TCM industry, which also helps us to further increase our sales.

Strategically-located production facilities

Our headquarters and production facilities are strategically located in Chengde City (承德市), Hebei Province (河北省), the PRC. According to the Euromonitor Report, Chengde City is one of the well-known breeding places of Hawthorn Leaves (山楂葉) and sourcing places of Ginseng (人蔘) and Mongolian Milkvetch Root (黃芪) in the PRC, which supplies quality raw materials commonly applied in our major products.

Currently we have three GMP-certified production lines and one extraction line that are capable of producing all our products in tablet, pill and capsule forms as prescribed by the GMP standards. Please refer to the subsection headed "Business – Production – Production Facilities" in this prospectus for further details. Meanwhile, our in-house product packaging processes also enable us to integrate procurement, production, packaging and labelling in our production facilities to avoid contamination and achieve total management in our operation, and to reduce risk related to outsourcing and packaging.

Favourable national policies

Our sales are also expected to benefit from a number of new regulations and government policies concerning the TCM industry in recent years. For example, we consider the "Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China" (中華人民共和國國民經濟和社會發展第十三個五年規劃綱要) and "Circular of the State Council on Promulgating the Outline of the Strategic Plan for the Development of TCM (2016-2030)" (國務院關於印發中醫藥發展戰略規劃綱要(2016-2030)的通知) will promote the use of Chinese medicine and boost the development of TCM industry in China. It is also anticipated that these policies, consisting of various subsidy programmes, will benefit stakeholders at different levels of the Chinese medicine and pharmaceutical industry in a bid to foster the overall development of the trade.

Among the 59 types of the PCM we had throughout the Track Record Period, two of our PCM products, Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) were also awarded as a "Famous Product of Small and Medium-sized Enterprise in Hebei Province" (河北省中小企業名牌產品) by the Industry and Information Technology Department of Hebei Province (河北省工業和信息化廳) in 2015 and 2016, respectively.

We are one of the leading Chinese medicine brands in Northeast, the PRC, and have an established distribution network across the PRC especially in Northeast

An established distribution network

According to the Euromonitor Report, we mainly compete with a number of non-listed domestic pharmaceutical manufacturers, and we are in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in the PRC in 2019 in terms of the sales of Qi-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC. We believe that our established position in the market and brand recognition in Northeast allows us to capitalise on the strong potential growth in the TCM industry in the PRC.

Our products are sold through a distribution network that currently covers 39 cities in the PRC. We believe that our distribution network cannot be easily replicated because it is the combined result of our key products offering and the continuous efforts of negotiations, selection, management and collaboration of qualified distributors by and with our marketing staff in different regions across the country over years. We consider our distribution network has penetrated in reasonably extensive width and breadth in Northeast effectively. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, we recorded revenue of approximately RMB53.6 million, RMB88.4 million, RMB120.3 million, RMB96.5 million and RMB118.1 million, respectively from Northeast, accounting for approximately 50.3%, 51.0%, 55.0%, 55.8% and 53.9% of our total revenue during the same years/periods respectively. Such growth and high percentages of revenue were attributed to our distributorship model as well as our strategy to develop our business in the populated areas in Northeast.

As at the Latest Practicable Date, we had 77 distributors and all sales to our distributors accounted for all of our revenue during the Track Record Period. Please refer to the subsection headed "Business – Our Customers – Distributors" in this section for further details.

Stringent criteria in building our distribution network

We have stringent selection criteria for engaging distributors, in particular, we require all our distributors to comply with the GSP requirements. As at the Latest Practicable Date, we had established a distribution network of 77 distributors that covers 39 cities in the PRC. We had 37 marketing staff members covering these 39 cities and administering the abovementioned distribution network in the PRC, six of whom have been working in the sales of TCM for more than ten years. We offer training programmes from time to time for our marketing staff to improve their product knowledge and competence, which we believe are essential in growing our business in the long run. From time to time, our sales and marketing team provides our distributors with market information, features of our products as well as pricing guidance. Our marketing staff also visit our distributors from time to time to obtain sales feedback. Further, they assist the distributors in resolving sales issues and ensuring compliance with our

distribution agreements. We believe our established relationship with distributors enables us to (i) collect market intelligence timely; (ii) implement an effective sales strategy for our current products; and (iii) devise flexible pricing and sales strategy for our products on an as-needed basis.

We implement a stringent quality management system to ensure product safety and quality

We need to comply with the GMP standards in the production process of our products, and have devised and implemented a comprehensive quality management system that covers every aspects of our production activities. Our quality management system comprises quality target setting, supplier selection guidelines, raw material procurement guidelines, production line control, product sampling, management of product quality data, product delivery and after-sales tracing, and is monitored by Mr. Wu Guocheng (吳國成), our head of Quality Management Department. Thus, our comprehensive quality management system enables us to establish an end-to-end quality management to ensure strict adherence to the highest safety and quality standards.

As mentioned above in this section, our production facilities are close to places that breed and/or can procure raw materials commonly applied in our major products, including Ginseng (人蔘), Mongolian Milkvetch Root (黃芪) and Hawthorn Leaves (山楂葉). As a result, we can monitor the entire production process more closely, especially during the early stage of sourcing quality raw materials. During the Track Record Period and up to the Latest Practicable Date, save for the periods under regular inspections from the relevant authorities and maintenance, our production facilities had not experienced any suspension or termination and were not in violation of their respective GMP requirement.

Mr. Wu Guocheng, who leads our Quality Management Department, has over 33 years of experience in quality management in the TCM industry. As at the Latest Practicable Date, we had three staff members responsible for quality management. We believe that our effective end-to-end quality management system will further strengthen our competitive position.

We possess an experienced, dedicated, capable and stable management team

We possess an experienced, dedicated, capable and stable management team, led by Mr. Xie, our executive Director, Chairman and Controlling Shareholders, and Ms. Zhang, our Chief Executive Officer and executive Director, who have both been instrumental in spearheading the growth of our Group. Mr. Xie has over 14 years of sales and management experience in pharmaceutical industry in the PRC while Ms. Zhang has joined Chengde Yaoye Group Liuhe Pharmaceutical Limited Liability Company (承德藥業集團六合製藥有限責任公司), the predecessor of our principal operating subsidiary since 1986 and has been holding our general manager title since December 2015.

Our capable and loyal senior management team consists of members with on average, over ten years of relevant experience and background in the TCM industry, or they have been serving in a role of sales or management. Over the years, our management team has established relationships with our distributors and suppliers, accumulated in-depth knowledge of the TCM industry and stayed abreast of industry development and market trends.

In addition, we have a Production Department and a Quality Management Department, which are essential in maintaining our production capability, quality management and assurance standards, and are vital for the success of our business. The key members of our Production Department and Quality Management Department have an average of over ten years of relevant experience with us.

OUR STRATEGIES

Improving and enhancing our production capacity

To maintain our competitive position and sustain our growth, we will continue to improve and enhance our production capacity.

Significant growth in the Traditional Chinese Medicine industry

According to the Euromonitor Report, the TCM industry in the PRC has experienced significant growth, with total market size increasing from approximately RMB933.8 billion in 2015 to approximately RMB1,285.7 billion in 2019, representing a CAGR of approximately 8.3%. The TCM industry in the PRC is expected to continue to grow, due to a combination of favourable factors, including:

- growing economy in the PRC and rising purchasing power of PRC citizens;
- growing awareness of personal health;
- increasing life expectancy of PRC citizens;
- growing proportion of Middle-aged and Elderly population in the PRC;
- modernisation of the TCM industry; and
- increasing PRC Government support and favourable national policies and healthcare reform plans.

As a result, according to the Euromonitor Report, the TCM industry in the PRC is expected to grow at a CAGR of approximately 7.3% from 2020 to 2024, and will reach approximately RMB1,864 billion in 2024.

According to the same report, the market size of PCM for the intended treatment and/or alleviation for cardio-cerebrovascular condition, which includes our Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊), has experienced significant growth; from 2015 to 2019, such market size increased from approximately RMB153.7 billion in 2015 to approximately RMB226.5 billion in 2019, representing a CAGR of approximately 10.2%. As such, we have allocated considerable resources to promote the sales of Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊), in particular, we have:

– adjusted monetary Marketing Incentives of these products to stimulate the demand from distributors;

– increased effort to monitor product quality and production efficiency when we significantly increased our output level during the Track Record Period; and

– visited our distributors to market these products face-to-face and more frequently.

Our Directors consider the above efforts and initiatives contributed to the increase in sales of Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) during the Track Record Period.

The following sets forth the revenue in relation to Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) for the years/periods indicated.

	FY2017	**FY2018**	**FY2019**	**9M2019**	**9M2020**
Sales revenue *(RMB million)*	18.2	27.8	47.6	38.5	34.5
Percentage increase/(decrease) in sales revenue compared to the prior year/period*(Note)*	N/A	52.7%	71.2%	N/A	(10.4%)

Note: As compared to 9M2019, the revenue generated from these two products for 9M2020 decreased by approximately 10.4%, mainly due to the increased demand of certain PCMs which were believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness, which rendered a slow down in demand of other PCMs, including these two products.

Growing demand of our products with higher profit margins

According to the Euromonitor Report, it is expected that PRC market size of PCM for cardio-cerebrovascular condition will grow at a CAGR of approximately 9.6% from 2020 to 2024, and reach approximately RMB362.6 billion in 2024.

Besides, our major prescribed (capsule) products intended to treat/alleviate cardio-cerebrovascular condition, namely, Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) have relatively higher gross profit margins compared to our OTC medicine due to the differences in the selling prices and cost of principal raw materials of different products applied. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, the gross profit margins for Cardiotonic Enhancement Capsule (山玫膠囊) were approximately 68.0%, 53.4%, 56.3%, 55.5% and 62.8%, respectively, and the gross profit margins for Heart Wellness Capsule (心安膠囊) were approximately 60.2%, 45.5%, 35.5%, 37.0% and 29.6%, respectively, while the overall gross profit margin of these two prescribed products were approximately 65.0%, 50.4%, 50.0%, 49.8% and 49.3%, respectively, whereas the overall gross profit margins of our OTC medicine were approximately 37.9%, 41.7%, 44.3%, 45.4% and 41.7%, respectively for the same years/periods. Please refer to the subsection headed "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – Gross profit and gross profit margin" in this prospectus for further details.

Our Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) were awarded as a "Famous Product of Small and Medium-sized Enterprise in Hebei Province" (河北省中小企業名牌產品) by the Industry and Information Technology Department of Hebei Province (河北省工業和信息化廳) in 2015 and 2016, respectively.

Taking into account (i) the market outlook and trend; (ii) the relatively higher profit margins of these two products; and (iii) leveraging on the reputation we have already built for these two products, we plan to continuously expand our investment in these two products.

Certain of our production facilities are approaching their respective operation limits

Due to the growing demand of Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) during the Track Record Period, the utilisation rate of extraction line and production line for capsule products are approaching their respective operation limits. The following table demonstrates the designed production capacity, actual production volume and utilisation rate of our extraction line and production line for capsule products for the years/periods indicated:

	FY2017			FY2018			FY2019			9M2019			9M2020		
	Designed production capacity[1],[2],[3] *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate[4]	Designed production capacity[1],[2],[3] *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate[4]	Designed production capacity[1],[2],[3] *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate[4]	Designed production capacity[1],[2],[3] *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate[4]	Designed production capacity[1],[2],[3] *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate[4]
Extraction line[5]	396	167	42.2%	396	372	93.9%	396	350	88.4%	297	272	91.6%	297	292	98.3%
Production line for capsule products[6]	133	23	17.3%	133	76	57.1%	133	126	94.7%	100	94	94.0%	100	81	81.0%

Notes:

(1) The designed production capacity is determined and calculated by multiplying the daily capacity of the extraction line and production line for capsule products with the applicable number of days of operation per year (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection).

(2) We assume the daily operating hours for our extraction line to be 16 hours (2 shifts) for FY2017, FY2018, FY2019, 9M2019 and 9M2020. It is assumed, our extraction line will operate annually for 275 days in FY2017, FY2018 and FY2019 and 206 days in 9M2019 and 9M2020, respectively (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection into account).

(3) We assume the daily operating hours for our production line for capsule products to be 8 hours (1 shift) for FY2017, FY2018, FY2019, 9M2019 and 9M2020. It is assumed our production line for capsule products will operate annually for 275 days in FY2017, FY2018 and FY2019 and 206 days in 9M2019 and 9M2020, respectively (excluding all employees' general holiday and public holidays but including downtime due to maintenance/inspection into account).

(4) The utilisation rate for each of the relevant years/periods is derived by dividing the actual production volume by the designed production capacity.

(5) Our extraction line is used for extraction and further processing, which is a necessary procedure for producing the majority of our major products. The actual production volume of our extraction line had been approaching limit as slack/cleaning time (approximately 2 hours to 2.5 hours for each extraction batch) was required between each extraction batch and therefore had been limiting our utilisation rate and the actual production volume of the production lines for our products during the Track Record Period.

(6) The decrease in utilisation rate of the production lines for capsule products in 9M2020 were attributable to the decrease in sales volume as the demand for capsule products temporarily slowed down as the market focused more on PCMs which were believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness. Please see the subsections headed "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – 9M2020 compared to 9M2019 – Revenue", "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – FY2019 compared to FY2018 – Revenue" and "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – FY2018 compared to FY2017 – Revenue" in this prospectus for further information.

Our expansion plan

Given the utilisation rate of the existing extraction line and production line for capsule products are approaching their respective operation limits, we intend to utilise approximately HK$51.7 million, representing approximately 43.1% of the net proceeds from the Global Offering, to enhance and expand our production capacity with particular regard to our capsule products, due to the following reasons:

- Our capsule products have been the major revenue drivers of our growth during the Track Record Period. According to the Euromonitor Report, we are in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in 2019 in terms of the sales of cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC.

- Our overall capsule products have relatively higher gross profit margins compared to our OTC medicine due to the differences in the selling prices and cost of principal raw materials of different products applied.

- The market size of our capsule products, in particular Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊), is growing. According to the Euromonitor Report, the market size of the PCM for cardio-cerebrovascular conditions experienced a significant growth, increasing from approximately RMB153.7 billion in 2015 to approximately RMB226.5 billion in 2019, representing a CAGR of approximately 10.2%, and is expected to grow at a CAGR of approximately 9.6% from 2020 to 2024 and reach approximately RMB362.6 billion in 2024. As a result, and given our reputation in the market, we expect that the demand for Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) will follow suit and will continue to increase.

- Our current capacity to produce our capsule products is approaching the operation limit and is insufficient. The utilisation rate of our extraction line and production line for capsule products had reached 88.4% and 94.7% for FY2019, respectively. Our current utilisation rates are restricting our ability to obtain and satisfy new purchase orders in the future.

As such, we intend to apply such portion of the net proceeds from the Global Offering as follows:

- approximately 29.6% or HK$35.5 million will be used for building a new workshop for installing and incorporating a new extraction line;

- approximately 7.9% or HK$9.5 million will be used for establishing the above new extraction line with the maximum annual designed production capacity increased from approximately 396,000 kg to approximately 1,196,000 kg (the total cost for establishing such new extraction line is approximately HK$11.6 million, of which approximately HK$2.1 million had been settled by our Group as at the Latest Practicable Date); and

- approximately 5.6% or HK$6.7 million will be used for establishing a new production line for our capsule products with the maximum annual designed production capacity increased from approximately 133,000 kg to approximately 399,000 kg.

When formulating the expansion plan, we have conducted scenario analysis and are of the view that the current capital expenditure of building the new workshop for the new extraction line and production line for capsule products to triple our production is appropriate and commercially justifiable, after considering the growing market size of capsule products, investment risks, future strategy to broaden the distribution network into Huadong (華東) and Huanan (華南) as well as our business growth. For details, please refer to the subsection headed "Business – Production – Expansion Plan" in this prospectus.

The new workshop, extraction line and production line for our capsule products and relevant production facilities will be GMP-compliant and located at our headquarters in Chengde City and are expected to commence trial production by second quarter of 2022. We believe our expansion plan will not only improve/enhance our production capability but also enable our Group to maintain its competitiveness in the future. For further details, please refer to "Business – Production – Expansion Plan".

For details of our use of proceeds, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Broadening our distribution network and raising our brand awareness

Distribution network

Our distribution network is essential to our success. In terms of our products, we aim to develop and broaden our existing distribution network by:

(i) exploring additional new distributors;

(ii) expanding our distribution efforts to cover more cities in the PRC; and

(iii) establishing cooperation with strategic partners, with a view to further increase our market share and deepen our market penetration.

Further, concurrent with the broadening of our distribution network, we will continue to monitor our distributors' performance and pay attention to market responses of our products to enhance the effectiveness of our distribution network and marketing efforts, whilst expanding our distribution channel and network in a compliant manner.

Our intention is to apply approximately HK$19.7 million, representing approximately 16.4% of the net proceeds from the Global Offering, to broaden our distribution network in Huanan (華南) and Huadong (華東) (the budget for broadening our distribution network is HK$29.4 million, of which approximately HK$9.7 million will be funded by our Group's internally generated funds).

We plan to set up a regional office in Shenzhen, the PRC in the first half of 2021, where we will (i) build up a sales and marketing team and an after-sales service team with a team size of approximately 15 and 5 staff members respectively; and (ii) showcase our products. We intend to lease an office premises of approximately 800 sq.m.. We will also relocate three experienced sales representatives in our existing sales and marketing team in Northeast to the regional office in Shenzhen to coach our new sales and marketing team on the necessary marketing skill and product knowledge.

We have chosen Shenzhen as our regional office due to:

- During the Track Record Period, the revenue contribution of Huanan (華南) and Huadong (華東) in aggregate accounted for approximately 24.5%, 27.3%, 26.7% and 24.5% of our Group's revenue, respectively, maintaining an important part in terms of both absolute amount and as percentage of total revenue of our Group. The GDP of Huanan (華南) accounted for approximately 27.4%, 27.5% and 27.7% of the PRC's GDP in 2017, 2018 and 2019; while the GDP of Huadong (華東) accounted for approximately 39.0%, 38.5% and 37.9% during the same period of the PRC's GDP. This represents reasonably abundant business opportunities and potential market for us to further tap into and explore into the Huanan (華南) and Huadong (華東) markets. In view of the growing business opportunities in Huanan (華南) and Huadong (華東), our Directors consider that it is essential to set up a regional office by lease (with gross floor area of approximately 800 sq.m.) in the southern part of China to further strengthen our market position in the industry as well as expand our revenue stream. Our Group has already rented a small office (with gross floor area of 333.4 sq.m.) in Shenzhen in May 2020 to expand our presence in Huanan (華南) and further radiate our brand into Huadong (華東) for trial purpose[(note)]. We consider a regional office situated on the southeast coast of the PRC, preferably adjacent to the Pearl River Delta region is ideal for us to expedite further marketing activities in the Huanan (華南) and Huadong (華東) market. We consider the location of

Note: The lease for the small office (with gross floor area of 333.4 sq.m.) with a lease period commencing from August 2020 to July 2022 contained a break clause allowing us to terminate the tenancy with one month's prior notice. Upon establishing our regional office, the small office (with gross floor area of 333.4 sq.m.) will be used as a multi-purpose room for the remaining periods of its tenancy.

Shenzhen is appropriate to facilitate day-trip travel to other major cities in Huanan (華南) and Huadong (華東), such as Guangzhou (in Guangdong Province), Nanning (in Guangxi Province), Fuzhou (in Fujian Province) and Nanchang (in Jiangxi Province).

- Leveraging on our success in the northern part of China, we aim to expand our presence in the southern part. Regionalisation is crucial when it comes to business expansion, as local market conditions, business culture, dialect, end users' preference on selecting medical option(s) and endemic (風土病), government policy and demand for different kinds of TCM products vary.

- Coupled with the point above, Shenzhen's relatively higher level of internationalisation across the PRC is also attractive when we select the place to set up our regional office. In particular, Shenzhen has a variety of advertising agencies that may assist us in finding appropriate partners in both traditional media marketing and new media marketing to collaborate with and promote our pharmaceutical products in Huanan (華南) and Huadong (華東), which is important for us to more effectively tap into this part of the market. In particular, we need to work with advertising agencies to invite celebrities (e.g. actors/athlete) to endorse or promote our products.

- According to the Euromonitor Report, it is common for TCM manufacturers to expand their business by setting up regional office(s) as it allows them to better communicate and exchange information with its stakeholders, access local resources and respond faster to the targeted local market.

Considering the above, our Directors consider it is vital for our Group to set up a regional office in Shenzhen and hire local staff member who are familiar with the market dynamics to explore business opportunities in an effective and efficient manner in Huanan (華南) and Huadong (華東). We intend to lease an office premises in Shenzhen and believe the regional office will benefit our Group's business development in the long run.

Brand awareness

We believe that raising our brand awareness is essential for our future development so as to attract more distributors and end users to purchase our products. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, the expenses incurred for our sales and marketing activities (excluding the monetary Marketing Incentives provided to the distributors) amounted to approximately RMB4.3 million, RMB4.9 million, RMB8.1 million, RMB6.6 million and RMB5.4 million, respectively. For further details, please refer to "Business – Sales and Distribution – Marketing incentives" in this prospectus.

We intend to apply approximately HK$12.0 million, representing approximately 10.0% of the net proceeds from the Global Offering, to raise our brand awareness through media marketing and promotion efforts (the budget for raising our brand awareness is approximately HK$19.5 million, of which approximately HK$7.5 million will be funded by our Group's internally generated funds). By engaging external marketing and branding consultants to devise branding plan, as well as employing experienced sales and marketing personnel specialised in branding to enhance our in-house sales and marketing capability, it is believed that our brand name can be further strengthened. More specifically, we plan to pursue multi-channel marketing efforts, which mainly involves social media advertisement, television programmes, pharmaceuticals-related print media, academic seminars and outdoor advertisement. We believe that increasing expenditure on marketing will help us to establish our brand and can help to promote our products to distributors and end users and thus boost our sales in the end.

When we develop Huanan (華南) and Huadong (華東), we plan to first target at Jiangxi Province, Fujian Province and Guangdong Province and we are intending to enter into distribution agreements with certain large-scale and responsive distributors and leverage on their connections with local drugstores, pharmacies and clinics to build up our brand awareness in those regions. These provinces are chosen by us due to the relatively higher population, GDP and consumption power of population there, and the development effort and the progress we already had put in and achieved during the Track Record Period.

For details of our use of proceeds, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Further strengthening our R&D efforts, procuring quality management equipment and broadening our product portfolio

Collaboration agreements with institutes

According to the Euromonitor Report, it is essential for a pharmaceutical company to strengthen its R&D efforts internally or by collaborating with external research institutes after consolidating its existing distribution network for sustainable growth and development. We are experienced in improving our production techniques and enhancing the quality standards of our products by collaborating with external institutes. For example, we have improved the quality standards for Cardiotonic Enhancement Capsule (山玫膠囊), one of our major products, by cooperating with Chengde Medical College (承德醫學院) to set up comprehensive quality standards through the research project during January 2012 to December 2014.

During the Track Record Period, we entered into collaboration agreements with Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學) for the R&D of new pharmaceutical product Stroke Prevention Capsule (耆丹禦風膠囊) in July 2019, and Chengde Medical College (承德醫學院) for improvement of production technique and further enhancement of quality standards of Heart Wellness Capsule (心安膠囊) in December 2018.

Recruitment and facilities upgrade

Moreover, we believe that R&D is crucial in maintaining our competitiveness. We also plan to develop our internal R&D team by recruiting R&D staff member who have at least five years of experience in R&D in the TCM industry. In addition, we plan to upgrade our quality management equipment by procuring qualified equipment such as heavy metal analyser, and strengthen our internal training.

Our plan

In view of the abovementioned, we intend to apply approximately HK$23.4 million, representing approximately 19.5% of the net proceeds from the Global Offering as follows:

- approximately 14.1% or HK$16.9 million will be used in the two R&D projects below to improve our production techniques and develop new products (the total cost for these projects are approximately HK$38.9 million, of which approximately HK$22.0 million had been settled by our Group as at the Latest Practicable Date):

  (i) R&D of a new pharmaceutical product, Stroke Prevention Capsule (耆丹禦風膠囊), intended to alleviate the cardio-cerebrovascular condition of stroke, in collaboration with Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學); and

  (ii) improvement of production technique and further enhancement of quality standards of Heart Wellness Capsule (心安膠囊) in collaboration with Chengde Medical College (承德醫學院);

- approximately 4.7% or HK$5.7 million will be used for upgrading our quality management equipment by constructing a new R&D laboratory (mainly for quality management and performing quality testing) and procuring qualified equipment such as heavy metal analyser, spectrophotometers, chromatographs, chromatography scanners, incubators and blast dryers; and

- approximately 0.7% or HK$0.8 million will be used for recruiting R&D staff member who have at least five years of experience in R&D in the TCM industry.

We consider that the abovementioned R&D projects and investment in our hardware and R&D personnel will add value to our business in the long run. The scope of our R&D projects with different research institutes is tailored to widen our product portfolio and to enhance our existing products such as Heart Wellness Capsule (心安膠囊). For details, please refer to the subsection headed "Business – R&D" in this prospectus.

During the Track Record Period, we frequently received feedbacks on our products from our distributors, including but not limited to (i) the quality of the products offered by us; (ii) market expectations on the products; and (iii) the effectiveness of the functions and application of our products. The nature of such R&D projects are determined after taking into account the feedbacks and comments raised by our customers.

Furthermore, we consider that these R&D projects can increase our internal production efficiency and improve the end users' experience in our products, and thereby add value to the Group's business by enhancing the competitiveness of our Group.

We are of the view that with the above investment of approximately HK$23.4 million, we would achieve (i) an increase in our production efficiency and quality of our products; (ii) an enhancement of our product expertise and improvement of our production techniques; and (iii) the development of new pharmaceutical products.

For details of our use of proceeds, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Strengthening our IT system and further expanding our capabilities for the provision of our products

We believe the possession of up-to-date IT system is important for business operations, and we are determined to upgrade our overall efficiency in our management and day-to-day operation. In particular, our focus is to enhance our existing setup by:

- upgrading, developing and integrating

  (i) our internal financial reporting system to enhance the operational efficiency and management needs in monitoring the performance of different departments/regions; and

  (ii) a cloud-based enterprise resource planning system to match with our enhanced financial reporting system as set out in (i) above such that real time financial information could be analysed with the operating information; and

- purchasing and upgrading our hardware and the relevant IT related equipment to align with these enhanced systems and software upgrades.

In order to fulfil the abovementioned objectives, we plan to apply approximately HK$4.0 million, representing approximately 3.3% of the net proceeds from the Global Offering, to upgrade our IT system. The following table sets out the breakdown of the estimated costs of software and hardware and equipment:

	HK$ million
Software	3.0
Hardware and equipment	1.0
Total:	4.0

We are of the view that upgrading our IT system will allow us to (i) increase efficiency of our overall business procedures; (ii) strengthen our control and management in different departments; and (iii) lower our management and administrative expenses in the long run.

For details of our use of proceeds, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

OUR PRODUCTS

Under the Traditional Chinese Medical Concept, Qi (氣) is usually referred to as one of the fundamental substances of an individual. Generally, Qi is the force which binds together all the matters in the human body; and any imbalance or disorder of Qi may adversely affect our health. If there is any imbalance (deficiency or overflow) of Qi, various symptoms may develop according to the type of Qi. For instance*(Note)*:

- Parental Qi: Parental or Yuan Qi (元氣) is the Qi that is inherited from our parents at conception. Parental Qi is believed to be stored in the kidneys. Our Vigour and Vitality Supplement Pill (補腎填精丸) is intended to enhance/maintain the function of kidneys and to improve/preserve the Parental Qi (元氣) of our body.

- Pectoral Qi: Pectoral or Zong Qi (宗氣) is the Qi that is believed to be accumulated through breathing. Our Circulation Enhancement Pill (氣血雙補丸) is intended to enhance the blood circulation and blood flow and to flourish the Zong Qi (宗氣) of our body.

Furthermore, re-balancing and integration of Qi has a long history within the Chinese community. Under the Traditional Chinese Medical Concept, a Qi-deficiency may lead to chronic tiredness or sleepiness, dizziness, sore or aching muscles, and slow reflexes or responses, while overflow of Qi may lead to stress, impaired decision-making ability, irritability or hypertension.

TCM can be broadly classified into (i) PCM; (ii) TCM decoction pieces; and (iii) Chinese healthcare products, according to the Euromonitor Report. Our products, during the Track Record Period and up to the Latest Practicable Date, belong to the PCM category, which are produced through production techniques including but not limited to steaming, frying, simmering and calcining. According to our PRC Legal Advisers, the relevant production is being regulated by the NMPA and its local branches in the PRC.

Note: Under the Traditional Chinese Medical Concept, and as referred to in The Yellow Emperor's Canon: 81 Difficult Issues (黃帝八十一難經), The Yellow Emperor's Canon: Grand Basis (黃帝內經: 太素), and The Yellow Emperor's Canon: Divine Pivot (黃帝內經: 靈樞經), generally, there are four types of Qi (氣), namely, (i) Parental Qi (元氣); (ii) Pectoral Qi (宗氣); (iii) Nutritional Qi (營氣); and (iv) Defensive Qi (衛氣). For illustrative purpose, the above two examples are intended to highlight certain relationships between the concept of Qi (氣) and our products.

Our expertise lies in producing quality OTC and prescribed medicines in tablet, pill and capsule forms. As at the Latest Practicable Date, to the best knowledge of our Directors, we were not aware of any counterfeits of our products in the PRC market, which were produced without proper licenses or approvals and fraudulently mislabeled with respect to their content and/or manufacturer. As at the Latest Practicable Date, we had 59 types of PCM products under our own brand and during the Track Record Period, our products are sold to our distributors located in the PRC. For the full list of our products and their respective intended therapeutic effects, please refer to Appendix V to this prospectus.

During the Track Record Period, our products are sold to our distributors located in the PRC.

Sales volume by product forms

Our products can be categorised into pill, capsule and tablet forms. The table below sets out the sales volume breakdown by product form (i.e. pill, capsule and tablet) for the years/periods indicated:

	FY2017 Sales Volume *('000 kg (approximately))*	**FY2018 Sales Volume** *('000 kg (approximately))*	**FY2019 Sales Volume** *('000 kg (approximately))*	**9M2019 Sales Volume** *('000 kg (approximately))*	**9M2020 Sales Volume** *('000 kg (approximately))*
Pill	1,371	1,749	1,879	1,395	2,839
Capsule	37	70	119	96	89
Tablet	43	55	50	38	34
Total	1,451	1,874	2,048	1,529	2,962

In terms of sales volume, our pill products contributed the most during the Track Record Period. The sales volume for our pill products increased by approximately 378,000 kg, or 27.6% from approximately 1,371,000 kg for FY2017 to 1,749,000 kg for FY2018, and further increased by approximately 130,000 kg, or 7.4% to 1,879,000 kg for FY2019. The increase in the sales volume of our pill products was primarily due to (i) the significant increase in sales volume of Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸) and Menstrual Discomfort Relief Pill (加味逍遙丸) of approximately 65.7%, 72.5% and 82.1%, respectively, in FY2018; and (ii) the significant increase in sales volume of Kidney Invigoration Pill (金匱腎氣丸) of approximately 198.0% in FY2019.

The sales volume of our pill products increased by approximately 1,444,000 kg or 103.5% from approximately 1,395,000 kg for 9M2019 to approximately 2,839,000 kg for 9M2020, mainly due to the increase in sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), attributed to the surging demands of these two PCMs as they were believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness. The increase in sales volume of these two products compensated the decrease in sales volume of two of our other major pill products, namely Vigour and Vitality Supplement Pill (補腎填精丸), and Kidney Invigoration Pill (金匱腎氣丸) for 9M2020.

The growth in sales of our capsule products was notable during the Track Record Period. The sales volume for our capsule products increased by approximately 33,000 kg, or 89.2% from approximately 37,000 kg for FY2017 to 70,000 kg for FY2018, and further increased by approximately 49,000 kg, or 70.0% to 119,000 kg for FY2019, primarily resulted from the quadrupling of sales volume in Cardiotonic Enhancement Capsule (山玫膠囊) and the tripling of sales volume in Heart Wellness Capsule (心安膠囊) from FY2017 to FY2019.

The sales volume of our capsule products decreased by approximately 7,000 kg or 7.3% from approximately 96,000 kg for 9M2019 to approximately 89,000 kg for 9M2020, mainly due to the decrease in sales volume of Cardiotonic Enhancement Capsule (山玫膠囊) by approximately 29.4%, partially offset by the increase in sales volume of Heart Wellness Capsule (心安膠囊) by approximately 26.2%.

Sales volume for our tablet products increased slightly by approximately 12,000 kg, or 27.9% from approximately 43,000 kg for FY2017 to 55,000 kg for FY2018, primarily due to approximately 194.1% increase in sales volume of Liver Detox Tablet (護肝片) during FY2018. Sales volume for our tablet products then decreased by approximately 5,000 kg, or 9.1% from approximately 55,000 kg for FY2018 to 50,000 kg for FY2019, primarily due to the drop in sales volume in other tablet products, such as Calculus Bovis Supernatant Tablet (牛黃上清片) and Mulberry Leaf and Chrysanthemum Flu Tablets (桑菊感冒片) in FY2019.

The sales volume of our tablet products decreased by approximately 4,000 kg or 10.5% from approximately 38,000 kg for 9M2019 to approximately 34,000 kg for 9M2020, mainly due to the decrease in sales volume of Liver Detox Tablet (護肝片) by approximately 8.1%.

Going forward, we will continue to focus on the production of our major products, namely Circulation Enhancement Pill (氣血雙補丸), Vigour and Vitality Supplement Pill (補腎填精丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

Sales revenue by product types

Our product portfolio can be categorised into: (i) OTC medicine; and (ii) prescribed medicine. The table below sets out a breakdown of our revenue by product types for the years/periods indicated:

	FY2017		FY2018		FY2019		9M2019		9M2020	
	RMB('000)	*% of total revenue*	*RMB('000)*	*% of total revenue*	*RMB('000)*	*% of total revenue*	*RMB('000)*	*% of total revenue*	*RMB('000)*	*% of total revenue*
OTC medicine:										
Vigour and Vitality Supplement Pill (補腎填精丸)	24,707	23.2	43,674	25.2	49,154	22.5	43,460	25.1	37,733	17.2
Circulation Enhancement Pill (氣血雙補丸)	17,295	16.2	47,382	27.3	40,004	18.3	33,717	19.5	34,442	15.7
Menstrual Discomfort Relief Pill (加味逍遙丸)	5,992	5.6	7,273	4.2	7,254	3.3	5,478	3.2	5,955	2.7
Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸)	118	0.1	30	0.0*	–	–	–	–	31,825	14.5
Others[(1)]	23,343	22.0	27,198	15.7	32,230	14.7	19,678	11.4	16,005	7.5
Subtotal:	71,455	67.1	125,557	72.4	128,642	58.8	102,333	59.2	125,960	57.6
Prescribed medicine:										
Cardiotonic Enhancement Capsule (山玫膠囊)	11,325	10.6	17,373	10.0	33,231	15.2	26,653	15.4	20,561	9.4
Kidney Invigoration Pill (金匱腎氣丸)	5,216	4.9	5,667	3.3	22,544	10.3	20,104	11.6	19,332	8.8
Heart Wellness Capsule (心安膠囊)	6,830	6.4	10,420	6.0	14,413	6.6	11,837	6.8	13,976	6.4
Liver Detox Tablet (護肝片)	1,912	1.8	7,237	4.2	7,402	3.4	5,601	3.2	5,414	2.5
Fever-removing and Detoxification Pill (清瘟解毒丸)	131	0.1	19	0.0*	–	–	–	–	20,953	9.6
Others[(2)]	9,597	9.1	7,239	4.1	12,535	5.7	6,442	3.8	12,642	5.7
Subtotal:	35,011	32.9	47,955	27.6	90,125	41.2	70,637	40.8	92,878	42.4
Total:	106,466	100.0	173,512	100.0	218,767	100.0	172,970	100.0	218,838	100.0

* *Represents negligible amount*

Notes:

(1) Others include Six-Ingredient Rehmannia Pill (六味地黃丸) and other OTC medicine produced by us.

(2) Others include Arborvitae Seed Heart Nourishing Pill (柏子養心丸) and other prescribed medicine produced by us.

During the Track Record Period, we principally derived our revenue from:

- products with intended therapeutic effects of alleviating Qi-deficiency and blood-stasis conditions; and alleviating cardio-cerebrovascular conditions; and

- products believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness (since beginning of FY2020).

The major products having intended therapeutic effects on alleviating Qi-deficiency and blood-stasis conditions are Circulation Enhancement Pill (氣血雙補丸), Vigour and Vitality Supplement Pill (補腎填精丸) and Kidney Invigoration Pill (金匱腎氣丸), with revenue contribution amounted to, in aggregate, approximately RMB47.2 million, RMB96.7 million, RMB111.7 million, RMB97.3 million and RMB91.5 million for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

Furthermore, the major products having intended therapeutic effect of alleviating cardio-cerebrovascular conditions are Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊), with revenue contribution amounted to, in aggregate, approximately RMB18.2 million, RMB27.8 million, RMB47.6 million, RMB38.5 million and RMB34.5 million for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

For 9M2020, Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) were two of our top selling products, which contributed approximately RMB31.8 million and RMB21.0 million of our revenue, respectively. The surging demand of these two products was mainly because these two products were believed to be having the intended therapeutic effect for treating the symptoms of COVID-19 and/or similar illness. In particular, Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) has a similar major APIs with a state-recommended PCM for COVID-19 as announced by the PRC Government. As COVID-19 conditions in the PRC have gradually stabilised, we believe that the demand for these two products will slow down and/or decrease.

These seven products together accounted for approximately 61.5%, 71.8%, 72.9%, 78.4% and 81.6% of our total revenue for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively. Please refer to the subsection headed "Financial Information – Revenue – By Products" in this prospectus for further information.

Average net selling price and sales volume by product

The table below sets out the average net selling price (including VAT and net of monetary Marketing Incentives) and sales volume by our major products for the years/periods indicated:

	FY2017		FY2018		FY2019		9M2019		9M2020	
	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*
OTC medicine										
Vigour and Vitality Supplement Pill (補腎填精丸)	238.4	134	237.9	222	285.7	199	289.2	174	289.1	149
Circulation Enhancement Pill (氣血雙補丸)	57.5	415	79.6	716	83.8	555	84.7	463	80.7	492
Menstrual Discomfort Relief Pill (加味逍遙丸)	124.8	56	83.2	102	85.2	97	84.5	74	86.3	78
Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸)	23.6	6	26.7	1	–	–	–	–	44.4	809
Total		611		1,041		851		711		1,528

	FY2017		FY2018		FY2019		9M2019		9M2020	
	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*	Average net selling price *RMB/kg*	Sales Volume *('000 kg (approximately))*
Prescribed medicine										
Cardiotonic Enhancement Capsule (山玫膠囊)	852.4	16	613.3	33	612.4	64	612.6	51	666.1	36
Heart Wellness Capsule (心安膠囊)	473.0	17	341.6	36	326.3	52	334.8	42	304.3	53
Liver Detox Tablet (護肝片)	134.8	17	169.8	50	172.4	49	173.4	37	181.6	34
Kidney Invigoration Pill (金匱腎氣丸)	75.0	81	64.4	102	84.4	304	83.3	275	81.5	268
Fever-removing and Detoxification Pill (清瘟解毒丸)	24.7	6	22.2	1	–	–	–	–	42.2	561
Total		137		222		469		405		952

The average net selling price of Vigour and Vitality Supplement Pill (補腎填精丸) increased from RMB237.9 per kg in FY2018 to approximately RMB285.7 per kg in FY2019, mainly due to the average net selling price was revised in order to cope with the increase in costs of Deer Antler (鹿茸) and Ginseng (人蔘), both of which are principal raw material of Vigour and Vitality Supplement Pill (補腎填精丸). Its average net selling price of approximately RMB289.1 per kg for 9M2020 was maintained at stable level compared to its average net selling price of approximately RMB289.2 per kg for 9M2019.

The average net selling price of Circulation Enhancement Pill (氣血雙補丸) increased from approximately RMB57.5 per kg in FY2017 to approximately RMB79.6 per kg in FY2018, mainly due to (i) we reduced the amount of monetary Marketing Incentives; and (ii) the increase in prices of Chinese Angelica (當歸), one of its principal raw materials. Approximately 72.5% increase in its sales volume was mainly attributable to our heavy and successful market promotion in FY2016 and FY2017 by offering monetary Marketing Incentives to our distributors that increased our brand and product awareness and drove up the market demand of this product. Similarly, we used competitive pricing strategy to promote Kidney Invigoration Pill (金匱腎氣丸) in FY2018, resulted in a decrease in its average net selling price from approximately RMB75.0 per kg in FY2017 to approximately RMB64.4 per kg in FY2018 (or approximately 14.1%) and coupled with an increase in sales volume of approximately 25.9%. Such pricing strategy resulted in the increase in product awareness which drove up the market demand from Northeast and Huanan (華南), consequently, the average net selling price of Kidney Invigoration Pill (金匱腎氣丸) increased from RMB64.4 per kg in FY2018 to approximately RMB84.4 per kg in FY2019, coupled with an increase in sales volume of approximately 198.0%.

The average net selling price of Circulation Enhancement Pill (氣血雙補丸) increased from approximately RMB79.6 per kg in FY2018 to approximately RMB83.8 per kg in FY2019 as we reduced the amount of monetary Marketing Incentives to our distributors during the year. After taking into consideration of the significant growth of Circulation Enhancement Pill (氣血雙補丸) in FY2018, our Directors decided to allocate more monetary Marketing Incentives to other major products with lower growth rates, and thus rendered a slight decrease in sales volume in FY2019.

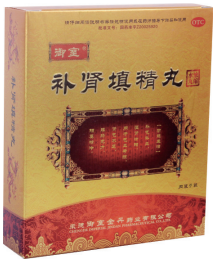
During FY2018, to promote Menstrual Discomfort Relief Pill (加味逍遙丸), Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊), our Directors reduced the average net selling prices of these products. As a result, the sales volume for Menstrual Discomfort Relief Pill (加味逍遙丸) increased by approximately 82.1%, whereas the sales volume for Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) increased by approximately 106.3% and 111.8%, respectively from FY2017 to FY2018.

The average net selling price of Cardiotonic Enhancement Capsule (山玫膠囊) increased to approximately RMB666.1 per kg for 9M2020 as we reduced the types of packing offered to distributors (i.e. no longer offering promotional packings with lower average net selling prices) due to the temporary change in market demand. The decrease in the average net selling price of Circulation Enhancement Pill (氣血雙補丸) and Heart Wellness Capsule (心安膠囊) to approximately RMB80.7 per kg and RMB304.3 per kg respectively, was also due to our adjusted pricing strategy in order to drive up the market demand of these products during the period.

The average net selling price of Liver Detox Tablet (護肝片) increased from RMB134.8 per kg in FY2017 to approximately RMB169.8 per kg in FY2018 and further to approximately RMB181.6 per kg in 9M2020, mainly due to the compensation of the increase in cost of some of its principal raw materials in particular, Chinese Magnoliavine Fruit (五味子).

For 9M2020, our sales volume for both Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) experienced notably increase as they were believed to be having the intended therapeutic effect for treating the symptoms of COVID-19 and/or similar illness. On the other hand, some of the other major products, namely Vigour and Vitality Supplement Pill (補腎填精丸), Cardiotonic Enhancement Capsule (山玫膠囊), Liver Detox Tablet (護肝片) and Kidney Invigoration Pill (金匱腎氣丸) experienced a decrease in sales volume during the period.

The following sets out a summary of the key information and product image[(Note)] on our major products in terms of revenue during the Track Record Period.

Product name	Type	Intended Therapeutic effect	Major APIs	Shelf lives
1. Vigour and Vitality Supplement Pill (補腎填精丸) 	OTC	Replenishing Qi and enhancing blood circulation; improving kidney, testicles and endocrine related conditions	– Ginseng (人蔘) – Deer Antler (鹿茸) – Bull Pizzle (牛鞭) – Shorthorn Barrenwort (淫羊藿) – Barbary Wolfberry Fruit (枸杞子)	36 months
• This product is intended for use by the Middle-aged and the Elderly male. In the Chinese community, it is believed that by consuming the essence of the reproductive organ of donkey, goat, bull and deer, it may help men to enhance or improve their masculinity (以形補形).				
2. Circulation Enhancement Pill (氣血雙補丸) 	OTC	Replenishing Qi and boosting blood production; reducing chronic tiredness or sleepiness, dizziness, sore or aching muscles	– Mongolian Milkvetch Root (黃芪) – Chinese Angelica (當歸) – Rehmannia (熟地黃) – Tuber Fleeceflower Root (何首烏) – Dangshen (黨蔘)	36 months
• This product has been listed as one of the protected traditional Chinese medicinal products (Grade 2) from October 2012 to November 2017 by the State Food and Drug Administration.				
3. Cardiotonic Enhancement Capsule (山玫膠囊) 	Prescribed	Replenishing Qi and enhancing blood circulation; alleviating coronary heart condition, headache and facial pain	– Hawthorn Leaves (山楂葉) – Cimeiguo (刺玫果)	36 months
• This product received the New Drug Certificate (新藥證書) from the Ministry of Health of the PRC in 1995, and it has been listed as one of the protected traditional Chinese medicinal products (Grade 2) from July 2010 to November 2015 by the State Food and Drug Administration. In 2016, such product was awarded as a "Famous Product of Small and Medium-sized Enterprise in Hebei Province" (河北省中小企業名牌產品) by the Industry and Information Technology Department of Hebei Province (河北省工業和信息化廳). Its major API is Hawthorn Leaves (山楂葉), which contain flavonoids (類黃酮) offering potential positive treatment and/or alleviation effects on cardio-cerebrovascular condition such as coronary heart disease, angina and etc.				

Note: We offer multiple sizes (in terms of quantity of the pills/capsules/sachets per pack) for each of our products. As such, we have multiple package designs (which all contain the same trademark or logo of our Group) for each of our products. Product images shown above are selected images for illustrative purposes only.

Product name	Type	Intended Therapeutic effect	Major APIs	Shelf lives
4. Kidney Invigoration Pill (金匱腎氣丸) 	Prescribed	Replenishing Qi; improving kidney, edema, loin, knees and limbs conditions; facilitating urination	– Adhesive Rehmannia Root (生地黃) – Common Yan Rhizome (山藥) – Medical Dogwood (山茱萸) – Tree Peony Bark (牡丹皮) – Tuckahoe (茯苓)	36 months
• This product has been one of our major products since 2017.				
5. Heart Wellness Capsule (心安膠囊) 	Prescribed	Dilating blood vessels; improving blood supply to the heart; lowering fatty acids and cholesterol; alleviating chest pain and high blood pressure	– Hawthorn Leaves (山楂葉)	36 months
• This product was awarded as a "Famous Product of Small and Medium-sized Enterprise in Hebei Province" (河北省中小企業名牌產品) by the Industry and Information Technology Department of Hebei Province (河北省工業和信息化廳) in 2015. Its major API is Hawthorn Leaves (山楂葉), which contain flavonoids (類黃酮) offering potential positive treatment and/or alleviation effects on cardio-cerebrovascular condition such as coronary heart disease, angina and etc.				
6. Menstrual Discomfort Relief Pill (加味逍遙丸) 	OTC	Replenishing Qi and improving liver and spleen conditions; temporary relief of menstrual discomfort and relevant chest pain	– Chinese Thorowax Root (柴胡) – Chinese Angelica (當歸) – Common Gardenia Fruit (梔子) – White Peony Root (白芍) – Tree Peony Bark (牡丹皮)	36 months
• This product was intended for female use and the product has been one of our major products since 2017.				
7. Liver Detox Tablet (護肝片) 	Prescribed	Replenishing Qi and improving liver and spleen conditions; normalising liver enzyme	– Chinese Thorowax Root (柴胡) – Capillary Wormwood Herb (茵陳) – Indigowoad Root (板藍根) – Chinese Magnoliavine Fruit (五味子) – Zhudanfen (豬膽粉)	36 months
• This product has been one of our major products since 2018.				

Product name	Type	Intended Therapeutic effect	Major APIs	Shelf lives
8. Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) 	OTC	Alleviating the conditions of externally-contracted wind-cold, which include headache, dizziness, abdominal distension, vomiting and diarrhoea	– Patchouli (廣藿香) – Atractylodes Rhizome (白朮) – Ternate Pinellia (半夏)	36 months
• This product has been one of our major products since 2020. It has similar major APIs with a state-recommended PCM for COVID-19 as announced by the PRC Government.				
9. Fever-removing and Detoxification Pill (清瘟解毒丸) 	Prescribed	Alleviating fever condition. Used for high fever with aversion to cold, headache and sweatless	– Lobed Kudzuvine Root (葛根) – Baikal Skullcap Root (黃芩) – Figwort (玄參)	36 months
• This product has been one of our major products since 2020. It is believed to be having the intended therapeutic effect for treating the symptoms of COVID-19 and/or similar illness.				

Please refer to "Financial Information – Principal Components of Combined Statements Profit or Loss and Other Comprehensive Income" for a discussion on the fluctuations of the sales volume of these products during the Track Record Period.

Future demand for our major products

We are of the view that the future demand of our major products, namely Circulation Enhancement Pill (氣血雙補丸), Vigour and Vitality Supplement Pill (補腎填精丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) will remain solid due to positive outlook of the PRC TCM market as mentioned under the subsection headed "Business – Our Strategies – Significant Growth in the Traditional Chinese Medicine industry" in this prospectus.

SALES AND DISTRIBUTION

We had a distribution network that consists of 77 distributors and 37 marketing staff members covering 39 cities in the PRC as at the Latest Practicable Date. We believe our distribution network utilising our distributors allows us to maximise our market presence and penetrate in reasonably extensive width and breadth in Northeast. During the Track Record Period, our distribution network in Northeast had successfully assisted our Group to develop continually. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our revenue derived from

Northeast were approximately RMB53.6 million, RMB88.4 million, RMB120.3 million, RMB96.5 million and RMB118.1 million, representing approximately 50.3%, 51.0%, 55.0%, 55.8% and 53.9% of our total revenue, respectively.

Sales and distribution mechanism

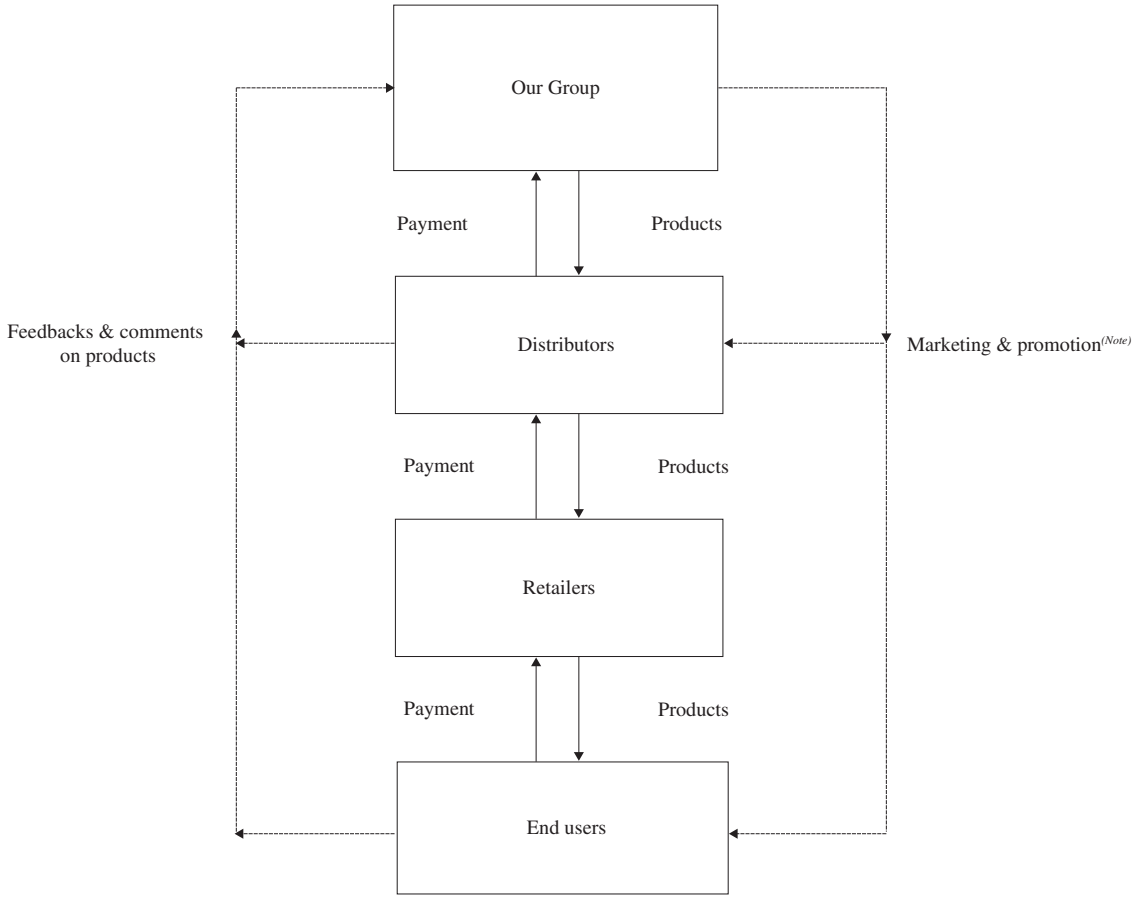
To manage our distribution network, our marketing staff work closely with our distributors. In particular, our marketing staff:

(i) assist the distributors in promoting sales target;

(ii) monitor their performances and inventory levels; and

(iii) ensure that our products can penetrate effectively into target areas.

Further, they are under the supervision of Mr. Li Jinglian, our executive Director, who has over 15 years of experience in sales and marketing in the TCM industry. The diagram below illustrates our sales and distribution mechanism:



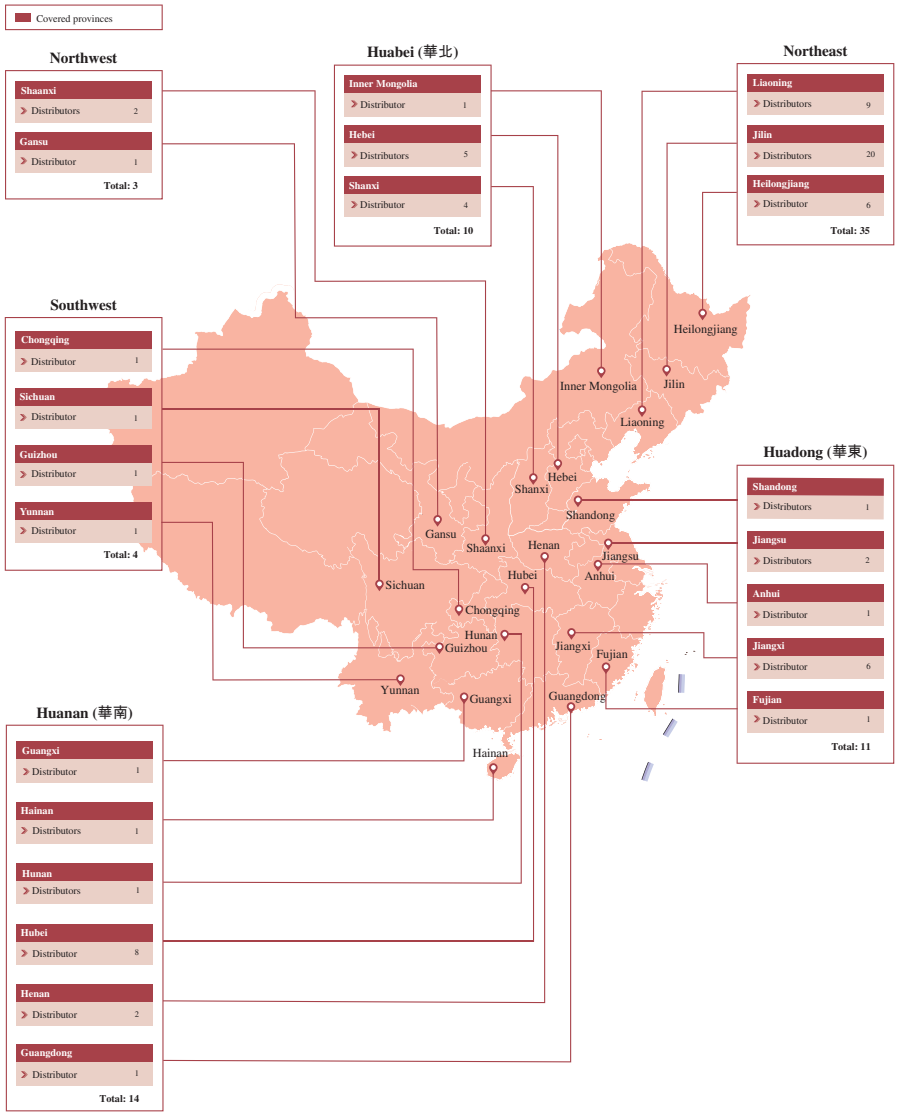
Note: During the Track Record Period, all our advertisements related to the drugs manufactured by our Group have been approved by the relevant drug advertisement examination authority.

We continuously strengthen the quality of our marketing staff by providing them training periodically to improve their product knowledge and marketing skills, including how to select and cooperate with distributors and help distributors to handle queries from retailers/end users. We believe that we have provided competitive remuneration packages to our marketing staff. Furthermore, as an important measure to maintain the quality and performance of our distributors, we consider that obsolete inventory and late payment from the distributors (if any) as negative indicators of the performance of our marketing staff. We consider such evaluation criteria can minimise the chances of conflict of interest between our marketing staff and the distributors.

Based on the independent due diligence performed (including but not limited to review the terms of the distribution agreements, interview with the distributors, visit distributors' warehouses, review our Group's revenue recognition policy, ageing of trade receivables and subsequent collection and review goods return policy and inventory level of our Group) by the Sole Sponsor and the corresponding disclosures in this prospectus, the Sole Sponsor is of the view that the prospectus is in compliance with the Guidance Letter HKEx-GL36-12 (May 2012, updated in February 2020) issued by the Stock Exchange.

Our distributors

During the Track Record Period, all of our revenue was derived from the sales of our pharmaceutical products to distributors in the PRC, which were all Independent Third Parties as at the Latest Practicable Date. Jilin Tiantian Universal Health Medicine Logistics Distribution Co., Ltd.* (吉林省天天大健康醫藥物流配送有限公司) ("**Jilin Tiantian**"), one of our top 30 distributors during the Track Record Period, was indirectly controlled by Mr. Xie's father until January 2020 when he disposed of all his equity interests in the holding company of Jilin Tiantian to an Independent Third Party for retirement planning. For FY2018, FY2019 and 9M2020, our sales to Jilin Tiantian were approximately RMB0.8 million, RMB1.5 million and RMB1.9 million, respectively. Our Directors confirmed that all the transactions between us and Jilin Tiantian during the Track Record Period were conducted in the ordinary course of business under normal commercial terms and were on arms' length basis. We maintain a buyer/seller relationship with our distributors, and our distributors are our customers. To the best knowledge of our Directors, our distributors sold our products in the PRC only. The map below illustrates the coverage of our distribution network (including the number of our distributors in each of the provinces, autonomous regions and centrally administered municipalities) as at the Latest Practicable Date.



Note: As at the Latest Practicable Date, we had 77 distributors by counting them individually. However, as 5 distributors were under the same listed group – Universal Health and one distributor was an associate company of Customer A, the number of our distributors in aggregate was 72.

Prior to Mr. Xie's acquisition of Chengde Yushi from Independent Third Parties in June 2014, we had relied on one distributor (namely Heilongjiang Jintian Aixin Pharmaceutical Distribution) in Northeast. In order to better promote our products beyond Northeast and reduce our reliance on such distributor, we have continuously expanded the number of our distributors and geographic coverage since 2016. The number of our distributors increased from 22 in 2016 to 29, 75, 78, and 77 as at 31 December 2017, 31 December 2018, 31 December 2019 and the Latest Practicable Date, respectively. The notable increase in the number of distributors during FY2018 was due to the fact that we had started to hire additional marketing staff member in FY2016, and it took time to negotiate new distribution agreements, and these new distribution agreements were only confirmed and signed between FY2017 and FY2018.

We believe the broadening in distribution network would enable us to achieve market expansion and widen our geographic coverage. Further, by diversifying our distributor portfolio, we can reduce our reliance on any single distributor. Going forward, we will continue to broaden our distributor network with an aim to further increase our market share and market penetration.

Please refer to the subsection headed "Business – Our Customers – Distributors" in this section for further details of the changes in the number of our distributors during the Track Record Period.

The following table sets forth a breakdown of our revenue by geographical markets for the years/periods indicated:

	FY2017		**FY2018**		**FY2019**		**9M2019**		**9M2020**	
	RMB('000)	*% of total revenue*	*RMB('000)*	*% of total revenue*	*RMB('000)*	*% of total revenue*	*RMB('000)*	*% of total revenue*	*RMB('000)*	*% of total revenue*
Northeast	53,586	50.3	88,422	51.0	120,252	55.0	96,465	55.8	118,060	53.9
Huadong (華東)	15,506	14.6	25,797	14.9	24,885	11.4	20,756	12.0	14,221	6.5
Huanan (華南)	10,501	9.9	21,534	12.4	33,500	15.3	25,372	14.6	39,426	18.0
Huabei (華北)	26,792	25.1	36,435	21.0	33,178	15.2	25,609	14.8	39,799	18.2
Southwest	81	0.1	1,255	0.7	4,303	2.0	2,877	1.7	4,295	2.0
Northwest	–	–	69	0.0*	2,649	1.1	1,891	1.1	3,037	1.4
Total	106,466	100.0	173,512	100.0	218,767	100.0	172,970	100.0	218,838	100.0

* *Represents negligible amount*

Our marketing activities

Most of our sales and marketing team members hold professional qualifications in medicine, pharmacy, marketing or other related disciplines. Our sales and marketing team is led by Mr. Li Jinglian, who has over 15 years of experience in the sales and marketing in the TCM industry. Furthermore, our marketing staff normally focus on the marketing and promotion activities in a designated region in order to solidify and familiarise with such particular local market, and to foster closer collaboration with our local distributors.

Leveraging on our product expertise and the experience of our sales and marketing team, we adopt a marketing strategy focusing on "collaborative knowledge sharing" with industry experts and practitioners through sponsoring and attending, for example, PharmChina (全國藥品交易會), seminars or events. By sharing information regarding our products (such as features or unpublished data to the extent allowed under the relevant laws and regulations), we aim to enrich and update practitioners' knowledge of our products or information on relevant therapeutic aspects. Going forward, we plan to pursue multi-channel marketing efforts, which mainly involves social media advertisement, television programmes, pharmaceuticals-related print media, academic seminars and outdoor advertisement. We believe that increasing expenditure on marketing will help us to establish our brand and can help to promote our products to distributors and end users and thus boost our sales in the end.

Moreover, we offer continuous training for our employees to improve their product knowledge and awareness. In addition, we also offer training programmes to improve employees' customer handling and marketing skills, organisation and sales ability.

Our customers

Distributors

During the Track Record Period, all of our pharmaceutical products were sold to our distributors, who onsold to retailers (such as drugstores, pharmacies and clinics), where end-users could purchase our products. We maintain a buyer/seller relationship with our distributors, and our distributors are our customers. We believe our distributorship business model is in line with the industry practice in the PRC and allows us to benefit from our distributors' established access to local markets and expand the breadth and depth of our market presence in a cost-efficient manner.

For FY2017, FY2018, FY2019 and 9M2020, the total sales to our Group's five largest customers (i.e. distributors) accounted for approximately 79.6%, 64.0%, 40.2% and 43.4% of our total revenue for the respective years/period while sales to our single largest customer accounted for approximately 44.6%, 16.9%, 10.7% and 11.2% of our total revenue for the respective years/period.

Save as disclosed further in the subsection headed "Relationship with our Controlling Shareholders – Mr. Xie's historical passive investment in the parent company of a major distributor" in this prospectus, we confirm that, all of our five largest customers (i.e.

distributors) during the Track Record Period were Independent Third Parties and none of our Directors or their close associates or our existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period*(Note)*. As at the Latest Practicable Date, Mr. Xie did not directly or indirectly hold any shares of Universal Health. Other than being our Group's customers, and save as disclosed in the subsection headed "Relationship with our Controlling Shareholders – Mr. Xie's historical passive investment in the parent company of a major distributor" in this prospectus regarding Mr. Xie's interest in Universal Health, and the relationship between Mr. Xie's father and Jilin Tiantian, one of our top 30 distributors during the Track Record Period, none of our Group's distributors during the Track Record Period has any past or present relationship (business, family, financing, employment or otherwise) with the Controlling Shareholder, our Company, its subsidiary, our Directors and senior management or any of their respective associates.

Save for Customer A and Heilongjiang Jintian Aixin Pharmaceutical Distribution, during the Track Record Period, none of our major customers was also our supplier or vice versa. For further information, please refer to "Business – Overlapping of Customers and Suppliers".

The following tables set out our top five customers and other information for the years/period indicated:

For 9M2020

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
1	Jilin Qianzhikang Pharmaceutical Co., Ltd.* (吉林省乾芝康藥業有限公司)	Established in 2014 with registered capital of RMB5 million	Wholesale of Chinese patent medicine, chemicals, antibiotics, wholesales; health food, medical instruments, disinfection supplies	Changchun City, Jilin Province, the PRC	Vigour and Vitality Supplement Pill (補腎填精丸), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊)	2016	60 days	bank/wire transfer	24,524	11.2

Note: Jilin Tiantian, one of our top 30 distributors during the Track Record Period, was indirectly controlled by Mr. Xie's father until January 2020 when he disposed of all his equity interests in the holding company of Jilin Tiantian to an Independent Third Party.

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
2	Tiandi Minsheng Pharmaceutical Group Co., Ltd.* (天地民生醫藥集團有限公司)	Established in 2014 with registered capital of RMB320 million	Sale of medicinal herbs, Chinese patent medicine, chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Zhengzhou City, Henan Province, the PRC	Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), Vigour and Vitality Supplement Pill (補腎填精丸), Fever-removing and Detoxification Pill (清瘟解毒丸), Cardiotonic Enhancement Capsule (山玫膠囊)	2016	60 days	bank/wire transfer	22,650	10.4
3	Jilin Pushi Pharmaceutical Co., Ltd.* (吉林省普世藥業有限公司)	Established in 2014 with registered capital of RMB6 million	Sale of Chinese patent medicine, chemicals, antibiotic	Changchun City, Jilin Province, the PRC	Fever-removing and Detoxification Pill (清瘟解毒丸), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊)	2017	60 days	bank/wire transfer	18,205	8.3

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
4	Pharmaceutical Branch of Shanxi Fushenggong Pharmaceutical Group Co., Ltd.* (山西復盛公藥業集團有限公司醫藥分公司)	Established in 2011 and a branch of Shanxi Fushenggong Pharmaceutical Group Co., Ltd. (山西復盛公藥業集團有限公司) with registered capital of RMB50 million	Wholesale of medicine, healthy food, medical instruments	Jinzhong City, Shanxi Province, the PRC	Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), Vigour and Vitality Supplement Pill (補腎填精丸), Fever-removing and Detoxification Pill (清瘟解毒丸), Circulation Enhancement Pill (氣血雙補丸)	2016	60 days	bank/wire transfer	17,594	8.0
5	Hebei Jinkui Pharmaceutical Co., Ltd.* (河北金匱醫藥有限公司)	Established in 2001 with registered capital of RMB10 million	Wholesale of medicinal herbs, Chinese patent medicine, Chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Shijiazhuang City, Hebei Province, the PRC	Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), Vigour and Vitality Supplement Pill (補腎填精丸), Fever-removing and Detoxification Pill (清瘟解毒丸), Circulation Enhancement Pill (氣血雙補丸)	2016	60 days	bank/wire transfer	12,110	5.5
	Total								95,083	43.4

For FY2019

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
1	Jilin Qianzhikang Pharmaceutical Co., Ltd.* (吉林省乾芝康藥業有限公司)	Established in 2014 with registered capital of RMB5 million	Wholesale of Chinese patent medicine, chemicals, antibiotics, wholesales; health food, medical instruments, disinfection supplies	Changchun City, Jilin Province, the PRC	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)	2016	60 days	bank/wire transfer	23,511	10.7
2	Tiandi Minsheng Pharmaceutical Group Co., Ltd.* (天地民生醫藥集團有限公司)	Established in 2014 with registered capital of RMB320 million	Sale of medicinal herbs, Chinese patent medicine, chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Zhengzhou City, Henan Province, the PRC	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), Heart Wellness Capsule (心安膠囊), Kidney Invigoration Pill (金匱腎氣丸)	2016	60 days	bank/wire transfer	19,790	9.1
3	Jilin Pushi Pharmaceutical Co., Ltd.* (吉林省普世藥業有限公司)	Established in 2014 with registered capital of RMB6 million	Sale of Chinese patent medicine, chemicals, antibiotic	Changchun City, Jilin Province, the PRC	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), Heart Wellness Capsule (心安膠囊), Kidney Invigoration Pill (金匱腎氣丸)	2017	60 days	bank/wire transfer	17,989	8.2

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
4	Customer A[(1)]	Established in 2012 and is 70% owned by an A-Share listed company with registered capital of RMB16 million	Wholesale of medicinal herbs, Chinese patent medicine, chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Zhangshu City, Jiangxi Province, the PRC	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), Heart Wellness Capsule (心安膠囊), Kidney Invigoration Pill (金匱腎氣丸)	2017	60 days	bank/wire transfer	14,175	6.5
5	Pharmaceutical Branch of Shanxi Fushenggong Pharmaceutical Group Co., Ltd.* (山西復盛公藥業集團有限公司醫藥分公司)	Established in 2011 and a branch of Shanxi Fushenggong Pharmaceutical Group Co., Ltd. (山西復盛公藥業集團有限公司) with registered capital of RMB50 million	Wholesale of medicine, healthy food, medical instruments	Jinzhong City, Shanxi Province, the PRC	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)	2016	60 days	bank/wire transfer	12,502	5.7
	Total								87,967	40.2

For FY2018

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
1	Heilongjiang Jintian Aixin Pharmaceutical Distribution[2]	An indirect wholly-owned subsidiary of Universal Health	Sale of Chinese patent medicine, chemicals, biochemical drugs, Chinese herbal medicine, antibiotic	Harbin City, Heilongjiang Province, the PRC	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), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片)	2011	60 days	bank/wire transfer	29,366	16.9
2	Jilin Pushi Pharmaceutical Co., Ltd. (吉林省普世藥業有限公司)	Established in 2014 with registered capital of RMB6 million	Sale of Chinese patent medicine, chemicals, antibiotic	Changchun City, Jilin Province, the PRC	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), Heart Wellness Capsule (心安膠囊)	2017	60 days	bank/ wire transfer	23,990	13.8
3	Customer A[1]	Established in 2012 and is 70% owned by an A share listed company with registered capital of RMB16 million	Wholesale of medicinal herbs, Chinese patent medicine, Chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Zhangshu City, Jiangxi Province, the PRC	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), Heart Wellness Capsule (心安膠囊)	2017	60 days	bank/wire transfer	21,489	12.4

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
4	Tiandi Minsheng Pharmaceutical Group Co., Ltd.* (天地民生醫藥集團有限公司)	Established in 2014 with registered capital of RMB320 million	Sale of medicinal herbs, Chinese patent medicine, Chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Zhengzhou City, Henan Province, the PRC	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), Heart Wellness Capsule (心安膠囊)	2016	60 days	bank/wire transfer	18,869	10.9
5	Jilin Qianzhikang Pharmaceutical Co., Ltd.* (吉林省乾芝康藥業有限公司)	Established in 2014 with registered capital of RMB5 million	Wholesale of Chinese patent medicine, chemicals, antibiotics, wholesales; healthy food, medical instruments, disinfection supplies	Changchun City, Jilin Province, the PRC	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)	2016	60 days	bank/wire transfer	17,278	10.0
	Total								110,992	64.0

Notes:

(1) As at the Latest Practicable Date, Customer A and an associate company have common controlling shareholder.

(2) In FY2018, Heilongjiang Jintian Aixin Pharmaceutical Distribution had five subsidiaries that had entered into agreements with us, namely Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd. (河北金天燕霄醫藥有限公司), Jiamusi Jintian Aixin Pharmaceutical Co., Ltd. (佳木斯金天愛心醫藥有限公司), Shenyang Wei Kang Drug Store Chain Co., Ltd. (瀋陽維康醫藥連鎖有限公司), Shenyang Weishi Pharmaceutical Co., Ltd. (瀋陽衛世醫藥有限公司), and Tonghua Jinfeng Pharmacy Chain Co., Ltd. (通化勁峰大藥房連鎖有限公司). For illustration purpose, the total sales amount shown above is the aggregate sales amount of Heilongjiang Jintian Aixin Pharmaceutical Distribution and its five subsidiaries. During FY2018 and as at the Latest Practicable Date, these five subsidiaries remain as the subsidiaries of Heilongjiang Jintian Aixin Pharmaceutical Distribution. During 2018 and as at the Latest Practicable Date, Heilongjiang Jintian Aixin Pharmaceutical Distribution is indirectly wholly owned by Universal Health.

In May 2018, Mr. Xie, one of our Controlling Shareholders, held, directly and indirectly, approximately 9.77% of the then issued shares of Universal Health. For further information, please refer to the subsection headed "Relationship with our Controlling Shareholders – Mr. Xie's historical passive investment in the parent company of a major distributor" in this prospectus. As at the Latest Practicable Date, Mr. Xie did not directly or indirectly hold any shares of Universal Health.

For FY2017

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
1	Heilongjiang Jintian Aixin Pharmaceutical Distribution[3]	An indirect wholly-owned subsidiary of Universal Health	Sale of Chinese patent medicine, chemicals, biochemical drugs, Chinese herbal medicine, antibiotic	Harbin City, Heilongjiang Province, the PRC	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), Heart Wellness Capsule (心安膠囊) Liver Detox Tablet (護肝片), Kidney Invigoration Pill (金匱腎氣丸)	2011	60 days	bank/wire transfer	47,507	44.6
2	Customer A[1]	Established in 2012 and is 70% owned by an A share listed company with registered capital of RMB16 million	Wholesale of medicinal herbs, Chinese patent medicine, Chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Zhangshu City, Jiangxi Province, the PRC	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), Heart Wellness Capsule (心安膠囊)	2017	60 days	bank/wire transfer	15,115	14.2
3	Tiandi Minsheng Pharmaceutical Group Co., Ltd.* (天地民生醫藥集團有限公司)	Established in 2014 with registered capital of RMB320 million	Sale of medicinal herbs, Chinese patent medicine, Chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Zhengzhou City, Henan Province, the PRC	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), Menstrual Discomfort Relief Pill (加味逍遙丸)	2016	60 days	bank/wire transfer	10,148	9.5

Rank	Name of customer	Background	Principal business	Principal operating region	Major products procured	Commencement of business relationship with our Group	Credit term	Payment method	Total sales *(RMB'000)*	% of our Group's total sales
4	Hebei Jinkui Pharmaceutical Co., Ltd.* (河北金匱醫藥有限公司)	Established in 2001 with registered capital of RMB10 million	Wholesale of medicinal herbs, Chinese patent medicine, Chemical raw materials and preparations, biochemical drugs, Chinese herbal medicine, antibiotic	Shijiazhuang City, Hebei Province, the PRC	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), Menstrual Discomfort Relief Pill (加味逍遙丸)	2016	60 days	bank/wire transfer	6,501	6.1
5	Jilin Province Baijitang Pharmaceutical Co., Ltd.* (吉林省栢吉堂藥業有限公司)	Established in 2014 with registered capital of RMB2 million	Sale of Chinese patent medicine, chemicals, antibiotic	Changchun City, Jilin Province, the PRC	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), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸)	2016	60 days	bank/wire transfer	5,445	5.2
	Total								84,716	79.6

(3) In FY2017, Heilongjiang Jintian Aixin Pharmaceutical Distribution had five subsidiaries that had entered into agreements with us, namely Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd. (河北金天燕霄醫藥有限公司), Jiamusi Jintian Aixin Pharmaceutical Co., Ltd. (佳木斯金天愛心醫藥有限公司), Shenyang Wei Kang Drug Store Chain Co., Ltd. (瀋陽維康醫藥連鎖有限公司), Shenyang Weishi Pharmaceutical Co., Ltd. (瀋陽衛世醫藥有限公司), and Jilin Jintian Aixin Pharmaceutical Distribution Co., Ltd. (吉林省金天愛心醫藥經銷有限公司). For illustration purpose, the total sales amount shown above is the aggregate sales amount of Heilongjiang Jintian Aixin Pharmaceutical Distribution and its five subsidiaries. During FY2017 and as at the Latest Practicable Date, these five subsidiaries remain as the subsidiaries of Heilongjiang Jintian Aixin Pharmaceutical Distribution. During 2017 and as at the Latest Practicable Date, Heilongjiang Jintian Aixin Pharmaceutical Distribution is indirectly wholly owned by Universal Health.

As at the Latest Practicable Date, Mr. Xie, one of our Controlling Shareholders, did not directly or indirectly hold any shares of Universal Health.

All of our distributors are located in the PRC. We select our distributors based on several criteria, including but not limited to creditworthiness, industry track record, reputation, financial condition, delivery capabilities, regional influence, and internal management. In addition, all our distributors possess all necessary permits, licences and certificates for the distribution of our products, including (i) pharmaceutical trade license (藥品經營許可證); and (ii) confirmation for the fulfilments of GSP requirements.

Generally, our distributors have knowledge of their respective geographic distribution networks. Leveraging on their local relationships, knowledge and networks, we believe our distributorship model enables us to achieve efficient expansion and save the costs to maintain a tremendous sales force to cover a large number of point of sales directly and to establish a logistics network.

The changes in the movement of the number of our distributors, who had transactions with our Group over the past 12 months, for the three years ended 31 December 2019 and up to the Latest Practicable Date are set out below:

	2017	**2018**	**2019**	**From 1 January 2020 up to the Latest Practicable Date**
As at the beginning of the year/period	22	29	75	78
Additions of distributors	9	47	7	1
(Non-renewal of existing distributors)	(2)	(1)	(4)	(2)
Net increase/(decrease) in distributors	7	46	3	(1)
As at the end of the year/period[(Note)]	29	75	78	77

Note: As at 31 December 2017, 31 December 2018, 31 December 2019 and the Latest Practicable Date, we had 29, 75, 78 and 77 distributors respectively by counting them individually; however, as 6, 6, 5 and 5 distributors were under the same listed group – Universal Health and one distributor in FY2019 and up to the Latest Practicable Date was an associate company of Customer A, the number of our distributors in aggregate were 24, 70, 73 and 72 as at the respective years/period end dates.

Increasing number of distributors and widening geographical coverage

From FY2017 and up to the Latest Practicable Date, we entered into agreement with 64 new distributors and did not renew our contractual relationship with 9 distributors who had a less competitive distribution network and/or channel compared with the other distributors. Throughout the Track Record Period, we did not early terminate contractual relationship with any of our distributors.

Since 2016, in order to better promote our products beyond Northeast and reduce our reliance on one distributor (namely Heilongjiang Jintian Aixin Pharmaceutical Distribution), we have continuously expanded the number of our distributors and geographic coverage. The number of our distributors increased from 17 in 2016 to 24, 70, 73 and 72 as at 31 December 2017, 31 December 2018, 31 December 2019 and the Latest Practicable Date, respectively. The notable increase in the number of distributors during FY2018 was due to the fact that we had hired additional marketing staff member in FY2016, and it took time to negotiate new distribution agreements, and these new distribution agreements were only confirmed and signed between FY2017 and FY2018.

We believe the broadening in distribution network would enable us to achieve market expansion and widen our geographic coverage. Further, by diversifying our distributor portfolio, we can reduce our reliance on any single distributor. Going forward, we will continue to broaden our distributor network with an aim to further increase our market share and market penetration.

The following table shows the distribution coverage of our distributors which entered into distribution agreements with us as at the Latest Practicable Date:

	Region	**Provinces, municipalities and autonomous regions**[(1)]	**Number of distributors**
1.	Northeast	Heilongjiang Province, Jilin Province and Liaoning Province	35
2.	Huanan (華南)	Henan Province, Hubei Province, Hunan Province, Guangxi Autonomous Region, Guangdong Province and Hainan Province	14
3.	Huadong (華東)	Jiangsu Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province	11
4.	Huabei (華北)	Shanxi Province, Hebei Province and Inner Mongolia Autonomous Region	10
5.	Southwest	Chongqing City, Sichuan Province, Guizhou Province and Yunnan Province	4
6.	Northwest	Shaanxi Province and Gansu Province	3
Total			77[(2)]

Notes:

1. As at the Latest Practicable Date, our distributors covered 39 cities in the PRC.

2. As at the Latest Practicable Date, we had 77 distributors by counting them individually. However, as 5 distributors were under the same listed group – Universal Health and one distributor was an associate company of Customer A, the number of our distributors in aggregate was 72.

Dual-Invoicing System

While the pharmaceutical distribution industry in the PRC was fragmented, the PRC Government has introduced policies over the past few years to encourage industry consolidation by way of mergers and restructurings. These policies include the Dual-Invoicing System (兩票制) promulgated by the PRC Government in 2016. The Dual-Invoicing System allows a single layer/level of distributors from the manufacturers to the public medical institutions for the sale of pharmaceutical products, consequently eliminating multi-level distribution model. As we and/or our distributors do not sell our products through public medical institutions, the implementation of the Dual-Invoice System does not have a material effect on our distribution model.

Salient terms of our distribution agreement

Our distributors are required to comply with our standard distribution agreement they entered into with us. The salient terms of our standard distribution agreements with our distributors as at the Latest Practicable Date are as follows:

Duration:	One year.
Distribution arrangement:	Distributors have a designated principal distributing region and channel.
The rights and obligations of parties involved:	We are obligated to provide pharmaceutical products which meet the national quality standards and bear the logistic expenses. We have all the necessary qualifications and certificates to produce the products. Distributors must obtain pharmaceutical trade license (藥品經營許可證) and comply with the GSP requirements according to the PRC laws and regulations, and both qualifications must remain valid for the entire duration of the distribution agreement. If distributors onsell our products through the internet, distributors shall have license to sell drugs online. Distributors must provide a copy of the valid licenses to us. Distributors are obligated to act in compliance with our distribution agreements and sales policies. Any breach of the sales policies will constitute a breach of the distribution agreements.

Sales and pricing policies:	We sell our products to our distributors at listed wholesale prices. On a best-effort basis, distributors onsell the products within their designated region and channel to the retailers, who intend to sell to the end users. Distributors are prohibited to have sub-distributors for the purpose of onselling our products without obtaining our prior written consent. The resale price of the distributors should be determined with reference to our suggested price, in no case less than the minimum price set by us.
Obsolete stock policies:	Distributors are not allowed to sell any expired pharmaceutical products.
Goods return policies:	We generally only accept sales returns for polluted or damaged products that are caused by us. The sales returns have to be within the shelf life. We do not accept returns of obsolete stock.
Sales and expansion targets:	In general, we offer incentives to our distributors to increase the sales volume of our targetted major products. Such rewards are normally in the form of trade discounts, volume-based rebates and/or price incentives, meaning that the amount the distributors owe us can be reduced by the amount of the rewards. We usually provide such incentives on a product-by-product basis.
Sales and inventory information and estimates:	Distributors are required to provide us monthly update, which includes details such as sales volume, level of inventory and obsolete inventory (if any).
Minimum purchase amounts:	Not applicable, however distributors have recommended sales targets to meet.
Payment:	Our distributors pay us via bank, wire transfers or other means as mutually agreed[(1)].
Credit terms:	We generally grant our distributors a credit term of 60 days.

Note:

(1) During the Track Record Period and up to the Latest Practicable Date, our distributors settled their payment to us via bank or wire transfers only. However, pursuant to our distribution agreements, they are allowed to opt other means of payment (such as e-wallet) if mutually agreed.

Conditions for terminating the agreements:	We may terminate the distribution agreement if the distributor (i) fails to satisfy the prerequisites as our distributors of pharmaceutical products, including but not limited to failing to comply with the GSP requirements; (ii) sells our products to sub-distributors without our prior written consent; or (iii) materially breaches the agreement by selling without complying with the pricing strategies set by us or outside their designated regions or channels.
Use of brand name:	Distributors are prohibited from using our brand name without obtaining our prior written consent.

Managing our Distributors

To better manage our distributors, we conduct periodic and ad hoc inspections to keep track of:

(i) the status of distributors' licenses and certificates, and compliance status as required under the GSP requirements and PRC law;

(ii) the level of their inventory and whether there is any obsolete inventory; and

(iii) the details of the products currently on sale (such as unit price, volume, batch number and expiry date).

We will investigate if any of our distributors may violate any of the terms stipulated in our distribution agreements or sales policies. To the best knowledge of our Directors, our distributors did not enter into sub-distributors agreement for the purpose of onselling our products during the Track Record Period. Furthermore, we conduct interviews with distributor/retailer and inspect the sales invoices issued by distributors to retailers to ensure our products are not sold under the minimum selling price.

We understand our distributors replenish inventory from time to time. Our marketing staff conduct inspection on our distributors from time to time to monitor the inventory level and the practice of the distributors. To the best of our knowledge, none of our distributors has experienced/reported material amount of obsolete inventories during the Track Record Period. In November 2017, two batches of Cinnabar Nerve-calming Pill (朱砂安神丸) (Lot number: 160301 and 160302) were voluntarily recalled by Chengde Yushi. For further details, please refer to the subsection headed "Business – Quality Management – After-Sale Services". During the Track Record Period and up to the Latest Practicable Date, save as disclosed above, our Directors confirm we had not experienced any material sales returns from our distributors and had not experienced any material customer complaint, material product recalls (either mandatory or voluntary), product liability or other legal claims due to problems relating to the quality of our products. Our distributorship agreement is not exclusive and our distributors can manufacture, engage other parties to manufacture or sell similar products so long as they have the required licences.

Mitigation of the risk of cannibalisation

To mitigate the risk of cannibalisation among our distributors, we have the following policies and principles:

1. when we select our distributors, we would primarily delineate their products and sales channels coverage (such as drugstores, pharmacies and clinics) to limit the degree and extent of over-lapping. Furthermore, we also consider (i) the physical location of these drugstores, pharmacies and clinics; and (ii) the intended target end users under its sales channels to ensure our distributor networks do not materially overlap;

2. under the distribution agreement, our distributors are restricted to the designated principal distributing region and channel which we consider thoroughly before we enter into agreements with them, with an aim to establishing a comprehensive network of coverage and avoiding direct and material competition among our distributors;

3. we maintain a recommended prices (floor price) of our products and all our distributors are not allowed to sell to their retailers below such recommended price. In this context, we could have avoid adverse price competition among distributors; and

4. our Sales and Marketing Department reviews sales performance of each sales channel timely to monitor the potential cannibalisation among different distributors.

Some of our distributors (or its retailers) are located in the same cities. Our Directors consider such proximity of physical location does not necessarily constitute cannibalisation as our distributors are strategically chosen to capture more end users. Our Directors consider that the sales of our products through different channels can capture more end users with different spending behaviour and channel preferences. For example, our Directors believe that the older end users may prefer to purchase our products via clinics, where they can have face-to-face consultation, instead of drugstores or pharmacies, while the younger end users would just visit drugstores or pharmacies to purchase our products per their own preference.

Therefore, our Directors believe that there is limited cannibalisation across different sales channels and our distributor management strategy does not construe a high degree of competition among our distributors, even if they are operating in the same geographical region. Instead, our Directors believe marketing through various channels can enhance our Group's customer portfolio and improve our Group's brand recognition and sales performance.

Nonetheless, as business channel and operation may vary from time to time, our above policies and system only aim to minimise adverse competition (i.e. slumping of price, etc.) among distributors.

In any event, considering our increase in the total number of distributors (to 77 as at the Latest Practicable Date) and revenue growth in different regions (to 39 cities as at the Latest Practicable Date), we believe we have established an effective policy and system that could mitigate cannibalisation among our distributors.

Termination of distribution agreement

In accordance with the distribution agreements, we are entitled to terminate the distribution agreement and cancel all or part of the incentive that they have earned in the event of a material breach of the agreements by our distributors, such as failure to sell our products within the designated region and channels under the distribution agreements. During the Track Record Period, we have not experienced any material breach of distribution agreements in these respects. Furthermore, we had not experienced any material delay/dispute in payment by our distributors during the Track Record Period and up to the Latest Practicable Date.

Anti-bribery policy

Furthermore, we are committed to applying a high standard of ethical conduct and integrity in our business activities, in which every employee acting on our behalf, and our distributors are responsible for conducting our and their businesses honestly and professionally. We adopt a zero-tolerance policy to bribery and corruption and are committed to acting fairly and with integrity in all our and their business dealings and relationships wherever and whenever operate.

Going forward, we will continue to select reliable distributors and to leverage their existing distribution networks to establish our presence. We also plan to further expand our current network of distributors and expand its coverage to additional local markets in Huanan (華南) and Huadong (華東).

Relationship with Our Major Distributor in Northeast and Huabei (華北) – Heilongjiang Jintian Aixin Pharmaceutical Distribution

Our business relationship with Heilongjiang Jintian Aixin Pharmaceutical Distribution commenced in 2011. For each of FY2017, FY2018, FY2019 and 9M2020, Heilongjiang Jintian Aixin Pharmaceutical Distribution ranked first, first, ninth and 16th respectively in our customer list in terms of sales. Our revenue derived from sales to Heilongjiang Jintian Aixin Pharmaceutical Distribution amounted to approximately RMB47.5 million, RMB29.4 million, RMB7.9 million and RMB3.9 million, representing approximately 44.6%, 16.9%, 3.6% and 1.8% of our total revenue, respectively. We maintain a buyer/seller relationship with Heilongjiang Jintian Aixin Pharmaceutical Distribution and we sell our products to

Heilongjiang Jintian Aixin Pharmaceutical Distribution for its onsales to its customers. In FY2017 and FY2018, Heilongjiang Jintian Aixin Pharmaceutical Distribution was one of the major distributors in Northeast and the products it purchased from us included 57 types of our products.

Background of Heilongjiang Jintian Aixin Pharmaceutical Distribution

Heilongjiang Jintian Aixin Pharmaceutical Distribution is an indirectly wholly-owned subsidiary of Universal Health, a leading pharmaceutical retailers and distributors in Northeast. As disclosed in its latest published financial statements for the six months ended 31 December 2019, Universal Health maintained pharmaceutical retail chain network in Northeast, operated 850 retail pharmacies, mainly located in Northeast, and had approximately 4,050 active customers and 5 distribution hubs. In addition, Universal Health has set up logistics storage centres in Shijiazhuang, Shenyang, Changchun, Harbin and Jiamusi, and has established a high-quality distribution system radiating across Northeast and Huabei (華北).

Established business relationship with Heilongjiang Jintian Aixin Pharmaceutical Distribution

During the Track Record Period, we sold our products to Heilongjiang Jintian Aixin Pharmaceutical Distribution, who onsold to retailers (such as drugstores, pharmacies and clinics), where end-users could purchase our products. In view of (i) the long-term business relationship; and (ii) the track record of our ability to provide quality products to Heilongjiang Jintian Aixin Pharmaceutical Distribution, our Group considers that we will continue to transact with Heilongjiang Jintian Aixin Pharmaceutical Distribution in the foreseeable future.

The salient terms entered into between our Group and Heilongjiang Jintian Aixin Pharmaceutical Distribution are consistent with the salient terms entered into between our Group and our other distributors during the Track Record Period. According to the Euromonitor Report, it is common for manufacturers not to enter into long-term agreements with distributors in the TCM industry due to a large number of distributors available in the PRC. Conforming to the industry norm, we have not entered into any long-term agreement with Heilongjiang Jintian Aixin Pharmaceutical Distribution in relation to the sales of our products. Throughout the Track Period Record, the purchasing orders placed by Heilongjiang Jintian Aixin Pharmaceutical Distribution with our Group met our internal annual sales targets.

During the Track Record Period, Heilongjiang Jintian Aixin Pharmaceutical Distribution did not have credit default record. Our Group had not experienced any product recall requested by, dispute with or complaint from Heilongjiang Jintian Aixin Pharmaceutical Distribution relating to product quality, timeliness regarding delivery or any other issue which had a material impact on our business operations. While any of the foregoing issues may impair our established business relationship with Heilongjiang Jintian Aixin Pharmaceutical Distribution if it does arise in the foreseeable future, we believe that chance is remote given our proven

track record. The business relationship between Heilongjiang Jintian Aixin Pharmaceutical Distribution and us has already lasted for around nine years and we do not foresee any barrier to the long-term and sustainable development of our business relationship on a continuing basis.

Reducing reliance on Heilongjiang Jintian Aixin Pharmaceutical Distribution

According to the Euromonitor Report, the market size of PCM in the PRC has experienced significant growth, increasing from approximately RMB625.2 billion in 2015 to approximately RMB814.9 billion in 2019, representing a CAGR of approximately 6.8%, and is forecasted to continue its growth at a CAGR of approximately 6.7% from approximately RMB878.5 billion in 2020 to approximately RMB1,137.5 billion in 2024. In particular, the market size of:

(i) the PCM for alleviating Qi-deficiency and blood-stasis conditions increased from approximately RMB58.8 billion in 2015 to approximately RMB93.4 billion in 2019, representing a CAGR of approximately 12.3% and is expected to grow at a CAGR of approximately 10.5% from 2020 to 2024 and reach approximately RMB155.8 billion in 2024; and

(ii) the PCM for alleviating cardio-cerebrovascular conditions increased from approximately RMB153.7 billion in 2015 to approximately RMB226.5 billion in 2019, representing a CAGR of approximately 10.2%, and is expected to grow at a CAGR of approximately 9.6% from 2020 to 2024 and reach approximately RMB362.6 billion in 2024.

Furthermore, according to the same report, as the PCM in Northeast is expected to grow at a CAGR of approximately 5.9% from 2020 to 2024, it is expected that the demands for our products in these markets will also grow simultaneously.

For each of FY2017, FY2018, FY2019, 9M2019 and 9M2020, our revenue derived from sales to Heilongjiang Jintian Aixin Pharmaceutical Distribution amounted to approximately RMB47.5 million, RMB29.4 million, RMB7.9 million, RMB7.9 million and RMB3.9 million, representing approximately 44.6%, 16.9%, 3.6%, 4.5% and 1.8% of our total revenue, respectively. During the same period, our sales volume to Heilongjiang Jintian Aixin Pharmaceutical Distribution amounted to approximately 786,000 kg, 423,000 kg, 66,000 kg, 66,000 kg and 59,000 kg, respectively. In view of our efforts in expanding the distribution network, increasing the number of our distributors, reducing our reliance on Heilongjiang Jintian Aixin Pharmaceutical Distribution, decreasing revenue of Universal Health during the same period, which rendered a reduction in transaction with us, and to the best of our knowledge and understanding, Universal Health had been undergoing a realignment of its sales network in Northeast (covering the areas of Heilongjiang and Jilin) in view of the market competition and development during the relevant time, the revenue contribution derived from Heilongjiang Jintian Aixin Pharmaceutical Distribution reduced significantly from approximately 44.6% in FY2017 to 1.8% in 9M2020.

Continuity of business relationship with Heilongjiang Jintian Aixin Pharmaceutical Distribution

In view of the market position and business growth of Heilongjiang Jintian Aixin Pharmaceutical Distribution, it is unlikely that the demands for OTC and prescribed medicines from Heilongjiang Jintian Aixin Pharmaceutical Distribution will decrease significantly in the foreseeable future. However, in view of our measures to diversify our distributor base we expect that the proportion of revenue contributed by Heilongjiang Jintian Aixin Pharmaceutical Distribution will continue to decrease in the next few years in a steady and orderly manner.

Pricing Strategies

In determining our pricing strategies and the wholesale price, we take into consideration a number of factors, including the following:

- our cost and intended overall profit margin;
- prevailing market environment such as pricing of similar or substitute products;
- the quantity of the products sold;
- market demand;
- the relationship with and the distribution capability, distribution cost and level of demand of our distributors; and
- the distributors' track record in distributing our products.

As at the Latest Practicable Date, as we do not directly, or indirectly through our distributors, sell products to hospitals, none of our products was subject to price controls by national/provincial drug pricing notice.

Marketing incentives

During the Track Record Period, we provided certain Marketing Incentives to selected distributors (i.e. those who procured specific products) to compensate the marketing efforts incurred by them.

Monetary Marketing Incentives

Our monetary Marketing Incentives, which were in the form of trade discount, rebates and/or other price incentives, amounted to approximately RMB44.3 million, RMB26.8 million, RMB29.8 million and RMB16.9 million, respectively, during the Track Record Period. Set out below are the major terms of our monetary Marketing Incentives scheme:

Coverage	:	All distributors
Duration	:	12 months
Requirement	:	Procured specific products with certain specification (packing size in terms of pills, capsules, sachets per pack) as stated in the appendix in the relevant distribution agreement
Measurements	:	The amount of the relevant sales quantity with respect to such specific products
Minimum sales target	:	Not applicable, as no minimum sales quantity was set
Form:	:	In the form of trade discount, rebates and/or other price incentives

As advised by Euromonitor, we offered lower wholesale prices (net of monetary Marketing Incentives and non-monetary Marketing Incentives) to our distributors than the industry average, in other words, the discount rate we offered to our distributors were higher than our competitors in the industry. Furthermore, the distributors' selling prices to retailers were generally in line with the industry. Please refer to the subsection headed "Financial Information – Significant Factors Affecting Our Results of Operations and Financial Conditions" in this prospectus for further details.

Non-monetary Marketing Incentives

In view of our notable increase in total number of distributors during FY2018, we had introduced non-monetary Marketing Incentives to certain distributors, where we offered complimentary manufacturing services to them if they so preferred. It means that the relevant distributor provided us with raw materials and we manufactured these non-owned brand pharmaceutical products for them, without charging them for the production cost, packaging cost, overheads or any other costs during the production process. We provided non-monetary Marketing Incentives to 20 distributors and accounted for approximately 1.7% to 1.8% of our annual production during FY2018 and FY2019.

Below we set out the major terms under our non-monetary Marketing Incentives scheme:

Coverage	:	Selected distributors (upon request and our internal approval)
Distributor's obligation	:	Provide raw materials, packaging materials and consumables[(1)]
Our obligation	:	Manufacture non-owned brand products without charging production cost, packaging cost, overheads or any other costs during the production process[(2)]
Trademark/logo usage	:	We are authorised by the distributors to print their trademark/logo on these non-owned brand products. All packaging design is different from our products
Name of manufacturer	:	Our company name is printed as manufacturer as required by the relevant PRC laws and GMP standard
Logistics and transportation arrangement	:	Distributor will arrange its own logistics and bear the relevant transportation cost
Termination:	:	The arrangement is terminated once our Company fulfills the production quantities

Production quantity :

Year/Period	Approximate % to our total production	Number of distributors involved
FY2017	Nil[(3)]	N/A
FY2018	1.8%	14
FY2019	1.7%	19
9M2020	Nil[(3)]	N/A

Notes:

(1) Our Directors confirm that notwithstanding the raw materials, packaging materials and consumables are provided by the relevant distributor, these materials are subject to the same quality assessment as if these are the materials we use for our own production.

(2) Our responsibilities and liabilities as a PCM manufacturer are the same for both owned brand pharmaceutical products and non-owned brand pharmaceutical products.

(3) We did not carry out non-monetary Marketing Incentives scheme during FY2017 and has ceased to provide such scheme since late 2019.

Our Directors consider our owned brand pharmaceutical products and non-owned brand pharmaceutical products manufactured for the distributors under the non-monetary Marketing Incentives scheme did not create direct or material conflict of interest due to the followings:

- there is only a small quantity (approximately 1.7% to 1.8%) of our annual production volume allocated to these products manufactured for these distributors; and

- non-owned brand pharmaceutical products were offered to distributors to stimulate their intention to promote products manufactured by us.

In any event, in view of our production capacity which is approaching limits, we have suspended the non-monetary Marketing Incentives in late FY2019. Notwithstanding the foregoing, our Directors consider our non-monetary Marketing Incentives scheme had raised the Group's brand reputation as the Group's name is printed on the product packaging as "manufacturer brand", which is an alternative way to generate brand awareness.

To the best knowledge of our Directors, our distributors, who own brand, may also source suppliers for manufacturing their owned brand products themselves or engage other parties to manufacture their owned brand products. We consider this will not affect our business due to:

(i) our distributors are not under any legal obligation which forbids them from approaching other suppliers for manufacturing their owned brand products;

(ii) some of our competitors (i.e. other companies principally engage in the production of PCM) may also provide similar complimentary manufacturing services to their customers (such as distributors) from time to time; and

(iii) according to the Euromonitor Report, PRC TCM manufacturers may provide similar complimentary manufacturing services proactively or on request basis to their distributors in the PRC.

Reasons to provide Marketing Incentives

We consider offering such Marketing Incentives to our distributors was beneficial to us because:

(i) such arrangement will encourage our distributors to promote our products rather than similar products of our competitors or other manufacturers;

(ii) our distributors may adopt a more flexible pricing strategy with their customers (i.e. the downstream retailers), and hence increase the sale of our products to these distributors; and

(iii) local distributors were more familiar with the local market they were located in and could carry out effective, appropriate, and localised marketing and promotion activities and increase our brand awareness among these local users.

We believe it is appropriate for us to adopt such Marketing Incentives policy during FY2018 because (i) we noticed our spare production capacity during FY2017 (the utilisation rates of our extraction and production lines were all below 50% (please refer to the subsection headed "Production – Production Capacity and Utilisation Rate" later on for details)); and (ii) such incentive helps our distributors to further raise our brand awareness, which is beneficial to our long term development.

Further, our Controlling Shareholder and Chairman, Mr. Xie, who acquired our Group's business in June 2014 from Independent Third Parties, believed that the Marketing Incentives policy was beneficial to our Group's business development. Leveraging on our then product portfolio and established brand name, Mr. Xie prioritised expanding our business (the promotion of existing products) by elaborating our distribution network to other parts of the PRC. Hence, limited R&D and capital investment were carried out during the Track Record Period. During the Track Record Period, it was our pricing strategy to offer a relatively higher discount rate to our distributors to compete in the market and expand our distribution network.

Furthermore, as at the Latest Practicable Date, there were no litigation or dispute in connection with the arrangement of Marketing Incentives.

Credit policy

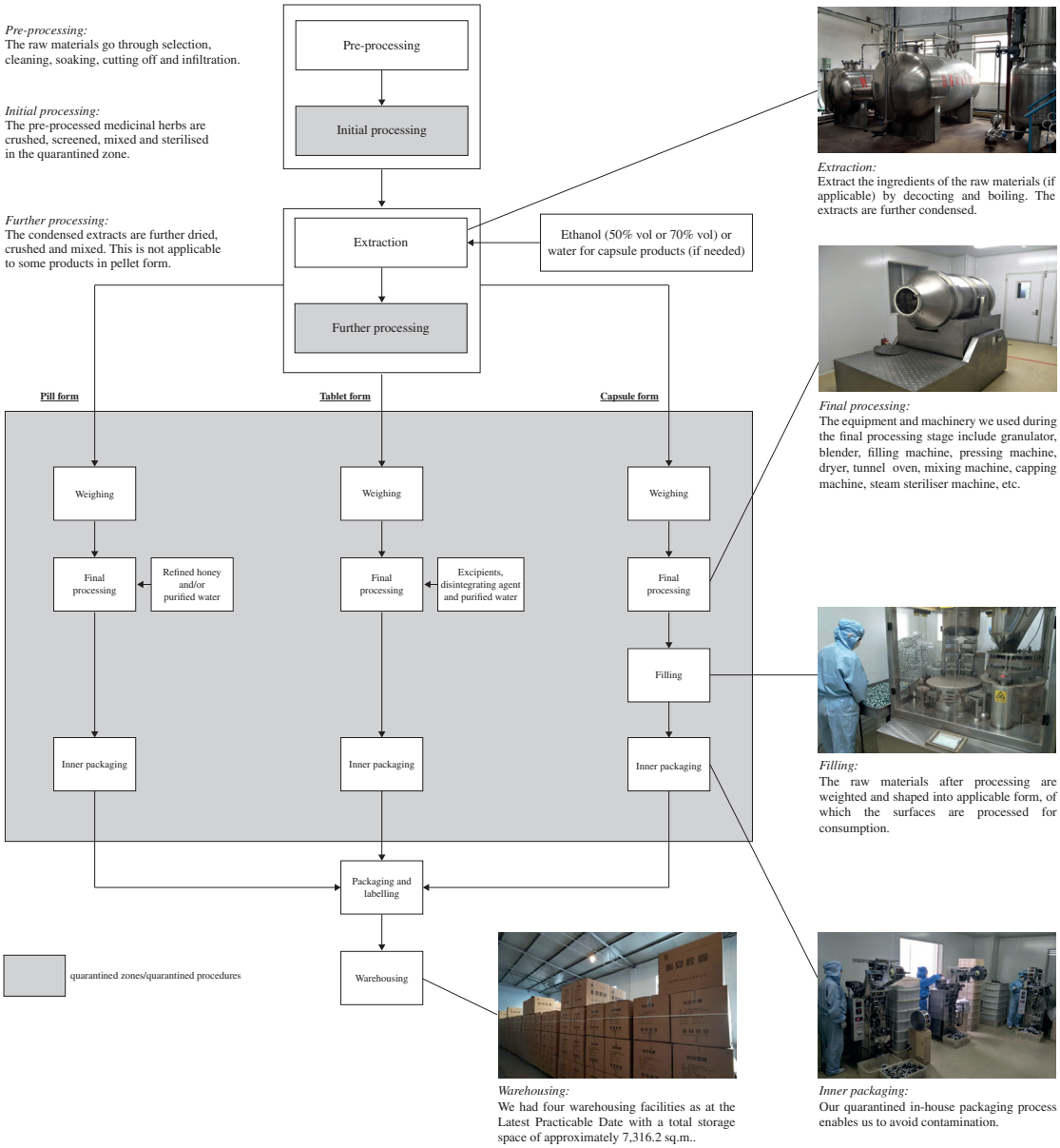
We normally grant our distributors with a credit period of 60 days from the date of delivery.

PRODUCTION

We produce all products at our production facilities located at Chengde City, Hebei Province, the PRC. During the Track Record Period, we have complied with GMP standards for the production of our products in various dosages and formulations.

Production Process

During the Track Record Period, we sold 57 types of PCM in pill, capsule and tablet forms with different production lines following similar production processes. The following flow chart summarises the key steps to produce our Chinese medicine in tablet, pill and capsule forms:



Notes:

(1) It typically takes approximately one working day, four working days, four working days and three working days for the extraction, final processing, filling (if any) and inner packaging to be completed/finished respectively.

(2) Our extraction line is used for extraction and further processing, which is a necessary procedure for producing the majority of our major products.

As required by our quality management system, we perform quality checks before pre-processing, initial processing, during different stages of production process and packaging. It typically takes approximately 12 working days for the production and inspection of a batch of each of our products in tablet, pill and capsule forms.

Lead time

During the Track Record Period, the lead time between placing orders from our customers and product delivery from us was generally not more than 20 calendar days (depending on the availability and production complexity of the relevant product).

Production Facilities

Currently, our production facilities had a total gross floor area of approximately 10,694.3 sq.m., consisting of three production lines and one extraction line that are GMP-certified and are capable of producing all our PCM in the forms as prescribed by the GMP, including the Chinese medicine in tablet, pill and capsule forms. We have obtained Drug Manufacturing Permits, and complied with GMP standards for all our production lines in operation as at the Latest Practicable Date. We conduct maintenance and repair work in compliance with the relevant GMP standards. During the Track Record Period, save for the periods under regular inspections from the relevant authorities and maintenance, our production facilities had not experienced suspension, termination or cancelation, or were not in violation of their respective GMP standards.

The majority of equipment and machinery we use for production, including extracting tank, concentrator, granulator, blender, filling machine, pressing machine, dryer, tunnel oven, mixing machine, capping machine, steam steriliser machine, labelling machine and polishing machine, were purchased in the PRC. We have acquired equipments for component analysis and quality inspection. Most of our equipment and machinery are automated to ensure efficiency and avoid contamination. In addition, major production processes are carried out in quarantined zones. Physical access to such zones is restricted and regulated, and any access should follow our standard operation procedures as well as the applicable law and regulations in the PRC. We maintain our major equipment and machinery regularly and upgrade them on an as-needed basis.

Production capacity and utilisation rate

Our large-scale production enables us to satisfy market demands. The following table sets out the designed production capacity, actual production volume and utilisation rate of our production lines and workshop for the years/periods indicated:

	FY2017			FY2018			FY2019			9M2019			9M2020		
	Designed production capacity(1)(2)(3) *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate(4)	Designed production capacity(1)(2)(3) *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate(4)	Designed production capacity(1)(2)(3) *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate(4)	Designed production capacity(1)(2)(3) *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate(4)	Designed production capacity(1)(2)(3) *('000 kg (approximately))*	Actual production volume *('000 kg (approximately))*	Utilisation rate(4)
Extraction line(5)	396	167	42.2%	396	372	93.9%	396	350	88.4%	297	272	91.6%	297	292	98.3%
Production line for capsule products(6),(7)	133	23	17.3%	133	76	57.1%	133	126	94.7%	100	94	94.0%	100	81	81.0%
Production line for tablet products(6),(8)	98	7	7.1%	98	54	55.1%	98	43	43.9%	74	35	47.3%	74	35	47.3%
Production line for pill products(9)	3,712	1,009	27.2%	3,712	1,647	44.4%	3,712	1,852	49.9%	2,784	1,243	44.7%	5,568	2,889	51.9%

Notes:

(1) The designed production capacity is determined and calculated by multiplying the daily capacity of the extraction line and production line for capsule products, pill products and tablet products with the applicable number of the days of operation per year (excluding all the employees' general holidays and public holidays but including downtime due to maintenance/inspection).

(2) We assume the daily operating hours for our extraction line to be 16 hours (2 shifts) for FY2017, FY2018, FY2019, 9M2019 and 9M2020. It is assumed our extraction line will operate annually for 275 days in FY2017, FY2018, FY2019 and 206 days in 9M2019 and 9M2020 respectively (excluding all the employees' general holidays and public holidays but including downtime due to maintenance/inspection).

(3) We assume the daily operating hours for our production line for capsule products and tablet products to be 8 hours (1 shift) for FY2017, FY2018, FY2019, 9M2019 and 9M2020. We assume the daily operating hours for our production line for pill products to be 8 hours (1 shift) for FY2017, FY2018, FY2019 and 9M2019, and 16 hours (2 shifts) for 9M2020 due to the increased demand for Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸). It is assumed our production line will operate annually for 275 days in FY2017, FY2018 and FY2019 and 206 days in 9M2019 and 9M2020 respectively (excluding all the employees' general holidays and public holidays but including downtime due to maintenance/inspection).

(4) The utilisation rate for each of the relevant years/periods is derived by dividing the actual production volume by the designed production capacity.

(5) Our extraction line is used for extraction and further processing, which is a necessary procedure for producing the majority of our major products. The actual production volume of our extraction line had been approaching limit as slack/cleaning time (approximately 2 hours to 2.5 hours for each extraction batch) was required between each extraction batch and therefore had been limiting our utilisation rate and the actual production volume of the production lines for our products during the Track Record Period.

(6) The fluctuations in the utilisation rate of the production lines for capsule and tablet products were attributable to the changes in sales volume. Please see the subsections headed "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – 9M2020 compared to 9M2019 – Revenue", "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – FY2019 compared to FY2018 – Revenue" and "Financial Information – Principal Components of Combined Statements of Profit or Loss and Other Comprehensive Income – FY2018 compared to FY2017 – Revenue" in this prospectus for further information.

(7) Capsule refers to a solid dosage form in which medicine is enclosed in a hard or soft soluble container.

(8) Tablet refers to dose of medicine in flat circular or disk shape form.

(9) Pill refers to a medicinal substance in a small round or oval mass meant to be swallowed.

Expansion Plan

Given the utilisation rate of the existing extraction line and production line for capsule products are reaching their respective operation limits, we intend to utilise approximately HK$51.7 million, representing approximately 43.1% of the net proceeds from the Global Offering, to enhance and expand our production capacity with particular regard to our capsule products, due to the following reasons:

- Our capsule products have been the major revenue drivers of our growth during the Track Record Period. According to the Euromonitor Report, we were in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in 2019 in terms of the sales of cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC.

- Our overall capsule products have relatively higher gross profit margins compared to our OTC medicine due to the differences in the selling prices and cost of principal raw materials of different products applied.

- The market size of our capsule products is growing. According to the Euromonitor Report, the market size of the PCM for cardio-cerebrovascular conditions experienced a significant growth, increasing from approximately RMB153.7 billion in 2015 to approximately RMB226.5 billion in 2019, representing a CAGR of approximately 10.2%, and is expected to grow at a CAGR of approximately 9.6% from 2020 to 2024 and reach approximately RMB362.6 billion in 2024. As a result, and given our reputation in the market, we expect that the demand for Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) will follow suit and will continue to increase.

- Our current capacity to produce our capsule products is reaching the operation limit and is insufficient. The utilisation rate of our extraction line and production line for capsule products had reached 88.4% and 94.7% for FY2019, respectively. Our current utilisation rates are restricting our ability to obtain and satisfy new purchase orders in the future.

As such, we intend to apply such portion of the net proceeds from the Global Offering as follows:

- approximately 29.6% or HK$35.5 million will be used for building a new workshop for installing and incorporating a new extraction line;

- approximately 7.9% or HK$9.5 million will be used for establishing a new extraction line with the maximum annual designed production capacity increased from approximately 396,000 kg to approximately 1,196,000 kg (the total cost for establishing such new extraction line is approximately HK$11.6 million, of which approximately HK$2.1 million had been settled by our Group as at the Latest Practicable Date); and

- approximately 5.6% or HK$6.7 million will be used for establishing a new production line for our capsule products with the maximum annual designed production capacity increased from approximately 133,000 kg to approximately 399,000 kg.

The new workshop, extraction line and production line for our capsule products and relevant production facilities will be GMP-compliant and located in our headquarters and are expected to be in trial production by the 2nd quarter of 2022. We believe our expansion plan will not only improve/enhance our production capability but also enable our Group to maintain its competitiveness in the future.

New workshop, extraction line and production line

Details regarding the new workshop, extraction line and production line for extraction and further processing are set out below:

Location:	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC with an approximate gross floor area of 13,600 sq.m. owned by our Group.
Expected year to commence construction:	By the 1st quarter of 2021.
Expected year of commencement of trial production:	By the 2nd quarter of 2022.
Expected maximum annual production capacity:	increased from approximately 396,000 kg and 133,000 kg to approximately 1,196,000 kg and 399,000 kg for the new extraction line and production line respectively.
Estimated capital expenditure:[(1)]	approximately HK$35.5 million, HK$11.6 million and HK$6.7 million for the new workshop, extraction line and production line respectively.

Source of funding:	For the new workshop and production line, our Group has not yet incurred any capital expenditure as at the Latest Practicable Date. For the new extraction line, approximately HK$2.1 million had been settled by our Group as a deposit as at the Latest Practicable Date. Our Group estimates that the total capital expenditure for the establishment of the new workshop, extraction line and production line will be approximately HK$53.8 million. Except for approximately HK$2.1 million deposit which had already been paid as at the Latest Practicable Date, the remaining HK$51.7 million will be funded from the net proceeds of the Global Offering.
Estimated investment payback period:[(2)]	The investment payback period of the new workshop, extraction line and production line is expected to be approximately 3.4 years.
Estimated breakeven period:[(3)]	The breakeven period of the new workshop, extraction line and production line is expected to be approximately 1.7 years.
Proposed management of the workshop, extraction line and production line and source of labour:	Our Group's new workshop, extraction line and production line will be managed by a professional team to be led by Mr. Jiang Zhendong, our Executive Director, deputy general manager and chief production officer who is responsible for overseeing the production, R&D, procurement and inventory management of our Group. In addition, our Group will also recruit new technical staff member to operate the extraction line through recruitment programs. For details of experience and qualifications of Mr. Jiang Zhendong, please refer to the section headed "Directors and Senior Management" in this prospectus.
Major components of the workshop, extraction line and production line:	12 centrifugal pumps, eight liquid storage tanks, four extraction tanks, one automatic control system, one cooling system and one vacuum system.

An extraction line is used for extraction and further processing. It is an essential procedure for producing our major capsule prescribed medicine, which overall have a relatively higher gross profit margin as compared with our major OTC medicine during the Track Record Period. We believe that increasing our extraction capacity can help to improve our Group's overall profitability in the long run as the addition of new production facilities can afford us to produce more pharmaceutical products to meet future market demands and reduce the risk of total suspension of production if some of the existing facilities break down.

Notes:

(1) Including the amount of approximately HK$2.1 million settled by our Group as a deposit as at the Latest Practicable Date.

(2) The investment payback period refers to the estimated number of years needed for the project to result in net cash inflows compared to the initial cash investments at the relevant new workshop, extraction line and production line.

(3) The breakeven period refers to the estimated number of years needed for the project to result in no net loss for two consecutive months at the relevant new workshop, extraction line and production line.

Following the completion of the aforesaid expansion plan, the maximum annual production capacity of the extraction line and production line for capsule products will be increased from approximately 396,000 kg and 133,000 kg to approximately 1,196,000 kg and 399,000 kg, respectively. As the capital expenditure of building the new workshop to hold the new extraction line and the production line for capsule products would be similar irrespective of the size of the expansion of the production line, we desire to spread out such cost by maximising the annual production capacity of the production line while taking into account the growing market size of our capsule products mentioned above as evidenced by the Euromonitor Report.

When formulating the expansion plan, we have conducted scenario analysis and are of the view that the current capital expenditure of building the new workshop for the new extraction line and the production line for capsule products to triple our production capacity is appropriate and commercially justifiable.

We set out below an illustrative example regarding the amount of capital expenditure (the "**CAPEX**") required and the corresponding increment in depreciation expense under different scenarios and scale of expansion:

	Doubling production capacity *(RMB)*	**Tripling production capacity** *(RMB)*	**Difference** *(RMB)*
Required CAPEX	Approx. 8.9 million	Approx. 10.5 million	Approx. 1.6 million
Annual depreciation expense	0.89 million	1.05 million	0.16 million
Additional average depreciation expense in FY2020	0.35 per kg	0.41 per kg	0.06 per kg
Additional average depreciation expense in FY2021	0.29 per kg	0.34 per kg	0.05 per kg
Additional average depreciation expense in FY2022	0.23 per kg	0.27 per kg	0.04 per kg

Note:

Additional average depreciation expense per kg is calculated as annual depreciation expense divided by the total anticipated sales volume in the respective year.

By tripling the production capacity, (i) the additional average cost per kg in FY2021 compared to that of doubling the capacity (assuming trial production commenced around 2nd quarter of FY2022) are immaterial; and (ii) such differences will be further reduced in FY2022 when we expected the new production facilities will be fully operated. Further, having taken into account the market potential of our capsule products, investment risks, future strategy to broadening the distribution network into Huadong (華東) and Huanan (華南) as well as our business growth, our Directors consider tripling the production capacity is also commercially justifiable as it could maximise shareholders' value in the long-run and could bring our Group with potential commercial and intangible benefits by increasing our sales and reaching out into a wider group of distributors following the increase in production capacity.

We will submit the application filing for the construction of the new workshop, extraction line and production line for our capsule products, with Hebei Drug Administration, Hebei or Chengde Development and Reform Commission, Chengde or Longhua Public Fire Protection Authority, Chengde or Longhua Bureau of Natural Resources and Planning, Chengde of Longhua Bureau of Housing and Urban–Rural Development and Chengde or Longhua Ecology and Environment Bureau for the construction of the aforesaid new workshop, extraction line and production line for our capsule products. As confirmed by our PRC Legal Advisers and Directors, provided that we submit all necessary documents required by the authorities, there is no legal impediment for us to complete such filing procedures. Save for the above, no other licenses, permits, filing, registration or approvals are required from our Group regarding such application filing. According to the relevant PRC laws and regulations, before we can

commence the operation of the aforesaid new workshop, extraction line and production line for our capsule products, we should pass the completion inspection for such extraction line and production line for capsule products.

Expected timeline for key milestones

The estimated total capital expenditures in relation to our new workshop, extraction line and production line is approximately HK$53.8 million (representing HK$35.5 million, HK$11.6 million and HK$6.7 million for the new workshop, extraction line and production line, respectively). As at the Latest Practicable Date, we had not yet commenced the expansion plan and had not incurred any capital expenditure in connection thereof, except for the above-mentioned deposit of approximately HK$2.1 million paid for the new extraction line.

The following table sets out the intended use and nature of our expansion plan for the new workshop, extraction line and production line.

Intended use	**Particulars**	**Approximate estimated total costs** *(HK$ million)*	**Approximate amount of costs settled as at the Latest Practicable Date** *(HK$ million)*	**Approximate amount of costs expected to be settled using the Net Proceeds** *(HK$ million)*	**Timing of completion/ expected completion**
New workshop	Foundation and structural works	14.0	–	14.0	*Year 2021 (4th quarter)*
	Storage area	12.6	–	12.6	
	Auxiliary facilities	2.5	–	2.5	
	Design and installation	2.0	–	2.0	
	Boiler room	1.9	–	1.9	
	Utilities related	1.8	–	1.8	
	Sewage system	0.7	–	0.7	
	Sub-Total	**35.5**	**–**	**35.5**	
Extraction line	Extraction and processing unit	6.2	(1.5)	4.7	*Year 2022 (2nd quarter)*
	Automation control unit	2.3	(0.6)	1.7	
	Power and boiler system	1.1	–	1.1	
	Auxiliary facilities	0.9	–	0.9	
	Design and installation	0.6	–	0.6	
	Cooling system	0.2	–	0.2	
	Air compression system	0.1	–	0.1	
	Vacuum system	0.1	–	0.1	
	Pump system	0.1	–	0.1	
	Sub-Total	**11.6**	**(2.1)**	**9.5**	

Intended use	Particulars	Approximate estimated total costs *(HK$ million)*	Approximate amount of costs settled as at the Latest Practicable Date *(HK$ million)*	Approximate amount of costs expected to be settled using the Net Proceeds *(HK$ million)*	Timing of completion/ expected completion
Production line for our capsule products	Packaging line	2.3	–	2.3	*Year 2022 (2nd quarter)*
	Purifying system	1.6	–	1.6	
	Structural works and auxiliary facilities	1.4	–	1.4	
	Wet granulator	0.7	–	0.7	
	Filling equipment	0.6	–	0.6	
	Design and Installation	0.1	–	0.1	
	Sub-Total	**6.7**	**–**	**6.7**	
Total		**53.8**	**(2.1)**	**51.7**	

Additional staff to be employed and their corresponding salary range

During the Track Record Period, we have been arranging our production staff to work on two shifts on the extraction line. By FY2021, we plan to implement an interim measure by recruiting approximately 30 additional workers, with a monthly salary range of RMB3,500 to 4,500 per worker, to add one more shift for production in order to resolve utilisation limit of the existing production capacity temporarily and at the same time, to fulfill the requirement of GMP, before the new extraction line is installed and available for production use.

Upon the completion of the construction of the new workshop, new production line and new extraction line, those 30 additional workers will be relocated to the new production facilities. The salaries for these to-be hired workers will be funded by the internal operating cash flows without the utilisation of net IPO proceeds.

Annual Production Plan

Generally, our annual production plans are formulated in the fourth quarter of each year. The Sales and Marketing Department will coordinate with all our major departments and formulate the proposed annual production plan based on economic indicators of the year, the latest market trend, feedbacks from our distributors and current production and sales capabilities, and will send the draft plan to all departments for discussion before finalisation. More detailed quarterly and monthly production plans are prepared by referring to the annual production plan in view of the then market condition, condition of supply of raw materials, production capabilities, level of inventories, and condition of cash flow. As most of our products have a shelf life of three years, we can adjust our production plan flexibly in case of market fluctuations. For instance, in case of excessive production in any given month, we have the option of shipping such surplus first and reducing production in the current month.

RAW MATERIALS

Our raw materials can be categorised into (i) medicinal herbs, such as Ginseng (人蔘), Hawthorn Leaves (山楂葉), and animal substances such as Deer Antler (鹿茸); (ii) consumable/additive such as ethanol and honey; and (iii) packaging materials such as empty capsules, paper boxes and others. The following table sets out the raw material components of our cost of sales for the years/periods indicated:

Type	FY2017		FY2018		FY2019		9M2019		9M2020	
	RMB('000)	*% of cost of raw materials*	*RMB('000)*	*% of cost of raw materials*	*RMB('000)*	*% of cost of raw materials*	*RMB('000)*	*% of cost of raw materials*	*RMB('000)*	*% of cost of raw materials*
Medicinal herbs & animal substances	32,467	60.7	55,285	62.8	68,975	64.9	54,000	65.1	69,919	63.3
Consumable/additive	7,195	13.5	12,767	14.5	12,267	11.5	9,201	11.1	16,557	15.0
Packaging materials and others	13,808	25.8	20,035	22.7	25,045	23.6	19,808	23.8	24,043	21.7
Total	53,470	100.0	88,087	100.0	106,287	100.0	83,009	100.0	110,519	100.0

For FY2017, FY2018, FY2019, 9M2019 and 9M2020, medicinal herbs, animal substances and consumable/ additive accounted for approximately 63.9%, 68.2%, 67.9%, 68.3% and 71.7% of our total cost of sales for the respective years/periods.

The following table shows the historical purchase prices of the principal raw materials used for our production for the years/periods indicated:

	FY2017 Average price per kg *(RMB)*	**FY2018 Average price per kg** *(RMB)*	**FY2019 Average price per kg** *(RMB)*	**9M2019 Average price per kg** *(RMB)*	**9M2020 Average price per kg** *(RMB)*
Medicinal herbs & animal substances					
Chinese Angelica (當歸)	19.1	26.4	26.6	26.7	26.7
Ginseng (人蔘)	181.9	254.6	256.2	256.0	267.9
Barbary Wolfberry Fruit (枸杞子)	24.2	25.3	25.8	25.8	25.7
Deer Antler (鹿茸)	189.4	278.1	719.8	624.4	899.1
Consumable/additive					
Honey	10.7	10.6	7.9	7.9	8.3

Generally, the average purchase prices for our major raw materials were lower than their respective market price in PRC mainly due to (i) as set out in the Euromonitor Report, the historical average prices of that raw materials took into account the average wholesale price and retail price in the markets of PRC and Bozhou City, thus the actual purchase prices of raw materials for manufactures might below such average prices; (ii) when the utilisation rate of

the extraction line was relatively low, we purchased some keenly priced and less purified raw materials for production as it only requires the extraction of essence from the raw materials; (iii) we have established stable relationship with our major suppliers and we have collaborated with our single largest supplier for FY2019 and FY2017 for around 12 years, which enabled us to have more bargaining power; and (iv) we have stocked up a reasonably sufficient level of medicinal herbs and animal substances which enabled us to be protected against temporary price and quality fluctuation of certain raw materials.

During the Track Record Period, the average purchase price for Deer Antler (鹿茸) increased from approximately RMB189.4 per kg for FY2017 to RMB719.8 per kg for FY2019, due to the fact that the quality and the price of animal substances may vary from batch to batch even if they are procured from the same supplier. Furthermore, the utilisation rate of the extraction line had been increasing and approaching its limit; the extraction line did not have sufficient capacity to process the raw materials to remove those solid wastage or impurities during the extraction process. Since 2019, our Group started to purchase from Tieling Chuntian Pharmaceutical Co. Ltd. (鐵嶺春天藥業有限公司), which offered quality Deer Antler (鹿茸) (approximately RMB900 per kg) and could ensure a more steady supply as it operates own farm to feed deer for its products. We were able to purchase Deer Antler (鹿茸) when red deer (Cervus elaphus) (from which the Deer Antler used in the production of Vigour and Vitality Supplement Pill (補腎填精丸) are derived) has been re-classified from wildlife to livestock since May 2020. The purchase price of Deer Antler (鹿茸) in the market remained at high level after the use of Deer Antler is no longer subject to wildlife restriction in May 2020. Despite the increase in price and temporary suspension*(Note)* of trading/production of such raw material, we consider our Group's profitability will not be materially adversely impacted, as our Group will be able to increase the average net selling price of Vigour and Vitality Supplement Pill (補腎填精丸), which has Deer Antler (鹿茸) as one of our major raw materials, in the long run.

Apart from Deer Antler (鹿茸), notwithstanding the average purchase prices of our other principal raw materials all exhibited a various degree of increment, we believe that the fluctuation of these prices during the Track Record Period was primarily due to weather, harvest conditions as well as the general market demand of these raw materials in the PRC. Furthermore, according to the Law on the Protection of Wildlife of the PRC (《中華人民共和國野生動物保護法》), we are required to obtain approval or certification from the PRC Government authorities for the purchase and use of certain animal substances of the wildlife under special state protection. Re-application is needed if the license period expires or the relevant animal substances exceed the permitted weight.

Note: As at the Latest Practicable Date, as confirmed by our PRC Legal Advisers, red deer (Cervus elaphus) (from which the Deer Antler used in the production of Vigour and Vitality Supplement Pill (補腎填精丸) are derived) has been re-classified as livestock since May 2020, the sale, purchase or use of Deer Antler, and its products thereof is no longer subject to the regulation of wildlife protection authorities. Our Group has resumed purchasing Deer Antler (鹿茸) in June 2020, and we maintain an inventory level which is sufficient for production of approximately six months as at the Latest Practicable Date. Furthermore, the prohibition on the trading of wild animals stipulated in the Notice was lifted in June 2020.

SUPPLY, PROCUREMENT, INVENTORY AND LOGISTICS

Our in-house packaging process enables us to integrate procurement, production and packaging to ensure efficiency and avoid contamination in our production facilities in Chengde City, Hebei Province, the PRC. It also allows us to have better control over timing, production costs and production quality. We mainly procure the packaging materials for labelling, inner packaging materials, and exterior packaging materials. We purchase our raw materials only from our list of pre-approved suppliers that meet our quality standards. We engage a few pre-approved suppliers for each kind of raw materials we procure to protect us against raw materials shortage. We purchase all of our raw materials from suppliers in China.

We confirm that during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material quality issues on or shortages of medicinal herbs or other principal raw materials that we use for production, which would have materially adversely affected our manufacturing process.

Our Procurement System

Our suppliers are divided into three categories (i.e. Group A, B and C) in accordance with the quality risks and the degree of significance of their supplies on the medicine. Before accepting a supplier, we conduct stringent assessments. In accordance with the level of perceived quality risks, we place criteria of different stringencies to different groups of supplies as set out below:

Group based on the level of perceived quality risks	Selection criteria and process
Group A	
Medicinal herbs and animal substances (such as Hawthorn Leaves (山楂葉), Ginseng (人蔘), Mongolian Milkvetch Root (黃芪), Deer Antler (鹿茸) and Bull Pizzle (牛鞭)) and excipients that have an direct influence on the quality of the medicine, packaging materials and containers that are in direct contact with the medicines	• Our Quality Management Department performs inspections on the qualifications of potential suppliers of Group A supplies. Such potential suppliers are required to provide quality assurance in writing and are required to possess all licenses and permits necessary to conduct their operations, which include business licenses, production permits, trading permits, GMP compliance, API registrations and relevant appendices, quality standards.

Group based on the level of perceived quality risks	Selection criteria and process
	• Our Quality Management Department and procurement centre jointly inspect the production facilities of the potential suppliers on a regular basis to ensure that the quality and standards of their production processes are in conformity with our quality requirements. • We also procure product samples from the potential suppliers for inspection and testing by the Quality Management Department to ensure the quality and consistency of the raw materials.
Group B	
Consumable/additives that have a certain influence on the quality of the medicine, such as ethanol and honey	• Our Quality Management Department performs inspections on the qualifications of potential suppliers of Group B supplies. Such potential suppliers are required to possess all licenses and permits necessary to conduct their operations, which include business licenses, production permits, trading permits, quality standard and inspection reports of the sample. • When necessary, our Quality Management Department and procurement centre jointly inspect the production facilities of the potential suppliers, including inspecting the samples to ensure that the quality and standards of their production processes are in conformity with our quality requirements.

Group based on the level of perceived quality risks	Selection criteria and process
Group C	
Mainly the packaging materials that do not have direct influence on the quality of the medicine, such as packaging belts, ink and paper boxes	• Our Quality Management Department performs inspections on the qualifications of potential suppliers of Group C supplies. Such potential suppliers are required to possess all licenses and permits necessary to conduct their operations, which include business licenses, license of operating printing business, quality standard and inspection reports of the samples.

Quality management of raw materials

We adopt the following measures to ensure our raw materials are of high quality:

- our Quality Management Department performs the quality inspection upon delivery of the supplies to our warehouses and on the quality of the supplies from time to time;
- the pre-approved suppliers list is periodically reviewed by our Quality Management Department based on the quality of the supplies, the timeliness of delivery, after-sale services and status and updates to the qualifications of the suppliers;
- we inspect and review the production facilities of the existing suppliers on an annual basis and inspect the samples if necessary;
- before we engage a potential supplier, we inspect their production facilities;
- we actively communicate and work with our suppliers to resolve any quality issues; and
- suppliers who fail to meet our standards during annual review, or from whom the raw materials supplied suffer from quality defects on a repetitive basis will be removed from the pre-approved suppliers list.

Supply and procurement agreements

Supplies required for our production are generally readily available in the market. Therefore, we generally are not required to enter and have not entered into any long-term supply agreements for our raw materials. On a case-by-case basis, we enter into annual supply agreements with our suppliers of packaging materials. In making our decision to engage our suppliers, we consider quality, their proposed price, delivery schedule, reputation for reliability and our previous experience of working with them.

We enter into procurement agreements with suppliers in relation to medicinal herbs and animal substances. Pursuant to such procurement agreements, the suppliers provide specific types of medicinal herbs or animal substances in accordance with our internal standards. The suppliers shall ship the medicinal herbs or animal substances to our warehouses and bear the logistics costs. We conduct inspection, examination and sample testing upon delivery to our warehouse. Any medicinal herbs or animal substances delivered to us that fail the quality inspection will be returned to the suppliers. The supplier remains responsible for the quality of the medicinal herbs or animal substances until the medicinal herbs or animal substances have successfully passed the quality inspection. After the medicinal herbs or animal substances successfully pass the inspection, we will pay the relevant suppliers in accordance with the agreed payment terms.

We usually contact with one or two suppliers for each major type of API for each purchase. By limiting the number of suppliers, our Group saves administrative time because there is a requirement at the provincial level to file information of each and every API supplier on record with the CFDA. As at the Latest Practicable Date, we had 34 pre-approved suppliers, among which 15 are suppliers of medicinal herbs or animal substances and 19 are suppliers of consumable/additive and packaging materials. We maintain at least two suppliers for each principal raw material in our pre-approved suppliers list and we select from no less than three suppliers in order to diversify our supplier base and help to ensure a reliable supply of raw materials at reasonable prices.

Relationship with our suppliers

For FY2017, FY2018, FY2019 and 9M2020, purchases from our five largest suppliers accounted for approximately 65.1%, 80.2%, 58.0% and 65.4% of our total purchases for the corresponding periods. In the same years/period, purchases from our single largest supplier accounted for approximately 38.3%, 30.8%, 17.1% and 19.8% of our total purchases. We confirm that, as at the Latest Practicable Date, all of our five largest suppliers during the Track Record Period were Independent Third Parties and none of our Directors or their close associates or our existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest suppliers during the Track Record Period.

We maintain a stable relationship with our suppliers and settle their bills with the credit period, which is essential to ensure a reliable supply of raw materials at reasonable prices. We have collaborated with half of our top five suppliers during the Track Record Period for over 5 years. In particular, we have collaborated with our single largest supplier for FY2019 and FY2017 (which was our second largest supplier for FY2018) for around 12 years.

During the Track Record Period, Customer A, Supplier A, Heilongjiang Jintian Aixin Pharmaceutical Distribution and Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司) were our overlapping customers and suppliers because of their respective common shareholder. For more details, please see the subsection headed "Business – Overlapping of Customers and Suppliers" in this prospectus.

Our Major Suppliers

The following tables set out our top five suppliers and certain other information for the years/period indicated:

For 9M2020

Rank	Name of supplier	Background	Principal business	Location	Major products provided	Commencement of business relationship with our Group	Payment method	Credit terms *(days)*	Total purchases *(RMB'000)*	% of our Group's total purchase
1	Tai'an Tang (Bozhou) Chinese Herbal Pieces Co., Ltd.* (太安堂(亳州)中藥飲片有限公司)	Established in 2010, a wholly owned subsidiary of an A share listed company, with registered capital of RMB90 million	Medicinal herbs, Chinese herbal medicine, acquisition of agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Mongolian Milkvetch Root (黃芪) and Ternate Pinellia (半夏))	2015	bank/wire transfer	45	20,626	19.8
2	Bozhou Huazhitai Pharmaceutical Co., Ltd.* (亳州市華芝泰藥業有限公司)	Established in 2011, with registered capital of RMB10 million	Honey, royal jelly, purchase and sale of bee pollen; purchase and sale of medicinal herbs	Bozhou City, Anhui Province, the PRC	Honey	2016	bank/wire transfer	45	14,357	13.8
3	Tieling Chuntian Pharmaceutical Co., Ltd.* (鐵嶺春天藥業有限公司)	Established in 2013, 51% owned by an A share listed company, with registered capital of RMB50 million	Chinese herbal medicine, health food, food production and sales, Chinese herbal medicine, antler breeding, processing and sales	Tieling City, Liaoning Province, the PRC	Animal substances (mainly Deer Antler (鹿茸))	2019	bank/wire transfer	45	13,835	13.3
4	Anhui Huicaotang Pharmaceutical Pieces Co., Ltd.* (安徽徽草堂藥業飲片股份有限公司)	Established in 2010, with registered capital of RMB20 million	Purchase and sales of medicinal herbs, Chinese herbal pieces, agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Chinese Magnoliavine Fruit (五味子) and Chinese Thorowax Root (柴胡))	2018	bank/wire transfer	45	9,773	9.4

Rank	Name of supplier	Background	Principal business	Location	Major products provided	Commencement of business relationship with our Group	Payment method	Credit terms *(days)*	Total purchases *(RMB'000)*	% of our Group's total purchase
5	Chaozhou Chao'an District Honghu Printing Co., Ltd.* (潮州市潮安區洪虎印務有限公司)	Established in 1990, with registered capital of approximately RMB2 million	Packaging and decoration printing, sales of plastic raw materials and printing materials	Chaozhou City, Guangdong Province, the PRC	Packaging materials	2012	bank/wire transfer	45	9,574	9.1
	Total								68,165	65.4

For FY2019

Rank	Name of supplier	Background	Principal business	Location	Major products provided	Commencement of business relationship with our Group	Payment method	Credit terms *(days)*	Total purchases *(RMB'000)*	% of our Group's total purchase
1	Anhui Province Bozhou Medicinal Materials Chinese Medicine Principal Company* (安徽省亳州市藥材總公司中藥公司)	Established in 1997, with registered capital of RMB3 million	Medicinal herbs, Chinese herbal medicine, Chinese patent medicine, chemical raw materials and preparations, antibiotics, biochemical drugs, acquisition of agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Ginseng (人蔘)) and animal substances (mainly Bull Pizzle (牛鞭))	2008	bank/wire transfer	45	18,021	17.1
2	Tieling Chuntian Pharmaceutical Co., Ltd.* (鐵嶺春天藥業有限公司)	Established in 2013, 51% owned by an A share listed company, with registered capital of RMB50 million	Chinese herbal medicine, health food, food production and sales, Chinese herbal medicine, antler breeding, processing and sales	Tieling City, Liaoning Province, the PRC	Animal substances (mainly Deer Antler (鹿茸))	2019	bank/wire transfer	45	16,092	15.3

Rank	Name of supplier	Background	Principal business	Location	Major products provided	Commencement of business relationship with our Group	Payment method	Credit terms *(days)*	Total purchases *(RMB'000)*	% of our Group's total purchase
3	Tai'an Tang (Bozhou) Chinese Herbal Pieces Co., Ltd.* (太安堂(亳州)中藥飲片有限公司)	Established in 2010, a wholly owned subsidiary of an A share listed company, with registered capital of RMB90 million	Medicinal herbs, Chinese herbal medicine, acquisition of agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Mongolian Milkvetch Root (黃芪)) and animal substances (mainly Bull Pizzle (牛鞭))	2015	bank/wire transfer	45	11,582	11.0
4	Anhui Huicaotang Pharmaceutical Pieces Co., Ltd.* (安徽徽草堂藥業飲片股份有限公司)	Established in 2010, with registered capital of RMB20 million	Purchase and sales of medicinal herbs, Chinese herbal pieces, agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Chinese Magnoliavine Fruit 五味子 and Chinese Angelica 當歸)	2018	bank/wire transfer	45	8,130	7.7
5	Anhui Easy Young Chinese Herb Medicine Science Technology Co., Ltd.* (安徽益生源中藥飲片科技有限公司)	Established in 2012, with registered capital of approximately RMB16 million	Production and sales of Chinese herbal pieces, purchase and sale of medicinal herbs, agricultural and sideline products, and health food	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Ginseng 人蔘 and Shorthorn Barrenwort 淫羊藿)	2018	bank/wire transfer	45	7,254	6.9
	Total								61,079	58.0

For FY2018

Rank	Name of supplier	Background	Principal business	Location	Major products provided	Commencement of business relationship with our Group	Payment method	Credit terms *(days)*	Total purchases *(RMB'000)*	% of our Group's total purchase
1	Bozhoushi Zhongxin Chinese Herbal Pieces Factory (亳州市中信中藥飲片廠)	Established in 2004, with registered capital of RMB55 million	Medicinal herbs, Chinese herbal medicine, acquisition of agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Barbary Wolfberry Fruit (枸杞子)) and animal substances (mainly Deer Antler (鹿茸))	2012	bank/wire transfer	90	22,193	30.8
2	Anhui Province Bozhou Medicinal Materials Chinese Medicine Principal Company* (安徽省亳州市藥材總公司中藥公司)	Established in 1997, with registered capital of RMB3 million	Medicinal herbs, Chinese herbal medicine, Chinese patent medicine, chemical raw materials and preparations, antibiotic, biochemical drugs, acquisition of agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Ginseng (人蔘)) and animal substances (mainly Deer Antler (鹿茸))	2008	bank/wire transfer	90	16,135	22.4
3	Bozhou Huazhitai Pharmaceutical Co., Ltd.* (亳州市華芝泰藥業有限公司)	Established in 2011, with registered capital of RMB10 million	Honey, royal jelly, purchase and sale of bee pollen; purchase and sale of medicinal herbs	Bozhou City, Anhui Province, the PRC	Honey	2016	bank/wire transfer	90	9,072	12.6
4	Lufeng Printing Chengde Co., Ltd.* (露豐印刷承德有限公司)	Established in 2017, with registered capital of RMB10 million	Sales and export of printing and packaging materials and their products	Chengde City, Hebei Province, the PRC	Packaging materials	2016	bank/wire transfer	90	6,421	8.9
5	Zibo Sanwei Flexible Packaging Co., Ltd.* (淄博三維軟包裝有限公司)	Established in 1997, with registered capital of RMB5 million	Packaging and decoration printing, plastic products, sales of plastic raw materials	Zibo City, Shandong Province, the PRC	Packaging materials	2009	bank/wire transfer	90	4,058	5.5
	Total								57,879	80.2

For FY2017

Rank	Name of supplier	Background	Principal business	Location	Major products provided	Commencement of business relationship with our Group	Payment method	Credit terms *(days)*	Total purchases *(RMB'000)*	% of our Group's total purchase
1	Anhui Province Bozhou Medicinal Materials Chinese Medicine Principal Company* (安徽省亳州市藥材總公司中藥公司)	Established in 1997, with registered capital of RMB3 million	Medicinal herbs, Chinese herbal medicine, Chinese patent medicine, chemical raw materials and preparations, antibiotic, biochemical drugs, acquisition of agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Ginseng (人蔘)) and animal substances (mainly Deer Antler (鹿茸))	2008	bank/wire transfer	90	22,979	38.3
2	Bozhou Huazhitai Pharmaceutical Co., Ltd.* (亳州市華芝泰藥業有限公司)	Established in 2011, with registered capital of RMB10 million	Honey, royal jelly, purchase and sale of bee pollen; purchase and sale of medicinal herbs	Bozhou City, Anhui Province, the PRC	Honey	2016	bank/wire transfer	90	6,069	10.1
3	Bozhoushi Zhongxin Chinese Herbal Pieces Factory (亳州市中信中藥飲片廠)	Established in 2004, with registered capital of RMB55 million	Medicinal herbs, Chinese herbal medicine, acquisition of agricultural and sideline products	Bozhou City, Anhui Province, the PRC	Medicinal herbs (mainly Ginseng (人蔘)) and animal substances (mainly Deer Antler (鹿茸))	2012	bank/wire transfer	90	4,376	7.3
4	Zibo Sanwei Flexible Packaging Co., Ltd.* (淄博三維軟包裝有限公司)	Established in 1997, with registered capital of RMB5 million	Packaging and decoration printing, plastic products, sales of plastic raw materials	Zibo City, Shandong Province, the PRC	Packaging materials	2009	bank/wire transfer	90	3,066	5.1

Rank	Name of supplier	Background	Principal business	Location	Major products provided	Commencement of business relationship with our Group	Payment method	Credit terms *(days)*	Total purchases *(RMB'000)*	% of our Group's total purchase
5	Hubei Yifang Pharmaceutical Co., Ltd.* (湖北一方製藥有限公司) (formerly named as Beijing Shizhentang (Yichang) Pharmaceutical Co., Ltd.* (北京時珍堂(宜昌)藥業有限公司))	Established in 2013, with registered capital of RMB1 million	Medicinal herbs, Chinese herbal medicine, acquisition of agricultural and sideline products	Yichang City, Hubei Province, the PRC	Medicinal herbs (mainly Shorthorn Barrenwort (淫羊藿))	2017	bank/wire transfer	90	2,604	4.3
	Total								39,094	65.1

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

During the Track Record Period, Customer A, Supplier A, Heilongjiang Jintian Aixin Pharmaceutical Distribution and Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司) were our overlapping customers and suppliers, two of which were also our top five customers.

Our sales to these parties were approximately RMB62.6 million, RMB50.9 million, RMB22.0 million, RMB21.2 million and RMB4.6 million, respectively, which contributed approximately 58.8%, 29.3%, 10.1%, 12.2% and 2.1% of our total revenue for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

Our purchases from them were approximately RMB1.1 million, RMB0.4 million, RMB4.4 million, RMB2.7 million and RMB1.4 million, respectively, which contributed approximately 1.8%, 0.6%, 4.2%, 3.9% and 1.4% of our total purchases for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

According to the Euromonitor Report, such practice exists in our industry due to the following:

- The Chinese pharmaceutical industry (including the TCM industry) is highly regulated in the PRC.

- Such arrangement is common in the Chinese pharmaceutical industry which would allow the company to be benefited from overlapping customer-supplier business relationship, as it helps to maintain and secure stable raw materials supply and source of revenue.

- Given the fluctuation of supply in quality Chinese pharmaceutical raw materials, such arrangement would allow the Chinese pharmaceutical manufacturers to maintain a stable supply of quality raw materials to manufacture pharmaceutical products.

- Sourcing from qualified suppliers which are also our familiar entity (i.e. existing customers) can reduce the risks associated with procuring raw materials from unknown suppliers.

- There is an increasing trend for Chinese pharmaceutical companies to adopt a vertically integrated structure. A Chinese pharmaceutical raw material supplier may therefore engage in the sales of the Chinese pharmaceutical products, and vice versa.

Relationship between Customer A (our customer) and Supplier A (our supplier)

During the Track Record Period, Customer A (and an associate company which approximately 85% of the equity interest was held by Renhe Pharmacy Co., Ltd. (仁和藥業股份有限公司) as at the Latest Practicable Date) was owned approximately 70% by Jiangxi Renhe Pharmacy Co., Ltd.* (江西仁和藥業有限公司), which was in turn wholly-owned by Renhe Pharmacy Co., Ltd. (仁和藥業股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (stock code: 000650). From June 2015 to June 2019, Supplier A was owned approximately 52% by Customer A.

In other words, during the Track Record Period, Customer A (and an associate company of Customer A) and Supplier A were once ultimately controlled by Renhe Pharmacy Co., Ltd. (仁和藥業股份有限公司).

During the Track Record Period, we sold both OTC and prescribed medicines to Customer A and purchased packaging materials from Supplier A.

Sales to Customer A and an associate company

	FY2017	**FY2018**	**FY2019**	**9M2019**	**9M2020**
Amount of sales *(RMB'000)*	15,115	21,489	14,175	13,346	698
% of our total sales	14.2%	12.4%	6.5%	7.7%	0.3%
Ranking among our customers	2	3	4	4	60

Purchases from Supplier A

	FY2017	FY2018	FY2019	9M2019	9M2020
Amount of purchases *(RMB'000)*	516	94	201	201	–
% of our total purchases	0.9%	0.1%	0.2%	0.3%	–
Ranking among our suppliers	19	30	27	24	–

Relationship between Heilongjiang Jintian Aixin Pharmaceutical Distribution (our customer) and Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司) (our supplier)

During the Track Record Period, our customer Heilongjiang Jintian Aixin Pharmaceutical Distribution was an indirect wholly-owned subsidiary of Universal Health.

During the Track Record Period, our supplier Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司) was owned approximately 43.8% by Heilongjiang Jintian Aixin Pharmaceutical Distribution, and therefore was partially owned by Universal Health which is the second largest shareholder since May 2016. For further information regarding Universal Health and Mr. Xie, please refer to the subsection headed "Relationship with our Controlling Shareholders – Mr. Xie's historical passive investment in the parent company of a major distributor" in this prospectus. As at the Latest Practicable Date, Mr. Xie did not directly or indirectly hold any shares of Universal Health.

During the Track Record Period, we sold both OTC and prescribed medicines to Heilongjiang Jintian Aixin Pharmaceutical Distribution and purchased empty capsules from Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司).

Sales to Heilongjiang Jintian Aixin Pharmaceutical Distribution

	FY2017	FY2018	FY2019	9M2019	9M2020
Amount of sales *(RMB'000)*	47,507	29,366	7,855	7,855	3,892
% of our total sales	44.6%	16.9%	3.6%	4.5%	1.8%
Ranking among our customers	1	1	9	9	16

Purchases from Jilin Jintian Universal Health Group Capsules Limited (吉林金天大健康集團膠囊有限公司)*

	FY2017	FY2018	FY2019	9M2019	9M2020
Amount of purchases *(RMB'000)*	566	332	4,222	2,450	1,422
% of our total purchases	0.9%	0.5%	4.0%	3.6%	1.4%
Ranking among our suppliers	16	18	9	8	13

Our Directors confirmed that (i) the amount payable to us by our customers; and (ii) the amount payable by us to our suppliers are not settled on a net basis, and are being settled on an individual basis. Further, the sales and purchases were neither inter-connected nor inter-conditional with each other.

Our Directors also confirmed that all of the transactions with overlapping customers and suppliers were conducted in the ordinary course of business under normal commercial terms and on arm's length basis. The terms of transactions with such customers and suppliers are individually and separately negotiated with us and align with those transactions with our other customers and suppliers. The prices of the transactions with the overlapping customers and suppliers are no less favourable than from other customers and suppliers who are not overlapping customers and suppliers.

Save as disclosed above, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued capital, has any interest in any of these overlapping customers and suppliers during the Track Record Period and up to the Latest Practicable Date.

Inventory Management

We had four warehousing facilities as at the Latest Practicable Date with a total storage space of approximately 7,316.2 sq.m., all of which are located in Chengde City, Hebei Province, the PRC. Our inventories are warehoused in accordance with the stringent requirements prescribed by GMP.

Inventory level

We have established inventory control procedures to track incoming and outgoing inventories, and we aim to minimise obsolete inventory or accumulation of inventory. Generally, we arrange the procurement and delivery of various raw materials according to our production plan and take into account the current prices and price trends of the raw materials. To ensure there is a sufficient supply of raw materials throughout the year at reasonable prices, we follow our internal guidelines to utilise our inventory in accordance with the market conditions. Historically, we have not experienced any shortage of raw materials. In addition,

our production plan based on annual sales forecast enables us to avoid the accumulation of finished goods in our inventory. The shipment of our finished products also follows the GMP standard. As most of our products have an average shelf life of three years, in case of excessive production in any given month, we have the option of storing such surplus first and reduce production in the current month.

Track and trace policy

In an effort to support track and trace for our products, each of our pharmaceutical products is assigned with a unique batch number printed on its package, which will be used to identify the product's authenticity during the process of sale, distribution, return or recall. Furthermore, we believe the unique batch number will facilitate us to combat counterfeit, and avoid adulterated or expired medications from entering the pharmaceutical products supply chain. By implementing the track and trace system, we ensure our products can be tracked throughout the entire end-to-end supply chain and traced back up upon return or recall.

Logistics

We engage authorised specialised logistics companies to transport and deliver our finished products from our warehouse to the warehouse designated by our distributors. When selecting a logistics service provider, we typically consider their specialty and professional qualification, service network, transportation efficiency, transportation capability, price, reputation and their track record. By engaging external logistic service providers, we believe it will allow us to reduce our capital investment and transfer the risks associated with the delivery of our pharmaceutical products to the service provider (including those arising from traffic accidents or delivery delays.)

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant delay in delivery that materially affected our business operations.

QUALITY MANAGEMENT

Quality Management System

We believe product quality is of paramount importance to our brand value and our corporate image. We strictly follow the GMP standards in the production process of our medicines. We have devised and implemented a comprehensive quality management system that covers every aspect of our production activities to ensure the safety and quality of our products. Our comprehensive quality management system comprises quality target set by our senior management, supplier selection guidelines, raw material procurement guidelines, production line control, product sampling, collection and management of product quality data, product delivery and after-sales tracing.

From R&D, product development, procurement of equipment, production and inventory control to shipment, we strictly control the quality of our products, to ensure our products meet our stringent internal standard as well as national and industry standards, including the GMP standards. Such comprehensive quality management system enables us to establish an end-to-end closed-loop production system to ensure strict adherence to the highest safety and quality standards. Every single product we produce has a batch number on the packaging and we utilise the batch number to ensure full traceability of our products. For our core products, we have accumulated substantial production experience, which enables us to develop a process to monitor proprietary production.

Human Resources in relation to Quality Management

We devote significant resources to quality management of our products. Our quality management system is led by Mr. Wu Guocheng, who has over 33 years of experience in the quality management area of TCM industry. All our operational departments are actively involved in our quality management activities, and we had three dedicated quality management staff members as at the Latest Practicable Date.

We provide regular and continuous training to our quality management team so that they are familiar with the requirements of the GMP standards. In accordance with our quality management policy, all of our specialists have taken relevant practice training and passed relevant assessments, and all of our sampling specialists for raw materials of PCM have PCM or related educational backgrounds and relevant working experiences in the production and quality management of PCM. We believe that our effective end-to-end quality management system will further raise our reputation and our competitive position.

Adherence to Laws and Regulations

We have complied with the GMP standards for our three production lines and one extraction line we utilise as required under the PRC laws. We have also obtained production permits for all our pharmaceutical products as required under the PRC laws. In the application process of the production permit, the relevant government authorities conduct rigorous review as to the specification and assembly process of the product. After granting the production permit, the relevant government authorities also conduct random inspection at our assembly facilities and sampling tests of our finished products.

As at the Latest Practicable Date, we have obtained all the requisite production permits for our products. In recent years, the PRC Government has been raising quality standards for the TCM industry to ensure product safety. We expect to benefit from these stringent regulations because of our high quality standards, which is our competitive advantage over our existing competitors and the potential ones.

Notwithstanding the above, in the event that the PRC Government tightens, or imposes more stringent laws, rules, regulations, regulatory framework or industry standards in connection with the TCM industry in the future, there is no assurance that we will be able to adapt to such changes in a timely manner. Please refer to the section headed "Risk Factors – Risks Relating to Our Business – We may not be able to remain in full compliance with the evolving GMP standards or other regulatory requirements (such as registration of Drug Approval Number requirement) which are material to our business" in this prospectus for further details.

Quality Management for Raw Materials

Our strict supplier selection criteria are critical in ensuring our product quality. We implement stringent quality management standards with respect to the raw materials we source from external suppliers and comprehensive evaluation and engagement policies for new suppliers. We purchase from qualified suppliers only. The qualification process includes rigorous requirements on quality management in accordance with the GMP standards. We require each of the suppliers of the APIs for the pharmaceutical products we produce to comply with the GMP standards, and each of the suppliers of the raw materials for our proprietary Chinese medicines to satisfy our internal standards. For example, our procurement centre, led by Mr. Jiang Zhendong, reviews the relevant qualifications of the suppliers during the selection process. We also conduct on-site review and inspection for the potential and existing suppliers when necessary. In addition, we procure product samples from the potential and existing suppliers for inspection and testing by the Quality Management Department in order to ensure the quality and consistency of the raw materials. During the Track Record Period, we have not returned any raw materials to our suppliers due to hygiene or quality reasons.

Quality Management during Production

We adhere to stringent safety and quality standards at each stage of our production process. The infrastructure, equipment and machinery are designed, constructed, maintained and inspected in accordance with the applicable quality standards, laws and regulations, in particular the GMP standards. We require our personnel involved in the production activities to strictly follow the standard operating procedures. We also require that all the components used in the production process to be strictly in compliance with our quality standards. We adopt strict hygiene standards in quarantined zones and at our production lines. All production employees are required to wear production uniforms, working caps and shoes. Access to our production line is limited and each production staff member is assigned to designated post(s) of a production line.

Each stage of our production process is closely monitored by our Quality Management Department. Semi-finished products are sample-tested after each stage of production to ensure their compliance with the GMP standards and our quality standards. Only products passing the quality testing processes can proceed to the next stage of production.

Quality Management for Finished Products

Each batch of the finished products is subject to quality checks on a sample basis to ensure the fulfilment of the required standards. Product approval certificate and quality assurance report are issued with each batch of completed products which passes the inspection and is approved by our quality management team. Our warehouses only release products that obtain both the product approval certificate and the quality assurance report. Finished products that fail to meet our quality standards are either reproduced or destroyed. Save as disclosed in the subsection headed "After-Sale Services" below, during the Track Record Period, no products were reproduced or destroyed due to failure of meeting our quality standards.

After-Sale Services

Our sales and marketing team handles the after-sale services and complaints from our end users. Our customer hotline number and address are printed on the package of our pharmaceutical products. Our customers and end users can reach us through the customer hotline or by email should they have any complaints or queries in relation to our pharmaceutical products. It is our policy that all complaints and requests from our customers and end users shall be handled promptly upon receipt.

Upon receipt of complaints concerning our products, we review all internal records and investigate whether the said product is contaminated or damaged in order to assess whether the complaint is justified. If the said product fails to reach our internal and national quality standards, we will promptly recall the said product that has been put into circulation. In November 2017, the Harbin Drug Inspection Testing Centre (哈爾濱市藥品檢驗所) informed Chengde Yushi that the Cinnabar Nerve-calming Pill (朱砂安神丸) (Lot Number: 160301) did not comply with the Supplemental Inspection Measures for 808 Scarlet in Cinnabar Nerve-calming Pill (《朱砂安神丸中808猩紅檢查項補充檢驗方法》) ("**Inspection Measures**") announced by the CFDA in August 2016. However, before announcement of the Inspection Measures (around March to May 2016), we produced and delivered the Cinnabar Nerve-calming Pill (Lot number: 160301) to one of our distributors as non-monetary Marketing Incentives. In view of the aforesaid notice from Harbin Drug Inspection Testing Centre, we immediately initiated a voluntary recall of two batches of Cinnabar Nerve-calming Pill (朱砂安神丸) (Lot Number: 160301 and 160302) (total: 4,841 boxes containing approximately 290 kg of pills) in November 2017 and the recalled drugs were subsequently destroyed in accordance with the applicable PRC laws and regulations. As advised by our PRC Legal Advisers, the voluntarily recall was completely voluntary and was not a penalty imposed by the relevant authorities(1). Further, we have completed the relevant procedures in accordance with the requirements of the Measures on the Administration of Drug Recalls (《藥品召回管理辦法》). Based on the compliance certificate issued by the competent authorities in the PRC, no penalty, punishment or sanction was imposed on Chengde Yushi.

Note:

(1) As advised by our PRC Legal Advisers, the voluntary recall was not an administrative penalty under the Law of the PRC on Administrative Penalty.

Save as disclosed above, we did not experience any other material customer complaints, material product recalls (either mandatory or voluntary), product liabilities or other legal claims due to problems with the quality of our products during the Track Record Period and up to the Latest Practicable Date.

Measures to Prevent and Monitor Counterfeiting of Products

We investigate counterfeit products in the market through our marketing staff. They monitor the market for any counterfeit products and infringement of our intellectual property. During the Track Record Period and up to the Latest Practicable Date, we are not aware of any counterfeits of our pharmaceutical products in the PRC market.

R&D

We believe that R&D is critical in maintaining our competitive edge and advantages. We usually engage external partners to take the leading role in executing the pre-clinical development projects. In line with the industry norm, all the clinical tests are outsourced to qualified contract research organisations.

During the Track Record Period, our R&D expenses amounted to nil, nil, approximately RMB8.3 million (representing approximately 3.8% of our total revenue during FY2019) and approximately RMB6.7 million (representing approximately 3.1% of our total revenue during 9M2020), respectively. Our R&D expenditures primarily comprise of payments to Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學) for the development of new pharmaceutical product (i.e. Stroke Prevention Capsule (耆丹禦風膠囊)) intended to help prevent stroke, a common type of Elderly cardio-cerebrovascular condition. According to our Group's accounting policy during the Track Record Period as set out in Appendix I to this Prospectus, costs incurred during the research phase of our R&D projects should be charged to profit or loss of our accounts when they were incurred. For FY2019 and 9M2020, all costs incurred were related to research phase and therefore our R&D expenditures of approximately RMB8.3 million and RMB6.7 million were charged to profit or loss during the relevant year/period.

As at the Latest Practicable Date, our R&D Department comprised a team of four members, who are responsible for liaising and collaborating with research institutions to identify and review potential product candidates. Taking the R&D feasibility into account, our R&D Department, together with the Sales and Marketing Department and Production Department, decides which product candidates should be developed.

Upon receiving the new pharmaceutical products from the research institutions, our R&D Department is responsible for quality control and quality assurances of the products. To enhance the quality of our products, we continuously explore more efficient methods of quality inspection.

Collaboration with Research Institutions

We have entered into collaboration agreements with external research institutions, namely Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學), in Heilongjiang Province, the PRC, and Chengde Medical College (承德醫學院) in Hebei Province, the PRC to jointly carry out R&D of new pharmaceutical products as well as to enhance our own product expertise. Our joint research projects include (i) the R&D of Stroke Prevention Capsule (耆丹禦風膠囊); and (ii) the improvement of production technique and further enhancement of quality standards of Heart Wellness Capsule (心安膠囊).

Background of Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學)

Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學) was founded in 1954 and owns 11 colleges, 12 affiliated hospitals, one research institute, 27 teaching hospitals, 70 training hospitals and bases, and is one of the leading institutes in the scientific research and medical treatment in the Heilongjiang Province and was confirmed as national clinical research base construction unit in 2008. It is one of the key units of the National Basic Research Program (國家重點基礎研究發展計劃), which is a research programme initiated by the PRC to achieve technology and strategic edge in various scientific fields. The first affiliated hospital of this university is a national TCM clinical research base construction unit and a national model of TCM hospital.

Over the years, Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學) has collaborated with a number of different entities, such as pharmaceutical company, brewery company, agricultural company and local forestry department, on the R&D of TCM.

Our Directors consider the R&D of our new pharmaceutical product, Stroke Prevention Capsule (耆丹禦風膠囊)*(Note)* has a sales prospect due to the following reasons:

- Stroke is a common type of cardio-cerebrovascular condition among Elders, and according to World Stroke Organization, China has the biggest stroke burden in the world.

Note: As at the Latest Practicable Date, the relevant regulatory authority has yet to conclude whether Stroke Prevention Capsule (耆丹禦風膠囊) is subject to clinical trial(s).

- According to the World Health Organization, China is ageing much faster than other low-and middle-income countries. The proportion of the population aged 60 years and above will increase to 28% in 2040.

- Our Group has proven record in the marketing, production of cardio-cerebrovascular PCM capsules during the Track Record Period and up to the Latest Practicable Date.

Background of Chengde Medical College (承德醫學院)

Chengde Medical College (承德醫學院) was founded in 1945 and owns 43 lab centres, 24 affiliated hospitals and 22 teaching hospitals, which is a medical college under the supervision of Provincial People's Government of Hebei and a member of "Physician Education and Training Program of Excellent (卓越醫生教育培養計劃)" and "Physician Education and Training Program of Excellent (Chinese Medicine) (卓越醫生(中醫)教育培養計劃)".

Our Directors believe that it is important to improve our production technique and our ability as to the quality assurance of Heart Wellness Capsule (心安膠囊) by collaborating with Chengde Medical College (承德醫學院) due to the following reasons:

- Pharmaceutical products relate to human health and hence cannot be taken lightly.

- Better production technique and quality of our pharmaceutical products can potentially save cost and increase revenue in the future.

The terms of our collaboration agreements for research projects vary, depending on the subject and nature of the research and our commercial arrangements with our external partners. According to the existing arrangements, we usually engage the external partners to take the leading role in R&D of new pharmaceutical products, new technology and production technique, and new material and equipment. They also assist in handling the key issues in the commercialisation of the results of the R&D and assisting in the training and education of our employees.

R&D Projects

As at the Latest Practicable Date, in collaboration with our research partners, we were engaged in two R&D projects, the details of which are set out in the following table:

Product name	Project aims	Year/Month of commencement	Estimated completion/ commercialisation year[4]	Ownership of the intellectual rights of the R&D outcome	Project cost	Supply of raw materials	Profit/economic benefit sharing arrangement
Stroke Prevention Capsule[1][2][3] (耆丹禦風膠囊)	Develop a new pharmaceutical product intended to help prevent stroke. Conduct R&D on the design plan, relevant extraction and preparation technologies, quality and stability assurance, and the overall intended therapeutic effectiveness.	July 2019	July 2023	Owned by our Group	RMB30,000,000[5]	By our Group	No such arrangement. All profits/ economic benefits deriving from this R&D project belong to our Group and not our research partner.
Heart Wellness Capsule[2] (心安膠囊)	Conduct stability studies by collecting medicinal data of different batches of Heart Wellness Capsule (心安膠囊) and evaluate their intended therapeutic effects against peer products. Conduct competitor analysis to identify key areas to improve, with focuses on the strengths and weaknesses of current production technique and quality assurance.	January 2019	December 2021	Owned by our Group	RMB5,000,000[6]	By our Group	No such arrangement. All profits/ economic benefits deriving from this R&D project belong to our Group and not our research partner.

Notes:

(1) Based on the National Insurance Medicine List (2019), Stroke Prevention Capsule (耆丹禦風膠囊) will not fall under the national medical insurance medicines catalogue nor be subject to retail price controls imposed by the PRC Government as it will not be classified as narcotic drugs and Class I psychotropic drugs.

(2) This pharmaceutical product is a prescribed medicine.

(3) The major APIs are Chinese Sage (丹參), Mongolian Milkvetch Root (黃芪), Chinese Angelica (當歸), Red Peony Root (赤芍), Tianma (天麻) and Yuanzhi (遠志), none of which are within the protective scope of the Law on the Protection of Wildlife of the PRC (《中華人民共和國野生動物保護法》).

(4) The estimated completion/commercialisation date for Stroke Prevention Capsule (耆丹禦風膠囊) does not include clinical trial (if required) since the relevant regulatory authority has yet to conclude whether clinical trial is mandatory or not as at the Latest Practicable Date. For the stability studies and competitor analysis for Heart Wellness Capsule (心安膠囊), no clinical trial is required as those are internal studies of production technique improvement and quality standards enhancement.

(5) As at the Latest Practicable Date, part of the project cost of Stroke Prevention Capsule (耆丹禦風膠囊) (approximately RMB17.2 million) had been settled by our Group.

(6) As at the Latest Practicable Date, part of the project cost of Heart Wellness Capsule (心安膠囊) (approximately RMB2.6 million) had been settled by our Group.

As at the Latest Practicable Date, for Stroke Prevention Capsule (耆丹禦風膠囊), we are undergoing Phase 3 (out of five phases in total) of the research, which focuses on the standard for quality assurance and stability framework. For the stability studies and competitor analysis for Heart Wellness Capsule (心安膠囊), the research team is currently in the progress of Phase 2 (out of three phases in total) of the research which focuses on assessment of the interaction between certain APIs and their stability.

For more details, please refer to the subsections headed "Business – Our Strategies" and "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus.

AWARDS AND QUALIFICATIONS

After years of development, our business has accomplished a number of milestones and we have obtained a number of important awards and qualifications as set out below:

Award/Qualification	Awarding organisation	Year/Month of issue
Key leading enterprise in agricultural industrialization* (河北省農業產業化重點龍頭企業)	People's Government of Hebei Province* (河北省人民政府)	April 2019
Leading enterprise for targeted poverty alleviation of "Qian Qi Bang Qian Cun"* (千企幫千村精準扶貧行動先進企業)	Federation of Industry and Commerce of Longhua County* (隆化縣工商業聯合會) and Chamber of Commerce of Longhua County* (隆化縣總商會)	March 2019
Self-built product R&D centre level B* (自建產品研發中心B級)	Bureau of Industry and Information Technology of Chengde City* (承德市工業和信息化局)	December 2018
Innovative working studio for best model worker and craftsman talent* (勞模和工匠人才創新工作室)	Federation of Trade Union of Chengde City* (承德市總工會) and Bureau of Science and Technology of Chengde City* (承德市科學技術局)	November 2018
Contact station for talent service of leading enterprise in green industry of Chengde City* (承德市綠色產業重點企業人才服務聯絡站)	Human Resources and Social Security Bureau of Chengde City* (承德市人力資源和社會保障局)	December 2017
Worker pioneer* (工人先鋒號)	Federation of Trade Union of Hebei Province* (河北省總工會)	April 2017

COMPETITION

The PCM industry is highly competitive and fragmented. According to the Euromonitor Report, the top five domestic pharmaceutical manufacturers which are non-listed companies engaged in the production of PCM in the PRC in the areas of alleviating cardio-cerebrovascular condition and alleviating Qi-deficiency and blood-stasis conditions only accounted for approximately 5.60% and 12.29% of the respective PCM market in terms of wholesale sales in Northeast in 2019. We compete directly with pharmaceutical manufacturers producing the same type of products and indirectly with those producing products with similar curative effects which can be used as substitutes to our pharmaceutical products. We also face competition when we expand into other markets and when new competitors enter into our existing markets. Our competitors vary by products, financial resources, marketing capabilities and/or market share by region.

According to the Euromonitor Report, we mainly compete with a number of non-listed domestic pharmaceutical manufacturers, and we are in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in the PRC in 2019 in terms of the sales of Qi-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC. Please refer to the section headed "Industry Overview" in this prospectus for further details.

EMPLOYEES

As at the Latest Practicable Date, we employed a total of 176 employees that are classified as follows:

	Number of employees as at the Latest Practicable Date	
Function	**The PRC**	**Hong Kong**
Executive Management	5	1
Production Department	105	–
Sales and Marketing Department	37	–
Administration Department	11	–
Finance Department	6	–
Equipment Engineering Department	4	–
Quality Management Department	3	–
Research and Development Department	4	–
Total:	175	1

As at the Latest Practicable Date, except for our 37 marketing staff members of the sales and marketing team who travelled in different regions across the PRC, most of our other employees worked at our headquarters and production facilities in Chengde City, Hebei Province, the PRC (with a few employees worked at Shijiazhuang Medical Research (our wholly-owned subsidiary) in Shijiazhuang City).

We believe our success depends heavily upon our employees' provision of consistent, quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, we place a strong emphasis on training our employees. We provide regular training to employees to strengthen their commitment to us and improve staff knowledge in a number of important areas of our services, such as knowledge about our Group, our products, laws and regulations applicable to our operations, requirements under applicable GMP or other standards, quality management, workplace safety and corporate culture. We evaluate our training results every year and adjust our training accordingly for the next year. We believe that these programmes have enhanced the productivity of our employees. In respect of recruitment, we recruit new employees based on specific job requirements and our needs in a timely manner.

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety and sanitary conditions in the workplace, and grounds for termination. Pursuant to regulations in each of the local governments where we operate, we make contributions to various employee benefit plans. Employee benefits covered by these arrangements include employee benefits required by the PRC laws and regulations as well as accommodations, meals and travel allowances. The local government authorities have confirmed that our contribution to these employee benefit plans have been made in a timely manner as required by the applicable PRC laws and regulations during the Track Record Period and we were not subject to penalties or sanctions. As confirmed by the local government authorities, we have also made contributions to the housing provident funds for our employees except as disclosed in the subsection headed "Business – Legal Proceedings and Non-compliance – Systemic Non-compliance" in this prospectus. We are not imposed with penalties or sanctions in relation to the provision of housing provident funds during the Track Record Period.

Recruitment policies

We recruit our employees based on a number of factors, including their work experience, educational background and our vacancies. We provide regular training to employees designed to strengthen staff commitment to us and improve staff knowledge in a number of important areas of our services, such as knowledge about our Group and our products as well as sales, laws and regulations applicable to our operation, requirements under applicable GMP or other requirements, quality control, workplace safety and corporate culture.

Labour Union

During the Track Record Period, we have no labour union and have not experienced any strikes or major disputes with our employees. We believe that we have maintained a good working relationship with our employees.

INTELLECTUAL PROPERTY

We rely primarily on a combination of patents, copyrights, technologies and trade secrets, as well as third party confidentiality agreements to protect our intellectual property. As at the Latest Practicable Date, we registered a total of four patents (which are material to our business) in China, including one invention patents and three utility model patents. There are also two pending invention patent applications in China. In addition, we also registered six software copyrights in connection with production process monitoring and testing. Further, we had 485 registered trademarks and 29 trademark applications pending approval in China as at the Latest Practicable Date. For further information on our intellectual property rights, please refer to the subsection headed "Appendix IV – Statutory and General Information – (B) Further Information about Our Business – 2. Material Intellectual Property Rights".

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, there had not been any pending or threatened claims against our Group, nor has any claim been made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties which had material impact on our Group.

With respect to, among other things, proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements to safeguard our interests. While we believe that certain elements in our operations are not covered by patents or copyrights, we have taken security measures to protect these elements.

We require our distributors to enter into distribution agreements, in which they are bound by the confidentiality clauses contained therein. Therefore, our distributors are obligated not to disclose any sensitive aspects of our operations, technology or business plans to any third party.

In addition to protecting our own intellectual property rights, it is also essential to minimise the risk that any of our pharmaceutical products or production technologies may infringe the intellectual property rights of others. Please refer to the subsection headed "Risk Factors – Risks Relating to Our Business – We may be unable to adequately protect our intellectual property rights and be involved in litigation(s) related to intellectual property, which tends to be costly and uncertain" in this prospectus for more details.

INSURANCE

There is no national mandatory provision under the relevant PRC laws and regulations requiring pharmaceutical manufacturers to maintain insurance coverage with respect to their pharmaceutical manufacturing operations.

We currently maintain the following insurance policies: (i) the statutory insurance for our automobiles; (ii) government-mandated insurance and benefits for our employees, including medical insurance, pension insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund as required by the relevant PRC laws and regulations; and (iii) insurance for our major assets.

Taking into account the customary practice in the PRC, we do not carry out product liability insurance or key person insurance for any member of our senior management team. We confirm that, during the Track Record Period, we have not experienced any serious accidents on our premises or material product liability claims and we believe that our insurance coverage in general is adequate for our operations. We will continue to monitor our risk portfolio and make adjustments to our insurance practice as necessary.

However, there are certain risks for which we are not insured, and we may not have sufficient insurance coverage for damages and liabilities that may arise in the course of our business operations.

Please refer to "Risk Factors – Risks Relating to Our Business – Our Insurance Coverage may not be sufficient" for further details.

PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are mainly premises for our production facilities, laboratories, warehouses, offices and employee dormitories.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance which requires a valuation report with respect to all our interests in land or buildings, for the reasons that, as at 30 September 2020, none of the properties held by us had a carrying amount of 15% or more of our combined total assets.

As at the Latest Practicable Date, we had land use right certificate for two parcels of land with an aggregate site area of approximately 49,616.4 sq.m. and building ownership certificates for 21 properties with an aggregate gross floor area of approximately 12,030.0 sq.m.. As confirmed by our PRC Legal Advisers, saved as disclosed in "Business – Legal

Proceedings and Non-compliance – Systemic Non-compliance" in this prospectus, we had complied with the relevant property PRC laws and regulations in all material respects during the Track Record Period and as at the Latest Practicable Date.

The following table sets out a summary of all land use rights owned by us as at the Latest Practicable Date:

Location	Use of Land	Registered area *(sq.m.)*	Expiration of land use right
Land Parcel No. 1: Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	Industrial	20,626.4	19 July 2055
Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	Industrial	28,990.0	19 July 2055

The following table sets out a summary of properties owned by us as at the Latest Practicable Date*(Note)*:

	Location	Number of Property(ies)	Use of Property	Gross Floor Area *(sq.m.)*
1.	Land Parcel No. 1: Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	6	Staff dormitory	1,335.7
2.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	4	Warehousing	1,171.5
3.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	1	Office	354.8
4.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	1	Laboratory	284.6

	Location	Number of Property(ies)	Use of Property	Gross Floor Area *(sq.m.)*
5.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	1	Warehousing and production line	2,354.8
6.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	1	Water usage and maintenance	149.7
7.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	1	Production line	1,069.7
8.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	1	Production line	1,277.0
9.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	2	Warehousing	1,081.9
10.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	2	Boiler place	242.3
11.	Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC	1	Warehousing	2,708.0

Note: The 21 properties with a total gross floor area of approximately 12,030.0 sq.m. owned by us comprise 6 properties with a total gross floor area of approximately 1,335.7 sq.m. situated at Land Parcel No. 1: Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC and 15 properties with a total gross floor area of approximately 10,694.3 sq.m. situated at Land Parcel No. 2: 1/55/9, Yixunhegou Village, Longhua Town, Chengde City, Hebei Province, the PRC.

There are six properties with a total gross floor area of approximately 1,148.6 sq.m. involved in the non-compliance incident. Please refer to the subsection headed "Business – Legal Proceedings and Non-compliance – Systemic Non-compliance" in this prospectus.

The following table sets out a summary of the property leased by us as at the Latest Practicable Date:

Location	Use of Property	Gross Floor Area *(sq.m.)*	Expiry dates of the lease	Renewal option
1. Room 306, 307 and 308 of Dongcaiku Business Port at the intersection of Zhaiying South Street and Huaian Road, Shijiazhuang City, Hebei Province, the PRC	Office	95.7	30 November 2021	No
2. Room 1703B and 1704 Zhiben Building, Futian District, Shenzhen City, the PRC	Office	333.4	31 July 2022	No

To ensure the safety of our staff working in our properties, we have implemented a series of internal control rules and regulations, such as prohibiting our staff from smoking or using electric heaters in certain places of the properties.

RISK MANAGEMENT AND INTERNAL CONTROL

We have established a set of risk management policies and measures to identify, evaluate and manage risks arising from our operations. Details on risk categories, internal and external reporting mechanism, remedial measures and contingency management have been codified in our policies adopted by us.

For details of the major risks identified by our management, please refer to the subsection headed "Risk Factors – Risk relating to our Business" in this prospectus.

To monitor the ongoing implementation of our risk management policies, corporate governance and internal control measures, we have adopted the following actions:

- the establishment of an audit committee responsible for overseeing the financial records, internal control procedures and risk management system of our Company;

- the appointment of Ms. Lau Ching Sze as our company secretary to ensure the compliance of our operation with the relevant laws and regulations. For her biographical details, please refer to the section headed "Directors and Senior Management" of this prospectus;

- the appointment of Soochow Securities International Capital Limited as our compliance adviser upon listing to advise us on compliance with the Listing Rules;

- the engagement of external legal advisers to advise us on the compliance with the Listing Rules and to ensure we will not be in breach of any relevant regulatory requirements or applicable laws; and

- trainings for our employees on compliance matters and to provide training to employees of managerial level on an annual basis and training to all relevant employees when we find it necessary in order to develop a corporate culture and to enhance employee compliance perception and responsibility.

Further, the relevant departments in our Company, including but not limited to the production department, sales and marketing department, administration department and finance department, are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. In order to formalize risk management practice and the standard for risk management performance for different departments and individuals across the Group, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) prepare a risk management report annually for our Chief Executive Officer's review; (iv) continuously monitor the key risks relating to their operation or function; (v) implement appropriate risk responses where necessary; and (vi) develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

In preparation for the Listing, we had engaged an independent internal control adviser in April 2019 to perform an internal control review (the "**IC Review**") of our internal control system based on an agreed scope. During the course of the IC Review, the internal control adviser identified a number of findings related to our internal control policies and procedures, pursuant to which we have taken the internal control enhancement measures recommended by the internal control adviser. In November 2019, the internal control adviser performed a follow-up review on the enhancement measures taken by us and it was concluded that no material deficiencies were observed and outstanding in our risk management and internal control system that would have had a material adverse impact on our business, financial condition or results of operations. After considering the implementation of the enhancement measures and the result of such follow-up review, our Directors are satisfied that our internal control system is adequate and effective for our current operation environment.

ENVIRONMENTAL, SOCIAL AND HEALTH AND SAFETY MATTERS

We are subject to PRC environmental laws and regulations including the Environmental Protection Law of the PRC. The main pollutants generated during our production process include waste water, waste gas, dust, noise and solid waste. We have established a pollution control system that is well-versed with the regulatory requirements applicable to our operation to inspect the production facilities and maintain environmental protection equipment and facilities. We installed various types of pollution control equipment in our facilities to reduce and treat the waste generated in our production process. When we plan for new products or new projects, we take into consideration the potential impact on the environment. For FY2017, FY2018, FY2019 and 9M2020, we incurred approximately RMB36,000, RMB10,000, RMB142,000 and RMB70,000, respectively, to comply with relevant environmental protection laws, rules and regulations which comprise sewage treatment fees and costs of environmental assessment studies. During FY2019 and 9M2020, in view of rising production volume in our facility and increasingly stringent requirements in environmental protection imposed by the government, we engaged a third-party contractor who is specialised in waste water management to ensure that we fully comply with the environmental protection laws, rules and regulations.

Our PRC Legal Advisers have opined that except as disclosed in the subsection headed "Business – Legal Proceedings and Non-compliance – Systemic Non-compliance" in this prospectus, we are in compliance with relevant national or local environmental laws and regulations in the PRC in all material aspects. Our facilities in the PRC are subject to regular inspection by environmental regulatory authorities. If these facilities are found not to be in compliance with the applicable environmental standards, we may be subject to penalties, which may range from fines to suspension of production. During the Track Record Period, we have not been subject to any penalty or claim by any governmental or regulatory authorities in the PRC for any material breach of or non-compliance with any environmental laws or regulations. As the PRC legal system continues to evolve, we may be required to undertake significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future.

Our Group has policies on compensation, dismissal, equal opportunities, diversity and anti-discrimination. Our Group respects the gender, age and ethnicity of each person. Accordingly, our Group gives each job applicant an equal job opportunity and we have an internal policy in place to ensure that there is no discrimination as to gender, age and ethnicity. In addition, we have stipulated in our internal guidelines that decision in relation to human resource management, which include but not limited to promotion, salary increment and dismissal within our Group would be based solely on the employee's performance, experience and capability.

The PRC Government imposes a number of regulatory requirements on pharmaceutical companies with regard to employee health and safety. We regard occupational health and safety as one of our important social responsibilities and have implemented safety guidelines at our production facilities, to which all employees are required to strictly adhere. We also conduct regular work place safety training and exams for our employees including those in relation to

accident prevention and management and have dedicated personnel that are well-versed with the regulatory requirements applicable to our operation to monitor different stages of the production process to ensure work place safety and prevent and manage accidents, if any. We have established a comprehensive safety warning and emergency processing system to minimise the risk of injury at our production facilities, warehouse and laboratories. Our production process is in compliance with GMP standards. During the Track Record Period, we have complied with all relevant national or local occupational health and safety laws and regulations and there were no major accidents that resulted in the death or serious injury of our employees.

There is no assurance, however, that we will not be subject to environmental liabilities in the event of an accident or other unexpected events, in which case we may be responsible for substantial clean-up costs. If we do not have adequate insurance coverage to cover such costs, our financial condition and results of operations may be materially adversely affected.

Please refer to the subsection headed "Risk Factors – Risks Relating to Our Business – Our Insurance Coverage may not be sufficient" in this prospectus.

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the environmental, social and governance ("**ESG**") vision and target of our Group, identifying the key performance indicators and the relevant measurements and evaluating, determining and addressing our ESG-related risks in accordance with Appendix 27 to the Listing Rules. Our Board will assess, evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

DISPOSAL OF NON-CORE ASSETS

During the Track Record Period, Chengde Yushi disposed its entire equity interests of or ceased to be interested in Yushi Wine, Chengde Biotechnology, Yushi Health and Hebei Yushi, which were regarded as Non-core Assets of our Group. For more details of the Non-core Assets, please refer to the subsections headed "History, Development and Reorganisation – Reorganisation – Onshore reorganisation – Disposal of Yushi Wine, Chengde Biotechnology and Yushi Health" and "History, Development and Reorganisation – Reorganisation – Onshore reorganisation – Deregistration of Hebei Yushi" in this prospectus.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

Legal Proceedings

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, and we were not aware of any pending, potential or threatened legal, arbitral or administrative proceedings against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Systemic Non-compliance

The following table sets out our systemic non-compliance incidents in respect of applicable laws and regulations:

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
1.	During the Track Record Period, we failed to make social insurance contributions in full for our employees. The amount of social insurance underpaid by Chengde Yushi during the Track Record Period were approximately RMB1.1 million, RMB1.4 million, RMB1.4 million and nil, respectively.	Certain employees worked at and had their residence registered at places other than Chengde City. Due to the complexity of transferring their social insurance registrations to other localities and continue their social insurance contributions, they were unwilling to participate in the social insurance scheme and had signed a declaration confirming, among other things, they voluntarily gave up the right for Chengde Yushi to make social insurance contributions for them and undertook that they would not claim Chengde Yushi for any liabilities in connection with its failure to contribute to the social insurance funds.	As advised by our PRC Legal Advisers, according to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), if an employer fails to pay its social insurance contributions in full amount in accordance with the relevant PRC laws and regulations, it may be ordered by the social security premium collection agency to pay the overdue amount and an overdue fine equivalent to 0.05% of the overdue amount per day calculated from the date such social insurance amount has become overdue within a prescribed time limit. If the employer still fails to do so within the prescribed time limit, the relevant administrative authorities may impose a fine of one to three times of the overdue amount. We have made a provision of approximately RMB2.7 million on the underpaid social security insurance contributions as at 30 September 2020. We confirm that such amount is sufficient to cover our liabilities in respect of the underpaid social security insurance contributions.	During the Track Record Period and up to the Latest Practicable Date, we had not received any notification or order from the relevant government authority that we had to rectify our non-compliance incident by settling any overdue social insurance contributions or overdue fine in respect thereof, or that we were subject to any administrative penalties. According to the certificate issued by the Human Resources and Social Security Bureau of Longhua County* (隆化縣人力資源和社會保障局) dated 29 October 2020, we had not been subject to any penalties for the contribution payment of social insurance during the Track Record Period. As we had rectified our non-compliance incident since November 2019, the Bureau would not penalise us or demand us to make payment of the past outstanding social insurance contributions or to pay the corresponding overdue fines. As advised by our PRC Legal Advisers, the relevant Bureau is a competent authority to make the aforesaid confirmation, and the possibility that the relevant Bureau would demand us to make payment of the past outstanding social insurance contributions or to pay the corresponding overdue fines, or penalise us for the non-compliance incident in respect of social insurance contributions in practice is low based on the aforesaid confirmation.

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
				We have made social insurance contributions in full for all our employees in accordance with the relevant PRC social insurance laws and regulations since November 2019. In order to offer additional protection to our Group, pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to fully indemnify us against, among others, any costs, expenses and losses which we may incur as a result of this non-compliance incident to the extent not covered by the above provision. To avoid future occurrence and/or reoccurrence of any non-compliance incidents, we have adopted internal control measures. Our office manager will be assigned to be responsible for ensuring ongoing compliance.

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
2.	During the Track Record Period, we failed to (i) register with the relevant housing provident fund authority and go through the formalities of opening housing provident fund accounts on behalf of our employees; and (ii) make housing provident fund contributions in full for our employees. The amount of housing provident fund underpaid by Chengde Yushi during the Track Record Period were approximately RMB0.3 million, RMB0.4 million, RMB0.4 million and nil, respectively.	Certain employees worked at and had their residence registered at places other than Chengde City. Due to the complexity of transferring their housing provident fund registrations to other localities and continue their housing provident fund contributions, they were unwilling to participate in the housing provident fund scheme and had signed a declaration confirming, among other things, that they voluntarily gave up the right for Chengde Yushi to make housing provident fund contributions for them and undertook that they would not claim Chengde Yushi for any liabilities in connection with its failure to contribute to the housing provident funds.	As advised by our PRC Legal Advisers, according to the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》), if an employer fails to register with the relevant housing provident fund authority or go through the formalities of opening housing provident fund accounts for its employees, the relevant housing provident fund authority may order it to go through all the formalities within a prescribed time limit. If such employer fails to do so, at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 may be imposed. If an employer fails to pay or pay in full its housing provident fund contributions in accordance with the relevant PRC laws and regulations, the relevant housing provident fund authority may order it to make payment of contributions within a prescribed time limit. If such employer fails to do so, the relevant housing provident fund authority may apply to the court for mandatory enforcement of such payment. We have made a provision of approximately RMB0.9 million on the underpaid housing provident fund contributions as at 30 September 2020. We confirm that such amount is sufficient to cover our liabilities in respect of the underpaid housing provident fund contributions.	During the Track Record Period and up to the Latest Practicable Date, we had not received any notification or order from the relevant government authority that we had to rectify our non-compliance incident by settling any overdue housing provident fund contributions. According to the certificate issued by the Housing Provident Fund Management Centre of Chengde City* (承德市住房公積金管理中心) dated 3 November 2020, we had not been subject to any penalties for the contribution payment of housing provident fund during the Track Record Period. As we had rectified our non-compliance since November 2019, the centre would not penalise us or demand us to make payment of the past outstanding housing provident fund contributions or to pay the corresponding overdue fines. As advised by our PRC Legal Advisers, the relevant centre is a competent authority to make the aforesaid confirmation, and the possibility that the relevant centre would demand us to make payment of the past outstanding housing provident fund contributions or to pay the corresponding overdue fines, or penalise us for the non-compliance incident in respect of housing provident fund contributions is low in practice based on the aforesaid confirmation. We have made housing provident fund contributions in full for all our employees in accordance with the relevant PRC laws and regulations since November 2019.

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
				In order to offer additional protection to our Group, pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to fully indemnify us against, among others, any costs, expenses and losses which we may incur as a result of this non-compliance incident to the extent not covered by the above provision. To avoid future occurrence and/or reoccurrence of any non-compliance incidents, we have adopted internal control measures. Our office manager will be assigned to be responsible for ensuring ongoing compliance.

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
3.	Prior to the Track Record Period, we failed to (i) obtain the construction land planning permit (建設用地規劃許可證), construction work planning permit (建設工程規劃許可證) and the construction work commencement permit (建築工程施工許可證) prior to the commencement of extension of our properties (the "**Properties**"); and (ii) conduct completion and acceptance inspections upon completion of the construction (竣工驗收) for 8 extension parts of the Properties ("**Extension Parts**") with an aggregate gross floor area of approximately 1,148.6 sq.m. and thereby failed to obtain the building ownership certificate (房屋所有權證) of these Extension Parts.	Due to legacy issues when Chengde Yaoye Group Liuhe Pharmaceutical Factory* (承德藥業集團六合製藥廠) was converted from a state-owned enterprise to a limited liability company, the Properties we owned on the relevant land were classified and remained as "public properties" (公產). As there had been no administrative procedures to resolve such situation, we were unable to go through the formalities to obtain the relevant construction permits, conduct completion and acceptance inspections upon completion of the extension and apply for the building ownership certificate for the Extension Parts.	As advised by our PRC Legal Advisers, according to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法), if a construction project proceeds without obtaining the necessary construction work planning permit, the urban and rural planning authorities at or above county level may order termination of the construction project. For construction project where measures can be taken to eliminate its impact on urban and rural planning, the authorities may order that such measures be taken within a prescribed time limit and impose a fine in the amount between 5% to 10% of the construction costs of the construction project. For construction project where no measures can be taken to eliminate its impact on urban and rural planning, the authorities may order that the relevant construction work be demolished, or, if the relevant construction work cannot be demolished, the confiscation of the relevant construction work or illegal income arising therefrom and imposition of a fine in the amount of not more than 10% of the construction costs of the construction project shall be made.	During the Track Record Period and up to the Latest Practicable Date, we had not received any notification or order from the relevant government authority that we had to rectify our non-compliance incident, or that we were subject to any administrative penalties. According to the confirmation issued by the Administrative Examination and Approval Bureau of Longhua County* (隆化縣行政審批局) (the "**Bureau**") dated 29 October 2020, the Properties we owned were classified as "public properties" due to legacy issues and the Bureau did not have relevant regulations and procedures to resolve such situation until April 2020. Upon checking of the relevant documents, the Bureau confirmed that the Properties were solely owned by us, and were not state-owned properties, collectively-owned properties or any other "public properties". According to the confirmations issued by the Natural Resources and Planning Bureau of Longhua County* (隆化縣自然資源和規劃局), the Housing, Urban and Rural Development Bureau of Longhua County* (隆化縣住房和城鄉建設局) and the City Management and Administration on Law Enforcement Bureau of Longhua County* (隆化縣城市管理行政執法局) dated 30 October, 30 October and 29 October 2020 respectively, as our non-compliance was caused by legacy issues and the authorities did not have relevant regulations and procedures to resolve such situation for the time being, the authorities would not conduct investigations on or penalise us or our Directors, and would not demolish or forfeit the relevant properties; and we could continue to use the Properties and would not have to obtain the relevant construction permits or certificate or conduct completion and acceptance inspections of the Extension Parts.

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
				As confirmed by our Directors, we will continue to liaise with the relevant authorities regarding the legacy issues. Since the relevant authorities had developed an administrative procedure allowing us to change the classification of "public properties" (公產) and obtain the relevant certificates, we have arranged to submit the relevant application materials. As advised by our PRC Legal Advisers, provided that we submit all necessary documents required by the authorities, there is no material legal impediment for us to change the classification of "public properties" (公產) and obtain the relevant certificates.

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
			As advised by our PRC Legal Advisers, according to the Administrative Measures for Construction Work Commencement Permits (建築工程施工許可管理辦法), if a construction project proceeds without obtaining the necessary construction work commencement permit, the construction project shall be terminated and rectified within a prescribed time limit, and a fine in the amount between 1% to 2% of the construction sum of the construction project may be imposed. Further, as advised by our PRC Legal Advisers, according to the Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), a construction unit putting the construction in use without conducting completion and acceptance inspections upon completion of the construction shall be rectified and a fine in the amount between 2% to 4% of the contract sum of the construction project may be imposed. The construction unit shall also be liable for any losses suffered by any third party as a result of the construction project.	In addition, the Extension Parts are mainly for storage or the auxiliary production usage. Therefore, in the unlikely event that the authorities request us to reinstate the original conditions of the Properties, our Directors consider that such reinstatement will not impact the ordinary use of the Properties or will not have any material adverse effect on our business, financial condition and results of operations. We estimate the reinstatement cost is approximately RMB0.1 million. As advised by our PRC Legal Advisers, the above authorities are competent authorities to make the aforesaid confirmation, and based on such confirmation, the possibility that the relevant governmental authorities would demolish or suspend the usage of the Properties with title defects is low, and the possibility that the relevant government authorities would impose the administrative fine against us or confiscate the properties due to these non-compliance incidents is low. If we are requested to dismantle the Extension Parts, it will not have any material impact on the ordinary use of the Properties or will not have any material adverse change in our business, financial condition and results of operations. Furthermore, provided that we submit all necessary documents required by the authorities, there will be no material legal impediment for us to comply with the GMP standards. To avoid future occurrence and/or reoccurrence of any non-compliance incidents, in the future before our Company acquires any material asset/make material investment, we will seek legal advice for potential compliance issues.

No.	Non-compliance incident	Reason for non-compliance and responsible persons involved	Legal consequence including potential maximum penalty and other financial liabilities	Remedial actions
			As advised by our PRC Legal Advisers, according to the aforesaid laws and regulations of the PRC, we may face a maximum penalty of 16% of the construction costs of the construction project. As confirmed by our Directors, the relevant construction costs in relation to our non-compliance incident amounted to approximately RMB3.1 million and hence, the maximum penalty that we may face is approximately RMB0.5 million. As the relevant government authorities confirmed that they would not penalise us for our non-compliance incident, our Directors are of the view that the possibility that such authorities would impose the penalty against us is low, and since the maximum penalty that we may face is not material, no provision is made in this regard.	

We confirm that to the best of our knowledge and belief, save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had complied with the laws and regulations applicable to us in all material respects, and we had not been and were not involved in any material non-compliance incidents that had led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

LICENSE, REGULATORY APPROVALS AND COMPLIANCE RECORD

Permits, Licenses and Approvals

As a pharmaceutical manufacturer, we are subject to regulation and oversight by different levels of the food and drug administration in the PRC, in particular, the CFDA. We are also subject to other PRC laws and regulations that are applicable to pharmaceutical manufacturers and distributors in general. A summary of the relevant PRC laws and regulations which our business operations are subject to in the PRC is set out in the section headed "Regulatory Overview" in this prospectus. We, as advised by our PRC Legal Advisers, confirm that as at the Latest Practicable Date, except as disclosed in the subsection headed "Business – Legal Proceedings and Non-compliance – Systemic Non-compliance" in this prospectus, we had complied with all the relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits, which primarily include the Drug manufacturing License (藥品生產許可證) and the GMP certificates from relevant regulatory authorities for our operations in China. During the Track Record Period and as at the Latest Practicable Date, we owned 71 Drug Approval Numbers which were associated with 59 types of PCM products because some of our PCM products were assigned with more than one Drug Approval Number. As at the Latest Practicable Date, we have already renewed 68 Drug Approval Numbers and they will be valid until August/September 2025. For the remaining three Drug Approval Numbers, two of them will be expired in 2021, and one will be expired in 2023.

Notwithstanding the above, there is no assurance that the government of the PRC will not tighten, or impose more stringent laws, rules, regulations, regulatory framework or industry standards in connection with the TCM industry in the future, there is no assurance that we will be able to adapt to such changes in a timely manner. Please refer to the section headed "Risk Factors – Risks Relating to Our Business – The Traditional Chinese Medicine industry is highly regulated and the regulatory framework, requirements and enforcement trend may be tightened in the future" in this prospectus for further details.

Anti-corruption Compliance

Since the early 1990s, the PRC Government has issued various laws and regulations with respect to commercial bribery. In 1993, the NPC adopted the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), which became effective on 1 December 1993 and was last amended with effect on 23 April 2019. Such legislation provided that a business operator would be illegal if it offered money or any other bribes in the course of selling or purchasing products, and shall be investigated for criminal responsibility. On 15 November 1996, the SAIC issued the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), which provided that the act of commercial bribery included offering money, goods, all kinds of free tours, and unrecorded volume discount and sales commission in secret to any person when selling or buying products. Violations of such regulations by a business operator are subject to fines and confiscation of illegal gains. In addition, any offer of property to any government officials for the purpose of seeking illegitimate gain or interest is illegal and might be punishable by the relevant PRC Governmental authorities. For further details, please refer to the subsection headed "Regulatory Overview – Laws and Regulations Related to Anti-bribery, Anti-corruption and Anti-unfair Competition" in this prospectus.

Pursuant to the Provision on the Establishment of Adverse Records of Commercial Briberies in the Medicine Purchase and Sales Industry (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》) enforced on 1 March 2014 by the NHFPC, medical production and operation enterprises involved in criminal, investigation or administrative procedure for commercial bribery shall be listed in the Adverse Records of Commercial Briberies by provincial health and family planning administrative department.

For the avoidance of any violation of the aforesaid anti-corruption requirements by our employees, we have taken measures to regulate the conduct of our sales representatives and tighten our sales and finance management system. These measures include:

- undertaking regular inspection on sales and finance matters;
- closely monitoring the marketing activities of our sales representatives;
- establishing internal policies for approving reimbursement of marketing, entertainment, travelling and accommodation expenses incurred by our sales representative; and
- providing training to our sales representatives on our internal guideline on expenditures and reimbursement and to increase their awareness of the relevant anti-corruption laws and regulations, as well as bribery-related acts.

To prevent our distributors from engaging in corruption, bribery, or other improper conduct, we take into account the compliance history of the distributors during our distributor selection process. In addition, our distributors are required under their agreements with us to comply with all the applicable laws and regulations and to restrain from inappropriate conduct and shall compensate us for any damages done to our image or reputation as a result of their illegal or inappropriate conducts, while our sales representatives are also responsible for emphasising to our distributors our anti-corruption policy and overseeing their activities through routine follow-ups. We are of the view that such controls and measures are adequate to avoid the occurrence of corruption, bribery, or other improper conducts of our employees, distributors.

During the Track Record Period and up to the Latest Practicable Date, we had been in compliance with the aforesaid anti-corruption requirements, and we were not aware of any non-compliance with such requirements by our Directors or employees. Further, to the best knowledge of our Directors, none of our distributors was involved in any investigation or litigation in respect of non-compliance with such requirements during the Track Record Period and up to the Latest Practicable Date.

BACKGROUND

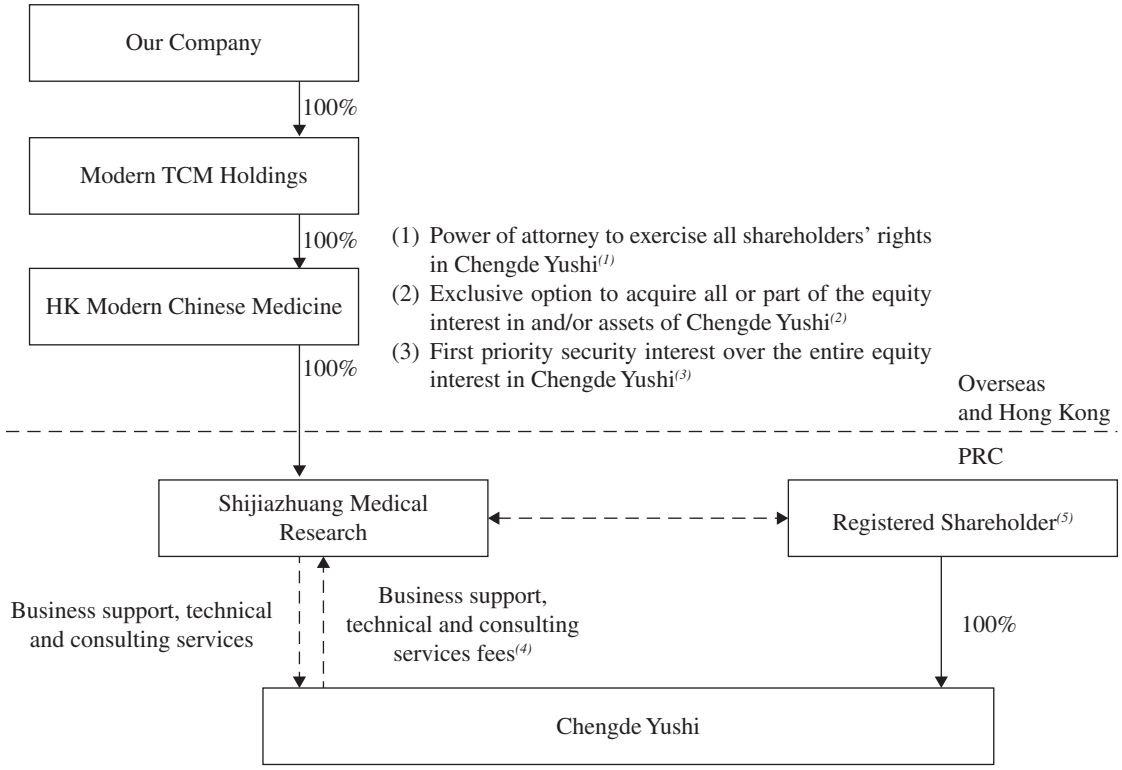
Our Group, through Chengde Yushi, engages in the business of production of PCM. Under the relevant PRC laws and regulations, namely the Special Management Measures (Negative List) for the Access of Foreign Investment (2020 version) and as confirmed by competent officers from the Longhua Commerce Bureau (隆化縣商務局), PCM produced by Chengde Yushi which involves the application of processing techniques for TCM decoction pieces such as steaming, frying, simmering and calcining (the "**Relevant Businesses**"), are prohibited from foreign investment. Please refer to the section headed "Regulation Overview" in this prospectus for further details. As the production of our PCM involves the application of the aforesaid processing techniques, we are not allowed to hold any equity interest in Chengde Yushi under the applicable PRC laws and regulations.

The Contractual Arrangements which consist of, namely Exclusive Option Agreement, Exclusive Business Cooperation Agreement, Equity Pledge Agreement, Power of Attorney and Spouse's Undertaking, were entered into in order for our Group to exercise control and manage the business of Chengde Yushi with all economic benefits derived from the business, financial and operating activities of Chengde Yushi flow to Shijiazhuang Medical Research by means of service fees payable by Chengde Yushi to Shijiazhuang Medical Research.

ARRANGEMENTS UNDER THE CONTRACTUAL ARRANGEMENTS

Operation of the Contractual Arrangements

Shijiazhuang Medical Research entered into the Contractual Arrangements with Chengde Yushi and the Registered Shareholder. The following diagram illustrates the operation of the Contractual Arrangements which results in the control over Chengde Yushi by our Group and the flow of all economic benefits from Chengde Yushi to our Group stipulated under the Contractual Arrangements:



Notes:

(1) Please refer to the subsection headed "Details of the Contractual Arrangements – Power of Attorney" in this section for details.

(2) Please refer to the subsection headed "Details of the Contractual Arrangements – Exclusive Option Agreement" in this section for details.

(3) Please refer to the subsection headed "Details of the Contractual Arrangements – Equity Pledge Agreement" in this section for details.

(4) Please refer to the subsection headed "Details of the Contractual Arrangements – Exclusive Business Cooperation Agreement" in this section for details.

(5) The Relevant Shareholder is Mr. Xie, a PRC national, holding the entire equity interest in Chengde Yushi.

"⟶" denotes direct legal and beneficial ownership in the equity interest and "⇢" denotes contractual relationship.

Details of the Contractual Arrangements

Exclusive Option Agreement

Chengde Yushi and the Registered Shareholder entered into an exclusive option agreement with Shijiazhuang Medical Research on 14 February 2020 (the "**Exclusive Option Agreement**"), pursuant to which Shijiazhuang Medical Research (or our Company or any subsidiary of our Company, the "**designee**") was granted an irrevocable and exclusive right to purchase from the Registered Shareholder 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, the Registered Shareholder and/or Chengde Yushi shall return any amount of purchase price they have received to Shijiazhuang Medical Research. At Shijiazhuang Medical Research's request, the Registered Shareholder 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. Pursuant to the Exclusive Option Agreement, the Exclusive Option Agreement is for an initial term of ten years and Shijiazhaung Medical Research has the right to renew the term of the Exclusive Option Agreement. Upon expiration of the initial term, the Exclusive Option Agreement will be automatically extended for an indefinite term until Shijiazhuang Medical Research serves a written notice to confirm the term of renewal. As confirmed by our Directors, 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 Business under the applicable PRC laws and regulations, Shijiazhuang Medical Research intends to renew the Exclusive Option Agreement upon the expiry of its initial term.

In order to prevent the flow of the assets and value of Chengde Yushi to the Registered Shareholder, 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 the Registered Shareholder receives any distribution from Chengde Yushi and subject to the PRC laws, the Registered Shareholder 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 and the benefits of equity ownership and/or assets, as applicable, would flow to our Company and our Shareholders.

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 provides that the Registered Shareholder 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. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on Shijiazhuang Medical Research and our Company in the event of any loss suffered from Chengde Yushi can be limited to a certain extent. In addition, in relation to the above restrictive provisions specified in the Exclusive Option Agreement, we will aggregate asset disposals or value of contracts if such asset disposals or value of contracts (i) are entered into by our Group with the same party or parties; or (ii) involve the disposal or contracts which relate to the whole or parts of the asset or securities or interests in a company or group of companies.

Our PRC Legal Advisers have advised us that the Exclusive Option Agreement is legal, valid and binding on the parties and is enforceable under applicable PRC laws and regulations, except for the provisions that (i) an arbitral body may grant injunctive relief or directly issue liquidation order against Chengde Yushi; and (ii) interim remedies or enforcement order may be granted by overseas courts such as the courts of Hong Kong and the Cayman Islands, which may not be enforceable under PRC laws. Since Chengde Yushi is not a state-owned enterprise, Chengde Yushi is able to enter into contracts with Shijiazhuang Medical Research or its designee to provide for the acquisition of the equity interests in and/or assets of Chengde Yushi by Shijiazhuang Medical Research or its designee for an exercise price without being subject

to any examination, approval or valuation procedures. In addition, Shijiazhuang Medical Research or its designee can exercise its option to purchase the equity interests in and/or assets of Chengde Yushi for an exercise price in accordance with the relevant procedures stipulated in the Exclusive Option Agreement.

Exclusive Business Cooperation Agreement

Chengde Yushi entered into an exclusive business cooperation agreement with Shijiazhuang Medical Research on 14 February 2020 (the "**Exclusive Business Cooperation Agreement**"), pursuant to which 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. Though we do 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. Our PRC Legal Advisers are of the opinion that (i) such provision relating to the intellectual properties will not result in these agreements being challenged by the relevant government authorities in the PRC; and (ii) it is legal for Chengde Yushi to hold the intellectual property rights in relation to our Group's business.

Pursuant to the Exclusive Business Cooperation Agreement, the Exclusive Business Cooperation Agreement is for an initial term of ten years and Shijiazhaung Medical Research has the right to renew the term of the Exclusive Business Cooperation Agreement. Upon

expiration of the initial term, the Exclusive Business Cooperation Agreement will be automatically extended for an indefinite term until Shijiazhaung Medical Research serves a written notice to confirm the term of renewal. As confirmed by our Directors, 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 Business under the applicable PRC laws and regulations, Shijiazhuang Medical Research intends to renew the Exclusive Business Cooperation Agreement upon the expiry of its initial term.

Under the PRC laws and regulations, arrangements and transactions among related parties, e.g. the exclusive service of business support, technical and consulting services by Shijiazhuang Medical Research to Chengde Yushi, may be subject to audit or challenge by the PRC tax authorities. In the worst-case scenario, we could face material and adverse tax consequences if the PRC tax authorities determine that the Contractual Arrangements we have with our Consolidated Affiliated Entity do not represent an arm's-length transaction, e.g. the provision of services by Shijiazhuang Medical Research to Chengde Yushi is regarded as being without substantial underlying services, or the service fee charged by Shijiazhuang Medical Research is not calculated in a reasonable manner, and adjust our Consolidated Affiliated Entity's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. Please refer to the subsection headed "Risk Factors – Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our profits and the value of your investment" in this prospectus for further details.

Equity Pledge Agreement

Chengde Yushi, the Registered Shareholder and Shijiazhuang Medical Research entered into an equity pledge agreement on 14 February 2020 (the "**Equity Pledge Agreement**"). Under the Equity Pledge Agreement, the Registered Shareholder 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 the Registered Shareholder 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 the Registered Shareholder 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 the Registered Shareholder 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 conduct(s) the Relevant Businesses of Chengde Yushi upon the legal acquisition of these equity interests and assets in accordance with the PRC Laws; (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. In addition, under the Exclusive Option Agreement, the Registered Shareholder may not transfer or permit the encumbrance of any of his equity

interests in and assets of Chengde Yushi (including any equity interests in and assets of the subsidiaries of Chengde Yushi (if any)) without Shijiazhuang Medical Research's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, the director, legal representative, general manager, chief financial officer and other senior management of Chengde Yushi as recommended by Shijiazhuang Medical Research are entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of Chengde Yushi, which further strengthens the protection of Shijiazhuang Medical Research's interests over Chengde Yushi under the Contractual Arrangements. Should an event of default (as provided in the Equity Pledge Agreement) occur, unless it is successfully resolved to Shijiazhuang Medical Research's satisfaction within 30 days upon being notified by Shijiazhuang Medical Research, Shijiazhuang Medical Research may demand that the Registered Shareholder and/or Chengde Yushi immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to Shijiazhuang Medical Research. The pledge under the Equity Pledge Agreement was duly registered with the Administrative Examination and Approval Bureau of Longhua County* (隆化縣行政審批局) on 26 February 2020.

Power of Attorney

An irrevocable power of attorney was entered into between the Registered Shareholder, Shijiazhuang Medical Research and Chengde Yushi on 14 February 2020 (the "**Power of Attorney**"), whereby the Registered Shareholder 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 the Registered Shareholder. The Registered Shareholder has 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. As a result of the Power of Attorney, our Company, through Shijiazhuang Medical Research, is able to exercise management control over the activities that most significantly impact the economic performance of Chengde Yushi.

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

Dispute Resolution

Each of the Contractual Arrangements stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the construction and performance of the provisions. In the event the parties fail to reach an agreement on the resolution of such a dispute within 30 days after any party's request for resolution of the dispute through negotiations, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties. Any party shall have the right to apply to the courts with competent jurisdiction for enforcement of arbitration rulings after the arbitration rulings come into force.

Each of the Contractual Arrangements also provides that (i) the arbitral tribunal may award remedies over the equity interests, assets or property interest of Chengde Yushi, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Chengde Yushi; and (ii) the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and other jurisdiction (being the place of domicile of Chengde Yushi and where the principal assets of Chengde Yushi or Shijiazhuang Medical Research are located) also have jurisdiction for the grant or enforcement of the arbitral award and the interim remedies against the shares or property interest of Chengde Yushi.

However, our PRC Legal Advisers have advised that (i) a tribunal has no power to grant such kind of injunctive relief or winding up order of Chengde Yushi under PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC; and (iii) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

As a result of the above, in the event that Chengde Yushi or the Registered Shareholder breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Chengde Yushi and conduct our business could be materially and adversely affected. Please refer to "Risk Factors – Risks Relating to our Contractual Arrangements" in this prospectus for details.

Succession, Bankruptcy and Divorce

The provisions set out in the Contractual Arrangements are also binding on the successors of the Registered Shareholder, as if the successors were signing parties to the Contractual Arrangements. Under the succession laws of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Shijiazhuang Medical Research can enforce its rights against the successors. Pursuant to the Contractual Arrangements, any inheritor of the Registered Shareholder shall inherit any and all rights and obligations of the registered shareholder under the Contractual Arrangements as a result of his death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect his exercise of equity interest in Chengde Yushi, as if the inheritor was a signing party to such Contractual Arrangements.

According to the terms of the Exclusive Option Agreement, the Registered Shareholder has undertaken that, in the event of death or any other event which causes the inability of the shareholder to perform his day-to-day obligations, bankruptcy, marriage or divorce, his successors or the then shareholder of Chengde Yushi or the transferee of the equity interest in Chengde Yushi shall transfer all of the equity interests, including rights and obligations in Chengde Yushi, held by him to Shijiazhuang Medical Research or an individual or legal entity designated by Shijiazhuang Medical Research under applicable PRC law.

In addition, Ms. Sun Xinlei (孫新磊), the spouse of the Registered Shareholder, executed an irrevocable undertaking on 14 February 2020 (the "**Spouse's Undertaking**"), whereby she expressly and irrevocably acknowledged and has undertaken that (i) any equity interest held by the Registered Shareholder 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.

Based on the foregoing, our PRC Legal Advisers are of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of loss of or reduction of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholder; and (ii) loss of or reduction of capacity, death, bankruptcy (if applicable), marriage or divorce of the Registered Shareholder would not affect the validity of the Contractual Arrangements, and Shijiazhuang Medical Research can enforce its rights under the Contractual Arrangements against the successors of such shareholder.

Conflicts of Interests

The Registered Shareholder has undertaken that, during the period that the Contractual Arrangements remain effective,

i. (a) he shall not execute any documents with or make any undertaking to any third parties that may have conflicts of interests with any agreements entered into by Shijiazhuang Medical Research or Chengde Yushi; (b) he shall not commit or refrain from committing any act that may lead to any conflicts of interests between the Registered Shareholder and Shijiazhuang Medical Research (including its shareholders); and (c) in the event of the occurrence of a conflict of interests (where Shijiazhuang Medical Research has the sole absolute discretion to determine whether such conflict arises), he shall take appropriate measures upon the consent of Shijiazhuang Medical Research and its designee to eliminate such conflicts, failing which Shijiazhuang Medical Research has the right to exercise the option under the Exclusive Option Agreement; and

ii. unless otherwise agreed to by Shijiazhuang Medical Research in writing, he will not (a) directly or indirectly participate or engage in any business which is or may potentially be in competition with the businesses of Chengde Yushi or any of its subsidiaries; or (b) be employed by an entity whose operation is or may potentially be in competition with the businesses of Chengde Yushi or any of its subsidiaries or hold interest in or assets of such entities, save that ownership of an equity interest of up to 5% is permitted, where Shijiazhuang Medical Research has the sole absolute discretion to determine whether such conflict arises.

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

Loss exposure

None of the agreements constituting the Contractual Arrangements provides that our Company or its wholly-owned PRC subsidiary, Shijiazhuang Medical Research, is obligated to share the losses of Chengde Yushi, but if Chengde Yushi suffers any losses or material difficulties of business, Shijiazhuang Medical Research may provide financial support as permitted under PRC laws at its discretion to Chengde Yushi under the terms of the Exclusive Business Cooperation Agreement. Further, Chengde Yushi is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, our Company or Shijiazhuang Medical Research is not expressly required to share the losses of Chengde Yushi or provide financial support to Chengde Yushi. Despite the foregoing, given that our Group conducts the Relevant Businesses in the PRC through Chengde Yushi which holds the requisite PRC licenses and approvals, and that Chengde Yushi's results of operations and assets and liabilities are consolidated into our

Group's results of operations and assets and liabilities under the applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if Chengde Yushi suffered losses.

Liquidation

Pursuant to the Contractual Arrangements, in the event of a mandatory liquidation of Chengde Yushi required by the PRC laws, the Registered Shareholder shall give the proceeds they received from liquidation to Shijiazhuang Medical Research, or its nominee(s) at the exercise price permitted by the PRC laws.

Termination

Each of the Contractual Arrangements provides that Shijiazhuang Medical Research and Chengde Yushi shall terminate the Contractual Arrangements once Shijiazhuang Medical Research holds the entire equity interest and/or the entire assets of Chengde Yushi under the then PRC laws and if Shijiazhuang Medical Research is able to conduct the Relevant Businesses directly as a result of being permitted to do so under the then PRC laws and Shijiazhuang Medical Research is registered as the sole shareholder of Chengde Yushi. In addition, pursuant to the Exclusive Business Cooperation Agreement, Shijiazhuang Medical Research has the unilateral right to terminate these agreements at any time by providing 30 days' advance written notice to Chengde Yushi.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

In preparation for the Listing, our PRC Legal Advisers and the Sole Sponsor have interviewed the competent officer in each of the HBDA (河北省藥品監督管理局) and the Longhua Commerce Bureau (隆化縣商務局), during which the relevant officer confirmed that it is not necessary to seek their approval before entering into the Contractual Arrangements. The HBDA (河北省藥品監督管理局) and the Longhua Commerce Bureau (隆化縣商務局) were of the view that the Contractual Arrangements do not violate the relevant applicable laws or regulations.

Our PRC Legal Advisers, after taking reasonable actions and steps to reach its legal conclusions, are of the opinion that:

(a) Shijiazhuang Medical Research and Chengde Yushi were duly established and validly existing under the PRC laws, and have obtained or completed all requisite approvals, permits, registrations or filings for carrying on their respective business operations as required by the applicable PRC laws, regulations and rules;

(b) the Contractual Arrangements as a whole and each of the contracts comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, and do not, individually or collectively, constitute a breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Contractual Arrangements do not violate the provisions of the PRC Contract Law including "concealing illegal intentions with a lawful form", the General Principles of the PRC Civil Law and other applicable PRC laws and regulations;

(c) each of the contracts comprising the Contractual Arrangements does not violate any provisions of the articles of association of Shijiazhuang Medical Research and Chengde Yushi;

(d) the Contractual Arrangements do not require any approvals from or registration with the PRC Government, except the pledge under the Equity Pledge Agreement which was duly registered with the Administrative Examination and Approval Bureau of Longhua County* (隆化縣行政審批局) on 26 February 2020; and

(e) the Contractual Arrangements are in compliance with and enforceable under the applicable PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Chengde Yushi, grant an injunctive relief and/or wind up Chengde Yushi, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration result pending the formation of an arbitral tribunal, while under PRC laws and regulations, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interest in Chengde Yushi in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC.

Our Directors' confirmation

As at the Latest Practicable Date, our Company has not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through Chengde Yushi under the Contractual Arrangements.

In light of the opinion from the PRC Legal Advisers, the interview with the competent officer of the Drug Administration of Hebei Province (河北省藥品監督管理局) and Longhua Commerce Bureau (隆化縣商務局) and there being no interference from the PRC Government regarding the Contractual Arrangements, our Directors are of the view that the adoption of the Contractual Arrangements which confer significant control and economic benefits from Chengde Yushi to Shijiazhuang Medical Research is unlikely to be deemed ineffective or invalid under the relevant PRC laws and regulations.

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing. It is impracticable and unduly burdensome for them to be subject to the relevant requirements under the Listing Rules as our Directors are of the view that the transactions contemplated under the Contractual Arrangements are fundamental to our Group's legal structure and business operations, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole. Please see the section headed "Connected Transactions" in this prospectus for more details.

Sole Sponsor's view

The Sole Sponsor is of the view that the Contractual Arrangements adopted by our Group have complied with the requirements set out in the listing decision (HKEX-LD43-3) issued by the Stock Exchange in 2005 and updated in November 2011, August 2012, November 2012, December 2012, November 2013, April 2014, August 2015, and February and April 2018, respectively.

Circumstances under which we will terminate the Contractual Arrangements

We will unwind and terminate the Contractual Arrangements as soon as practicable in respect of the operation of the Relevant Businesses to the extent permissible and we will directly hold the maximum percentage of ownership interests permissible under relevant PRC laws and regulations if such business is allowed to be conducted by sino-foreign equity joint ventures or wholly-owned foreign investment entities under the relevant PRC laws and regulations.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the FIL

On 15 March 2019, the NPC approved the FIL, which became effective on 1 January 2020. The FIL is the fundamental law governing the foreign investment in the PRC, which replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》). On 26 December 2019, the State Council approved the Implementation Regulations for the Foreign Investment Law, which became effective on 1 January 2020.

Impact and Potential Consequences of the FIL and its Implementation Regulations on our Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. The FIL, unlike the discussion draft of the proposed Foreign Investment Law of the People's Republic of China (《中華人民共和國外國投資法(草案徵求意見稿)》) published on January 2015 by the MOFCOM, does not explicitly prohibit or restrict a foreign investor to rely on contractual arrangements to control the majority of its business that is subject to foreign investment restrictions or prohibitions in the PRC. Our PRC Legal Advisers are of the view that given the FIL has not explicitly prohibited or restricted a foreign restricted business to be controlled by contractual arrangements, the FIL and its Implementation Regulations do not explicitly incorporate contractual arrangements as a form of foreign investment, and if there are no other promulgated national laws, administrative regulations or administrative rules prohibiting or restricting the operation of or affecting the legality of contractual arrangements in relation to the Relevant Businesses, the validity of the Contractual Arrangements will not be affected. Please refer to the subsection headed "Risk Factors – Risks relating to our Contractual Arrangements – Substantial uncertainties exist with respect to the interpretation and implementation of the FIL and how it may impact the viability of our current corporate structure, corporate governance and business operations" in this prospectus for further details of risks relating to the FIL. In any event, we will take reasonable steps in good faith to seek compliance with the FIL.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

1. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

2. our Board, including our independent non-executive Directors, will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

3. our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports and accounts in accordance with the relevant provisions of the Listing Rules;

4. our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Shijiazhuang Medical Research and Chengde Yushi to deal with specific issues or matters arising from the Contractual Arrangements;

5. our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entity to the Registered Shareholder which are not otherwise subsequently assigned or transferred to our Group; and

6. our Consolidated Affiliated Entity has undertaken that, for so long as the Shares are listed on the Stock Exchange, our Consolidated Affiliated Entity will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of review of the connected transactions by our Company's auditors.

For further information of the measures we adopted in respect of ongoing reporting and approvals of the Contractual Arrangements, please refer to the section headed "Connected Transactions – Application and Conditions for Waiver – (e) Ongoing reporting and approvals" in this prospectus.

In addition, notwithstanding that our executive Director, namely Mr. Xie, is also the Registered Shareholder, we believe that he is able to perform his role in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

1. the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

2. each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;

3. we have appointed three independent non-executive Directors, comprising over one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and

4. we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Under the Exclusive Business Cooperation Agreement, it was agreed that, in consideration of the services provided by Shijiazhuang Medical Research or its designated third party, Chengde Yushi will pay service fees to Shijiazhuang Medical Research or its designated third party. The service fees are equal to the cumulative net profit, subject to the deduction of the relevant costs, expenses, taxes and other statutory contribution (if applicable) as required by applicable PRC laws and regulations. Chengde Yushi shall deliver to Shijiazhuang Medical Research its respective management accounts and operating statistics periodically as requested by Shijiazhuang Medical Research. Accordingly, Shijiazhuang Medical Research has the ability, at its sole discretion, to extract all of the economic benefits of Chengde Yushi through the Exclusive Business Cooperation Agreement.

In addition, under the Exclusive Option Agreement, Chengde Yushi shall not make any distribution to its shareholders, unless with the written request of Shijiazhuang Medical Research. The Registered Shareholder shall pay or transfer any dividends or any other amounts he or she/the Registered Shareholder received to Shijiazhuang Medical Research or its designee as allowed by the PRC laws and regulations.

Further, under the Power of Attorney, Shijiazhuang Medical Research or any person designated by Shijiazhuang Medical Research assumes all rights as a shareholder and exercises control over Chengde Yushi, including the right to propose, convene and attend shareholders' meetings, the right to sell, transfer, pledge or dispose of shares, the right to exercise shareholders' voting rights and to appoint the directors, general managers and other senior management members of Chengde Yushi.

As a result of the Contractual Arrangements, we have obtained the right to exercise power to control Chengde Yushi through Shijiazhuang Medical Research and, under our sole discretion, can receive substantially all of the variable economic interest returns generated by Chengde Yushi through our involvement. Accordingly, Chengde Yushi is treated as a controlled structured entity of our Company and its results of operations, assets and liabilities, and cash flows are combined into our combined financial information.

The basis of combining the results of Chengde Yushi is disclosed in Note 1 to the Accountants' Report set out in Appendix I to this prospectus.

OUR CONTROLLING SHAREHOLDERS

Modern Biotechnology will be entitled to control approximately 75% of the issued share capital of our Company immediately upon completion of the Global Offering (assuming (i) no exercise of the Over-allotment Option; and (ii) no exercise of the options which may be granted under the Share Option Scheme) and the Capitalisation Issue. Modern Biotechnology is wholly-owned by Mr. Xie. As such, Modern Biotechnology and Mr. Xie will together constitute a group of Controlling Shareholders within the meaning of the Listing Rules. For the background of Mr. Xie, please refer to the subsection headed "Directors and Senior Management – Directors – Executive Directors – Mr. Xie Wei (謝偉)" of this prospectus.

HISTORICAL RELATIONSHIP WITH BEIJING YUSHI

Beijing Yushi was established in the PRC on 17 March 2014 as a limited liability company with an initial registered capital of RMB100 million and was wholly-owned by Mr. Xie. Since its establishment, Mr. Xie had been the legal representative and controlling shareholder of Beijing Yushi.

In order to focus on the business of our Group, being the production of PCM in the PRC and to streamline the corporate structure of our Group, Mr. Xie (i) as part of the Reorganisation, acquired the entire equity interest in Chengde Yushi from Beijing Yushi on 22 May 2019 at the consideration of RMB28 million with reference to its then registered capital; and (ii) disposed of all his equity interests in Beijing Yushi to Mr. Geng Changsheng, an Independent Third Party on 4 June 2019, at the consideration of RMB100 million which was determined with reference to the then registered capital of Beijing Yushi. Immediately before the disposal of equity interests in Beijing Yushi by Mr. Xie, Beijing Yushi held investments in a variety of businesses with a view to diversifying its investment portfolio and capturing the business opportunities in different industries. To the best knowledge of Mr. Xie, Beijing Yushi did not have any material non-compliances, litigations, claims or any actual or contingent liabilities up to the date of disposal. Mr. Xie has ceased to be the legal representative of Beijing Yushi since June 2019. The following table sets out the direct and indirect subsidiaries of Beijing Yushi at the time when Beijing Yushi was disposed of by Mr. Xie in June 2019:

Name of company	Registered capital of the company immediately prior to the disposal *(RMB)*	Type of investment by Beijing Yushi	Beijing Yushi's interest in the company immediately prior to the disposal	Principal business of the company immediately prior to the disposal	Commercial rationale for investing in the company
佳木斯金夢工場傳媒策劃廣告有限公司 (Jiamusi Jinmeng Production Media and Advertising Co., Limited*)	100,000	Entire equity interest acquired by Beijing Yushi[(1)]	100%	Advertisement and marketing	To promote the brand of "Yushi" through different media
哈爾濱海士威保健食品經銷有限公司 (Harbin Haishiwei Health Care Products Dealer Co., Limited*)	30,000	Entire equity interest acquired by Beijing Yushi[(2)]	100%	Sales of health care products and daily commodities[(3)]	To tap into the health care product industry, promote the brand of "Yushi" and diversify investment of Mr. Xie

Name of company	Registered capital of the company immediately prior to the disposal *(RMB)*	Type of investment by Beijing Yushi	Beijing Yushi's interest in the company immediately prior to the disposal	Principal business of the company immediately prior to the disposal	Commercial rationale for investing in the company
御室家族品牌管理(瀋陽)有限公司 (Yushi Family Branding Management (Shenyang) Co., Limited*) ("**Yushi Branding SY**")[4]	8.00 million	Established by Beijing Yushi in May 2014	99.875%[5]	Provision of consultancy services and sales of food and beverage products	To promote the brand of "Yushi"
御室品牌管理(北京)有限公司 (Yushi Branding Management (Beijing) Co., Limited*) ("**Yushi Branding**")[6]	10.00 million	51% of the equity interest acquired by Beijing Yushi[7]	51%[8]	Provision of corporate management services	To promote the brand of "Yushi"
天蓬元帥(北京)創業投資管理有限公司 (Tianpeng Yuanshuai (Beijing) Business Development and Investment Management Co., Limited*) ("**Tianpeng Yuanshuai**")	10.00 million	51% of the equity interest acquired by Beijing Yushi[9]	51%[10]	Investments and assets management	To look for investment opportunities
黑龍江林海雪原藥業有限公司 (Heilongjian Linhai Xueyuan Pharmaceutical Co., Limited*) ("**Linhai Xueyuan**")	8.90 million	51% of the equity interest acquired by Beijing Yushi[11]	51%[12]	Manufacturing of ointment	To leverage on the well-established production lines and product portfolio of the company as a recognised manufacturer of ointment
黑龍江百泰藥業有限公司 (Heilongjiang Baitai Pharmaceutical Co., Limited*)	8.15 million	Entire equity interest acquired by Beijing Yushi[13]	100%	Manufacturing of Western medicine tablets and capsules	To leverage on the well-established production lines and product portfolio of the company as a recognised manufacturer of Western medicine tablets and capsules
Yushi Health[14]	20.00 million	51% of the equity interest acquired by Beijing Yushi[15]	51%	R&D and production of health food products	To tap into the health food products industry, and diversify the business of Beijing Yushi into other PCM market
御室(北京)健康科技有限公司 (Yushi (Beijing) Health Technology Co., Limited*)	5.00 million	Established by Yushi Branding in July 2018	51%[16]	Provision of technological services	To tap into the daily necessities and food industry, and diversify the business of Beijing Yushi

Mr. Xie confirmed that, to his best knowledge and belief and after making all reasonable enquiries, the companies mentioned above did not have any material litigations, disputes and non-compliant incidents under the applicable PRC laws, from the dates on which Beijing Yushi became interested in the respective companies and up to the date of Mr. Xie's disposal of Beijing Yushi, which is relevant to him.

As at the Latest Practicable Date, Mr. Xie has ceased to have any interest in the companies mentioned above.

Notes:

1. Beijing Yushi acquired the entire equity interest of the company from Mr. Hao Xiangli (郝向利), an Independent Third Party, in June 2014 at the consideration of RMB0.1 million, which was determined with reference to the then registered capital of the company. Mr. Xie was acquainted with Mr. Hao Xiangli (郝向利) when he was the deputy general manager, responsible for sales and products promotion, in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司). To the best knowledge of our Directors, after making all reasonable enquiries, Mr. Hao Xiangli (郝向利) is the spouse of Ms. Liu Shuxia (劉樹霞). They invested in pharmaceutical business. The father of Mr. Hao Xiangli (郝向利) is a younger brother of Ms. Hao Ruihua (郝瑞華), the mother of Mr. Jin Dongtao (金東濤).

2. Beijing Yushi acquired the entire equity interest of the company from Ms. Li Hongyan (李紅艷) and Mr. Zhang Weiguo (張偉國), each an Independent Third Party, in June 2014 at a total consideration of RMB30,000, which was determined with reference to the then registered capital of the company. Mr. Xie was acquainted with Ms. Li Hongyan (李紅艷) and Mr. Zhang Weiguo (張偉國) as business acquaintance when he was the deputy general manager, responsible for sales and products promotion, in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司). To the best knowledge of our Directors, after making all reasonable enquiries, Ms. Li Hongyan (李紅艷) is the spouse of Mr. Zhang Weiguo (張偉國). They invested in healthcare business.

3. The sales of health care products does not include the sales of PCM products and is not related to our Group's core business, and therefore this company was excluded from our Group.

4. Beijing Yushi and certain of its subsidiaries were principally engaged in the sales of non-PCM products such as decorative products and food and beverage products. Beijing Yushi and those subsidiaries did not sell their products through distributors. To coordinate the efforts of marketing and promotion of the products offered by Beijing Yushi and those subsidiaries, Yushi Branding SY was established by Beijing Yushi in May 2014 to act as a platform for such purpose.

5. The remaining 0.125% equity interest was held by Ms. Sun Xinlei (孫新磊), the spouse of Mr Xie.

6. To the best knowledge of our Directors and after making all reasonable enquiries, Yushi Branding was established by Hebei Jintian Yan Xiao Pharmaceutical Co., Ltd. (河北金天燕霄醫藥有限公司) ("**Hebei Jintian Yan Xiao**"), an indirect subsidiary of Universal Health, as to 99% and Mr. Yu Hongyang (于洪陽), an Independent Third Party, as to 1% in February 2015. The establishment of Yushi Branding was a transitional arrangement that allowed Universal Health, a distributor of Chengde Yushi, to promote "Yushi" products under a company with a name bearing the word "Yushi" and such arrangement was made after Chengde Yushi was sold to Mr. Xie in June 2014. This arrangement would allow Chengde Yushi to leverage on the status of Universal Health as a listed company, before Chengde Yushi could gradually develop and expand its own distribution network, and at the same time, Universal Health would exert less effort to demonstrate its relationship with Chengde Yushi.

7. In April 2016, Mr. Yu Hongyang (于洪陽) transferred all of his equity interest in Yushi Branding to Hebei Jintian Yan Xiao. Consequently, in October 2016, Ms. Song Qiuyan (宋秋艷) and Ms. Hao Ruihua (郝瑞華), the mother of Mr. Jin Dongtao (金東濤), acquired 1% and 99%, respectively, of the equity interests in Yushi Branding from Hebei Jintian Yan Xiao. In September 2017, Mr. Xie decided to assume control of Yushi Branding with a view to consolidating the use of the brand "Yushi", and thus Beijing Yushi acquired 1% and 50%, respectively, of the equity interest in the company from Ms. Song Qiuyan (宋秋艷) and Ms. Hao Ruihua (郝瑞華), each an Independent Third Party, at a total consideration of RMB5.1 million, which was determined with reference to the then registered capital of the company. Upon completion of the above transfers, Yushi Branding was owned by Beijing Yushi as to 51% and Ms. Hao Ruihua (郝瑞華) as to 49%. Mr. Xie was acquainted with Ms. Song Qiuyan (宋秋艷) and Ms. Hao Ruihua (郝瑞華) when he was the deputy general manager in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司) responsible for sales and products promotion. To the best knowledge of our Directors, after making all reasonable enquiries, Mr. Jin Dongtao (金東濤), the controlling shareholder, chairman and executive director of Universal Health, is the son of Ms. Hao Ruihua (郝瑞華). Ms. Song Qiuyan (宋秋艷) and Ms. Hao Ruihua (郝瑞華) were business partner.

8. The remaining 49% equity interest was held by Mr. Geng Changsheng, an Independent Third Party.

9. Beijing Yushi acquired 36% equity interest of the company from Mr. Han Chao (韓超) in January 2016, an Independent Third Party, and 15% equity interest of the company from Heilongjiang Jintian Aixin Pharmaceutical Distribution in March 2018 at a total consideration of RMB5.1 million, which was determined with reference to the then registered capital of the company. For further information of our relationship with Heilongjiang Jintian Aixin Pharmaceutical Distribution, please refer to the subsection headed "Business – Relationship with Our Major Distributor in Northeast and Huabei (華北) – Heilongjiang Jintian Aixin Pharmaceutical Distribution" in this prospectus. Mr. Xie was acquainted with Mr. Han Chao (韓超) when he was the deputy general manager, responsible for sales and products promotion, in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司). Mr. Han Chao (韓超) worked in consulting services industry.

10. The remaining 49% equity interest was held by Mr. Xie. Tianpeng Yuanshuai held approximately 1.81% in Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司) ("**Jilin Jintian**"), one of our suppliers during the Track Record Period. For further information of the transactions between our Group and Jilin Jintian, please refer to the subsection headed "Business – Overlapping of customers and suppliers – Relationship between Heilongjiang Jintian Aixin Pharmaceutical Distribution (our customer) and Jilin Jintian Universal Health Group Capsules Limited* (吉林金天大健康集團膠囊有限公司) (our supplier)" in this prospectus.

11. Ms. Zeng Yuling (曾玉玲), a representative of Mr. Wang Zhi (王志), an Independent Third Party who passed away in January 2016, transferred 51% equity interest in Linhai Xueyuan to Beijing Yushi in April 2016 at nil consideration. In December 2014, Beijing Yushi, Mr. Wang Zhi (王志) and Linhai Xueyuan entered into an investment agreement, pursuant to which Beijing Yushi invested RMB30.0 million in Linhai Xueyuan. According to such investment agreement, in the event that the proposed listing of Linhai Xueyuan's shares on the Shanghai Stock Exchange or Shenzhen Stock Exchange cannot be materialised by 31 December 2018, 51% equity interest in Linhai Xueyuan would be transferred to Beijing Yushi at nil consideration as one of the consequences. Beijing Yushi took over 51% equity interest in Linhai Xueyuan following the death of Mr. Wang Zhi (王志) in January 2016, which rendered the proposed listing of Linhai Xueyuan's shares not feasible by 31 December 2018. Mr. Xie was acquainted with Mr. Wang Zhi (王志), the then controlling shareholder of Linhai Xueyuan, when he was the deputy general manager, responsible for sales and products promotion, in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司).

12. The remaining 49% equity interest was held by Mr. Xin Youjiang (信有江) and Ms. Di Hongying (邸洪英), each an Independent Third Party. Mr. Xie was acquainted with Ms. Di Hongying (邸洪英) and Mr. Xin Youjiang (信有江) when he was the deputy general manager, responsible for sales and products promotion, in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司). To the best knowledge of our Directors, after making all reasonable enquiries and based on the public information of Universal Health, Ms. Di Hongying (邸洪英) has been a substantial shareholder (as defined under the Listing Rules) of Universal Health. Mr. Xin Youjiang (信有江) and Ms. Di Hongying (邸洪英) invested in pharmaceutical business.

13. Beijing Yushi acquired the entire equity interest of the company from Mr. Jiang Zhendong (姜振東), our executive Director, in January 2019 at the consideration of RMB24.5 million, which was based on the valuation of the company.

14. For further details of Yushi Health, please refer to the subsection headed "History, Development and Reorganisation – Reorganisation – Onshore reorganisation – Disposal of Yushi Wine, Chengde Biotechnology and Yushi Health" in this prospectus.

15. Yushi Health was owned by Chengde Yushi as to 35%, Mr. Guo Yurong (國玉榮) as to 16% and Mr. Liu Yanguo (劉艷國) as to 49%. Each of Mr. Guo Yurong (國玉榮) and Mr. Liu Yanguo (劉艷國) is an Independent Third Party. Pursuant to an equity transfer agreement dated 25 April 2019 entered into between Chengde Yushi and Beijing Yushi, Beijing Yushi acquired 35% equity interest of the company from Chengde Yushi at nil consideration as Chengde Yushi did not contribute to any paid up capital of Yushi Health and Beijing Yushi assumed the liability to pay up the unpaid capital of Yushi Health. In June 2019, each of Chengde Yushi and Mr. Guo Yurong (國玉榮) transferred all their respective equity interest in Yushi Health to Beijing Yushi at nil consideration as Mr. Guo Yurong (國玉榮) had not contributed any paid up capital of Yushi Health and Beijing Yushi agreed to pay up the unpaid capital of Yushi Health. Upon completion of the above transfers, Yushi Health was owned by Beijing Yushi as to 51% and Mr. Liu Yanguo (劉艷國) as to 49%. Mr. Xie became acquainted with Mr. Guo Yurong (國玉榮) and Mr. Liu Yanguo (劉艷國) when he was the deputy general manager, responsible for sales and products promotion, in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司). To the best knowledge of our Directors, after making all reasonable enquiries, Mr. Guo Yurong (國玉榮) invested in pharmaceutical business, and Mr. Liu Yanguo (劉艷國) invested in health-care industry and bio-technology industry.

16. The 51% equity interest was directly held by Yushi Branding. The remaining 49% equity interest was held by Ms. Bai Lifen (柏麗芬), an Independent Third Party. Mr. Xie was introduced to Ms. Bai Lifen (柏麗芬) when he was the deputy general manager, responsible for sales and products promotion, in Heilongjiang Nongken Medicine Co. Ltd (黑龍江省農墾醫藥有限責任公司). To the best knowledge of our Directors, after making all reasonable enquiries, Ms. Bai Lifen (柏麗芬) invested in media and communication business.

MR. XIE'S HISTORICAL PASSIVE INVESTMENT IN THE PARENT COMPANY OF A MAJOR DISTRIBUTOR

Heilongjiang Jintian Aixin Pharmaceutical Distribution, together with certain of its wholly-owned subsidiaries, was our Group's distributor and largest customer for FY2017 and FY2018, and is an indirectly wholly-owned subsidiary of Universal Health. Universal Health is a pharmaceutical retailer and distributor with a distinguished pharmaceutical retail chain network in Northeast. For further information of our relationship with Heilongjiang Jintian Aixin Pharmaceutical Distribution, please refer to the subsection headed "Business – Relationship with Our Major Distributor in Northeast and Huabei (華北) – Heilongjiang Jintian Aixin Pharmaceutical Distribution" in this prospectus.

In April 2018, Mr. Xie, through his then wholly-owned company, Huang Yu Holdings Limited ("**Huang Yu**"), sold to Universal Health 11% of the issued shares of Wing Ming International Group Holding Limited ("**Wing Ming**") at a total consideration of HK$27.8 million. Wing Ming was at the relevant time a holding company, holding one operating subsidiary which engaged in production and trading of medicines and supplements in Hong Kong. Mr. Xie, through Huang Yu, held the remaining 89% of the issued shares of Wing Ming until June 2019 when he disposed of all his interests in Huang Yu to an Independent Third Party in order to focus on the business in the PRC. In return for his disposal of 11% of the issued shares of Wing Ming, Mr. Xie was allotted and issued by Universal Health a total of 182,400,000 consideration shares in Universal Health. Upon completion of the above transaction in May 2018, Mr. Xie held, directly and indirectly, a total of 296,967,000 shares in Universal Health, representing approximately 9.77% of then issued shares of Universal Health.

Through a series of on-market and off-market disposals in 2019, Mr. Xie disposed of all his shares in Universal Health in order to (i) minimise any potential conflict of interests which may arise from his shareholding in Universal Health as our Group is one of the suppliers of Universal Health, and (ii) streamline his personal investments in various Hong Kong listed securities. As at the Latest Practicable Date, Mr. Xie did not hold any share of Universal Health directly or indirectly.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we are satisfied that we are able to carry on our business independently of our Controlling Shareholders and his/its close associates after the Listing.

Management Independence

Our business is managed and conducted by our Board and senior management of our Company. Upon the Listing, our Board will consist of seven Directors, comprising four executive Directors and three independent non-executive Directors. For further information, please refer to the section headed "Directors and Senior Management" in this prospectus.

We consider that our Board and senior management will function independently of our Controlling Shareholders because:

(a) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;

(b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions. In addition, the interested Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or any other proposal in which he or she or any of his/her close associates (as defined in the Articles) is materially interested except for certain circumstances as set out in the Articles. For details, please see the subsection headed "Summary of the Constitution of our Company and the Companies Act" in Appendix III to this prospectus;

(c) even though there are overlapping directors and/or management roles in companies in which our Controlling Shareholders are interested which are not within our Group, we believe that our Board and senior management will function independently from our Controlling Shareholders on the basis that these companies are merely investment holding companies for holding equity interests in our Group or they are dormant companies or they are engaging in business different from ours. Mr. Xie confirms that his involvement and/or interests in these companies will not affect the discharge of his duties to our Group;

(d) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see the subsection headed "Corporate Governance Measures" in this section below for details; and

(e) we have three independent non-executive Directors out of a total of seven Directors in our Board, and one of our independent non-executive Directors, Mr. Chan Kam Leung possesses a Doctor degree in Philosophy in Chinese Medicine and has

extensive experience in Chinese medicine research. As such, there will be independent voice within our Board to counter-balance any situation involving a conflict of interest and to protect the interests of our independent Shareholders.

Based on the above, we believe that our Board and senior management are able to perform the managerial role in our Group independently.

Operational Independence

Our Group is not operationally dependent on our Controlling Shareholders. Our Company (through our subsidiaries and our Consolidated Affiliated Entity) holds all the relevant licences and owns all the relevant intellectual properties necessary to carry on our businesses. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

In addition, pursuant to the Contractual Arrangements, we are authorised to exercise all of the rights of the shareholders of our Consolidated Affiliated Entity, and our Group is entitled to enjoy all the economic benefits of our Consolidated Affiliated Entity and to exercise management control over the operations of our Consolidated Affiliated Entity. Pursuant to the Exclusive Option Agreement, Shijiazhuang Medical Research (or its designated third party) has been granted an exclusive, unconditional and irrevocable option to purchase from the Registered Shareholder all or part of the equity interest in and/or the relevant assets of Chengde Yushi at the lowest price permitted under the PRC laws and regulations.

As at the Latest Practicable Date, save for the transactions described in the section headed "Connected Transactions" in this prospectus, there was no significant business transaction between us and any of our Controlling Shareholders and/or their respective close associates.

Based on the above, we believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

Our Group has an independent financial reporting system and makes financial decisions according to our Group's own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. More importantly, we have been and are capable of obtaining equity and debt financing from third parties. All loans, advances and balance due to and from our Controlling Shareholders and their close associates has been fully settled before Listing.

Based on the above, we are of the view that our Board and senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders and his/its close associates after the Listing.

CONFIRMATION PURSUANT TO RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders confirm that as at the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our businesses, which would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, which sets out principles of good corporate governance.

We recognise the importance of good corporate governance in the protection of our Shareholders' interests. We will adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

(a) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of his/its associates has a material interest, our Controlling Shareholders will not vote on the resolutions and shall not be counted towards the quorum in the voting;

(b) our Group has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Group enters into connected transactions with a Controlling Shareholder or any of his/her/its associates, we will comply with the applicable Listing Rules;

(c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, please refer to the subsection headed "Directors and Senior Management – Directors – Independent non-executive Directors" in this prospectus;

(d) our Directors will operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested except as permitted by the Articles;

(e) where we reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company's expenses;

(f) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors; and

(g) we have appointed Soochow Securities International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, we are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority Shareholders' interests after the Listing.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into the Contractual Arrangements with our connected persons and the transactions contemplated under the Contractual Arrangements will constitute non-exempt continuing connected transactions, which are subject to reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon the Listing. Set out below are the details of the continuing connected transactions and the relevant Listing Rules implications.

Background

We conduct our businesses mainly through our Consolidated Affiliated Entity under the Contractual Arrangements entered into, among others, Shijiazhuang Medical Research, Chengde Yushi and the Registered Shareholder. Through the Contractual Arrangements, we exercise effective control over the operations of our Consolidated Affiliated Entity. The Contractual Arrangements enable us to (i) receive all of the economic benefits from our Consolidated Affiliated Entity in consideration for the services provided by Shijiazhuang Medical Research to our Consolidated Affiliated Entity; (ii) exercise effective control over our Consolidated Affiliated Entity; and (iii) hold an exclusive option to purchase all or part of the equity interests in and/or assets of Chengde Yushi when and to the extent permitted by PRC laws. Please see the section headed "Contractual Arrangements" in this prospectus for details.

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the Consolidated Affiliated Entity is treated as our Company's wholly owned subsidiary, and its directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as our Company's "connected persons".

Principal Terms of the Transactions

The Contractual Arrangements comprise the following agreements: the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement, the Equity Pledge Agreement, the Power of Attorney and the Spouse's Undertaking. Details of the continuing connected transactions (i.e. the transactions contemplated under the said agreements which constitute the Contractual Arrangements) entered into between the relevant connected persons and our Group are set out in the section headed "Contractual Arrangements" in this prospectus.

Listing Rules Implications

The transactions contemplated under the Contractual Arrangements are conducted in the ordinary and usual course of business on normal commercial terms or better and we currently expect that the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of such transactions under the Contractual Arrangements are, on an

annual basis, expected to be more than 5%. As such, these transactions will be subject to the annual reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, a continuing connected transaction should be for a duration of no longer than three years except in special circumstances. It is appropriate for the Contractual Arrangements to be for a term of more than three years for the following reasons:

i. the duration of the Contractual Arrangements is inherently beneficial to our Group as it allows us to ensure that the financials and operation of our Consolidated Affiliated Entity can be effectively controlled by Shijiazhuang Medical Research, while Shijiazhuang Medical Research can obtain the economic benefits derived from our Consolidated Affiliated Entity, and also prevent any possible leakage of assets and values of our Consolidated Affiliated Entity on an uninterrupted basis; and

ii. the duration of the Contractual Arrangements provides comfort, protection, and stability to us, enabling us to plan and invest over the longer term.

Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that it is justifiable and is of normal business practice for agreements of this type to be of a term of more than three years.

Application and Conditions for Waiver

We expect the Contractual Arrangements will be carried out on a continuing basis and will extend over a period of time, and we consider that strict compliance with the announcement, circular and independent shareholders' approval requirements under the Listing Rules would be impracticable and would impose unnecessary administrative costs on our Company. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of 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, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the terms of any of the agreements constituting the Contractual Arrangements will be made without the approval of our independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entity through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire, all or part of the equity interests in and/or the relevant asset of Chengde Yushi at the lowest price permitted under the PRC laws and regulations; (ii) the business structure under which the profit generated by our Consolidated Affiliated Entity is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Shijiazhuang Medical Research by our Consolidated Affiliated Entity under the Exclusive Business Cooperation Agreement; and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entity.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and our Consolidated Affiliated Entity, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules.

- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual reports and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entity to the Registered Shareholder which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entity during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

- Our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entity to the Registered Shareholder which are not otherwise subsequently assigned or transferred to our Group.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", our Consolidated Affiliated Entity will be treated as our Company's subsidiary, and at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entity and their respective associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entity), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entity), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Our Consolidated Affiliated Entity has undertaken that, for so long as the Shares are listed on the Stock Exchange, our Consolidated Affiliated Entity will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of review of the connected transactions by our Company's auditors.

SOLE SPONSOR'S AND DIRECTORS' VIEW

Our Directors (including our independent non-executive Directors) consider that all the continuing connected transactions described in this section have been entered into and are conducted: (i) in the ordinary and usual course of our business; (ii) on normal commercial terms; (iii) are fair and reasonable and in the interests of our Shareholders as a whole; and (iv) in respect of the Contractual Arrangements, the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations.

Based on the relevant documents and information provided by our Group and reviewed by the Sole Sponsor, the necessary representations and confirmations provided by our Company and our Directors to the Sole Sponsor and the Sole Sponsor's participation in the due diligence and discussions with the management of our Company, the Sole Sponsor is of the view that (i) the non-exempt continuing connected transactions described above, and for which the waivers have been sought, have been entered into in the ordinary course of business of our Group, on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) the Contractual Arrangements are fundamental to our Group's legal structure and business operations.

OVERVIEW

The Board currently consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and conduct of business of our Group. The powers and duties of our Board include convening general meetings, reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposal for profit distributions as well as exercising other powers, functions and duties as conferred by our Articles of Association. Our executive Directors and independent non-executive Directors will be subject to rotation and re-election at the annual general meetings of our Company in accordance with our Articles of Association.

The following table sets out certain information of our Directors and senior management as at the Latest Practicable Date:

Name	Age	Position	Date of appointment as Director/ senior management	Date of joining our Group	Roles and Responsibilities	Relationship with other Directors and senior management
Mr. Xie Wei (謝偉)	46	Executive Director and Chairman	12 August 2019	June 2014	Formulating corporate strategies and strategic planning of our Group	None
Ms. Zhang Hongli (張宏麗)	56	Executive Director and Chief Executive Officer	12 December 2019	September 2001*(Note)*	Overseeing the overall business operations of our Group	None
Mr. Li Jinglian (栗景連) (formerly known as Li Jinglian (栗景蓮))	41	Executive Director and Chief Operating Officer	7 January 2020	August 2014	Overseeing sales and marketing of our Group	None

Name	Age	Position	Date of appointment as Director/ senior management	Date of joining our Group	Roles and Responsibilities	Relationship with other Directors and senior management
Mr. Jiang Zhendong (姜振東)	38	Executive Director and deputy general manager	7 January 2020	January 2019	Overseeing the production, R&D, procurement and inventory management of our Group	None
Ms. Liu Ling (劉凌)	60	Independent non-executive Director	18 December 2020	December 2020	Supervising our Group's compliance and corporate governance matters, and providing independent judgement to our Board	None
Mr. Leung Tsz Wing (梁子榮)	37	Independent non-executive Director	18 December 2020	December 2020	Supervising our Group's compliance and corporate governance matters, and providing independent judgement to our Board	None
Mr. Chan Kam Leung (陳錦良)	46	Independent non-executive Director	18 December 2020	December 2020	Supervising our Group's compliance and corporate governance matters, and providing independent judgement to our Board	None

Name	Age	Position	Date of appointment as Director/ senior management	Date of joining our Group	Roles and Responsibilities	Relationship with other Directors and senior management
Mr. Li Wen Tao (李文韜)	38	Chief Financial Officer	1 January 2020	1 January 2020	Overseeing the finance management and regulatory compliance of our Group	None

Note: Ms. Zhang joined Jinghai Youyi Pharmaceutical Factory* (京海友誼製藥廠), the predecessor of Chengde Yushi since August 1986.

DIRECTORS

Executive Directors

Mr. Xie Wei (謝偉)

Mr. Xie Wei (謝偉), aged 46, is our executive Director, Chairman and Controlling Shareholder. He was appointed as our executive Director on 12 August 2019. Mr. Xie was appointed as a director of Chengde Yushi when he acquired the equity interest in Chengde Yushi through Beijing Yushi in June 2014 and has been responsible for formulating corporate strategies and strategic planning of our Group.

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

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

Ms. Zhang Hongli (張宏麗)

Ms. Zhang Hongli (張宏麗), aged 56, is our executive Director and Chief Executive Officer. She was appointed as our executive Director on 12 December 2019, responsible for overseeing the overall business operations of our Group.

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

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

Mr. Li Jinglian (栗景連)

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

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

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

Mr. Jiang Zhendong (姜振東)

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

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

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

Independent non-executive Directors

Ms. Liu Ling (劉凌)

Ms. Liu Ling (劉凌), aged 60, was appointed as our independent non-executive director on 18 December 2020. She is also the chairman of our remuneration committee and a member of our audit committee and nomination committee.

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

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

Mr. Leung Tsz Wing (梁子榮)

Mr. Leung Tsz Wing (梁子榮), aged 37, was appointed as our independent non-executive Director on 18 December 2020. He is also the chairman of our audit committee.

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

(stock code: 1076), a company listed on the Stock Exchange, responsible for strategic investments from August 2015 to March 2017. From March 2017 to October 2017, Mr. Leung was the investment director of HX Innovation Capital Management Co. Limited. Since November 2018, he has been an independent non-executive director of Bisu Technology Group International Limited (stock code: 1372), a company on the Stock Exchange.

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

Mr. Chan Kam Leung (陳錦良)

Mr. Chan Kam Leung (陳錦良), aged 46, was appointed as our independent non-executive Director on 18 December 2020. He is also the chairman of our nomination committee and a member of our audit committee and remuneration committee.

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

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

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

Further information required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules

Mr. Xie Wei was a supervisor of the following company, which was dissolved with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution
西安聚寶通網絡科技有限公司 (Xian Jubaotong Network Technology Co., Limited*)	The PRC	Development of automated communication system software, installation of communication network, sales, testing and maintenance of communication equipment	18 September 2019	Dissolution and deregistration pursuant to shareholders' resolutions

Mr. Xie Wei was a director of the following company, which was dissolved with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution
哈爾濱海士威保健食品經銷有限公司 (Harbin Haishiwei Health Care Products Dealer Co., Limited*)	The PRC	Sales of health care products and daily commodities	20 September 2019	Dissolution and deregistration pursuant to shareholders' resolutions

Ms. Zhang Hongli was the director of the following companies, which were dissolved with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution
河北御室健康產業有限公司 (Hebei Yushi Health Industry Co., Ltd.*)	The PRC	R&D and production of health food products	6 September 2019	Dissolution and deregistration pursuant to shareholders' resolutions
承德御室生物科技有限公司 (Chengde Yushi Biotechnology Co., Ltd.*)	The PRC	Biotechnology research	6 September 2019	Dissolution and deregistration pursuant to shareholders' resolutions

Mr. Jiang Zhendong was a legal representative and director of the following company, which was dissolved with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution
黑龍江百泰醫藥科技有限公司 (Heilongjian Baitai Medical Technology Co., Limited*)	The PRC	Medical technology research and development	19 December 2017	Dissolution and deregistration pursuant to shareholders' resolutions

Ms. Liu Ling was a director of the following company, which was dissolved with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution
山西菩達科技有限公司 (Shanxi Puda Technology Co., Limited*)	The PRC	Tea leaf processing and sales	26 February 2014	Dissolution and deregistration pursuant to shareholders' resolutions

Mr. Leung Tsz Wing was a director of the following company, which was dissolved with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution
Inspire Cybernet Limited 盈意網有限公司	Hong Kong	No operation since its incorporation	10 April 2015	Striking off

Mr. Chan Kam Leung was a director of the following company, which was dissolved with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution
Health Caring Limited 集源堂藥業有限公司	Hong Kong	No operation since its incorporation	19 December 2008	Striking off

Each of the abovenamed Directors has confirmed that there was no wrongful act on his/her part leading to the dissolution of the abovenamed company, and he/she is not aware of any actual or potential claim which had been or will be made against him as a result of the dissolution. Each of the abovenamed Directors confirmed that the above company had been inactive and was solvent at the time of its dissolution.

SENIOR MANAGEMENT

Mr. Xie Wei (謝偉), aged 46, is our executive Director, Chairman and Controlling Shareholders. Please refer to his biography in the subsection headed "Directors – Executive Directors" in this section.

Ms. Zhang Hongli (張宏麗), aged 56, is our executive Director and Chief Executive Officer. Please refer to her biography in the subsection headed "Directors – Executive Directors" in this section.

Mr. Li Jinglian (栗景連) (formerly known as Li Jinglian (栗景蓮)), aged 41, is our executive Director and the Chief Operating Officer. Please refer to his biography in the subsection headed "Directors – Executive Directors" in this section.

Mr. Jiang Zhendong (姜振東), aged 38, is our executive Director and the deputy general manager. Please refer to his biography in the subsection headed "Directors – Executive Directors" in this section.

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

Mr. Li was an auditor of Ng Chi Ho Dennis Certified Public Accountant (Practising) during the period from January 2008 to December 2012. Mr. Li is currently a director of NOVA CPA Limited and also a director of Progressive Consultation Limited which provides consultancy services to listed and private companies since January 2013. Mr. Li is the company secretary of JiaChen Holding Group Limited (stock code: 1937), a company listed on the Stock Exchange in June 2019.

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

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

COMPANY SECRETARY

Ms. Lau Ching Sze (劉靜詩)

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

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

Interests of our Directors and Senior Management

Save as disclosed above and the subsection headed "Business – Relationship with our major distributor in Northeast – Heilongjiang Jintian Aixin Pharmaceutical Distribution" in this prospectus, none of our Directors have any interests in any business, other than our Group's business, which compete or is likely to compete, either directly or indirectly, with our Group's business as at the Latest Practicable Date.

Save as disclosed in this section, none of our Directors holds any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus. See the subsection headed "Statutory and General Information – C. Further Information About our Directors and Chief Executive and Substantial Shareholders of our Company" in Appendix IV to this prospectus for further information about our Directors, including the particulars of their service contracts and remuneration, and details of the interests of our Directors in the Shares (within the meaning of Part XV of the SFO).

Save as disclosed in this section and the subsection headed "Statutory and General Information – C. Further Information about our Directors and Chief Executive and Substantial Shareholders of our Company" in Appendix IV to this prospectus, to the best knowledge, information and belief of our Directors after having made all reasonable enquiries, as at the Latest Practicable Date, there were no other matters in respect of each of our Directors which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there were no other material matters relating to our Directors that need to be brought to the attention of our Shareholders.

BOARD COMMITTEES

We have established the following committees in our Board: the Audit Committee, the Remuneration Committee and the Nomination Committee. These committees operate in accordance with the terms of reference established by our Board.

Audit Committee

Our Company established the Audit Committee pursuant to a resolution of our Board passed on 18 December 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee has three members, namely Mr. Leung Tsz Wing, Ms. Liu Ling and Mr. Chan Kam Leung. Mr. Leung Tsz Wing has been appointed as the chairman of the Audit Committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the Audit Committee are to make recommendations to our Board on the appointment and dismissal of external auditors, assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

Our Company established the Remuneration Committee pursuant to a resolution of our Board passed on 18 December 2020 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely Ms. Liu Ling, Ms. Zhang Hongli and Mr. Chan Kam Leung. Ms. Liu Ling has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, but are not limited to, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages and benefits of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

Nomination Committee

Our Company established the Nomination Committee pursuant to a resolution of our Board passed on 18 December 2020 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee has three members, namely, Mr. Chan Kam Leung, Mr. Jiang Zhendong and Ms. Liu Ling. Mr. Chan Kam Leung has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

BOARD DIVERSITY

We have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. Pursuant to the board diversity policy, we seek to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, qualification, skills, experience, knowledge and length of service. 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. Our board diversity policy is well implemented as evidenced by the fact that there are two female and five male Directors ranging from 37 years old to 60 years old with experience from different industries and sectors. We will continue to implement measures and steps to promote and enhance gender diversity at all levels of our Company. We will select potential Board candidates based on merit and his/her potential contribution to our Board while taking into account our board diversity policy and other factors, including but not limited to, his/her integration into our management mindset and business model and any specific requirements

from time to time. After the Listing, the Nomination Committee will review the board diversity policy on an annual basis to ensure its continued effectiveness and we will disclose in our corporate governance report details of the implementation of the board diversity policy on an annual basis.

CORPORATE GOVERNANCE

For further information relating to our Company's corporate governance measures, please see the section subsection headed "Relationship with our Controlling Shareholders – Corporate Governance Measures" in this prospectus.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration from our Group in the form of salaries, allowances, discretionary bonus, other benefits in kind and contributions to defined contribution plans.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for FY2017, FY2018, FY2019 and 9M2020 were approximately RMB530,000, RMB625,000, RMB849,000 and RMB835,000, respectively. None of our Directors had waived any remuneration during the same years/period.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Group's five highest paid individuals, including Directors, for FY2017, FY2018, FY2019 and 9M2020 were approximately RMB785,000, RMB880,000, RMB983,000 and RMB1,164,000, respectively.

Save as disclosed above, no other payments have been made or are payable for FY2017, FY2018, FY2019 and 9M2020 by any of member of our Group to any of our Directors or senior management.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past directors or the five highest paid individuals for the Track Record Period for the loss of office as director or any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

Under the arrangements currently in force, the aggregate remuneration, excluding discretionary bonus, of our Directors for FY2020 is approximately RMB1.1 million.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme as share incentive scheme. For details of the principal terms of the Share Option Scheme, please refer to the subsection headed "Statutory and General Information – D. Share Option Scheme" in Appendix IV to this prospectus.

COMPLIANCE ADVISER

We have appointed Soochow Securities International Capital Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we will consult with and seek advice from our compliance adviser in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;

(c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the securities of our Company, the possible development of a false market in the securities of our Company or any other matters.

The term of the appointment of our compliance adviser shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules when our Company distributes its annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company and shares issued or to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

Authorised share capital:

		Nominal value *HK$*
10,000,000,000	Shares	100,000,000

Shares issued or to be issued, fully paid or credited as fully paid:

100	Shares in issue immediately before the Capitalisation Issue	1
449,999,900	Shares to be issued pursuant to the Capitalisation Issue	4,499,999
150,000,000	Shares to be issued under the Global Offering	1,500,000
600,000,000	**Total**	6,000,000

ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and the Shares are issued pursuant to the Global Offering and the Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme, and any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described in the subsections headed "General Mandate to Issue Shares" and "Buyback Mandate" in this section.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the total number of issued Shares of our Company in the hands of the public.

RANKING

Our Company has only one class of shares, namely ordinary shares, each of which ranks pari passu with the other shares. The Offer Shares will carry the same rights as all Shares in issue or to be issued and, in particular, will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for entitlements to the Capitalisation Issue.

SHARE OPTION SCHEME

Our Company has conditionally approved and adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the subsection headed "D. Share Option Scheme" in Appendix IV to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a unconditional mandate to allot, issue and deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or any scrip dividend scheme or similar arrangements, or a special authority granted by our Shareholders) not more than the sum of:

- 20% of the aggregate number of Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option or the options granted or to be granted under the Share Option Scheme); and

- the aggregate number of Shares repurchased by our Company (if any) pursuant to the Buyback Mandate (as defined below).

This general mandate will remain in effect until the earliest of:

- the conclusion of our Company's next annual general meeting;

- the expiration of the period within which our Company's next annual general meeting is required by any applicable laws of the Cayman Islands or the Articles of Association to be held; or

- it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further information of this general mandate to allot, issue and deal with Shares are set out under the subsection headed "A. Further Information about our Group – 3. Resolutions in writing of our Shareholder passed on 18 December 2020" in Appendix IV to this prospectus.

BUYBACK MANDATE

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase up to 10% of the aggregate number of Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares to be issued pursuant to the exercise of the Over-allotment Option or the options granted or to be granted under the Share Option Scheme (the "**Buyback Mandate**")).

The Buyback Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the subsection headed "A. Further Information about our Group – 6. Repurchase of Shares" in Appendix IV to this prospectus.

The Buyback Mandate will remain in effect until the earliest of:

- the conclusion of our Company's next annual general meeting; or
- the expiration of the period within which our Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or
- it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Further information of the Buyback Mandate is set out in the subsection headed "A. Further Information about our Group – 3. Resolutions in writing of our Shareholder passed on 18 December 2020" in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Act and the terms of our Memorandum of Association and our Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) subdivide its Shares into Shares of smaller amount; and (iv) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Companies Act, reduce its share capital by special resolution of Shareholders. For details, please refer to the subsection headed "Summary of the Constitution of our Company and the Companies Act" in Appendix III to this prospectus.

Pursuant to the Companies Act and the terms of our Memorandum of Association and our Articles of Association, all or any of the special rights attached to our Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares in that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares in that class. For details, please refer to the subsection headed "Summary of the Constitution of our Company and the Companies Act" in Appendix III to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as we are aware, immediately following the completion of the Global Offering and Capitalisation Issue and assuming (i) no exercise of the Over-allotment Option; and (ii) no exercise of the options which may be granted under the Share Option Scheme, the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Substantial shareholder	Number of Shares/ underlying Shares	Nature of interest	Approximate percentage interest in our Company
Modern Biotechnology*(Note)*	450,000,000 Shares	Beneficial interest	75%
Mr. Xie*(Note)*	450,000,000 Shares	Interest in controlled corporation	75%

Note: Modern Biotechnology is wholly owned by Mr. Xie and under the SFO, Mr. Xie is deemed to be interested in the Shares held by Modern Biotechnology.

Should the Over-allotment Option be exercised in full, Modern Biotechnology will be beneficially interested in approximately 72.3%, in our Company.

Save as disclosed above, we are not aware of any person who will, immediately following the Global Offering and Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the issued voting shares of any other member of our Group.

*The following discussion and analysis should be read in conjunction with the audited combined financial information of our Group for the three years ended 31 December 2019 and the nine months ended 30 September 2020 and the accompanying notes ("**Financial Information**"), included in the Accountants' Report as set out in Appendix I to this prospectus. The Financial Information and the combined financial statements of our Group have been prepared in accordance with HKFRSs, which may differ in certain respects from generally accepted accounting principles in certain other countries. Potential investors should read the whole of the Accountants' Report as set out in Appendix I to this prospectus and should not rely merely on the information contained in this section.*

The discussion and analysis set out in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly "Risk Factors" of this prospectus.

OVERVIEW

We are a Chinese medicine company in Hebei province, the PRC, engaged in the production of PCM mainly under our brand "Yushi (御室)". According to the Euromonitor Report, we are in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in 2019 in terms of the sales of Qi-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC. As at the Latest Practicable Date, we had 77 distributors covered by our sales and marketing team with 37 marketing staff members. We do not operate retail outlets. Our distribution network currently covers 39 cities including cities in Northeast, the PRC such as Changchun and Shenyang, where we commenced our business, as well as other parts of the PRC such as Zhengzhou (Henan Province), Guangzhou (Guangdong Province) and Zhangshu (Jiangxi Province).

For FY2017, FY2018 and FY2019, our revenue was approximately RMB106.5 million, RMB173.5 million and RMB218.8 million, respectively, whilst our net profit was approximately RMB25.9 million, RMB48.2 million and RMB46.2 million, respectively. For 9M2019 and 9M2020, our revenue was approximately RMB173.0 million and RMB218.8 million, respectively, and net profit was approximately RMB40.9 million and RMB52.8 million, respectively.

BASIS OF PREPARATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Act of the Cayman Islands on 12 August 2019. Through a corporate reorganisation as more fully explained in the subsection headed "History, Development and Reorganisation – Reorganisation" in this prospectus, our Company became the holding company of the companies now comprising our Group on 26 February 2020. Immediately prior to and after the Reorganisation, our Company and its subsidiaries now comprising our Group are ultimately controlled by our Controlling Shareholder, Mr. Xie (the "**Ultimate Controlling Party**"). Our Group's business is mainly conducted through Chengde Yushi while our Company and other entities within our Group have not been involved in any other significant activities prior to the Reorganisation. As the Reorganisation did not result in any change in the ultimate control of and the resources employed by our Group's business, our Group is regarded as a continuity entity and, therefore, the Reorganisation is considered to be a restructuring of entities and business under common control. The Financial Information is prepared using the carrying values of the entities involved in the Reorganisation for all periods presented on a basis in accordance with the principles of merger accounting as set out in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

As further explained in the subsection headed "Merger accounting for business combination involving entities under common control" in Note 3 to the Accountants' Report as set out in Appendix I to this prospectus, the Financial Information presents the combined financial position, combined financial performance, combined changes in equity and combined cash flows of the entities now comprising our Group as if the current group structure had always been in existence throughout the Track Record Period or since their respective dates of establishment or incorporation, where applicable.

The Financial Information aims to include assets, liabilities, income and expenses that are related to and specifically identified for the production of PCM (the "**PCM Business**"). During the Track Record Period, the equity interests of the following companies, entirely or partially owned by Chengde Yushi, were regarded as Non-core Assets of our Group, which are not directly related to, nor form part of, our Group's principal PCM Business.

Name	Place of incorporation/ establishment	Equity interest held by our Group prior to disposal/deregistration	Principal activities
Yushi Wine	The PRC	100%	Production and wholesale of Chinese yellow wine
Hebei Yushi	The PRC	80%	Retail of pharmaceutical products and health care products

Name	Place of incorporation/ establishment	Equity interest held by our Group prior to disposal/deregistration	Principal activities
Yushi Health	The PRC	35%	R&D and production of health food products
Chengde Biotechnology	The PRC	30%	Biotechnology research

Our Group had segregated the relevant financial information of the Non-core Assets from the historical financial information of the PCM Business for the preparation of the Financial Information. In particular, the investment made and the carrying amount of the Non-core Assets during the Track Record Period was reflected as movements and balances in the combined statements of changes in equity under the heading of "special reserve". Such presentation ceased when the Non-core Assets were formally dissolved or transferred to the Independent Third Parties during FY2019. The Financial Information excludes the movements and balances of the Non-core Assets which, in the opinion of our Group's management, are clearly delineated from the PCM Business and whose movements and balances are clearly identifiable.

Items included in the financial statements of each of our Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). Our Company's functional currency is HK$ and majority of its subsidiaries have RMB as their functional currency. The Financial Information is presented in RMB, which is our Group's presentation currency.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by a number of factors, some of which may be beyond the control of our Group as set out in "Risk Factors" of this prospectus and others as set forth below:

Performance and expansion of our distribution network

The growth of our revenue during the Track Record Period can be attributable to the performance and expansion of our distribution network in the PRC. As at the Latest Practicable Date, we had a distribution network which consists of 77 distributors covering 39 cities in the PRC. We believe our efforts to expand our distribution network in the PRC during the Track Record Period enabled us to achieve market expansion and penetrate into new geographic regions. We will continue to broaden our distribution network with an aim to further increase our market share and market penetration.

We aim to maintain our relationship with existing distributors and engage new local distributors with an established network and strong local knowledge. We also plan to expand our sales and marketing team to explore other regions and cater to the needs of different local markets in the PRC, ensure timely marketing communication, and develop business opportunities. We expect that the continual broadening of our distribution network into Huadong (華東) and Huanan (華南) as well as the business growth of our existing footprint coverage will be the key driving factors of our business.

Financial information on Marketing Incentives

During the Track Record Period, we provided certain Marketing Incentives to selected distributors (i.e. those who procured specific products) to compensate their marketing efforts. Our monetary Marketing Incentives, which were in the form of trade discount, rebates and/or other price incentives, are set out below for illustrative[(Note)] purpose.

Our wholesale prices to distributors (net of the monetary Marketing Incentives and non-monetary Marketing Incentives)	RMB12 – 17
Distributors' selling prices to retailers	RMB35 – 45
Average retail prices	RMB100

Note: Figures shown are for illustration purpose only and do not reflect the actual retail or wholesale price of any particular products.

As advised by Euromonitor, we provided a lower wholesale prices (net of monetary Marketing Incentives and non-monetary Marketing Incentives) to our distributors than the industry average, in other words, the discount rate we offered to our distributors were higher than our competitors in the industry. Furthermore, the distributors' selling prices to retailers were generally in line with the industry.

In preparation of the Financial Information of our Group, the monetary Marketing Incentives are netted off from our Group's revenue.

The net off arrangement rendered by our monetary Marketing Incentives was not reflected under the selling and distribution expenses but was netted off from the revenue. During the Track Record Period, such monetary Marketing Incentives amounted to approximately RMB44.3 million, RMB26.8 million, RMB29.8 million and RMB16.9 million, respectively, meanwhile, the cost of our non-monetary Marketing Incentives amounted to nil, approximately RMB1.0 million, approximately RMB0.7 million and nil, respectively. During FY2017, our primary objective was to expand our distributorship network and to strengthen our market share and therefore, it was our pricing strategy to offer more discount to our distributors via monetary Marketing Incentives to motivate them to promote our products. We reduced the monetary Marketing Incentives in FY2018 as we offered non-monetary Marketing Incentives that also motivate our distributors to promote our products, in view of spare production capacity. In accordance with HKFRS 15, the consideration for products sold by an entity can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance

bonuses, penalties or other similar items, therefore, the monetary Marketing Incentives are kinds of variable consideration that relevant to the determination of transaction price. During the Track Record Period, the offered monetary Marketing Incentives were supported by our stated policies as communicated to the customers had created a valid expectation for our Group to offer a price concession of the products sold in meeting the relevant accounting requirements of HKFRS 15. In order to determine the variable consideration relating to the monetary Marketing Incentives, our Group has applied the "expected value" method (i.e. the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts) in accordance with HKFRS 15 consistently throughout the Track Record Period. In addition, the monetary Marketing Incentives would also constitute "consideration payable to a customer" in the context of HKFRS 15. Our Group shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to our Group. The Reporting Accountants confirmed such net off arrangement is in line with HKFRSs as the monetary Marketing Incentives are an example of variable consideration under HKFRS 15. Details of the accounting policies adopted by our Group are set out in Note 3 to the Accountants' Report in Appendix I to this prospectus.

Wholesale prices of our products

During the Track Record Period, our revenue was generated from our sales to distributors, which then onsold to their retail customers (such as drugstores, pharmacies and clinics). As such, our financial performance is directly affected by the wholesale prices of our products sold to our distributors. We generally determine and adjust our wholesale prices based on a number of factors including (i) cost of production; (ii) sales and marketing activities; and (iii) market conditions and competition. Among our existing product portfolio, during the Track Record Period, none of our products were subject to retail price controls imposed by the Circular on Issuing the Opinions on Promoting the Drug Pricing Reform (《關於印發推進藥品價格改革意見的通知》) that came into effect in May 2015.

Between our top selling product in FY2017, FY2018, FY2019 and 9M2020, the average net selling price (including VAT and net of the monetary Marketing Incentives) of Vigour and Vitality Supplement Pill (補腎填精丸) remained stable at approximately RMB237.9 per kilogram in FY2018, as compared to approximately RMB238.4 per kilogram in FY2017 and further increased to approximately RMB285.7 per kilogram for FY2019 and approximately RMB289.1 per kilogram in 9M2020. Such changes in average net selling prices were mainly due to (i) the fact that we gradually reduced the monetary Marketing Incentives; and (ii) the increase in prices of principal raw materials consumed by these products, including Ginseng (人蔘), Deer Antler (鹿茸) and Chinese Angelica (當歸), thus, we have to increase our average net selling prices to maintain our gross profit margin. The average net selling price of Circulation Enhancement Pill (氣血雙補丸) increased from approximately RMB57.5 per kilogram in FY2017 to approximately RMB79.6 per kilogram in FY2018 and then further increased to approximately RMB83.8 per kilogram for FY2019. The average net selling price of Circulation Enhancement Pill (氣血雙補丸) was decreased from approximately RMB84.7

per kilogram in 9M2019 to approximately RMB80.7 per kilogram in 9M2020. The slight decrease was mainly due to our adjusted pricing strategy in order to drive up the demand during the period. In the future, to the extent we raise our average net selling prices again, we might experience lower sales volumes.

Procurement of raw materials

Our business operations require a timely supply of quality raw materials. During the Track Record Period, our raw materials comprise medicinal herbs such as Hawthorn Leaves (山楂葉) and Ginseng (人蔘), animal substances such as Deer Antler (鹿茸), consumable/additive such as honey and ethanol, and packaging materials. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our raw materials accounted for approximately 86.2%, 88.2%, 88.8%, 89.7% and 91.6% of our total cost of sales, respectively. We expect the prices of certain of our raw materials (e.g. Deer Antler (鹿茸)) will continue to fluctuate and impact our results of operations if we are unable to pass the cost increment to the distributors.

Currently, we do not have any long-term contracts with our suppliers and we procure raw materials based on a number of factors, including market demands, business conditions, quality of particular raw materials and production lead time. The purchase prices and availability of different types of raw materials may fluctuate from time to time due to a combination of factors including the life cycles of relevant medicinal herbs, weather conditions (which may have an impact on the quality and availability of raw materials), and our bargaining power with suppliers. We are exposed to the market risk of potential price fluctuation of medicinal herbs and animal substances, and fluctuation in such prices may impose pressure on our cost of sales. To balance between the quality and cost of our raw materials, we compare the cost of raw materials among our list of approved suppliers.

Please refer to the subsection headed "Risk Factors – We rely on a stable supply of quality raw materials to produce our products, any decrease in the supply or increase in the cost of raw materials could materially and adversely affect our business, financial condition and results of operations" in this prospectus for further details.

The table below sets forth a sensitivity analysis of our cost of sales illustrating its impact on our results before tax if such expenses are increased/decreased by 20% (the historical weighted average growth rate of overall cost of sales during the Track Record Period) and 30% (the historical weighted average growth rate of cost of sales per kg during the Track Record Period) in the relevant years/period, assuming all other items remain the same.

	FY2017	**FY2018**	**FY2019**	**9M2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
If cost of sales increased/decreased by 20%, the decrease/increase in results before tax	12,408	19,971	23,940	24,121
If cost of sales increased/decreased by 30%, the decrease/increase in results before tax	18,612	29,957	35,909	36,181

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that are significant to the preparation of our Financial Information. These significant accounting policies are important for an understanding of our financial condition and results of operations that are set out in Note 3 to the Accountants' Report of our Company which is set out in Appendix I to this prospectus. The following paragraphs discuss, among others, certain significant accounting policies applied in preparing our Group's Financial Information:

Revenue recognition

Our Group is principally engaged in the production of PCM in the PRC. Revenue is recognised when (or as) our 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. In our case, this is when our products are delivered to our distributors (customers).

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 our goods are delivered to customers and the title is passed.

Our Group gives monetary Marketing Incentive to selected distributors. Our Group estimates the monetary Marketing Incentive using the expected-value method and assesses whether the estimated variable consideration is constrained with reference to the customer's historical monetary Marketing Incentive entitlement and accumulated purchases to date. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Based on the historical experience, our Group would settle the

monetary Marketing Incentives payables regularly and there was no significant reversal of revenue (and also the monetary Marketing Incentives) occurred and recorded subsequently to the end of each reporting period. Thus, typically the estimated consideration is not constrained.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our Group's accounting policies as set out above, we are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Allowance for inventories

Our management 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. Our 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 our management's estimation of the net realisable value based on the latest market prices and current market conditions. No allowance for inventories was made during the Track Record Period.

Loss allowance for trade and other receivables

Our management estimates the loss allowance for trade and other receivables by using various inputs and assumptions including the risk of a default and expected loss rate. The estimation involves a high degree of uncertainty which is based on our 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. None of the trade receivables was written off during the Track Record Period.

The other key assumptions concerning the future and other key sources of estimation uncertainty as at the end of each reporting period, that might cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out in Note 3 to the Accountants' Report of our Group which is set out in Appendix I to this prospectus.

CRITICAL JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

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 our Group (which is conducted through Chengde Yushi) during the Track Record Period.

Although the entire equity interest in Chengde Yushi is held by our Controlling Shareholder, Mr. Xie, by implementation of the Contractual Arrangements as set out in the section headed "Contractual Arrangements" in this prospectus, Shijiazhuang Medical Research 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.

Our PRC Legal Advisers have confirmed that the Contractual Arrangements are in compliance with and enforceable under the applicable PRC laws and regulations except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of Chengde Yushi, grant an injunctive relief and/or wind up Chengde Yushi, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration result pending the formation of an arbitral tribunal. After due and careful consideration of all relevant factors together with the legal opinion obtained, the management of our Group assesses and concludes that the Contractual Arrangements are valid, legal and enforceable in the PRC.

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

As our 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 our 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.

The HKICPA has issued a number of new/revised HKFRSs during the Track Record Period. For the purpose of the Financial Information, our Group has consistently adopted all these new/revised HKFRSs (including HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from Contracts with Customers" and HKFRS 16 "Leases") that are relevant to our operations and are effective during the Track Record Period. The adoption of those new/revised HKFRSs, in particular, HKFRS 9, HKFRS 15 and HKFRS 16 as compared to HKAS 39, HKAS 18 and HKAS 17, does not have any significant impact on the financial position and performance of our Group.

In addition, the HKICPA also issued certain new/revised HKFRSs that are not yet effective for the Track Record Period, which our Group has not early adopted. The management of our Group does not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on our Group's combined financial information.

RESULTS OF OPERATIONS

The following table sets forth our combined statements of profit or loss and other comprehensive income for FY2017, FY2018, FY2019, 9M2019 and 9M2020.

	FY2017	**FY2018**	**FY2019**	**9M2019**	**9M2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	106,466	173,512	218,767	172,970	218,838
Cost of sales	(62,039)	(99,855)	(119,698)	(92,543)	(120,604)
Gross profit	44,427	73,657	99,069	80,427	98,234
Other income	452	770	174	120	210
Selling and distribution expenses	(4,270)	(4,938)	(8,105)	(6,574)	(5,358)
Administrative and other operating expenses	(4,648)	(4,982)	(14,124)	(10,761)	(11,922)
Finance costs	(1,191)	–	–	–	(183)
Listing expenses	–	–	(11,758)	(6,583)	(8,107)
Profit before tax	34,770	64,507	65,256	56,629	72,874
Income tax expenses	(8,889)	(16,270)	(19,019)	(15,704)	(20,103)
Profit for the year/period	25,881	48,237	46,237	40,925	52,771
Other comprehensive (loss) income					
Item that may be reclassified subsequently to profit or loss					
Exchange differences on combination/ consolidation	–	–	(138)	–	231
Total comprehensive income for the year/period	25,881	48,237	46,099	40,925	53,002

PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we generated revenue from production of our pharmaceutical products, which mainly include Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸). Our revenue is netted off against any monetary Marketing Incentives allowed.

Below table sets forth our revenue breakdown during the relevant years/periods indicated.

By products

Type	FY2017		FY2018		FY2019		9M2019		9M2020	
	Approximate revenue (RMB'000)	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*
Vigour and Vitality Supplement Pill (補腎填精丸)	24,707	23.2	43,674	25.2	49,154	22.5	43,460	25.1	37,733	17.2
Circulation Enhancement Pill (氣血雙補丸)	17,295	16.2	47,382	27.3	40,004	18.3	33,717	19.5	34,442	15.7
Cardiotonic Enhancement Capsule (山玫膠囊)	11,325	10.6	17,373	10.0	33,231	15.2	26,653	15.4	20,561	9.4
Kidney Invigoration Pill (金匱腎氣丸)	5,216	4.9	5,667	3.3	22,544	10.3	20,104	11.6	19,332	8.8
Heart Wellness Capsule (心安膠囊)	6,830	6.4	10,420	6.0	14,413	6.6	11,837	6.8	13,976	6.4
Menstrual Discomfort Relief Pill (加味逍遙丸)	5,992	5.6	7,273	4.2	7,254	3.3	5,478	3.2	5,955	2.7
Liver Detox Tablet (護肝片)	1,912	1.8	7,237	4.2	7,402	3.4	5,601	3.2	5,414	2.5
Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸)	118	0.1	30	0.0*	–	–	–	–	31,825	14.5
Fever-removing and Detoxification Pill (清瘟解毒丸)	131	0.1	19	0.0*	–	–	–	–	20,953	9.6
Others[(1)]	32,940	31.1	34,437	19.8	44,765	20.4	26,120	15.2	28,647	13.2
Total	106,466	100.0	173,512	100.0	218,767	100.0	172,970	100.0	218,838	100.0

* *Represents negligible amount*

Note:

(1) Others include Six-Ingredient Rehmannia Pill (六味地黃丸), Arborvitae Seed Heart Nourishing Pill (柏子養心丸), and other PCM produced by us.

For FY2017, FY2018, FY2019, 9M2019 and 9M2020, these major products accounted for approximately 68.9%, 80.2%, 79.6%, 84.8% and 86.8% of our total revenue, respectively. Among which, Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) were our top selling products in FY2017, FY2018, FY2019 and 9M2019, and together contributed approximately 39.4%, 52.5%, 40.8% and 44.6% of our total revenue for the respective years/period. For 9M2020, the revenue contributed by the abovementioned two products decreased to approximately 32.9% of our total revenue, such decrease was mainly due to the surging demand of PCM which were believed to be having an intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness, namely Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸). In terms of monetary sales value, the majority of our major products exhibited a growth from FY2017 to FY2019, among which Circulation Enhancement Pill (氣血雙補丸) experienced the most significant growth in revenue in FY2018, accounted for approximately 44.9% of our annual revenue growth in FY2018. Such growth was mainly due to (i) the increase in average net selling price from approximately RMB57.5 per kilogram in FY2017 to approximately RMB79.6 per kilogram in FY2018 representing approximately 38.4% growth, mainly due to the decrease in the monetary Marketing Incentives; and (ii) the increase in the sales volume from approximately 415,000 kilogram in FY2017 to approximately 716,000 kilogram in FY2018, representing approximately 72.5% growth. Although most of our major products exhibited a slight decline in percentage of revenue for 9M2020 due to the COVID-19 pandemic, the percentage of revenue generated from Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) has outweighed such impact. However, as the conditions of COVID-19 in the PRC have gradually stabilised, we believe that the demand for these two products will slow down and/or decrease.

By types

Type	FY2017		FY2018		FY2019		9M2019		9M2020	
	Approximate revenue (RMB'000)	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*
OTC	71,455	67.1	125,557	72.4	128,642	58.8	102,333	59.2	125,960	57.6
Prescribed	35,011	32.9	47,955	27.6	90,125	41.2	70,637	40.8	92,878	42.4
Total	106,466	100.0	173,512	100.0	218,767	100.0	172,970	100.0	218,838	100.0

The revenue derived from our OTC medicine mainly includes Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Menstrual Discomfort Relief Pill (加味逍遙丸) and Additional Ingredient Huoxiang ZhengQi Pill (加味

藿香正氣丸). Collectively these four products contributed approximately RMB48.1 million (45.1%), RMB98.4 million (56.7%), RMB96.4 million (44.1%), RMB82.7 million (47.8%) and RMB110.0 million (50.1%) of total revenue for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

The revenue derived from our prescribed medicine mainly includes Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Liver Detox Tablet (護肝片) and Fever-removing and Detoxification Pill (清瘟解毒丸). Collectively these five products contributed approximately RMB25.4 million (23.8%), RMB40.7 million (23.5%), RMB77.6 million (35.5%), RMB64.2 million (37.0%) and RMB80.2 million (36.7%) of total revenue for FY2017, FY2018, FY2019, 9M2019 and 9M2020, respectively.

Our product portfolio includes OTC medicine and prescribed medicine. In terms of revenue, OTC medicine contributed approximately 70% of our revenue in FY2017 and FY2018. Its proportion decreased to approximately 60% in FY2019 and 9M2020. Our revenue derived from OTC medicine increased from approximately RMB71.5 million in FY2017 to approximately RMB128.6 million for FY2019 and from approximately RMB102.3 million for 9M2019 to approximately RMB126.0 million for 9M2020. The growth in revenue of our OTC medicine in FY2019 was due to the increase in sales of Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) which amounted to approximately RMB24.4 million and RMB22.7 million, respectively. Our revenue derived from OTC medicine for 9M2020 compared to 9M2019 increased notably mainly due to the increase in sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), which amounted to approximately RMB31.8 million, and such demand arose as it was believed to be having the intended therapeutic effects for treating the symptoms of COVID-19 and/or similar illness. Our revenue derived from prescribed medicine increased from approximately RMB35.0 million in FY2017 to approximately RMB90.1 million for FY2019 and from approximately RMB70.6 million for 9M2019 to approximately RMB92.9 million for 9M2020. The growth in revenue of our prescribed medicine in FY2019 was due to the increase in sales of Kidney Invigoration Pill (金匱腎氣丸) and Cardiotonic Enhancement Capsule (山玫膠囊) which amounted to approximately RMB17.3 million and RMB21.9 million, respectively. Our revenue derived from prescribed medicine for 9M2020 compared to 9M2019 increased notably mainly due to the increase in sales of Fever-removing and Detoxification Pill (清瘟解毒丸), which amounted to approximately RMB21.0 million, such demand arose as it was believed to have the intended therapeutic effect for treating the symptoms of COVID-19 and/or similar illness. Due to revenues derived from Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) for 9M2020, we recorded increase in sales in absolute dollar terms for both OTC and prescribed medicines compared to 9M2019.

By usage

Type	FY2017		FY2018		FY2019		9M2019		9M2020	
	Approximate revenue (RMB'000)	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*
Qi-deficiency and blood-stasis[(1)] (補血補氣) condition	47,218	44.3	96,723	55.8	111,702	51.1	97,281	56.2	91,507	41.7
Cardio-cerebrovascular[(2)] (心腦血管) condition	18,155	17.0	27,793	16.0	47,644	21.8	38,490	22.2	34,537	15.8
Digestive and gastrointestinal[(3)] (消化系統) condition	5,250	4.9	12,801	7.4	13,041	6.0	9,900	5.7	11,525	5.3
Gynaecological[(4)] (婦科) condition	7,887	7.4	7,945	4.6	9,158	4.2	5,924	3.4	8,102	3.7
Others[(5)]	27,956	26.4	28,250	16.2	37,222	16.9	21,375	12.5	73,167	33.5
Total	106,466	100.0	173,512	100.0	218,767	100.0	172,970	100.0	218,838	100.0

Notes:

(1) Qi-deficiency and blood-stasis (補血補氣) condition is mainly intended to be treated/alleviated by Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸) and Kidney Invigoration Pill (金匱腎氣丸)

(2) Cardio-cerebrovascular (心腦血管) condition is mainly intended to be treated/alleviated by Cardiotonic Enhancement Capsule (山玫膠囊), and Heart Wellness Capsule (心安膠囊)

(3) Digestive and gastrointestinal* (消化系統) condition is mainly intended to be treated/alleviated by Liver Detox Tablet (護肝片)

(4) Gynaecological* (婦科) condition is mainly intended to be treated/alleviated by Menstrual Discount Relief Pill (加味逍遙丸)

(5) Others mainly include respiratory system (呼吸系統) condition PCM (in particular, Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), which were believed to be having the intended therapeutic effect for treating the symptoms of COVID-19 and/or similar illness), and nervous system (神經系統) condition PCM

According to the Euromonitor Report, we are in a fragmented market and yet we were one of the leading non-listed companies engaged in the production of PCM in 2019 in terms of the sales of Qi-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC.

For FY2017, FY2018, FY2019 and 9M2020, our pharmaceutical products which intend to treat/alleviate Qi-deficiency and blood-stasis (補血補氣) condition constituted the largest portion of our total revenue. Together with those which intend to treat/alleviate cardio-cerebrovascular (心腦血管) condition, they collectively contributed approximately 57.5% to 72.9% of our total revenue for FY2017, FY2018, FY2019 and 9M2020. For 9M2020, due to the COVID-19 outbreak, our revenue derived from others increased notably to approximately 33.5% of our total revenue.

By geographic location

Region	FY2017		FY2018		FY2019		9M2019		9M2020	
	Approximate revenue (RMB'000)	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*	*Approximate revenue (RMB'000)*	*Approximate % of total revenue*
Northeast[(1)]	53,586	50.3	88,422	51.0	120,252	55.0	96,465	55.8	118,060	53.9
Huadong (華東)[(2)]	15,506	14.6	25,797	14.9	24,885	11.4	20,756	12.0	14,221	6.5
Huanan (華南)[(3)]	10,501	9.9	21,534	12.4	33,500	15.3	25,372	14.6	39,426	18.0
Huabei (華北)[(4)]	26,792	25.1	36,435	21.0	33,178	15.2	25,609	14.8	39,799	18.2
Southwest[(5)]	81	0.1	1,255	0.7	4,303	2.0	2,877	1.7	4,295	2.0
Northwest[(6)]	–	–	69	0.0*	2,649	1.1	1,891	1.1	3,037	1.4
Total	106,466	100.0	173,512	100.0	218,767	100.0	172,970	100.0	218,838	100.0

* *Represents negligible amount*

Notes:

(1) Northeast represents Heilongjiang, Jilin, Liaoning

(2) Huadong (華東) represents Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong

(3) Huanan (華南) represents Henan, Hubei, Hunan, Guangxi, Guangdong, Hainan

(4) Huabei (華北) represents Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia

(5) Southwest represents Chongqing, Sichuan, Guizhou, Yunnan, Tibet

(6) Northwest represents Shaanxi, Gansu, Qinghai, Ningxia Hui, Xinjiang

Throughout the Track Record Period, Northeast contributed the largest portion, represented over 50% of our total revenue in each year/period. We expect Northeast will continue to be our key source of revenue. During the Track Record Period, we gradually broadened our distribution network to other regions of the PRC. The increase in revenue in FY2018 compared to FY2017 by approximately 63.0% was mainly contributed by the increase in revenue from the distributors in Northeast, Huadong (華東), Huanan (華南) and Huabei (華北) by approximately RMB34.8 million, RMB10.3 million, RMB11.0 million and RMB9.6 million, respectively, represented approximately 98.1% growth in revenue in FY2018, reflecting that our ability to maintain our market share in Northeast, while developing our business in other regions. The increase in revenue in FY2019 compared to FY2018 by approximately 26.1% was mainly due to the growth from Northeast and Huanan (華南) by approximately RMB31.8 million and approximately RMB12.0 million, respectively, which was partially offset by the decrease in our revenue by approximately RMB3.3 million which was derived from Huabei (華北) as our transactions with Heilongjiang Jintian Aixin Pharmaceutical Distribution declined in FY2019. The increase in revenue for 9M2020 compared to 9M2019 by approximately 26.5% was mainly due to the growth from Northeast, Huabei (華北) and Huanan (華南) by approximately RMB21.6 million, RMB14.2 million and RMB14.1 million, respectively, which was partially offset by the decrease in revenue generated from Huadong (華東) by approximately RMB6.5 million. Save for Huadong (華東), we were able to record revenue growth in absolute dollar terms for all other regions for 9M2020. Our Directors considered this reflected our success to broaden our customer base and continue to diversify our customer coverage during the Track Record Period.

Cost of sales

Our cost of sales comprises raw materials, direct labour and other overheads. The raw materials we consumed included medicinal herbs, such as Ginseng (人蔘) and Hawthorn Leaves (山楂葉), animal substances such as Deer Antler (鹿茸), consumable/additive such as ethanol and honey, and packaging materials such as empty capsules, paper boxes and others. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our cost of sales were approximately RMB62.0 million, RMB99.9 million, RMB119.7 million, RMB92.5 million and RMB120.6 million, respectively, representing 58.3%, 57.5%, 54.7%, 53.5% and 55.1% of our total revenue for the respective years/periods.

Type	FY2017		FY2018		FY2019		9M2019		9M2020	
	Approximate cost of sales (RMB'000)	*Approximate % of total cost of sales*	*Approximate cost of sales (RMB'000)*	*Approximate % of total cost of sales*	*Approximate cost of sales (RMB'000)*	*Approximate % of total cost of sales*	*Approximate cost of sales (RMB'000)*	*Approximate % of total cost of sales*	*Approximate cost of sales (RMB'000)*	*Approximate % of total cost of sales*
Raw Materials										
I. Medicinal herbs and animal substances										
• Hawthorn Leaves (山楂葉)	1,085	1.8	2,149	2.2	4,981	4.1	4,369	4.7	4,948	4.1
• Ginseng (人蔘)	2,302	3.7	4,909	4.9	5,024	4.2	4,374	4.7	3,893	3.2
• Deer Antler (鹿茸)	2,497	4.0	5,953	6.0	8,335	7.0	6,485	7.0	13,786	11.4
• Others[(1)]	26,583	42.8	42,274	42.3	50,635	42.3	38,772	42.0	47,292	39.3
Subtotal	32,467	52.3	55,285	55.4	68,975	57.6	54,000	58.4	69,919	58.0
II. Consumable/additive										
• Honey	6,746	10.9	9,746	9.8	7,532	6.3	5,693	6.2	13,036	10.8
• Ethanol	401	0.6	3,008	3.0	4,665	3.9	3,455	3.7	3,466	2.9
• Others[(2)]	48	0.1	13	0.0*	70	0.1	53	0.0*	55	0.0*
Subtotal	7,195	11.6	12,767	12.8	12,267	10.3	9,201	9.9	16,557	13.7
III. Packaging materials	13,612	21.9	19,580	19.6	25,045	20.9	19,808	21.4	24,043	19.9
IV. Others[(3)]	196	0.4	455	0.4	–	–	–	–	–	–
Raw materials Subtotal	53,470	86.2	88,087	88.2	106,287	88.8	83,009	89.7	110,519	91.6
Direct labour	4,830	7.8	6,970	7.0	7,890	6.6	5,946	6.4	6,783	5.6
Other overheads[(4)]	3,739	6.0	4,798	4.8	5,521	4.6	3,588	3.9	3,302	2.8
Total	62,039	100.0	99,855	100.0	119,698	100.0	92,543	100.0	120,604	100.0

* *Represents negligible amount*

Notes:

(1) Others mainly include Chinese Angelica (當歸), Barbary Wolfberry Fruit (枸杞子), Shorthorn Barrenwort (淫羊藿) and Ternate Pinellia (半夏).

(2) Others mainly include sugar and starch.

(3) Others mainly include coal.

(4) Other overheads mainly include utilities, maintenance expenses and depreciation.

Gross profit and gross profit margin

Below table sets out our gross profit and gross profit margin for the years/periods indicated:

	FY2017		FY2018		FY2019		9M2019		9M2020	
Products	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*
Vigour and Vitality Supplement Pill (補腎填精丸) (OTC)	9,280	37.6	12,166	27.9	15,857	32.3	15,115	34.8	5,121	13.6
Circulation Enhancement Pill (氣血雙補丸) (OTC)	4,485	25.9	25,247	53.3	23,385	58.5	19,533	57.9	20,644	59.9
Cardiotonic Enhancement Capsule (山玫膠囊) (prescribed)	7,697	68.0	9,278	53.4	18,710	56.3	14,792	55.5	12,904	62.8
Kidney Invigoration Pill (金匱腎氣丸) (prescribed)	2,610	50.0	2,722	48.0	12,578	55.8	10,940	54.4	12,018	62.2
Heart Wellness Capsule (心安膠囊) (prescribed)	4,110	60.2	4,742	45.5	5,114	35.5	4,380	37.0	4,133	29.6
Menstrual Discomfort Relief Pill (加味逍遙丸) (OTC)	4,093	68.3	3,842	52.8	3,633	50.1	2,710	49.5	3,171	53.2
Liver Detox Tablet (護肝片) (prescribed)	378	19.8	1,902	26.3	424	5.7	452	8.1	546	10.1
Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) (OTC)	16	13.6	7	23.3	–	–	–	–	15,786	49.6
Fever-removing and Detoxification Pill (清瘟解毒丸) (prescribed)	36	27.5	4	21.1	–	–	–	–	11,183	53.4
Others[(Note)]	11,722	35.6	13,747	39.9	19,368	43.3	12,505	47.9	12,728	44.4
Total/overall	44,427	41.7	73,657	42.5	99,069	45.3	80,427	46.5	98,234	44.9

Note: Others include Six-Ingredient Rehmannia Pill (六味地黃丸), Arborvitae Seed Heart Nourishing Pill (柏子養心丸), and other PCM produced by us.

For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our overall gross profit was approximately RMB44.4 million, RMB73.7 million, RMB99.1 million, RMB80.4 million and RMB98.2 million, respectively, and our overall gross profit margin was approximately 41.7%, 42.5%, 45.3%, 46.5% and 44.9%, respectively. We manage our overall gross profit margin to ensure overall profitability of our Company while allowing flexible price adjustments for individual products.

The overall gross profit margin of our products was relatively stable in FY2017 and FY2018. For FY2019, our gross profit margin improved due to changes in revenue mix between OTC medicine and prescribed medicine, in particular attributed to the increase in sales of Kidney Invigoration Pill (金匱腎氣丸) and Cardiotonic Enhancement Capsule (山玫膠囊). For 9M2020, our overall gross profit margin decreased to approximately 44.9% as compared to approximately 46.5% for 9M2019, mainly due to the decrease in gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸).

Generally, the gross profit margin of our major prescribed medicine is relatively higher than that of our major OTC medicine. This is mainly due to the differences in the selling prices and cost of principal raw materials of different products applied. For example, our principal raw materials for Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) are Hawthorn Leaves (山楂葉) and ethanol (for extraction), which had relatively low nominal value (purchase price) during the Track Record Period, whilst the principal raw materials for our Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) are Ginseng (人蔘), Deer Antler (鹿茸) and Chinese Angelica (當歸), which had relatively high nominal value (purchase price) as compared to principal raw materials for our prescribed medicine. Furthermore, Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) have adopted our technology and were awarded as a "Famous Product of Small and Medium-sized Enterprise in Hebei Province" (河北省中小企業名牌產品) in 2015 and 2016, respectively, allowing us to charge these products at certain premium.

The gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸) decreased from approximately 37.6% for FY2017 to approximately 27.9% for FY2018 mainly attributable to the increase in price of principal raw materials of the product. The gross profit margin increased back to approximately 32.3% for FY2019 as we decreased the monetary Marketing Incentives for this product, given the successful promotion in FY2016 and FY2017. The gross profit margin for 9M2020 decreased mainly due to the large increase in its cost of sales per kg as the purchase price of Deer Antler (鹿茸), one of its major raw materials, increased in the respective period because (i) we started to purchase from Tieling Chuntian Pharmaceutical Co. Ltd. (鐵嶺春天藥業有限公司), which offered quality Deer Antler (鹿茸) and could ensure a more steady supply as it operates own deer farm for its products, since FY2019; (ii) when the utilisation rate of the extraction line was relatively low, we purchased some keenly priced and less purified raw materials for production as we only require the extracted essence from the raw materials; and (iii) the purchase price of Deer Antler (鹿茸) in the market remained at high level after the use of Deer Antler (鹿茸) is no longer subject to wildlife the restriction in May 2020.

The gross profit margin of our Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) decreased in FY2018 compared to FY2017 primarily due to the change in our production facilities from coal-heated to gas-heated, which increased the cost of production. The gross profit margin of Cardiotonic Enhancement Capsule (山玫膠囊) increased notably in 9M2020 due to the increase in its average net selling price as we reduced the types of packing offered to distributors (i.e. no longer offering promotional packings with lower average net selling prices) due to the temporary change in market demand. The gross profit margin of Heart Wellness Capsule (心安膠囊) decreased in FY2019 and 9M2020 mainly due to (i) the increase in monetary Marketing Incentives offered for promotion in FY2019; and (ii) we adjusted our pricing strategy to decrease the average net selling price of this product for 9M2020 in order to drive up the demand during the period. The change in gross profit margin of Liver Detox Tablet (護肝片) in FY2019 and 9M2020 primarily due to an increase in average

cost of sales per kg as the purchase price of Chinese Magnoliavine Fruit (五味子), one of its major raw materials, increased for the respective year/period, hence we had increased its net selling price in order to respond to the increase in average cost.

The decrease of gross profit margin of Menstrual Discomfort Relief Pill (加味逍遙丸) in FY2018 was mainly attributable to the average net selling price decreased from approximately RMB124.8 per kilogram in FY2017 to approximately RMB83.2 per kilogram in FY2018 with our pricing strategy to promote the product into the market and drive up the sales volume.

The gross profit margin of Circulation Enhancement Pill (氣血雙補丸) in FY2017 was lower than that of other years. This was due to higher monetary Marketing Incentives offered for promotion in FY2017.

As compared to those for 9M2019, our gross profit margin for Circulation Enhancement Pill (氣血雙補丸), Menstrual Discomfort Relief Pill (加味逍遙丸) and Kidney Invigoration Pill (金匱腎氣丸) were increased in 9M2020 which were mainly due to the decrease in their major cost of raw materials consumed. In particular, (i) our improved quality control of raw materials led to a decrease in production loss; and (ii) the purchase prices of Dangshen (黨蔘), White Peony Root (白芍), Tuckahoe (茯苓) and Tree Peony Bark (牡丹皮), the major raw materials used in one or more of these three major products, decreased during the period.

For 9M2020, Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) were two of our top selling products as they were believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness. They both had higher gross profit margins due to the surging demand and hence we did not offer any monetary Marketing Incentives during the respective period. The higher gross profit margins of these two products have compensated the decrease in gross profit margins of some other major products, namely Vigour and Vitality Supplement Pill (補腎填精丸) and Heart Wellness Capsule (心安膠囊) for 9M2020. Based on the foregoing, we were able to maintain our overall gross profit margin at approximately 44.9% for 9M2020.

Other income

Other income primarily consisted of government grants and interest income. The table below sets out a breakdown of our other income for the years/periods indicated:

	FY2017	FY2018	FY2019	9M2019	9M2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest income	253	130	146	120	84
Exchange gain, net	–	–	1	–	12
Government grants	–	640	–	–	–
Gain on disposal of property, plant and equipment	–	–	1	–	–
Gain on disposal of right-of-use assets	114	–	–	–	–
Sundry income	85	–	26	–	114
	452	770	174	120	210

The government grants, which were one-off in nature, were to subsidise expenses incurred for changing the production facilities from coal-heated to gas-heated as encouraged by Hebei Provincial Government (河北省政府) to reduce the air pollution.

Selling and distribution expenses

Our selling and distribution expenses primarily comprise logistic expenses, staff costs, and expenses for advertising and promotions. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our selling and distribution expenses accounted for approximately 4.0%, 2.8%, 3.7%, 3.8% and 2.4% of our total revenue, respectively. The following table sets forth a breakdown of our selling and distribution expenses for the years/periods indicated:

	FY2017	FY2018	FY2019	9M2019	9M2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Logistic expenses	2,360	3,010	4,188	3,230	3,827
Staff costs	1,910	1,873	1,801	1,380	1,531
Advertising and promotions	–	55	2,116	1,964	–
Total	4,270	4,938	8,105	6,574	5,358

Administrative and other operating expenses

Our administrative and other operating expenses primarily consist of staff costs, other taxes, R&D costs and others. For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our administrative and other operating expenses accounted for approximately 4.4%, 2.9%, 6.5%, 6.2% and 5.4% of our total revenue, respectively. The following table sets forth a breakdown of our administrative and other operating expenses by components:

	FY2017	**FY2018**	**FY2019**	**9M2019**	**9M2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation	88	89	89	67	238
Staff costs	1,624	1,612	1,621	1,397	1,617
Legal and professional fees	25	87	167	48	106
Other taxes	2,154	2,593	2,782	2,322	2,288
Office expenses	45	57	163	156	66
Travelling expenses	50	45	395	358	26
Entertainment expenses	118	50	213	170	90
R&D costs	–	–	8,300	5,875	6,700
Others	544	449	394	368	791
Total	4,648	4,982	14,124	10,761	11,922

Finance costs

For FY2017, FY2018, FY2019, 9M2019 and 9M2020, our finance costs were approximately RMB1.2 million, nil, nil, nil and approximately RMB0.2 million, respectively. Our finance costs for FY2017 and 9M2020 mainly represented interest expenses incurred for our interest-bearing borrowings drawn at the end of 2016, which had been fully settled in FY2017, and drawn at the end of 2019, respectively.

Taxation

We derived all of our revenue in the PRC, therefore, our Group was subject to the PRC enterprise income tax (the "**PRC EIT**"). Under the PRC EIT, the applicable tax rate is 25%.

The effective tax rates of our Group for FY2017, FY2018, FY2019, 9M2019 and 9M2020 were approximately 25.6%, 25.2%, 29.1%, 27.7% and 27.6%, respectively. The effective tax rates of the indicated years/periods were higher than the statutory tax rate of 25% mainly due to the non-deductible expenses. In particular in FY2019 and 9M2020, the non-deductible expenses were mainly attributed to certain expenses incurred in relation to the Listing.

Our group entities established in the Cayman Islands and the BVI are exempted from paying the income tax of those jurisdictions.

Hong Kong Profits Tax has not been provided as our Group had no assessable profit arising from Hong Kong for the Track Record Period.

We confirm that as at the Latest Practicable Date: (i) our Group had made all required proper tax filings under the relevant tax laws and regulations in the PRC; and (ii) that our Group was not subject to any dispute with the tax authorities in the PRC.

9M2020 compared to 9M2019

Revenue

Our revenue increased by approximately 26.5% from approximately RMB173.0 million for 9M2019 to approximately RMB218.8 million for 9M2020. Such increase in revenue was mainly attributable to the increase in sales of both OTC and prescribed medicines, in particular, (i) approximately RMB31.8 million revenue generated from sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), an OTC product, during 9M2020; and (ii) revenue generated from our prescribed medicine, Fever-removing and Detoxification Pill (清瘟解毒丸) which showed a significant increase in revenue of approximately RMB21.0 million for 9M2020. Such increase in revenue was partially offset by a general decrease in revenue generated from Vigour and Vitality Supplement Pill (補腎填精丸) and Cardiotonic Enhancement Capsule (山玫膠囊).

Cost of sales

Our cost of sales increased by approximately 30.4% from approximately RMB92.5 million for 9M2019 to approximately RMB120.6 million for 9M2020. The increase in our cost of sales was mainly derived by the increase in sales volume and the increase in purchase price of Deer Antler (鹿茸), one of the major raw materials of Vigour and Vitality Supplement Pill (補腎填精丸).

Gross profit and gross profit margin

Our gross profit increased by approximately 22.1% from approximately RMB80.4 million for 9M2019 to RMB98.2 million for 9M2020, due to the aforementioned increase in our revenues for 9M2020.

Our gross profit margin decreased from approximately 46.5% in 9M2019 to approximately 44.9% in 9M2020 mainly due to the decrease in gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸).

Other income

Our other income increased from approximately RMB0.1 million in 9M2019 to approximately RMB0.2 million in 9M2020 mainly due to the increase in extraordinary income, mainly representing a reversal of overprovision of government charges.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 18.2% from approximately RMB6.6 million for 9M2019 to approximately RMB5.4 million for 9M2020. Such decrease was mainly due to the decrease in advertising and promotions arising from approximately RMB2.0 million spent on the printed media promotion which was partially offset by the increase in logistic expenses by approximately RMB0.6 million resulted from the increase in our revenue in 9M2020.

Administrative and other operating expenses

Our administrative and other operating expenses notably increased by approximately 10.2% from approximately RMB10.8 million for 9M2019 to approximately RMB11.9 million for 9M2020. Such increase was mainly due to (i) approximately RMB0.8 million increase in R&D costs which were incurred during 9M2020 for the development of a new product Stroke Prevention Capsule (耆丹禦風膠囊) and enhancement of our existing product Heart Wellness Capsule (心安膠囊); and (ii) approximately RMB0.3 million increase in aggregate due to the increase in loss allowances for trade receivables and expenses recognised under the short-term lease starting from June 2019.

Finance costs

Our finance costs was approximately RMB0.2 million for 9M2020, which was the interest expenses arising from the bank borrowings we obtained in December 2019 and the lease liabilities related to our office premises. We did not incur any finance costs for 9M2019.

Listing expenses

Our listing expenses amounted to approximately RMB6.6 million for 9M2019 and approximately RMB8.1 million for 9M2020, respectively.

Taxation

Our income tax expenses increased by approximately 28.0% from approximately RMB15.7 million for 9M2019 to approximately RMB20.1 million for 9M2020. Such increase was primarily attributable to the increase in our profit before tax due to the aforesaid reasons. The effective tax rate remained relatively stable at approximately 27.7% for 9M2019 and approximately 27.6% for 9M2020.

Profit for the period

Our profit for the period increased by 29.1% from approximately RMB40.9 million in 9M2019 to approximately RMB52.8 million in 9M2020 due to the aforesaid reasons.

FY2019 compared to FY2018

Revenue

Our revenue increased by approximately 26.1% from approximately RMB173.5 million for FY2018 to approximately RMB218.8 million for FY2019. Such increase in revenue was mainly due to the additional revenue brought by Northeast and the newly developed sales derived from Huanan (華南), mainly contributed by the increase in (i) sales of Qi-deficiency and blood-stasis* (補血補氣) condition PCM pills by approximately 15.5%, in particular, from the increase in revenue of Kidney Invigoration Pill (金匱腎氣丸) of approximately RMB16.9 million and Vigour and Vitality Supplement Pill (補腎填精丸) of approximately RMB5.5 million, partially offset by the decrease in revenue of Circulation Enhancement Pill (氣血雙補丸) by approximately RMB7.4 million primarily due to the allocation of resources to the production of Kidney Invigoration Pill (金匱腎氣丸) during the year; and (ii) sales of Cardio-cerebrovascular* (心腦血管) condition PCM capsules by approximately 71.4% resulted from the increase in revenue of Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊) with an increase in revenue of approximately RMB15.9 million and RMB4.0 million, respectively.

The increase in our revenue was partially offset by the decrease in revenue of approximately RMB3.3 million from Huabei (華北), which was mainly due to the decrease in transactions with Heilongjiang Jintian Aixin Pharmaceutical Distribution during that period.

Cost of sales

Our cost of sales increased by approximately 19.8% from approximately RMB99.9 million for FY2018 to approximately RMB119.7 million for FY2019. The increase in our cost of sales was mainly due to the increase in sales volume.

Gross profit and gross profit margin

Our gross profit increased by approximately 34.5% from approximately RMB73.7 million for FY2018 to RMB99.1 million for FY2019, due to the aforementioned increase in our revenues for FY2019.

Our gross profit margin increased from approximately 42.5% in FY2018 to approximately 45.3% in FY2019 mainly due to the increase in the portion of sales contributed by of prescribed medicine during FY2019 from approximately 27.6% of total revenue in FY2018 to approximately 41.2% of total revenue in FY2019, the gross profit margin of prescribed

medicine was relatively higher as compared to that of OTC medicine. Kidney Invigoration Pill (金匱腎氣丸) with a gross profit margin of 55.8% for FY2019 and Cardiotonic Enhancement Capsule (山玫膠囊) with a gross profit margin of 56.3% for FY2019.

Other income

Our other income decreased from approximately RMB0.8 million in FY2018 to approximately RMB0.2 million in FY2019 as we received government grants in FY2018 in relation to the change of our production facilities from coal-heated to gas-heated, which was one-off in nature.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 65.3% from approximately RMB4.9 million for FY2018 to approximately RMB8.1 million for FY2019. Such increase was mainly due to approximately RMB2.1 million spent on printed media promotion incurred during FY2019.

Administrative and other operating expenses

Our administrative and other operating expenses notably increased by approximately 182.0% from approximately RMB5.0 million for FY2018 to approximately RMB14.1 million for FY2019. Such increase was mainly due to (i) approximately RMB8.3 million spent on R&D which was incurred during FY2019 for the development of a new product Stroke Prevention Capsule (耆丹禦風膠囊) and enhancement of our existing product Heart Wellness Capsule (心安膠囊) and was recorded as an expense item during the year; and (ii) approximately RMB0.4 million increase in travelling expenses incurred by our Directors and senior management to our Shenzhen office, which commenced to operate in June 2019.

Finance costs

We did not incur any finance costs during FY2019 as we only obtained a bank loan in the end of FY2019.

Listing expenses

Our listing expenses amounted to nil and approximately RMB11.8 million for FY2018 and FY2019, respectively.

Taxation

Our income tax expenses increased by approximately 16.6% from approximately RMB16.3 million for FY2018 to approximately RMB19.0 million for FY2019. Such increase was primarily attributable to the increase in our profit before tax due to the aforesaid reasons. The effective tax rate increased from approximately 25.2% for FY2018 to approximately 29.1% for FY2019. This was mainly due to an increase in non-deductible expenses in relation to certain listing expenses incurred during FY2019.

Profit for the year

Our profit for the year decreased by 4.1% from approximately RMB48.2 million in FY2018 to approximately RMB46.2 million in FY2019 due to the aforesaid reasons.

FY2018 compared to FY2017

Revenue

Our revenue increased by approximately 63.0% from approximately RMB106.5 million for FY2017 to approximately RMB173.5 million for FY2018. Such increase was mainly due to (i) approximately RMB34.8 million or 51.9% of additional revenue in FY2018 generated from Northeast; and (ii) increase in revenue from Huadong (華東), Huanan (華南) and Huabei (華北) by approximately RMB31.0 million in aggregate. Such increase in revenue was primarily attributable to the increase in sales of Qi-deficiency and blood-stasis (補血補氣) condition PCM products, Cardio-cerebrovascular (心腦血管) condition PCM products and Digestive and gastrointestinal (消化系統) condition PCM products by approximately RMB49.5 million, RMB9.6 million and RMB7.6 million, respectively, which were mainly due to the increase in revenue from 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) and Liver Detox Tablet (護肝片), with an increase in revenue of approximately RMB19.0 million, RMB30.1 million, RMB6.0 million and RMB5.3 million, respectively.

In addition to the aforesaid factors attributable to revenue growth, the additional revenue of approximately RMB9.2 million was brought by our new distributors, which introduced 26 additional cities to our footprint in the PRC.

Cost of sales

Our cost of sales increased by approximately 61.1% from approximately RMB62.0 million in FY2017 to approximately RMB99.9 million in FY2018. The increase in our cost of sales was generally in line with our increase in sales volume.

Gross profit and gross profit margin

Our gross profit increased by approximately 66.0% from approximately RMB44.4 million for FY2017 to RMB73.7 million for FY2018, due to the aforementioned increase in our revenues for FY2018.

Our gross profit margin slightly increased from approximately 41.7% in FY2017 to approximately 42.5% in FY2018 mainly attributable to the increase in gross profit margin of our major product Circulation Enhancement Pill (氣血雙補丸) from approximately 25.9% in FY2017 to approximately 53.3% in FY2018 due to higher monetary Marketing Incentives offered for promotion in FY2017. Such increase was partially offset by the decrease in gross profit margin of Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊), primarily due to the change in our production facilities from coal-heated to gas-heated, which increased the cost of production.

Other income

Our other income increased by approximately 60.0% from approximately RMB0.5 million in FY2017 to approximately RMB0.8 million in FY2018, which is primarily attributable to the one-off government grants received by our Group in relation to the change of our production facilities from coal-heated to gas-heated in FY2018. Such increase is offset by the decrease in interest income of approximately RMB0.1 million.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 14.0% from approximately RMB4.3 million for FY2017 to approximately RMB4.9 million for FY2018. Such increase was mainly due to the increase in logistic expenses of approximately RMB0.7 million resulted from the increase in sales in FY2018.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately 8.7% from approximately RMB4.6 million in FY2017 to approximately RMB5.0 million in FY2018. Such increase was mainly due to the increase in other taxes by approximately RMB0.4 million in FY2018 resulted from increase in revenue.

Finance costs

Our finance costs decreased from approximately RMB1.2 million in FY2017 to nil in FY2018. Such a decrease was due to the repayment of the interest-bearing borrowings in FY2017.

Taxation

Our income tax expenses increased by approximately 83.1% from approximately RMB8.9 million in FY2017 to approximately RMB16.3 million in FY2018. Such increase was primarily attributable to the increase in our profit before tax due to the factors discussed above. The effective tax rates for FY2017 and FY2018 are approximately 25.6% and 25.2%, respectively, which remained relatively stable.

Profit for the year

Our profit for the year increased by approximately 86.1% from approximately RMB25.9 million for FY2017 to approximately RMB48.2 million in FY2018 due to the aforesaid reasons.

LIQUIDITY AND CAPITAL RESOURCES

For FY2017, FY2018, FY2019 and 9M2020, our liquidity requirements primarily related to our working capital needs (mainly for procurement of raw materials from suppliers, staff costs and various operating expenses) and working capital shortfall arose due to differences in the trade receivable and trade payable turnover days. Our source of funds was mainly from the working capital generated internally from our operation. During the Track Record Period, we did not experience any material liquidity shortage.

Our future capital needs related primarily to the purchase of new plant and machinery and office equipment to increase production volume and efficiency and expand our existing production and office facilities. Upon Listing, we expect our liquidity requirement will be satisfied by our internal resources, net proceeds from the Global Offering and/or external financing.

Cash flows

The table below sets out a summary of our cash flows, as set out in the Accountants' Report in Appendix I to this prospectus, for the years/periods indicated:

	FY2017	**FY2018**	**FY2019**	**9M2019**	**9M2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating cash inflows before movements in working capital	37,450	66,094	66,629	57,676	74,456
Changes in working capital	(53,921)	25,414	(5,549)	3,910	(36,552)
Income tax paid	(8,984)	(14,396)	(20,840)	(16,340)	(19,692)
Net cash (used in) generated from operating activities	(25,455)	77,112	40,240	45,246	18,212
Net cash (used in) generated from investing activities	(1,542)	(37)	(1,207)	1,078	(362)
Net cash (used in) generated from financing activities	(41,989)	–	(92,943)	(98,465)	7,978
Net (decrease) increase in cash and cash equivalents	(68,986)	77,075	(53,910)	(52,141)	25,828
Cash and cash equivalents at the beginning of the year/period	81,851	12,865	89,940	89,940	35,891
Effect on exchange rate changes	–	–	(139)	–	430
Cash and cash equivalents at the end of the year/period	12,865	89,940	35,891	37,799	62,149

Net cash used in/generated from operating activities

For 9M2020, we recorded net cash generated from operating activities of approximately RMB18.2 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB74.5 million; (ii) net decrease in working capital of approximately RMB36.6 million, mainly due to approximately RMB28.3 million increase in trade and other receivables and approximately RMB11.2 million decrease in trade and other payables, which was partially offset by decrease in inventories amounted to RMB2.9 million due to surging sale; and (iii) approximately RMB19.7 million of income tax paid.

For FY2019, we recorded net cash generated from operating activities of approximately RMB40.2 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB66.6 million; (ii) net increase in working capital of approximately RMB5.5 million, mainly due to the increase in inventories of approximately RMB1.9 million and the decrease in trade and other payables of approximately RMB4.6 million; and (iii) approximately RMB20.8 million of income tax paid.

For FY2018, we recorded net cash generated from operating activities of approximately RMB77.1 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB66.1 million; (ii) decrease in working capital of approximately RMB25.4 million, mainly due to the decrease of inventories of approximately RMB14.5 million resulted from our better inventory management and increase in trade and other payables of approximately RMB6.7 million; and (iii) approximately RMB14.4 million of income tax paid.

For FY2017, we recorded net cash used in operating activities of approximately RMB25.5 million, which was mainly attributable to (i) our operating cash inflows before the movements in working capital of approximately RMB37.5 million; (ii) increase in working capital of approximately RMB53.9 million, mainly due to the decrease of trade and other payables of approximately RMB37.5 million resulted from the refund of contract liabilities in relation to a refundable receipts in advance to Heilongjiang Jintian Aixin Pharmaceutical Distribution, and the increase in trade and other receivables of approximately RMB10.8 million; and (iii) approximately RMB9.0 million of income tax paid.

Net cash used in/generated from investing activities

For 9M2020, we recorded net cash used in investing activities of approximately RMB0.4 million, which was mainly attributable to the purchase of property, plant and equipment.

For FY2019, we recorded net cash used in investing activities of approximately RMB1.2 million, which was mainly attributable to the purchase of property, plant and equipment of approximately RMB2.6 million, partially offset by approximately RMB1.3 million proceeds from disposal of the Non-core Assets.

For FY2018, we recorded net cash used in investing activities of approximately RMB0.04 million.

For FY2017, we recorded net cash used in investing activities of approximately RMB1.5 million, which was mainly attributable to the purchase of property, plant and equipment.

Net cash used in/generated from financing activities

For 9M2020, we recorded net cash generated from financing activities of approximately RMB8.0 million, which was mainly attributable to approximately RMB7.5 million advance from Mr. Xie.

For FY2019, we recorded net cash used in financing activities of approximately RMB92.9 million, which was mainly attributable to approximately RMB103.3 million of dividends paid to a shareholder of Chengde Yushi, partially offset by (i) advance from Mr. Xie of approximately RMB5.3 million; and (ii) interest-bearing borrowings of approximately RMB5.0 million.

For FY2018, we did not record any financing activities. Our capital needs were funded by the working capital generated internally from our operation.

For FY2017, we recorded net cash used in financing activities of approximately RMB42.0 million, which was attributable to the repayment of interest-bearing borrowings of approximately RMB35.0 million and its related interest expenses of approximately RMB1.3 million, and the repayment to Mr. Xie of approximately RMB5.7 million.

NET CURRENT ASSETS

The following table sets out the breakdown of our Group's current assets, current liabilities and net current assets as of the dates indicated:

	At 31 December			At 30 September	At 31 October
	2017	2018	2019	2020	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets					
Inventories	53,553	39,011	40,933	37,991	40,044
Trade and other receivables	32,857	28,680	27,737	55,861	64,711
Bank balances and cash	12,865	89,940	35,891	62,149	68,818
	99,275	157,631	104,561	156,001	173,573
Current liabilities					
Trade and other payables	37,937	44,578	39,978	28,841	44,725
Interest-bearing borrowings	–	–	5,000	5,000	5,000
Lease liabilities	–	–	–	403	404
Amount due to the Ultimate Controlling Party	–	–	5,316	12,893	12,794
Amount due to the immediate holding company	–	–	–	867	854
Income tax payables	2,724	4,617	3,962	6,127	3,035
	40,661	49,195	54,256	54,131	66,812
Net Current Assets	58,614	108,436	50,305	101,870	106,761

Our current assets comprise, among others: (i) inventories; (ii) trade and other receivables; and (iii) bank balances and cash. Our current liabilities comprise, among others: (i) trade and other payables; (ii) lease liabilities; (iii) interest-bearing borrowings; (iv) amount due to the immediate holding company; (v) amount due to the Ultimate Controlling Party; and (vi) income tax payables.

As at 31 December 2017, our Group recorded a net current assets position amounting to approximately RMB58.6 million. Our net current assets improved to approximately RMB108.4 million as at 31 December 2018. Such change was mainly due to an increase in bank balances and cash of approximately RMB77.1 million which was mainly contributed by the net profit of approximately RMB48.2 million in FY2018 which was offset by the (i) decrease in inventories by approximately RMB14.5 million which was resulted from the improvement on inventories turnover; (ii) decrease in trade and other receivables by approximately RMB4.2 million which was due to the utilisation of deposits paid to our suppliers in FY2018; and (iii) increase in trade and other payables by approximately RMB6.6 million mainly due to the increase in monetary Marketing Incentives payables.

Our net current assets decreased to approximately RMB50.3 million as at 31 December 2019. Such a decrease was mainly due to the (i) decrease in bank balances and cash by approximately RMB54.0 million mainly resulting from payment of dividends amounted to approximately RMB103.3 million during FY2019 which was partially offset by the net profit of approximately RMB46.2 million; and (ii) increase in amount due to the Ultimate Controlling Party by approximately RMB5.3 million due to the payout of listing expenses.

Our net current assets increased to approximately RMB101.9 million as at 30 September 2020. Such increase was mainly due to (i) the increase in trade and other receivables by approximately RMB28.1 million resulted from the sharp increase in sales transactions following the gradual release of travel restrictions across the provinces in the PRC since March 2020 and fulfillment of orders before national holiday; and (ii) the increase in bank balances and cash by approximately RMB26.3 million mainly contributed by collection of trade balances from debtors.

Our net current assets increased to approximately RMB106.8 million as at 31 October 2020. Such increase was mainly due to the (i) increase in trade and other receivables by approximately RMB8.9 million resulted from further increase in sales transactions in October 2020, (ii) the increase in bank balances and cash by approximately RMB6.7 million, and (iii) the decrease in income tax payables by approximately RMB3.1 million; net off against the increase in trade and other payables by approximately RMB15.9 million, mainly resulted from the increase in purchase of raw materials in October 2020.

SUFFICIENCY OF WORKING CAPITAL

We confirm that, after taking into consideration the financial resources available to our Group, including our internally generated cash, our available credit and financing facilities and the estimated net proceeds from the Global Offering, and in the absence of unforeseeable circumstances, our Directors confirm, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

DESCRIPTION OF SELECTED ITEMS OF THE COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

During the Track Record Period, our property, plant and equipment mainly comprised buildings, plant and machinery, motor vehicles and furniture, fixtures and office equipment. Our property, plant and equipment amounted to approximately RMB14.0 million, RMB12.9 million, RMB12.5 million and RMB11.8 million as at 31 December 2017, 31 December 2018, 31 December 2019 and 30 September 2020, respectively.

Our property, plant and equipment decreased by approximately 7.9% from approximately RMB14.0 million as at 31 December 2017 to approximately RMB12.9 million as at 31 December 2018, mainly due to the addition of new plant and machinery of approximately RMB0.6 million offset against the depreciation of approximately RMB1.7 million.

Our property, plant and equipment decreased slightly by approximately 3.1% from approximately RMB12.9 million as at 31 December 2018 to approximately RMB12.5 million as at 31 December 2019, mainly due to the addition of plant and machinery of approximately RMB1.1 million offset against the depreciation of approximately RMB1.5 million.

Our property, plant and equipment decreased slightly by approximately 5.6% from approximately RMB12.5 million as at 31 December 2019 to approximately RMB11.8 million as at 30 September 2020, mainly due to the addition of plant and machinery and motor vehicles of approximately RMB0.4 million in aggregate offset against the depreciation of approximately RMB1.1 million.

When we expand our production capacity, a considerable amount of fund will be used for the construction of new premises and purchase of fixed assets (mainly machinery & equipment) that comply with GMP standard.

Inventories

Our inventories mainly comprised raw materials, work-in-progress and finished goods. The most frequently used raw materials comprise medicinal herbs and animal substances with a shelf life of two to three years. Consumable/additive such as honey and ethanol, can be stored for a longer period of time.

	As at 31 December			As at 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	28,638	16,696	21,796	16,806
Work-in-progress	9,277	6,787	5,372	1,031
Finished goods	15,638	15,528	13,765	20,154
	53,553	39,011	40,933	37,991

As at 31 December 2017, 31 December 2018, 31 December 2019 and 30 September 2020, our total inventories represented 53.9%, 24.7%, 39.1% and 24.4% of our total current assets. During the Track Record Period, we reviewed the ageing of our inventory periodically. As at the Latest Practicable Date, approximately RMB34.8 million or 91.6% of our inventory as at 30 September 2020 had been subsequently consumed. The remaining inventories are mainly medicinal herbs and animal substances with shelf life of two to three years. Our raw material level fluctuates as we always aimed to procure only when qualified raw materials are available in the market. However, we have stocked up a reasonably sufficient level of medicinal herbs and animal substances which enabled us to be protected against temporary price and quality fluctuation of certain raw materials. Our Directors considered that no impairment is necessary for the remaining inventories as such raw materials can be stored for a long time (over one year).

The table below sets out our inventory ageing analysis as at the dates indicated:

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	9,559	10,730	26,383	19,064
31 to 60 days	6,725	7,624	2,632	7,726
61 to 90 days	3,202	5,757	3,764	3,664
91 to 120 days	3,594	1,264	5,414	4,296
121 to 180 days	7,136	2,055	397	1,651
Over 180 days but less than 1 year	13,551	3,624	1,855	366
Over 1 year	9,786	7,957	488	1,224
Total	53,553	39,011	40,933	37,991

The table below sets out our average inventory turnover days for the relevant years/period indicated:

	FY2017	FY2018	FY2019	9M2020
Average inventory turnover days*(Note)*	298	169	122	90

Note: Average inventory turnover days is equal to the average of the beginning and ending balances of inventories of the relevant years/period divided by the cost of sales of the relevant years/period and multiplied by 365 days for FY2017, FY2018 and FY2019 and 274 days for 9M2020.

Our average inventory turnover days were approximately 298 days, 169 days, 122 days and 90 days for FY2017, FY2018, FY2019 and 9M2020, respectively. The continuous decrease in inventory turnover days was mainly due to the increase in sales orders from our distributors during the Track Record Period, reflected by the expansion of our distribution network.

Trade and other receivables

Most of our customers settle payments through bank/wire transfer. The table below sets out a breakdown of our trade and other receivables as at the dates indicated and the average trade receivables turnover days for the years/period indicated:

	As at 31 December			As at 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
From third parties	29,768	28,400	22,690	50,699
From a related company	–	230	–	–
	29,768	28,630	22,690	50,699
Less: Loss allowances	(149)	(143)	(113)	(253)
Subtotal	29,619	28,487	22,577	50,446
Other receivables				
Prepayments	96	50	4,958	5,225
Deposits paid to suppliers	3,113	116	81	87
Other deposits and receivables	29	27	121	103
Subtotal	3,238	193	5,160	5,415
Total	32,857	28,680	27,737	55,861

	FY2017	**FY2018**	**FY2019**	**9M2020**
Average trade receivables turnover days[(1)]	83	61	43	46

Note:

(1) Average trade receivables turnover days is equal to the average of the opening and closing balances of trade receivables of the relevant years/period divided by revenue of the relevant years/period and multiplied by 365 days for FY2017, FY2018 and FY2019 and 274 days for 9M2020.

Our trade receivables net of loss allowance decreased from approximately RMB29.6 million as at 31 December 2017 to approximately RMB28.5 million as at 31 December 2018, and further decreased to approximately RMB22.6 million as at 31 December 2019. Such decrease was mainly attributable to the Group's increased effort in collecting receivables. Our

trade receivables net of loss allowance increased to approximately RMB50.4 million as at 30 September 2020 due to the sharp increase in sales transactions following the gradual release of travel restrictions across the provinces in the PRC since March 2020 and fulfillment of orders before national holidays.

Our average trade receivables turnover days are approximately 83 days, 61 days, 43 days and 46 days for FY2017, FY2018, FY2019 and 9M2020, respectively. The improvement in the turnover days from FY2017 to FY2019 was a result of our management's efforts on debts collection such that the turnover days was shortened to the credit term allowed to our customers. Our trade receivables turnover days increased slightly for 9M2020 due to the sharp increase in trade receivables as discussed above.

The credit terms we granted to our distributors are generally up to 60 days. The table below sets out an ageing analysis of our trade receivables as at the dates indicated:

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	14,029	19,819	15,293	35,479
31 to 60 days	10,900	8,545	7,234	14,967
61 to 90 days	2,943	–	50	–
Over 90 days	1,747	123	–	–
Total	29,619	28,487	22,577	50,446

As at the Latest Practicable Date, our trade receivables as at 30 September 2020 have been fully settled. The credit terms of the remaining trade receivables are all within 60 days.

Our Group applies a simplified approach in calculating the expected credit losses ("**ECL**"). Our 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. As at 31 December 2017, 2018, 2019 and 30 September 2020, trade receivables (net of allowance for ECL) of approximately RMB4.7 million, RMB0.1 million, RMB0.1 million and nil, respectively, were past due. During FY2017 and 9M2020, we have recorded an addition of provision for loss allowances for trade receivables of approximately RMB54,000 and RMB140,000, respectively; during FY2018 and FY2019, we have provided reversal of loss allowances for trade receivables of approximately RMB6,000 and RMB30,000, respectively, all of which were included in "administrative and other operating expenses" for the respective years/period.

Our other receivables mainly comprised (i) deposits paid to suppliers for the purchase of raw materials; and (ii) prepayments mainly represented the prepaid R&D expenses.

Our other receivables decreased from approximately RMB3.2 million as at 31 December 2017 to approximately RMB0.2 million as at 31 December 2018. Such decrease was mainly due to the utilisation of deposit paid to the suppliers as a portion of the cost of raw materials. Deposits were required by certain suppliers to ensure timely supply of raw materials. Such deposits required by our suppliers decreased in FY2018 and FY2019 as a result of our discussion and negotiation with the relevant suppliers as we have demonstrated good payment records with them. Our other receivables increased to approximately RMB5.2 million as at 31 December 2019. Such increase was mainly due to the prepayments of R&D expenses of approximately RMB4.9 million in FY2019. Our other receivables increased to approximately RMB5.4 million as at 30 September 2020 mainly due to approximately RMB0.2 million of prepaid insurance expenses for the period.

Trade and other payables

Trade payables mainly comprised payments we owed to our suppliers. The table below sets out a breakdown of our trade and other payables as at the dates indicated and the average trade payables turnover days for the years/period indicated:

	As at 31 December			As at 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
To third parties	20,602	7,280	27,891	11,061
Other payables				
Contract liabilities – refundable receipts in advance	6,314	2,938	–	–
Monetary Marketing Incentives payables	5,010	26,847	22	6,177
Value-added tax and other tax payables	2,122	2,692	1,124	2,514
Salary payables	330	652	957	828
Accruals and other payables	3,559	4,169	9,984	8,261
Subtotal	17,335	37,298	12,087	17,780
Total	37,937	44,578	39,978	28,841

Our trade payables mainly represented the purchase of medicinal herbs, animal substances, consumable/additive, and packaging materials. The monetary Marketing Incentives payables represents the year-end balance of monetary Marketing Incentives to be settled.

Our trade payables decreased by 64.6% from approximately RMB20.6 million as at 31 December 2017 to approximately RMB7.3 million as at 31 December 2018. Such a decrease was mainly attributable to our practice to settle prior to credit period granted by our suppliers for our purchase of raw materials in order to secure quality and stable supply. Our trade payables increased notably to approximately RMB27.9 million as at 31 December 2019, mainly due to purchase of raw materials (in particular Deer Antler (鹿茸)) near the end of FY2019 for production need as 2020 Lunar New Year holidays were close to 2019 calendar year end. Our trade payables decreased to approximately RMB11.1 million as at 30 September 2020, mainly due to we continuously follow our practice to settle prior to credit period granted by our suppliers.

	FY2017	**FY2018**	**FY2019**	**9M2020**
Average trade payables turnover days[(1)]	121	71	61	51

Note:

(1) Average trade payables turnover days is equal to the average of the opening and closing balances of trade payables of the relevant years/period divided by the purchase of raw materials of the relevant years/period and then multiplied by 365 days for FY2017, FY2018 and FY2019 and 274 days for 9M2020.

Payment terms granted by our suppliers are generally within 90 days after the relevant purchases are made. The table below sets out an ageing analysis of our trade payables as at the dates indicated, based on the invoice date.

	As at 31 December			**As at 30 September**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	2,032	2,635	27,807	10,864
31 to 60 days	3,158	4,536	78	197
61 to 90 days	868	51	6	–
Over 90 days	14,544	58	–	–
Total	20,602	7,280	27,891	11,061

As at the Latest Practicable Date, approximately 99.5% of our trade payables as at 30 September 2020 were subsequently settled.

Our other payables increased from approximately RMB17.3 million as at 31 December 2017 to approximately RMB37.3 million as at 31 December 2018. Such increase was mainly due to the increase in monetary Marketing Incentives payables as at 31 December 2018. Our other payables decreased to approximately RMB12.1 million as at 31 December 2019 mainly due to the decrease in monetary Marketing Incentives payables resulted from the settlement during the year. Our other payables increased to approximately RMB17.8 million as at 30 September 2020 mainly due to the increase in monetary Marketing Incentives payables resulted from the increased sales.

Our monetary Marketing Incentives payables was increased by approximately RMB21.8 million from approximately RMB5.0 million as at 31 December 2017 to approximately RMB26.8 million as at 31 December 2018, primarily caused by the delay in settlement for FY2018 due to continuous negotiation with distributors during the year to standardise the settlement methods. Our monetary Marketing Incentives payables was decreased by approximately RMB26.8 million to approximately RMB22,000 as at 31 December 2019, which was mainly due to our Group has substantially settled the monetary Marketing Incentives payables arising in FY2018 and FY2019 in FY2019 subsequent to the agreement on standardising the settlement methods with distributors. Our monetary Marketing Incentives payables was increased by approximately RMB6.2 million to approximately RMB6.2 million as at 30 September 2020, mainly resulted from the sales generated in the last quarter in 9M2020 which was arranging settlement.

Our contract liabilities represented refundable receipts in advance from our customers. Our total contract liabilities were approximately RMB6.3 million, RMB2.9 million, nil and nil as at 31 December 2017, 2018, 2019 and 30 September 2020, respectively. The decrease in our total contract liabilities during the Track Record Period was primarily attributable to revenue recognised upon the utilisation of the advance during each year. In 2016, we requested our customers to pay deposits in advance in order to reduce our potential credit risk and subsequently abandoned the plan as we realised that such policy deter our distributors' willingness to enter into/renew the agreements with us. As a result, RMB40.0 million of the total receipts in advance were refunded in FY2017 and the rest of the balance was settled against the trade receivables from distributors. No refund was made in FY2018. During FY2019, the outstanding refund of receipts in advance to customer of approximately RMB2.9 million was made to Jiamusi Jintian Aixin Pharmaceutical Co., Ltd. (佳木斯金天愛心醫藥有限公司) as we expected that the future purchase from that customer would be substantially less than the deposit that this customer has placed with us. After the refund, the outstanding balance of refundable receipts in advance decreased to nil.

Save for the above subsection headed "Financial Information – Description of Selected Items of the Combined Statements of Financial Position – Trade and other payables" in this prospectus, generally, we did not require any deposits or advance payments from our distributors and all of our distributors are instead granted with a credit term of 60 days.

INDEBTEDNESS

Amount due to the Ultimate Controlling Party

The following table sets forth an analysis of the amount due to the Ultimate Controlling Party as at the respective dates indicated:

	As at 31 December			As at 30 September	As at 31 October
	2017	2018	2019	2020	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Amount due to the Ultimate Controlling Party	–	–	5,316	12,893	12,794

The amount due to the Ultimate Controlling Party was nil, nil, approximately RMB5.3 million, RMB12.9 million and RMB12.8 million (unaudited) as at 31 December 2017, 31 December 2018, 31 December 2019, 30 September 2020 and 31 October 2020, respectively. The balance is non-trade in nature, unsecured, interest-free and repayable on demand. The balance will be fully settled prior to the Listing.

Amount due to the immediate holding company

The following table sets forth an analysis of the amount due to the immediate holding company as at the respective dates indicated:

	As at 31 December			As at 30 September	As at 31 October
	2017	2018	2019	2020	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Amount due to the immediate holding company	–	–	–	867	854

The amount due to the immediate holding company represents the loan advanced by Modern Biotechnology in the amount of HK$1,000,000 in January 2020 to fund the setting up of Shijiazhuang Medical Research. Such balance has been capitalised on 18 December 2020. Please refer to subsection headed "History, Development and Reorganisation – Reorganisation – Capitalisation of the loan of HK$1,000,000" in this prospectus for further details.

Bank borrowings

As at 31 December 2017 and 31 December 2018, we did not have any borrowings.

As at 31 December 2019, 30 September 2020 and 31 October 2020, we had bank borrowings of RMB5.0 million, RMB5.0 million and RMB5.0 million (unaudited), respectively, which carried a fixed interest rate of 4.6% per annum. The bank borrowings are repayable in one year and secured by legal charges over the leasehold land and buildings owned by our Group.

Lease liabilities

Our lease liabilities amounted to approximately nil, nil, nil, RMB0.7 million and RMB0.7 million (unaudited) as at 31 December 2017, 2018, 2019, 30 September 2020 and 31 October 2020, respectively, comprised primarily of leases of office premises for our operation. The lease term is 24 months. As at 30 September 2020 and 31 October 2020, the weighted average effective interest rate of our lease liabilities was 4.6% per annum.

As at 31 October 2020, being the latest practicable date for the purpose of indebtedness statement, we had aggregate bank facilities of RMB10.0 million, RMB5.0 million of which was unutilised.

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

We have confirmed that we had no substantial delay in any payment and we have not breached any material covenants pertaining to our borrowings up to the Latest Practicable Date.

Contingent liabilities

As at the Latest Practicable Date, we had no contingent liabilities. We are currently not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial condition taken as a whole. We have confirmed that there was no material change in our contingent liabilities since 31 October 2020 and up to the Latest Practicable Date.

Statement of Indebtedness

As at 31 October 2020, we did not have any other outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, leases liabilities or leases commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, guarantees or any material contingent liabilities.

We have confirmed that there were no material changes in the indebtedness of our Group since 31 October 2020 and up to the Latest Practicable Date.

CAPITAL EXPENDITURE

Our capital expenditure primarily consisted of expenditure on acquisition of plant and machinery and enhancement of production facilities. Our expenditures amounted to approximately RMB1.9 million, RMB0.2 million, RMB2.6 million and RMB0.4 million for FY2017, FY2018, FY2019 and 9M2020, respectively.

Subsequent to the Track Record Period and as at the Latest Practicable Date, we incurred capital expenditure of approximately RMB0.2 million for purchase of plant and machinery. Additionally, we currently plan to use approximately RMB52.3 million for the year ending 31 December 2021, primarily for the construction of new premises and purchase of plant and machinery to expand our production capacity. Our planned capital expenditure is subject to the progress of our business development plan, which can be impacted by many factors beyond our control including market conditions, economic and regulatory environment and other business opportunities. For further details, please refer to "Risk Factors", "Future Plans and Use of Proceeds" and "Business – Our strategies" of this prospectus.

We expect to finance our contractual capital commitment and planned capital expenditure primarily through our net proceeds from the Global Offering and net cash generated from our operating activities. We believe that these sources of funding will be sufficient to finance our contractual capital commitment and planned capital expenditure for the next 12 months.

PROPERTY INTERESTS

Please refer to the subsection headed "Business – Properties" in this prospectus for details of our property interests. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into certain related party transactions, the details of which are set out in Note 25 to the Accountants' Report set out in Appendix I to this prospectus. We are of the view that the related party transactions were conducted at arm's length and on normal commercial terms as a whole, and would not materially distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or any other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts.

SELECTED FINANCIAL RATIOS DISCUSSION

The table below sets out certain key financial ratios of our Group for the Track Record Period:

	As at 31 December 2017/FY2017	As at 31 December 2018/FY2018	As at 31 December 2019/FY2019	As at 30 September 2020/9M2020
Net profit margin[(1)] (%)	24.3	27.8	21.1	24.1
Current ratio[(2)] (times)	2.4	3.2	1.9	2.9
Quick ratio[(3)] (times)	1.1	2.4	1.2	2.2
Gearing ratio[(4)] (%)	N/A	N/A	7.3	4.7
Net debt-to-equity ratio[(5)] (%)	N/A	N/A	N/A	N/A
Return on total assets[(6)] (%)	22.3	27.9	37.6	39.9
Return on equity[(7)] (%)	34.2	39.0	67.2	57.7
Interest coverage ratio[(8)] *(times)*	30.2	N/A	N/A	399.2

Notes:

1. Net profit margin equals net profit for the year/period divided by revenue for the year/period.
2. Current ratio equals total current assets divided by total current liabilities as at the year/period end.
3. Quick ratio equals total current assets less inventories divided by total current liabilities as at the year/period end.
4. Gearing ratio equals total debts divided by total equity as at the year/period end. Total debts include interest-bearing borrowings, lease liabilities or overdrafts.
5. Net debt-to-equity ratio equals net debt divided by total equity as at the year/period end. Net debt includes interest-bearing borrowings, lease liabilities or overdrafts, net of bank balances and cash.
6. Return on total assets equals (i) net profit for the years ended 31 December 2017, 2018 and 2019; or (ii) annualised net profit for the nine months ended 30 September 2020 divided by the closing balance of total assets as at the year/period end.
7. Return on equity equals (i) net profit for the years ended 31 December 2017, 2018 and 2019; or (ii) annualised net profit for the nine months ended 30 September 2020 divided by the closing balance of total equity as at the year/period end.
8. Interest coverage ratio equals the profit before finance costs and income tax expenses divided by the finance costs for the year/period.

Net profit margin

Our net profit margin increased from approximately 24.3% for FY2017 to approximately 27.8% for FY2018. Such increase was mainly due to the increase in gross profit margin in FY2018. Our net profit margin fell to approximately 21.1% for FY2019 mainly attributable to the combined effects of (i) the increase in administrative and other operating expenses due to approximately RMB8.3 million of R&D expenses; and (ii) the listing expenses of approximately RMB11.8 million recorded in FY2019. Our net profit margin increased to approximately 24.1% for 9M2020 mainly due to the increase in gross profit which is attributable to the increase in revenue for the period.

Current ratio and quick ratio

Our current ratio and quick ratio increased from approximately 2.4 times and approximately 1.1 times, respectively, as at 31 December 2017 to approximately 3.2 times and approximately 2.4 times, respectively, as at 31 December 2018. Such increases were mainly due to the increase in our bank balances and cash resulted from the higher net profit generated during FY2018. Such effect was offset by the decrease in inventories as at 31 December 2018 which resulted in a more favourable improvement on the quick ratio as at 31 December 2018. Our current ratio and quick ratio decreased to approximately 1.9 times and approximately 1.2 times respectively, as at 31 December 2019, which was mainly due to (i) the decrease in bank balances and cash after the payment of dividends of approximately RMB103.3 million to a shareholder of Chengde Yushi; and (ii) the drawdown of bank borrowings near year end and increase in an amount due to the Ultimate Controlling Party as at 31 December 2019. Our current ratio and quick ratio increased to approximately 2.9 times and approximately 2.2 times respectively, as at 30 September 2020, mainly due to the increase in our trade and other receivables resulted from the sharp increase in sales transactions following the gradual release of travel restriction in the PRC since March 2020 and fulfillment of orders before national holiday as well as increase in bank balances and cash, which was partially offset by the decrease in inventories.

Gearing ratio and net debt-to-equity ratio

During FY2017 and FY2018, we financed our daily operation mainly by cash flow generated from operating activities. We utilised RMB5.0 million of our bank loans for the capital need in relation to our business strategies and expansion plans and raised our gearing ratio to approximately 7.3% and 4.7% as at 31 December 2019 and 30 September 2020, respectively. The decrease in gearing ratio as at 30 September 2020 was mainly due to the increase in total equity contributed by the increase in our net profit for the period. We remained at net cash position for FY2017, FY2018, FY2019 and 9M2020.

Return on total assets

Our return on total assets increased from approximately 22.3% in FY2017 to approximately 27.9% in FY2018. The increase in the return on total assets was mainly because the increase in the net profits for the year was offset by the increase in total assets resulted from the increase in bank balances and cash. Our return on total assets then increased to approximately 37.6% for FY2019, which was mainly attributable to the decrease in bank balances and cash resulted from the payment of dividends of approximately RMB103.3 million to a shareholder of Chengde Yushi. Our return on total assets increased to approximately 39.9% for 9M2020, mainly due to the increase in our annualised net profits.

Return on equity

Our return on equity increased from approximately 34.2% in FY2017 to approximately 39.0% in FY2018. Such increase in return on equity was mainly attributable to the increase in our net profits for FY2018. Our return on equity increased to approximately 67.2% for FY2019, due to approximately RMB103.3 million dividends paid to a shareholder of Chengde Yushi. As there was no payment of dividend for 9M2020, netting off with the increase in the annualised net profit, our return on equity decreased to approximately 57.7% for 9M2020.

Interest coverage ratio

Our interest coverage ratio was approximately 30.2 times for FY2017. During FY2018, we did not incur any interest expense due to the full repayment of the interest-bearing borrowing during FY2017 and no additional borrowing was executed for FY2018. During FY2019, we did not incur any interest expense due to the new bank borrowings were drawn near the year end.

Our interest coverage ratio was approximately 399.2 times for 9M2020, mainly attributable to approximately RMB0.2 million of interest expense in relation to the bank borrowings we obtained in December 2019 and the lease liabilities recognised for 9M2020.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

Please refer to "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for details.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

For risks that we are exposed to, such as credit risk and liquidity risk, please refer to Note 27 to the Accountants' Report in Appendix I to this prospectus.

DIVIDEND POLICY

During FY2017, FY2018 and 9M2020, no dividend was declared and distributed. For FY2019, we declared and distributed total dividends of approximately RMB103.3 million to a shareholder of Chengde Yushi. All dividends declared had been fully paid. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. To the extent that profits are distributed as dividends, such portion of profits will not be available to be reinvested in our Group's operation.

The payment and the amount of any dividends, if paid, would depend on the results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. After the Listing, declaration of dividends will be subject to recommendation of our Board and other factors as described above. Subject to the above, our Board intends to recommend dividends of approximately 30% of our profit and total comprehensive income after tax available for distribution to the Shareholders in a financial year.

LISTING EXPENSES

Our listing expenses represent underwriting commissions, professional fees and other fees incurred in connection with the Global Offering. Assuming the Over-allotment Option is not exercised and assuming the Offer Price of HK$1.20 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the listing expenses (including underwriting commission[(1)] in respect of International Placing Shares and Hong Kong Public Offering Shares), which are non-recurring in nature, are expected to be approximately HK$60.0 million or approximately RMB54.0 million equivalently representing approximately 33.3% of our gross proceeds from the Global Offering.

Of the total listing expenses, approximately RMB11.8 million and RMB10.4 million had been charged to the profit or loss for FY2019 and FY2020, respectively. We expect to further incur listing expenses of approximately RMB31.8 million, of which (i) approximately RMB1.9 million will be charged to profit or loss for the year ending 31 December 2021; and (ii) approximately RMB29.9 million will be accounted as a deduction to equity upon Listing.

The listing expenses stated above are the current estimation for reference purposes and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Further, our profit increased by 28.2% from approximately RMB47.5 million for 9M2019 to approximately RMB60.9 million for 9M2020, before deducting listing expenses incurred. After listing expenses of approximately RMB6.6 million and RMB8.1 million were charged to profit or loss for 9M2019 and 9M2020 respectively, our profit still increased by 29.1% from approximately RMB40.9 million for 9M2019 to approximately RMB52.8 million for 9M2020. Therefore, our Directors consider

Note:

(1) The underwriting commission is calculated assuming a commission of 7.0% and incentive fee of 7.0% are payable by our Company to Hong Kong Public Offering Underwriters and International Placing Underwriters.

that the listing expenses did not have a material adverse impact on our results of operations for FY2020 and do not expect that the listing expenses would have a material adverse impact on our results of operations for FY2021.

DISTRIBUTABLE RESERVES

As at 30 September 2020, we did not have any distributable reserves available for distribution to our Shareholders.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

We have confirmed that as at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The estimated total listing expenses (including underwriting commission[(1)] in respect of International Placing Shares and Hong Kong Public Offering Shares), of approximately HK$60.0 million or approximately RMB54.0 million to be borne by us (based on the mid-point of the indicative Offer Price range of HK$1.20 per Offer Share and assuming none of the Over-allotment Options is exercised), approximately RMB2.3 million has been charged to the profit or loss for the three months ended 31 December 2020 and approximately RMB1.9 million will be charged to the profit or loss for the year ending 31 December 2021. The listing expenses above are the latest practicable estimates and are provided for reference only and actual amounts may differ. Our Directors consider that the listing expenses did not have a material adverse impact on our results of operations for FY2020 and FY2021. Please refer to "Financial Information – Listing expenses" in this prospectus for further information.

Furthermore, subsequent to 30 September 2020, the relevant government authorities have imposed certain quarantine and distancing measures in response to the COVID-19 outbreak. Our Directors are of the view, and concurred with the Reporting Accountants that the outbreak is a non-adjusting event with no significant impact to the measurement, recognition and disclosure of the relevant historical financial information of our Group as set out in the Accountants' Report in Appendix I to this prospectus, due to the fact that (i) the aforementioned measures were in effective in early 2020; and (ii) the financial performance of our Group for 10M2020 was not materially adversely affected. Accordingly, the financial results as set forth in the Accountants' Report, as audited by the Reporting Accountants, are in compliance with HKAS 10 "Events after the reporting period".

Our Directors confirm that since 30 September 2020, being the date of the latest combined financial information of our Group, and up to the date of this prospectus, there has been no material adverse change in our business model, financial or trading position and prospects of the overall PCM industry. We also confirm that there have been no events since 30 September 2020 which would materially affect the financial information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Note:

(1) The underwriting commission is calculated assuming a commission of 7.0% and incentive fee of 7.0% are payable by our Company to Hong Kong Public Offering Underwriters and International Placing Underwriters.

BUSINESS OBJECTIVE AND FUTURE PLANS

We aim to become a leading pharmaceutical company in the PRC.

For a detailed description of our future plans, please refer to the section headed "Business – Our Strategies" in this prospectus.

USE OF PROCEEDS

	Assuming the Over-allotment Option is not exercised	**Assuming the Over-allotment Option is exercised in full**
Assuming an Offer Price of HK$1.20 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK$180.0 million	Approximately HK$207.0 million
Assuming an Offer Price of HK$1.47 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK$220.5 million	Approximately HK$253.6 million
Assuming an Offer price of HK$0.92 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK$138.0 million	Approximately HK$158.7 million

We estimate that the aggregate net proceeds to our Company from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering payable by us and assuming that there is no exercise of the Over-allotment Option and an Offer Price of HK$1.20 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus) will be approximately HK$120.0 million. We currently intend to apply such net proceeds for the following purposes subject to changes in light of our evolving business needs and changing market conditions:

(a) Approximately 43.1%, or HK$51.7 million, will be used for enhancing and expanding our production capacity to further produce our major capsule prescribed medicine, in particular our major products with the intended effect of treating/alleviating cardio-cerebrovascular (心腦血管) condition, which overall

have a relatively higher gross profit margin as compared with our major OTC medicine. We believe that increasing our extraction capacity can help improve our overall gross profit margin in the long run. The breakdown of the intended use of net proceeds is set out below:

- approximately 29.6% or HK$35.5 million will be used for building a new workshop (expected completion: 4th quarter of 2021) for installing and incorporating a new extraction line (expected completion: 2nd quarter of 2022);

- approximately 7.9% or HK$9.5 million will be used for establishing the above new extraction line with the maximum annual designed production capacity increased from approximately 396,000 kg to approximately 1,196,000 kg (the total cost for establishing such new extraction line is approximately HK$11.6 million, of which approximately HK$2.1 million had been settled by our Group as at the Latest Practicable Date); and

- approximately 5.6% or HK$6.7 million will be used for establishing a new production line for our capsule products (expected completion: 2nd quarter of 2022) with the maximum annual designed production capacity increased from approximately 133,000 kg to approximately 399,000 kg.

For details of the expected timeline and key milestones for enhancing and expanding our production capacity, please refer to the subsection headed "Business – Expansion Plan – Expected timeline for key milestones" in this prospectus.

(b) Approximately 16.4%, or HK$19.7 million, will be used for broadening our distribution network in Huanan (華南) and Huadong (華東) (the budget for broadening our distribution network is HK$29.4 million, of which approximately HK$9.7 million will be funded by our Group's internally generated funds). We plan to rent a premises to set up a regional office (with gross floor area of approximately 800 sq.m.) in Shenzhen, the PRC, in the 1st quarter of 2021 where we will build up a sales and marketing team and an after-sales service team of a team size of approximately 15 and 5 staff members respectively, and showcase our products. We will also relocate three experienced sales representatives in our existing sales and marketing team in Northeast to the regional office in Shenzhen to coach our new sales and marketing team on the necessary marketing skill and product knowledge.

Our plan to apply the net proceeds from the Global Offering for broadening our distribution network in Huanan (華南) and Huadong (華東) is set out as follows:

Year	Approximate amount of net proceeds *(HK$ million)*	Description
2021	7.7[(1)]	• Rental payment for 2021 (including management fee and utilities expenses) (whole year)
	3.3	• Decoration expenses
	3.0[(2)]	• Staff costs for 2021 (including accommodation allowance) (whole year)
	1.5	• To purchase vehicles[(4)] for sales staff and the relevant maintenance costs
	0.6	• To purchase computer systems, office equipment and utilities equipment
2022	0.6[(3)]	• Rental payment for 2022
	3.0	• Staff costs for 2022 (whole year)
Total	**19.7**	

Notes:

(1) Including a deposit equivalent to two months of rent in relation to the tenancy.

(2) In the 1st quarter of 2021, we intend to hire the regional sales manager/administrative manager first to carry out our expansion plan. Additional staff members will be hired subsequently during 2021 for the regional office.

(3) The monthly rent and the relevant expenses are expected to increase slightly due to inflation.

(4) Including two executive-grade commercial vehicles, one minivan and one light truck.

We set out below number of staff and average monthly salary range for our regional office:

Title	Number of Staff	Average monthly salary range *(RMB)*
Regional sales manager	2	15,000-25,000
After-sales/administrative manager	2	10,000-15,000
Sales supervisor	1	8,000-10,000
Sales/after-sales representative	15	5,000-8,000
Total	**20**	

(c) Approximately 10.0%, or HK$12.0 million, will be used for raising our brand awareness through media marketing and promotion efforts (the budget for raising our brand awareness is approximately HK$19.5 million, of which approximately HK$7.5 million will be funded by our Group's internally generated funds). By engaging external marketing and branding consultants to devise branding plan, as well as employing experienced sales and marketing managers specialised in branding to enhance our in-house sales and marketing capability, it is believed that our brand name can be further strengthened. More specifically, we plan to pursue multi-channel marketing efforts, which involves both traditional media marketing and new media marketing as well as coordinating conferences and/or seminars. We believe that increasing expenditure on marketing will help us to establish our brand and can help to promote our products to distributors and end users and thus boost our sales in the end. We have no intention to sell our products via any social media platforms currently as this requires additional licenses. We also intend to invite celebrities (e.g. athlete/sportsman) to endorse or promote our products as a brand ambassador and/or share their feedback as a user who have actually experienced our products.

Our plan to apply the net proceeds from the Global Offering for raising our brand awareness through media marketing and promotion efforts is set out as follows:

Year	Approximate amount of net proceeds *(HK$ million)*	Description
2021	1.4	• Marketing campaign through multi-channel platform (such as social media advertisement, television, commercial and traditional media promotion)
	1.2	• Outdoor advertisement and promotion such as billboard and lightbox
	0.8	• Staff costs for 2021 (whole year)
	0.7	• Sponsoring/organising conferences and/or seminars in 2021
	0.4	• Arranging/organising training workshop in 2021
	0.3	• Service fee for external marketing and branding agencies
2022	3.7	• Marketing campaign on multi-channel platform (such as social media advertisement, television, commercial and traditional media promotion)
	1.8	• Outdoor advertisement and promotion such as billboard and lightbox
	0.8	• Sponsoring/organising conferences and/or seminars in 2022
	0.9	• Staff costs for 2022 (whole year)
Total	**12.0**	

We set out below the number of staff and average monthly salary range for our branding team:

Title	Number of Staff	Average monthly salary range *(RMB)*
Branding manager	1	20,000-30,000
Branding staff	4	5,000-8,000
Total	5	

(d) Approximately 19.5%, or HK$23.4 million, will be used for further strengthening our R&D efforts, procuring quality management equipment and broadening our product portfolio to add value to our business in the long run. The breakdown of the intended use of net proceeds is set out below:

- approximately 14.1% or HK$16.9 million will be used in the two R&D projects below to improve our production techniques and develop new products (the total cost for these projects are approximately HK$38.9 million, of which approximately HK$22.0 million had been settled by our Group as at the Latest Practicable Date):

  (i) R&D of a new pharmaceutical product, Stroke Prevention Capsule (耆丹禦風膠囊), intended to alleviate the cardio-cerebrovascular condition of stroke, in collaboration with Heilongjiang University of Chinese Medicine (黑龍江中醫藥大學) (estimated completion/commercialisation in July 2023); and

  (ii) improvement of production technique and further enhancement of quality standards of Heart Wellness Capsule (心安膠囊) in collaboration with Chengde Medical College (承德醫學院) (estimated completion/commercialisation in December 2021);

Our plan to apply the net proceeds from the Global Offering for the two R&D projects is set out as follows:

Year	Approximate amount of net proceeds *(HK$ million)*	Description
2021	0.8	• Phase 2 payment (out of three phases in total) for the Heart Wellness Capsule (心安膠囊)
	6.4	• Phase 3 payment (out of five phases in total) for the Stroke Prevention Capsule (耆丹禦風膠囊)
	1.9	• Phase 3 payment (final phase) for the Heart Wellness Capsule (心安膠囊)
2022	7.8	• Phase 4 payment (out of five phases in total) for the Stroke Prevention Capsule (耆丹禦風膠囊) [(1)]
Total	**16.9**	

Note:

(1) The research project for Stroke Prevention Capsule (耆丹禦風膠囊) is planned to have five phases, however full payment shall be made upon the completion of Phase 4 (out of five phases in total).

- approximately 4.7% or HK$5.7 million will be used for upgrading our quality management equipment by constructing a new R&D laboratory (mainly for quality management and performing quality testing) and procuring qualified equipment such as heavy metal analyser, spectrophotometers, chromatography equipments, incubators and blast dryers. We set out below the type of qualified equipment intended to be purchased and their estimated useful lives:

Type of equipment	**Quantity**	**Estimated useful lives**
Analyser (e.g. heavy metal, UV)	2	10 years
Chromatograph or detector (e.g. liquid, meteorological, etc.)	6	10 years
Spectrophotometer or counter (e.g. infrared, UV, etc.)	4	10 years
Sterilizer or cleaner (e.g. ultrasonic, steam)	2	10 years
Storing and auxiliary facilities (e.g. incubator, resistance furnace, etc.)	4	10 years
Balance (e.g. electronic, micro-analytical)	2	10 years
Electric binocular optical microscope	1	10 years
Centrifuge	1	10 years

Our plan to apply the net proceeds from the Global Offering for constructing a new R&D laboratory and procuring qualified equipment is set out as follows:

Year	**Approximate amount of net proceeds used** *(HK$ million)*	**Description**
2021	1.2	• Constructing our new R&D laboratory in our new building
2022	4.2	• To purchase equipment such as heavy metal analyser, spectrophotometers, chromatography equipment, incubators and blast dryers • Arranging training workshop for our staff regarding operation and application of new equipment
	0.3	• Maintenance fee for technical support services
Total	**5.7**	

- approximately 0.7% or HK$0.8 million will be used for recruiting R&D staff members who have at least five years of experience in R&D or relevant experience in the TCM industry.

  Our plan to apply the net proceeds from the Global Offering for recruiting two R&D staff members who have at least five years of experience in R&D or relevant experience in the TCM industry is set out as follows:

Year	**Approximate amount of net proceeds used** *(HK$ million)*	**Description**
2021	0.4	• Staff costs for 2021 (whole year)
2022	0.4	• Staff costs for 2022 (whole year)
Total	**0.8**	

  We set out below the number of staff and average monthly salary range for our additional R&D staff member:

Title	**Number of staff**	**Average monthly salary range** *(RMB)*
Researcher	2	13,000-17,000
Total	2	

(e) Approximately 3.3%, or HK$4.0 million, will be used for upgrading our IT system to (i) increase efficiency of our overall business procedures; (ii) strengthen our control and management in different departments and regions; and (iii) lower our management and administrative expenses in the long run. The breakdown of the intended use of net proceeds is set out below:

- approximately 2.5% or HK$3.0 million will be used for purchasing new IT software; and

- approximately 0.8% or HK$1.0 million will be used for purchasing new IT hardware and equipment.

Our plan to apply the net proceeds from the Global Offering for upgrading our IT system is set out as follows:

Year	Approximate amount of net proceeds used *(HK$ million)*	Description
2021	1.4	• Stage 1: Upgrade and develop our internal financial reporting system and purchase new computers and IT related equipment
	1.3	• Stage 2: Develop a cloud-based enterprise resource planning system and integrate it into our enhanced internal financial reporting system
2022	1.0	• Stage 3: Purchase relevant software products and renew licenses for continued usage of software products
	0.3	• Stage 4: Purchase on-going and upgrade services (if any)
Total	**4.0**	

(f) Approximately 7.7% or HK$9.2 million will be used for working capital and other general corporate purposes.

If the Offer Price is fixed at the high end of the indicative Offer Price range, being HK$1.47 per Offer Share, the net proceeds to be received from the Global Offering will increase to approximately HK$154.8 million(1) (assuming that there is no exercise of the Over-allotment Option). Our Group intends to apply the additional net proceeds for the above purposes on a pro-rata basis. If the Offer Price is set at the low end of the indicative Offer Price range, being HK$0.92 per Offer Share, the net proceeds to be received from the Global Offering will decrease to approximately HK$83.9 million(1) (assuming that there is no exercise of the Over-allotment Option). Our Group intends to reduce the net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, our Group estimates that the additional net proceeds from the offering of these additional Shares to be received by our Group, after deducting underwriting fees and estimated expenses payable by it, will be approximately (i) HK$28.4 million(1), assuming the Offer Price is fixed at the high end of the indicative Offer Price range, being HK$1.47 per Offer Share; (ii) HK$23.2 million(1), assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range, being HK$1.20 per Offer Share; and (iii) HK$17.8 million, assuming the Offer Price is fixed at the low end of the indicative Offer Price range, being HK$0.92 per Offer Share. Any additional proceeds to be received by our Group from the exercise of the Over-allotment Option will also be allocated to the above

Note:

(1) This amount is calculated assuming a commission of 7.0% and incentive fee of 7.0% are payable by our Company to Hong Kong Public Offering Underwriters and International Placing Underwriters.

businesses and projects on a pro-rata basis. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, our Group intends to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licenced banks in Hong Kong.

We will issue an appropriate announcement if there is any material change to any of the above proposed use of proceeds.

REASONS FOR THE LISTING AND THE GLOBAL OFFERING

We intend to raise funds by the Global Offering in order to facilitate the implementation of our business strategies which we deem necessary for our Group's long-term development.

Achieving our business strategies

The Listing will enable us to have sufficient financial resources to achieve our business strategies, in particular the followings:

- Enhancing and expanding our production capacity. Our prescribed medicine, in particular capsule products have been the major revenue drivers of our growth during the Track Record Period with relatively higher gross profit margins compared to our OTC medicine. Although our revenue from our capsule products is growing, our current production volume has been approaching limit. The net proceeds from the Global Offering will enable us to construct the new workshop, extraction line and production line for our capsule products to achieve our future business strategies.

- Broadening our distribution network and raising our brand awareness. We believe our distributorship business model allows us to benefit from our distributors' established access to local markets and expand the breadth and depth of our market presence in a cost-efficient manner. Further, raising our brand awareness is essential for our future development so as to attract more distributors and end users to purchase our products. The net proceeds from the Global Offering will enable us to develop our distribution network and brand awareness.

- Strengthening our R&D efforts, recruiting R&D staff member, procuring quality management equipment and broadening our product portfolio. It is essential for a pharmaceutical company to strengthen its R&D efforts internally or by collaborating with external research institutes after consolidating its existing distribution network for sustainable growth and development. Further, we plan to develop our internal R&D team by recruiting R&D staff member and plan to upgrade our quality management equipment by procuring qualified equipment to maintain our competitiveness.

Long-term capital needs

Notwithstanding that we had cash and cash equivalents of approximately RMB62.1 million as at 30 September 2020 and unutilised short-term revolving loan facilities, our Directors consider that such an amount of cash and unutilised banking facilities are only sufficient for our Group's working capital purpose but will be insufficient to fulfill our long-term capital needs in relation to our business strategies and expansion plans. Given the increasing demand of our Group's pharmaceutical products and the almost-full utilisation rate of our production lines, our Directors recognised the imminent need for additional long-term capital to expand our production facilities in order to capture the expected demand in the TCM industry in the PRC, in particular, our capsule products such as Cardiotonic Enhancement Capsule (山玫膠囊) and Heart Wellness Capsule (心安膠囊).

Limitations of debt financing

We had considered debt financing which includes finance lease and bank loan as an alternative way to finance our expansion plan, but resolved to proceed with the Global Offering as our Group had no additional security available to be pledged for obtaining further banking facilities. We considered that the amount of debt we can obtain to implement our expansion plan is insufficient and requirement such as an upfront payment on deposit and retention money imposes substantial financial burden to our Group. In addition, it is not common for a non-listed company of our size to obtain sufficient long-term debts to finance our expansion plan.

Enhancing our Group's corporate profile and brand awareness and increasing our competitiveness

Our Directors believe that a public listing status will enhance our corporate profile and assist us in reinforcing our brand awareness and reputation. We believe that a public listing status on the Stock Exchange is a complementary advertising for our Group to potential investors and distributors and can enhance our corporate profile and our credibility with the public and potential business partners given a public listed company's greater transparency, relevant regulatory supervision and stability generally. The Global Offering will therefore serve to promote our corporate profile and brand awareness. Moreover, we believe that the Listing will strengthen our internal control and corporate governance practices, which in turn would increase our customers' confidence in us and attract potential customers.

Enhancing market status amongst distributors, suppliers and employees

Our Directors believe that a listing status on the Stock Exchange will enhance our credibility with our distributors and suppliers and thus, enhance our level of competitiveness in competing for distributors and suppliers. With such status, our Group can be differentiated from market competitors, enhancing our capability to compete and to produce quality pharmaceutical products. Our Directors believe that as a listed company, we will be able to

retain our existing employees more effectively, at both operational and administrative level. Our employees will feel more stable and secured about their employment with us, rather than joining a private company, hence strengthening their morale at work.

BASIS AND ASSUMPTIONS

Our future plans and business strategies are based on the following general assumptions:

- there will be no material change in the funding requirement for each of our future plans described in this prospectus from the amount as estimated by our Directors;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- the Global Offering will be completed in accordance with and as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus;
- there will be no material changes in existing accounting policies from those stated in the audited combined financial information of our Group for FY2017, FY2018, FY2019 and 9M2020;
- our operations including our future plans will not be interrupted by any force majeure, unforeseeable factors, extraordinary items or economic changes in respect of inflation, interest rate and tax rate in the PRC;
- there will be no material changes in the bases or rates of taxation applicable to our activities;
- we will not be materially affected by the risk factors as set out in the section headed "Risk Factors" in this prospectus;
- we will continue our operation including but not limited to retaining our key staff member and maintaining our distributors and suppliers in the same manner as we had operated during the Track Record Period;
- there will be no material change in existing laws and regulations, or other governmental policies relating to our Group, or in the political or market conditions in which we operate; and
- there will be no disasters, natural, political or otherwise, which would materially disrupt our businesses or operations.

HONG KONG PUBLIC OFFERING UNDERWRITERS

Joint Global Coordinators
Soochow Securities International Brokerage Limited
Wealth Link Securities Limited

Joint Bookrunners
Soochow Securities International Brokerage Limited
Wealth Link Securities Limited
SPDB International Capital Limited
BOCOM International Securities Limited
Yue Xiu Securities Company Limited
Shanxi Securities International Limited
Shenwan Hongyuan Securities (H.K.) Limited
Elstone Securities Limited

Joint Lead Managers
Soochow Securities International Brokerage Limited
Wealth Link Securities Limited
SPDB International Capital Limited
BOCOM International Securities Limited
Yue Xiu Securities Company Limited
Shanxi Securities International Limited
Shenwan Hongyuan Securities (H.K.) Limited
Elstone Securities Limited
ZMF Asset Management Limited
DL Securities (HK) Limited
Forthright Securities Company Limited

Co-Lead Managers
CNI Securities Group Limited
Fuyuan Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Public Offering Underwriting Agreement

Pursuant to the Hong Kong Public Offering Underwriting Agreement, our Company has agreed to initially offer 15,000,000 new Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price.

Subject to, among other conditions, the granting of the approval for the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Hong Kong Public Offering Underwriting Agreement, the Hong Kong Public Offering Underwriters have severally, but not jointly, agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Public Offering Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Public Offering Underwriting Agreement. In addition, the Hong Kong Public Offering Underwriting Agreement is conditional on and subject to the International Placing Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Hong Kong Public Offering Underwriters to subscribe, or procure subscribers for, the Hong Kong Public Offering Shares under the Hong Kong Public Offering Underwriting Agreement are subject to termination. The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Public Offering Underwriters) shall have the right, in their sole and absolute discretion to terminate the Hong Kong Public Offering Underwriting Agreement by notice in writing to our Company, the Controlling Shareholders and our executive Directors with immediate effect at any time at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date if:

(a) there has come to the notice of the Joint Global Coordinators:

(i) that any statement contained in this prospectus, the Application Forms, the formal notice in relation to the Hong Kong Public Offering in the agreed form required to be published in accordance with the Listing Rules (the "**Formal Notice**") and/or any notices, announcements, advertisements, communications issued or used by or on behalf of our Company and approved by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any material respects, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is not fair and honest and based on reasonable assumptions when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from this prospectus, the Application Forms, the Formal Notice and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company and approved by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(iii) any event, act or omission which gives or is likely to give rise to any liability in any material respect of our Company, our Controlling Shareholders or any of our executive Directors pursuant to the indemnities given by any of them under the Hong Kong Public Offering Underwriting Agreement; or

(iv) that the approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue, the Shares to be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, and the Offer Shares to be issued pursuant to the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date or such other date as may be extended pursuant to the Hong Kong Public Offering Underwriting Agreement, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(v) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(vi) any person (other than the Sole Sponsor, and any of the Hong Kong Public Offering Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus as expert or to the issue of this prospectus; or

(vii) any breach of any of the obligations or undertakings imposed upon any party to the Hong Kong Public Offering Underwriting Agreement or the International Placing Underwriting Agreement (other than upon any of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers or the Underwriters), as applicable, which, in the reasonable opinion of the Joint Global Coordinators has a material adverse effect on the Global Offering; or

(viii) any material adverse change or development in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole and the effect of which is, in the reasonable opinion of the Joint Global Coordinators, so adverse as to make it impracticable or inadvisable to proceed with the Global Offering; or

(ix) any breach of, or any event rendering untrue or incorrect in any material respect, any of the warranties given by our Company, our Controlling Shareholders and our executive Directors in the Hong Kong Public Offering Underwriting Agreement, which, in the reasonable opinion of the Joint Global Coordinators, has a material adverse effect on the Global Offering; or

(x) any prohibition on our Company for whatever reason from allotting or selling the Offer Shares (including Shares to be issued under the Over-allotment Option) pursuant to the terms of the Global Offering;

(b) there develops, occurs, exists, or comes into effect:

(i) any event, or series of events, in the nature of force majeure, (including, without limitation, any acts of government declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak or escalations of disease, economic sanctions, strikes, labour disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)), in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI or any other jurisdiction relevant to any member of our Group (the "**Relevant Jurisdictions**"); or

(ii) any change, or any event or series of events, likely to result in any change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions, equity securities or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions; or

(iii) any new law or regulation or any change in existing laws or regulations, or any change in the interpretation or application thereof by any public, regulatory, taxing, administrative or governmental, agency or authority (including, without limitation, the Stock Exchange and the SFC), other authority and any court at the national, provincial, municipal or local level ("**Governmental Authority**") in or affecting any of the Relevant Jurisdictions; or

(iv) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or

(v) any change or amendment in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

(vii) any general moratorium on commercial banking activities in any Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or

(viii) any order or petition for the winding up of any member of our Group, or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or

(ix) any litigation or claim of any third party being threatened or instigated against our Group; or

(x) any Director is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(xi) the chairman of the Board or any of the executive Directors vacating his or her office; or

(xii) any governmental authority or a political body or organisation in any Relevant Jurisdiction is commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or

(xiii) any contravention, other than those disclosed in this prospectus, by any member of our Group of the Listing Rules or applicable laws, rules, regulations, orders, judgements, decrees, guidelines, opinions, notices, circulars or rulings of any court, Governmental Authority, which, in the reasonable opinion of the Joint Global Coordinators have a material adverse effect on the Global Offering; or

(xiv) any non-compliance of this prospectus (or any other documents used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules or any other applicable laws, rules, regulations, orders, judgements, decrees, guidelines, opinions, notices, circulars or rulings of any court, Governmental Authority, which, in the reasonable opinion of the Joint Global Coordinators have a material adverse effect on the Global Offering; or

(xv) any change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this Prospectus, which, in the reasonable opinion of the Joint Global Coordinators have a material adverse effect on the Global Offering; or

(xvi) the issue of or the requirement by our Company to issue any supplement or amendment to the Prospectus published by our Company in accordance with the Hong Kong Public Offering Underwriting Agreement (or any other documents used in connection with the Global Offering) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC;

which, individually or in aggregate, in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Public Offering Underwriters):

(i) has or is or will or may or could be expected to have a material adverse effect on the management, condition (financial, operational, legal or otherwise), business, prospects, operations, shareholders' equity, as applicable, or results of operations of our Group taken as a whole; or

(ii) has or may or will have a materially adverse effect on the success or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or

(iii) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to be performed or implemented or proceed with as envisaged or to market the Global Offering; or

(iv) has or will or may have the effect of making any part of the Hong Kong Public Offering Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms.

Indemnity

Our Company has agreed to indemnify the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Hong Kong Public Offering Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Public Offering Underwriting Agreement and any breach by us of the Hong Kong Public Offering Underwriting Agreement.

Undertakings to the Hong Kong Public Offering Underwriters

Undertakings by our Company

Our Company has, irrevocably and unconditionally, undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Public Offering Underwriters that:

(a) except for the issue of the Shares pursuant to the Global Offering, the exercise of the Over-allotment Option and the exercised of any options granted or to be granted under the Share Option Scheme or as otherwise with the Joint Global Coordinators' prior written consent, and unless in compliance with the Listing Rules, our Company will not, and will procure that none of our subsidiaries will, during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"):

(i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or, as applicable to our subsidiaries only, repurchase, any of its share capital, debt capital or any securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable); or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or securities or interest therein as described in paragraph (i) above; or

(iii) enter into any transaction with the same economic effect as any transaction described in paragraph (i) or (ii) above; or

(iv) offer to or to agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i), (ii) or (iii) above,

whether any of the foregoing transactions described in paragraph (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities of our Company, in cash or otherwise (whether or not the issue of our Shares or such other securities will be completed within the aforesaid period); and

(b) in the event of our Company entering into or agreeing to enter into any of the foregoing transactions in respect of any Share or other securities of our Company or any member of our Group or any interest therein by virtue of the aforesaid exceptions or during the period of six months commencing from the expiry of the First Six-Month Period (the "**Second Six-Month Period**"), it will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

Undertakings to the Stock Exchange

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances permitted by Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have, irrevocably and unconditionally, undertaken to the Stock Exchange and our Company that except pursuant to the Global Offering and exercise of the Over-allotment Option, he/she/it shall not, and shall procure that the relevant registered holder(s) shall not:

(a) at any time during the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner(s); and

(b) at any time during the Second Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be our Controlling Shareholder (as defined in the Listing Rules) or would together with the other Controlling Shareholders cease to be, or regarded as, a group of Controlling Shareholders (as defined in the Listing Rules) of our Company.

Our Controlling Shareholders have further undertaken to the Stock Exchange and our Company that, within a period commencing from the date on which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it will:

(a) when he/she/it pledges or charges any of the Shares or securities of our Company beneficially owned by him/her/it, whether directly or indirectly, in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and

(b) if he/she/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform our Company of such indications.

International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Placing Underwriting Agreement with the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the International Placing Underwriters, on terms and conditions that are substantially similar to the Hong Kong Public Offering Underwriting Agreement as described above and on the additional terms described below.

Under the International Placing Underwriting Agreement, subject to the conditions set out therein, the International Placing Underwriters would, subject to certain conditions, severally, but not jointly, agree to procure subscribers for the International Placing Offer Shares initially being offered pursuant to the International Placing (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). The International Placing Underwriting Agreement may be terminated on similar grounds as the Hong Kong Public Offering Underwriting Agreement. Potential investors shall be reminded that in the event that the International Placing Underwriting Agreement is not entered into, the Global Offering will not proceed.

The International Placing Underwriting Agreement is conditional on and subject to the Hong Kong Public Offering Underwriting Agreement having been executed, becoming unconditional and not having been terminated. Pursuant to the International Placing Underwriting Agreement, our Company will make similar undertakings as those given pursuant to the Hong Kong Public Offering Underwriting Agreement as described in the subsection headed "Undertakings to the Hong Kong Public Offering Underwriters – Undertakings by our Company" in this section of the prospectus.

Commission and Expenses

The Hong Kong Public Offering Underwriters will, and the International Placing Underwriters are expected to, receive a commission of 7.0% and a discretionary incentive fee of not more than 7.0% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option)[(1)] of the aggregate Offer Price payable for the Offer Shares underwritten by them, out of which they shall pay any sub-underwriting commissions. The amount of underwriting commission is estimated to be approximately HK$25.2 million[(2)] (based on the mid-point of our indicative Offer Price range).

The underwriting commission, documentation and advisory fee, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK$1.20 (being the mid-point of the indicative Offer Price range), are estimated to amount to approximately HK$60.0 million in total, and are payable by our Company.

JOINT GLOBAL COORDINATORS' AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Joint Global Coordinators and the other Underwriters will receive underwriting commissions. Particulars of these underwriting commissions and expenses are set out under the subsection headed "Commission and expenses" in this section of this prospectus.

We have appointed Soochow Securities International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the despatch of our annual report for the first full financial year commencing after the Listing Date.

Save as disclosed above, none of the Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group nor any interest in the Global Offering.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfy the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Notes:

(1) For the avoidance of doubt, our Company may, at its sole and absolute discretion pay to all or any of the Underwriters such incentive fee of not more than 7.0%.

(2) The amount of approximately HK$25.2 million is calculated assuming a commission of 7.0% and incentive fee of 7.0% are payable by our Company to Hong Kong Public Offering Underwriters and International Placing Underwriters.

OVERVIEW

This prospectus is published in connection with the Hong Kong Public Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

(i) the Hong Kong Public Offering of 15,000,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the subsection headed "The Hong Kong Public Offering" in this section; and

(ii) the International Placing of 135,000,000 Shares (subject to reallocation as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for the Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have applied for Hong Kong Public Offering Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong.

The International Placing will involve selective marketing of the Shares to institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the International Placing. Prospective investors will be required to specify the number of the Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to re-allocation and Over-allotment Option as described in the subsection headed "Pricing and Allocation" in this section. The Hong Kong Public Offering is fully underwritten by the Hong Kong Public Offering Underwriters under the terms of the Hong Kong Public Offering Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Placing Underwriting Agreement relating to the International Placing on the Price Determination Date. Details of the underwriting arrangements are summarised in the section headed "Underwriting" in this prospectus.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 7 January 2021 and in any event, no later than Monday, 11 January 2021.

The Offer Price will be not more than HK$1.47 per Share and is expected to be not less than HK$0.92 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters and with our Company's consent) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Thursday, 7 January 2021, being the last day for lodging applications under the Hong Kong Public Offering, cause to be posted on the website of the Stock Exchange (**www.hkexnews.hk**) and on the website of our Company (**www.cdysjdyy.com**) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Public Offering Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be re-allocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to

professional, institutional and retail or corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offering Shares validly applied for by applicants, and may consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offering Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offering Shares.

The final Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, and the basis of allocations of the Hong Kong Public Offering Shares are expected to be announced on Thursday, 14 January 2021 through a variety of channels as described in the subsection headed "How to Apply for Hong Kong Public Offering Shares – 11. Publication of Results" in this prospectus.

ANNOUNCEMENT OF REDUCTION IN NUMBER OF OFFER SHARES AND/OR OFFER PRICE RANGE

If the Offer Price, as finally determined in the manner described below, is lower than HK$1.47, we will refund the respective difference, including the brokerage fee, the Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see "How to Apply for Hong Kong Public Offering Shares" in this prospectus.

For the avoidance of doubt, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, publish a notice on the website of our Company at **www.cdysjdyy.com** and the website of the Stock Exchange at **www.hkexnews.hk**. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of any such reduction. As soon as practicable of such reduction of the number of Offer Shares and/or indicative Offer Price range, we will also issue a supplemental prospectus updating investors of such reduction together with

an update of all financial and other information in connection with such change, where appropriate, extend the period under which the Hong Kong Public Offering was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications.

In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares and the indicative Offer Price range will not be reduced, if agreed upon between our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters).

In the event of a reduction in the number of Offer Shares and/or indicative Offer Price range, the Joint Global Coordinators may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Placing may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Joint Global Coordinators.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be subsequently withdrawn if the number of Offer Shares and/or indicative Offer Price range are so reduced.

ANNOUNCEMENT OF FINAL OFFER PRICE

The final Offer Price, the level of indications of interest in the International Placing, the results of applications in the Hong Kong Public Offering and the basis of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Thursday, 14 January 2021 on the website of our Company at **www.cdysjdyy.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilising Manager of a greater number of Shares than the Underwriters are required

to purchase in the Global Offering. Covered short sales are short sales made in an amount not greater than the Over-allotment Option and a covered short position is any short position, including any such position created as a result of any covered short sales or other sales, in an amount not greater than the Over-allotment Option. The Stabilising Manager may close out any covered short position by exercising the Over-allotment Option to purchase additional Shares in consultation with the Joint Global Coordinators, purchasing Shares in the open market or through stock borrowing arrangements or a combination of these means.

In determining the source of the Shares to close out the covered short position, the Stabilising Manager will consider, among other things, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilising transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over the counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which, if commenced, will be done at the absolute discretion of the Stabilising Manager in consultation with the Joint Global Coordinators and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering.

The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely 22,500,000 Shares, which is 15% of the Shares initially available under the Global Offering. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules, Chapter 571W of the Laws of Hong Kong, includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Stabilising actions by the Stabilising Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the Shares;

- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;

- liquidation of any such long position by the Stabilising Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;

- no stabilising action can be taken to support the price of the Shares for longer than the Stabilising period, which will begin on the Listing Date and is expected to expire on Saturday, 6 February 2021, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and

- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price (or, in case after the initial stabilising action, there has been a deal done or transaction effected at a price above the stabilising price on the relevant market, the price at which that deal was done or at which that transaction was effected if such price is lower than the Offer Price), which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilising period.

THE STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the International Placing, the Stabilising Manager or any person acting for it may choose to borrow Shares from Modern Biotechnology pursuant to the Stock Borrowing Agreement (being the maximum number of Share which may be issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising the Over-allotment Option. The loan of Shares by Modern Biotechnology pursuant to the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 10.07(1)(a) of the Listing Rules which restricts the disposal of Shares by the Controlling Shareholder following the Listing, on the basis that such arrangement will be on the terms that:

(i) the stock borrowing arrangement will be used for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Placing;

(ii) the maximum number of Shares to be borrowed from Modern Biotechnology will be limited to the maximum number of Shares which may be issued and allotted by our Company upon exercise of the Over-allotment Option, which is limited to 22,500,000 Shares (equivalent to 15% of the Shares initially available under the Global Offering);

(iii) the same number of Shares so borrowed must be returned to Modern Biotechnology or its nominee (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;

(iv) borrowing of shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable laws and regulatory requirements; and

(v) no payment will be made to Modern Biotechnology in relation to the Stock Borrowing Agreement.

If the Stock Borrowing Agreement with Modern Biotechnology is entered into, it will only be effected by the Stabilising Manager or its agents for settlement of over-allocation in the International Placing.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of any application for the Offer Shares pursuant to the Global Offering will be conditional on:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue and the Shares to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

- the Offer Price having been duly agreed upon between the Joint Global Coordinators (on behalf of the Underwriters) and our Company and the delivery of the Price Determination Agreement on or around the Price Determination Date;

- the execution and delivery of the International Placing Underwriting Agreement on or around the Price Determination Date; and

- the obligations of the Underwriters under both the Hong Kong Public Offering Underwriting Agreement and the International Placing Underwriting Agreement having become and remaining unconditional and such obligations not being terminated in accordance with the terms of the respective Underwriting Agreements, in each case on or before the dates and times specified in the respective agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms. If for any reason, the Offer Price is not agreed by Monday, 11 January 2021 between the Joint Global Coordinators (on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Our Company will cause notice of the lapse of the Hong Kong Public Offering to be published by our Company on the website of the Stock Exchange at **www.hkexnews.hk** and on our Company's website at **www.cdysjdyy.com** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed "How to Apply for Hong Kong Public Offering Shares – 11. Publication of Results" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended.

Share certificates are expected to be despatched on Thursday, 14 January 2021 but will only become valid certificates of title at 8.00 a.m. on the date of commencement of the dealings in the Shares, which is expected to be on Friday, 15 January 2021, if (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the subsection headed "Underwriting – Grounds for termination by the Hong Kong Public Offering Underwriters" in this prospectus has not been exercised.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(a) the Hong Kong Public Offering of 15,000,000 Hong Kong Public Offering Shares (subject to reallocation as mentioned below) in Hong Kong as described under the subsection headed "The Hong Kong Public Offering" below; and

(b) the International Placing of an aggregate of 135,000,000 International Placing Shares (subject to reallocation as mentioned below and the Over-allotment Option) which will conditionally be placed with selected professional, institutional and other investors under the International Placing.

Investors may apply for the Hong Kong Public Offering Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to reallocation as described in the subsection headed "The Hong Kong Public Offering – Reallocation" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares Initially Offered

Our Company is initially offering 15,000,000 Shares at the Offer Price, representing 10% of the 150,000,000 Offer Shares initially available under the Global Offering, for subscription by the Public in Hong Kong. Subject to the re-allocation of Offer Shares between (i) the International Placing and (ii) the Hong Kong Public Offering, the number of Shares initially offered under the Hong Kong Public Offering will represent 2.5% of the enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Hong Kong Public Offering Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Offer Shares in the International Placing. The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering. The Offer Price will be not more than HK$1.47 and is expected to be not less than HK$0.92.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$1.47 per Share plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$1.47, being the maximum price, our Company will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the subsection headed "How to Apply for Hong Kong Public Offering Shares – 11. Publication of Results" in this prospectus.

Allocation

The allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offering Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offering Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offering Shares.

For allocation purposes only, the Hong Kong Public Offering Shares (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Placing) will be divided equally into two pools: Pool A and Pool B, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Public Offering Shares with a total subscription amount (excluding brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Public Offering Shares with a total subscription amount (excluding brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offering Shares in one pool (but not both pools) are under subscribed, the surplus Hong Kong Public Offering Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offering Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 7,500,000 Hong Kong Public Offering Shares being 50% of the initial number of Hong Kong Public Offering Shares are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Placing, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation. Assuming that the Over-allotment Option is not exercised, the allocation of the Offer Shares shall be subject to reallocation on the following basis:

(a) where the International Placing Shares are fully subscribed or oversubscribed and:

    (i) if the Hong Kong Public Offering Shares are undersubscribed, the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) have the authority (but not the obligation) in its absolute discretion to reallocate all or any unsubscribed Hong Kong Public Offering Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate to satisfy demand under the International Placing;

(ii) if the Hong Kong Public Offering Shares are fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then at the discretion of the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), up to 15,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 30,000,000 Offer Shares and not more than double the initial allocation to the Hong Kong Public Offering, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 30,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 45,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);

(iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 45,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 60,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and

(v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 60,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 75,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

(b) where the International Placing Shares are undersubscribed and:

(i) if the Hong Kong Public Offering Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and

(ii) if the Hong Kong Public Offering Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 15,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 30,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In addition, the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may reallocate the Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 30,000,000 Offer Shares).

In the event of a reallocation of the Offer Shares from the International Placing to the Hong Kong Public Offering in the circumstances under paragraphs (a)(ii), (a)(iii), (a)(iv), (a)(v) or (b)(ii) above, the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

In the event of a reallocation of the Offer Shares between the Hong Kong Public Offering and the International Placing in the circumstances under paragraphs (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the low end of the indicative Offer Price range (i.e. HK$0.92 per Offer Share) stated in this prospectus.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any

Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$1.47 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the subsection headed "Pricing and Allocation" in this section, is less than the maximum price of HK$1.47 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For details, please refer to the section headed "How to Apply for Hong Kong Public Offering Shares – 11. Publication of Results". References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

Number of Offer Shares offered

The number of Shares to be initially offered under the International Placing will be 135,000,000 Shares, representing 90% of the Offer Shares under the Global Offering (subject to adjustment and the Over-allotment Option). The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the book-building process and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Placing may change as a result of the clawback arrangement described in "The Hong Kong Public Offering – Reallocation" in this section, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering to the International Placing.

Over-allotment Option

Our Company expects to grant the Over-allotment Option to the International Placing Underwriters, exercisable by the Joint Global Coordinators at their sole and absolute discretion on behalf of the International Placing Underwriters at any time from the Listing Date until the date which is the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require our Company to allot and issue up to 22,500,000 additional Shares representing 15% of the initial number of Offer Shares to cover, inter alia, over-allocations in the International Placing, if any. The Joint Global Coordinators may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of the Over-allotment Option or by a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. An announcement will be made in the event that the Over-allotment Option is exercised.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering and the International Placing become unconditional at 8:00 a.m. in Hong Kong on Friday, 15 January 2021, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 15 January 2021. The Shares will be traded in board lots of 3,000 Shares.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Public Offering Underwriters under the terms of the Hong Kong Public Offering Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date and subject to the other conditions set out in the subsection headed "Conditions of the Global Offering" in this section.

Our Company expects shortly after determination of the Offer Price on the Price Determination Date, to enter into the International Placing Underwriting Agreement relating to the International Placing. Certain terms of the underwriting arrangements, the Hong Kong Public Offering Underwriting Agreement and the International Placing Underwriting Agreement are summarised in the section headed "Underwriting" in this prospectus.

1. HOW TO APPLY

If you apply for Hong Kong Public Offering Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Public Offering Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**) or at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offering Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at its sole discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Hong Kong Public Offering Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offering Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- are a director or chief executive officer of our Company and/or any of its subsidiaries;
- are a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- are a close associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG PUBLIC OFFERING SHARES

(a) Which application channel to use

For Hong Kong Public Offering Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **IPO App** or the designated website at **www.hkeipo.hk**.

For Hong Kong Public Offering Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

(b) Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 31 December 2020 until 12:00 noon on Thursday, 7 January 2021 from:

- any of the following offices of the Hong Kong Public Offering Underwriters:

Soochow Securities International Brokerage Limited	Level 17, Three Pacific Place, 1 Queen's Road East, Hong Kong
Wealth Link Securities Limited	Suite 1504, 15/F, Bangkok Bank Building, 28 Des Voeux Road Central, Central, Hong Kong
SPDB International Capital Limited	33/F SPD Bank Tower, One Hennessy, 1 Hennessy Road, Hong Kong
BOCOM International Securities Limited	9/F Man Yee Building, 68 Des Voeux Road, Central, Hong Kong
Yue Xiu Securities Company Limited	Room 1003, 1004, 1005, Siu On Centre, 188 Lockhart Road, Wan Chai, Hong Kong
Shanxi Securities International Limited	Unit A 29/F Admiralty Center Tower 1, 18 Harcourt Road, Admiralty, Hong Kong
Shenwan Hongyuan Securities (H.K.) Limited	Level 19, 28 Hennessy Road, Hong Kong
Elstone Securities Limited	Suite 1601-04, 16/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
ZMF Asset Management Limited	Unit 2502 25/F World Wide House, 19 Des Voeux Road Central, Central, Hong Kong
DL Securities (HK) Limited	Flat 01 28/F Vertical Square, 28 Heung Yip Road, Wong Chuk Hang, Hong Kong
Forthright Securities Company Limited	19-20/F BOC Group Life Assurance Tower, 134-136 Des Voeux Road Central, Hong Kong

CNI Securities Group Limited	Unit A 36/F China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong
Fuyuan Securities Limited	Suite 4806-07 48/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

- any of the following branches of Bank of China (Hong Kong) Limited:

District	**Branch Name**	**Address**
Hong Kong Island	Taikoo Shing Branch	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong
Kowloon	Jordan Road Branch	1/F, Sino Cheer Plaza, 23-29 Jordan Road, Kowloon
New Territories	Texaco Road Branch	Shop A112, East Asia Gardens, 36 Texaco Road, Tsuen Wan, New Territories

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 10:00 a.m. on Thursday, 31 December 2020 until 12:00 noon on Thursday, 7 January 2021 from:

- any of the following branches of CMB Wing Lung Bank Limited:

District	**Branch Name**	**Address**
Hong Kong Island	Kennedy Town Branch	28 Catchick Street
Kowloon	Mongkok Branch	B/F, CMB Wing Lung Bank Centre, 636 Nathan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 31 December 2020 until 12:00 noon on Thursday, 7 January 2021 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

(c) Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – MODERN CHINESE MEDICINE GROUP PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at the following times on the following dates:

At any of the designated branches of Bank of China (Hong Kong) Limited:

Thursday, 31 December 2020	–	9:00 a.m. to 4:00 p.m.
Saturday, 2 January 2021	–	9:00 a.m. to 12:00 noon
Monday, 4 January 2021	–	9:00 a.m. to 4:00 p.m.
Tuesday, 5 January 2021	–	9:00 a.m. to 4:00 p.m.
Wednesday, 6 January 2021	–	9:00 a.m. to 4:00 p.m.
Thursday, 7 January 2021	–	9:00 a.m. to 12:00 noon

At any of the designated branches of CMB Wing Lung Bank Limited:

Thursday, 31 December 2020	–	10:00 a.m. to 4:00 p.m.
Saturday, 2 January 2021	–	9:00 a.m. to 12:00 noon
Monday, 4 January 2021	–	10:00 a.m. to 4:00 p.m.
Tuesday, 5 January 2021	–	10:00 a.m. to 4:00 p.m.
Wednesday, 6 January 2021	–	10:00 a.m. to 4:00 p.m.
Thursday, 7 January 2021	–	10:00 a.m. to 12:00 noon

The Application Lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 7 January 2021, the last application day or such later time as described in the paragraph "Effect of bad weather and/or Extreme Conditions on the opening of the Application Lists" in this section.

The application for the Hong Kong Public Offering Shares will commence on Thursday, 31 December 2020 and close on Thursday, 7 January 2021, being longer than normal market practice of four days. The Offer Price of our Shares will be determined on the Price Determination Date, which is expected to be on or around Thursday, 7 January 2021, and in any event, no later than Monday, 11 January 2021. The application monies (including the brokerage fee, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving banks on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Thursday, 14 January 2021, and our Shares will not commence trading on the Stock Exchange until the Listing Date, which is expected to be on Friday, 15 January 2021. Accordingly, investors may not be able to sell or deal in our Shares during the period between the Price Determination Date and the Listing Date. Our Shareholders are subject to the risk that the price of our Shares could fall before trading begins, as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the Listing Date.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offering Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus, in the Application Form, in the **IPO App** and on the designated website under the **HK eIPO White Form** service, and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing nor participated in the International Placing;

(viii) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank(s), the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus, in the Application Form, in the **IPO App** and on the designated website under the **HK eIPO White Form** service;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offering Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offering Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offering Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offering Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any refund check(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund check(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Hong Kong Public Offering Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offering Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

(a) General

Individuals who meet the criteria in the subsection headed "Who can apply" in this section, may apply through the **HK eIPO White Form** service for the Hong Kong Public Offering Shares to be allotted and registered in their own names through the **IPO App** or the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** and on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the **IPO App** and the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

(b) Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **HK eIPO White Form** service in the **IPO App** or at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 31 December 2020 until 11:30 a.m. on Thursday, 7 January 2021 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 7 January 2021 or such later time under the subsection headed "Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

(c) No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offering Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

(d) Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

(a) General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offering Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the general rules of CCASS and the CCASS operational procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offering Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and our Hong Kong Share Registrar.

(b) Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offering Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offering Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Public Offering Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing;

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Co-Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offering Shares to you and that you may be prosecuted if you make a false declaration;

- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offering Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offering Shares to any person before the fifth day after the time of the opening of the Application Lists(excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offering Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

(c) Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for Hong Kong Public Offering Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

(d) Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 3,000 Hong Kong Public Offering Shares. Instructions for more than 3,000 Hong Kong Public Offering Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offering Shares will be considered and any such application is liable to be rejected.

(e) Time for Inputting Electronic Application Instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 31 December 2020	–	9:00 a.m. to 8:30 p.m.
Saturday, 2 January 2021	–	8:00 a.m. to 1:00 p.m.
Monday, 4 January 2021	–	8:00 a.m. to 8:30 p.m.
Tuesday, 5 January 2021	–	8:00 a.m. to 8:30 p.m.
Wednesday, 6 January 2021	–	8:00 a.m. to 8:30 p.m.
Thursday, 7 January 2021	–	8:00 a.m. to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 31 December 2020 until 12:00 noon on Thursday, 7 January 2021 (24 hours daily, except on Thursday, 7 January 2021, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 7 January 2021, the last application day or such later time as described in the paragraph "Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

(f) No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offering Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offering Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offering Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

(g) Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

(h) Personal Data

The section of the Application Form "Personal Data" applies to any personal data held by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Hong Kong Share Registrar, the receiving banker, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of Hong Kong Public Offering Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offering Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Public Offering Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 7 January 2021.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for Hong Kong Public Offering Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFERING SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Public Offering Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 3,000 Hong Kong Public Offering Shares. Each application or **electronic application instruction** in respect of more than 3,000 Hong Kong Public Offering Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the **IPO App** or on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section "Structure and Conditions of the Global Offering – Pricing and Allocation" in this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 January 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the Application Lists do not open and close on Thursday, 7 January 2021 or if there is a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section "Expected Timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offering Shares on Thursday, 14 January 2021 on our Company's website at **www.cdysjdyy.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.cdysjdyy.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Thursday, 14 January 2021;
- from "IPO Results" function in the **IPO App** or the designated results of allocations website at **www.tricor.com.hk/ipo/result** (or **www.hkeipo.hk/IPOResult**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 14 January 2021 to 12:00 midnight on Wednesday, 20 January 2021;
- by telephone enquiry line by calling +852 3691-8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 14 January 2021 to Tuesday, 19 January 2021 (excluding Saturday, Sunday and public holidays in Hong Kong);

- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 14 January 2021 to Saturday, 16 January 2021 at all the receiving banks' designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offering Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section "Structure and Conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFERING SHARES

You should note the following situations in which the Hong Kong Public Offering Shares will not be allotted to you:

(a) If your application is revoked

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) If the allotment of Hong Kong Public Offering Shares is void:

The allotment of Hong Kong Public Offering Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the Application Lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the Application Lists.

(d) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offering Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website;
- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

- our Company or the Joint Global Coordinators believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 50% of the Hong Kong Public Offering Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$1.47 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering set out in the section "Structure and Conditions of the Global Offering – Conditions of the Hong Kong Public Offering" in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the check or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 14 January 2021.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Public Offering Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Public Offering Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund check(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offering Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong

Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund checks and Share certificates are expected to be posted on Thursday, 14 January 2021. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 15 January 2021 provided that the Global Offering has become unconditional and the right of termination described in the section "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offering Shares and have provided all information required by your Application Form, you may collect your refund check(s)and/or Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 January 2021 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop.

Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund check(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offering Shares, your refund check(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 14 January 2021, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offering Shares or more, please follow the same instructions as described above for the collection of refund check(s). If you have applied for less than 1,000,000 Hong Kong Public Offering Shares, your refund check(s) will be sent to the address on the relevant Application Form on Thursday, 14 January 2021, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 14 January 2021, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Hong Kong Public Offering Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering Shares allotted to you with that CCASS Participant.

- *If you apply as a CCASS Investor Participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 January 2021 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offering Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(c) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Public Offering Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 January 2021, or such other date as notified by our Company as the date of despatch/collection of Share certificates, e-Auto Refund payment instructions or refund checks.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offering Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, 14 January 2021 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund check(s) by ordinary post at your own risk.

(d) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Public Offering Shares

For the purposes of allocating Hong Kong Public Offering Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 14 January 2021, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph "Publication of results" above on Thursday, 14 January 2021. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 January 2021 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offering Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offering Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 14 January 2021. Immediately following the credit of the Hong Kong Public Offering Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offering Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 14 January 2021.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Mazars CPA Limited, Certified Public Accountants, Hong Kong.

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INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF MODERN CHINESE MEDICINE GROUP CO., LTD.

The Directors
Modern Chinese Medicine Group Co., Ltd.
Soochow Securities International Capital Limited

Introduction

We report on the historical financial information of Modern Chinese Medicine Group Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages I-4 to I-52, which comprises the combined statements of financial position of the Group at 31 December 2017, 2018 and 2019 and 30 September 2020, and the statements of financial position of the Company at 31 December 2019 and 30 September 2020, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-52 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 December 2020 (the "Prospectus") issued in connection with the initial listing of shares of the Company (the "Initial Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depended on our judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the Group's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design 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. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group at 31 December 2017, 2018 and 2019 and 30 September 2020, the financial position of the Company at 31 December 2019 and 30 September 2020, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON OTHER MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividends declared by entities now comprising the Group in respect of the Track Record Period.

Preparation or audit of financial statements

At the date of this report, no statutory audited financial statements have been prepared for the Company since its date of incorporation.

Note 1 to the Historical Financial Information contains information about whether the financial statements of the members of the Group for the Track Record Period have been audited and, if applicable, the name of the auditors.

Mazars CPA Limited
Certified Public Accountants
Hong Kong

31 December 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were prepared by the directors of the Company in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by Mazars CPA Limited, *Certified Public Accountants, Hong Kong,* in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Nine months ended 30 September	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	106,466	173,512	218,767	172,970	218,838
Cost of sales		(62,039)	(99,855)	(119,698)	(92,543)	(120,604)
Gross profit		44,427	73,657	99,069	80,427	98,234
Other income	*6*	452	770	174	120	210
Selling and distribution expenses		(4,270)	(4,938)	(8,105)	(6,574)	(5,358)
Administrative and other operating expenses		(4,648)	(4,982)	(14,124)	(10,761)	(11,922)
Finance costs	*7*	(1,191)	–	–	–	(183)
Listing expenses		–	–	(11,758)	(6,583)	(8,107)
Profit before tax	*7*	34,770	64,507	65,256	56,629	72,874
Income tax expenses	*10*	(8,889)	(16,270)	(19,019)	(15,704)	(20,103)
Profit for the year/period		25,881	48,237	46,237	40,925	52,771
Other comprehensive (loss) income						
Item that may be reclassified subsequently to profit or loss						
Exchange differences on combination/consolidation		–	–	(138)	–	231
Total comprehensive income for the year/period		25,881	48,237	46,099	40,925	53,002

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	At 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	At 30 September 2020 RMB'000
Non-current assets					
Property, plant and equipment	*13*	14,002	12,906	12,527	11,788
Right-of-use assets	*14*	2,105	2,045	1,985	2,641
Deposits paid for acquisition of property, plant and equipment		831	383	1,887	1,941
Deferred tax assets	*22*	30	49	2,150	3,904
		16,968	15,383	18,549	20,274
Current assets					
Inventories	*15*	53,553	39,011	40,933	37,991
Trade and other receivables	*16*	32,857	28,680	27,737	55,861
Bank balances and cash		12,865	89,940	35,891	62,149
		99,275	157,631	104,561	156,001
Current liabilities					
Trade and other payables	*17*	37,937	44,578	39,978	28,841
Interest-bearing borrowings	*18*	–	–	5,000	5,000
Lease liabilities	*19*	–	–	–	403
Amount due to the Ultimate Controlling Party	*20*	–	–	5,316	12,893
Amount due to the immediate holding company	*21*	–	–	–	867
Income tax payables		2,724	4,617	3,962	6,127
		40,661	49,195	54,256	54,131
Net current assets		58,614	108,436	50,305	101,870
Total assets less current liabilities		75,582	123,819	68,854	122,144
Non-current liabilities					
Lease liabilities	*19*	–	–	–	288
NET ASSETS		75,582	123,819	68,854	121,856
Capital and reserves					
Share capital	*23*	–	–	–*	–*
Reserves	*24*	75,582	123,819	68,854	121,856
TOTAL EQUITY		75,582	123,819	68,854	121,856

* *Represent amounts less than RMB1,000.*

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Note	At 31 December 2019 RMB'000	At 30 September 2020 RMB'000
Non-current asset			
Investment in a subsidiary	*23(b)*	–*	–*
Current assets			
Amount due from the immediate holding company	*23(c)*	–*	–*
Amount due from a subsidiary	*23(d)*	–	12
Bank balances		–	10
		–*	22
Current liabilities			
Accrued expenses		4,664	2,967
Amount due to the Ultimate Controlling Party	*20*	5,280	12,391
Amount due to the immediate holding company	*21*	–	867
Amount due to a subsidiary	*23(e)*	–*	504
		9,944	16,729
Net current liabilities		(9,944)	(16,707)
NET LIABILITIES		(9,944)	(16,707)
Capital and reserves			
Share capital	*23(a)*	–*	–*
Reserves	*23(f)*	(9,944)	(16,707)
TOTAL DEFICITS		(9,944)	(16,707)

* *Represent amounts less than RMB1,000.*

COMBINED STATEMENTS OF CHANGES IN EQUITY

		Reserves					
	Share capital *RMB'000 (Note 23(a))*	**Capital reserve** *RMB'000 (Note 24(a))*	**Special reserve** *RMB'000 (Note 24(b))*	**Translation reserve** *RMB'000 (Note 24(c))*	**Statutory reserve** *RMB'000 (Note 24(d))*	**Accumulated profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	–	29,540	(5,000)	–	2,576	22,585	49,701
Profit and total comprehensive income for the year	–	–	–	–	–	25,881	25,881
Transactions with owners:							
Contributions and distributions							
Appropriation to statutory reserve	–	–	–	–	2,525	(2,525)	–
Total transactions with owners	–	–	–	–	2,525	(2,525)	–
At 31 December 2017	–	29,540	(5,000)	–	5,101	45,941	75,582
At 1 January 2018	–	29,540	(5,000)	–	5,101	45,941	75,582
Profit and total comprehensive income for the year	–	–	–	–	–	48,237	48,237
Transactions with owners:							
Contributions and distributions							
Appropriation to statutory reserve	–	–	–	–	4,822	(4,822)	–
Total transactions with owners	–	–	–	–	4,822	(4,822)	–
At 31 December 2018	–	29,540	(5,000)	–	9,923	89,356	123,819

		Reserves					
	Share capital *RMB'000 (Note 23(a))*	**Capital reserve** *RMB'000 (Note 24(a))*	**Special reserve** *RMB'000 (Note 24(b))*	**Translation reserve** *RMB'000 (Note 24(c))*	**Statutory reserve** *RMB'000 (Note 24(d))*	**Accumulated profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2019	–	29,540	(5,000)	–	9,923	89,356	123,819
Profit for the year	–	–	–	–	–	46,237	46,237
Other comprehensive loss:							
Item that may be reclassified subsequently to profit or loss							
Exchange differences on combination	–	–	–	(138)	–	–	(138)
Total comprehensive income for the year	–	–	–	(138)	–	46,237	46,099
Disposal of the Non-core Assets *(Notes 2 and 24(b))*	–	–	5,000	–	–	(2,804)	2,196
Transactions with owners:							
Contributions and distributions							
Issue of share capital	–*	–	–	–	–	–	–*
Dividends *(Note 12)*	–	–	–	–	–	(103,260)	(103,260)
Appropriation to statutory reserve	–	–	–	–	5,190	(5,190)	–
Total transactions with owners	–*	–	–	–	5,190	(108,450)	(103,260)
At 31 December 2019	–*	29,540	–	(138)	15,113	24,339	68,854

* *Represent amounts less than RMB1,000.*

		Reserves					
	Share capital *RMB'000 (Note 23(a))*	**Capital reserve** *RMB'000 (Note 24(a))*	**Special reserve** *RMB'000 (Note 24(b))*	**Translation reserve** *RMB'000 (Note 24(c))*	**Statutory reserve** *RMB'000 (Note 24(d))*	**Accumulated profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2020	–*	29,540	–	(138)	15,113	24,339	68,854
Profit for the period	–	–	–	–	–	52,771	52,771
Other comprehensive income:							
Item that may be reclassified subsequently to profit or loss							
Exchange differences on combination/ consolidation	–	–	–	231	–	–	231
Total comprehensive income for the period	–	–	–	231	–	52,771	53,002
At 30 September 2020	–*	29,540	–	93	15,113	77,110	121,856
At 1 January 2019	–	29,540	(5,000)	–	9,923	89,356	123,819
Profit and total comprehensive income for the period	–	–	–	–	–	40,925	40,925
Disposal of the Non-core Assets *(Notes 2 and 24(b))*	–	–	5,000	–	–	(2,804)	2,196
Transactions with owners:							
Contributions and distributions							
Issue of share capital	–*	–	–	–	–	–	–*
Dividends *(Note 12)*	–	–	–	–	–	(103,260)	(103,260)
Appropriation to statutory reserve	–	–	–	–	4,279	(4,279)	–
Total transactions with owners	–*	–	–	–	4,279	(107,539)	(103,260)
At 30 September 2019	–*	29,540	–	–	14,202	19,938	63,680

* *Represent amounts less than RMB1,000.*

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES					
Profit before tax	34,770	64,507	65,256	56,629	72,874
Adjustments for:					
Depreciation	1,802	1,716	1,550	1,157	1,343
Finance costs	1,191	–	–	–	183
Interest income	(253)	(130)	(146)	(120)	(84)
Loss (Gain) on disposal of property, plant and equipment	–	7	(1)	–	–
Gain on disposal of right-of-use assets	(114)	–	–	–	–
Provision for (Reversal of) loss allowance of trade receivables, net	54	(6)	(30)	10	140
Operating cash inflows before movements in working capital	37,450	66,094	66,629	57,676	74,456
Changes in working capital:					
Inventories	(5,696)	14,542	(1,922)	13,734	2,942
Trade and other receivables	(10,755)	4,183	973	(2,435)	(28,264)
Trade and other payables	(37,470)	6,689	(4,600)	(7,389)	(11,230)
Cash (used in) generated from operations	(16,471)	91,508	61,080	61,586	37,904
Income tax paid	(8,984)	(14,396)	(20,840)	(16,340)	(19,692)
Net cash (used in) from operating activities	(25,455)	77,112	40,240	45,246	18,212
INVESTING ACTIVITIES					
Interest received	253	130	146	120	84
Payment for purchase of property, plant and equipment	(1,933)	(172)	(2,619)	(303)	(446)
Proceeds from disposal of the Non-core Assets	–	–	1,261	1,261	–
Proceeds from disposal of right-of-use assets	138	–	–	–	–
Proceeds from disposal of property, plant and equipment	–	5	5	–	–
Net cash (used in) from investing activities	(1,542)	(37)	(1,207)	1,078	(362)

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
FINANCING ACTIVITIES					
(Repayment to) Advance from the Ultimate Controlling Party	(5,696)	–	5,317	4,795	7,471
Advance from the immediate holding company	–	–	–	–	867
Inception of interest-bearing borrowings	–	–	5,000	–	–
Repayment of interest-bearing borrowings	(35,000)	–	–	–	–
Payment of lease liabilities	–	–	–	–	(177)
Interest paid	(1,293)	–	–	–	(183)
Dividend paid	–	–	(103,260)	(103,260)	–
Net cash (used in) from financing activities	(41,989)	–	(92,943)	(98,465)	7,978
Net (decrease) increase in cash and cash equivalents	(68,986)	77,075	(53,910)	(52,141)	25,828
Cash and cash equivalents at the beginning of the reporting period	81,851	12,865	89,940	89,940	35,891
Effect on exchange rate changes	–	–	(139)	–	430
Cash and cash equivalents at the end of the reporting period, represented by bank balances and cash	12,865	89,940	35,891	37,799	62,149

NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE GROUP

1. GENERAL INFORMATION AND REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019. The address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. The Company's principal place of business is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong and the Group's headquarter is situated at No. 88 Jinwei Road, Chengde City, Hebei Province, China.

The principal activity of the Company is investment holding during the Track Record Period. The Group is principally engaged in the production of proprietary Chinese medicine ("PCM") in the People's Republic of China (the "PRC").

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

Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 26 February 2020 subject to the capitalisation of loan of HK$1,000,000 (equivalent to approximately RMB867,000) owning by the Company to Modern Biotechnology as set out in Note 31, as detailed in the paragraph headed "Reorganisation" of the section headed "History, Development and Reorganisation" of the Prospectus issued in connection with the Initial Listing of shares of the Company on the Main Board of the Stock Exchange, the Company became the holding company of the entities now comprising the Group.

At the date of this report, the particulars of the Company's subsidiaries, which are private limited liability companies, of which the Company has direct or indirect interests, are as follows:

Name of subsidiary	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued/Paid up capital	Attributable equity interest held by the Company	Principal activities/ place of operation
Directly held					
Modern TCM Holdings Group Co., Ltd. ("Modern TCM Holdings") *(Note ii)*	The BVI	20 August 2019	United States Dollars ("US$") 1	100%	Investment holding/ The BVI
Indirectly held					
HK Modern Chinese Medicine Co., Ltd. ("HK Modern Chinese Medicine") *(Note iii)*	Hong Kong	9 September 2019	Hong Kong Dollars ("HK$") 1	100%	Investment holding/ Hong Kong
石家莊藥研咨詢有限公司 Shijiazhuang Medical Research Advisory Company Limited ("Shijiazhuang Medical Research") *(Notes i, iii & iv)*	The PRC	16 December 2019	HK$1,000,000	100%	Provision of business support, technical and consulting services /The PRC
承德御室金丹藥業有限公司 Chengde Yushi Jindan Pharmaceutical Co., Ltd. ("Chengde Yushi") *(Notes i & iv)*	The PRC	8 March 2001	RMB28,000,000	100%	Production of PCM/The PRC

The financial statements, as prepared in accordance with respective local financial reporting standards, of the Company's subsidiaries that fall into the Track Record Period have been audited as follows:

Subsidiary	Financial period	Auditors
Chengde Yushi	Year ended 31 December 2017	北京中諾宜華會計師事務所有限公司 (Beijing Zhongnuo Yihua Certified Public Accountants Co., Ltd.) *(Note iv)*
	Years ended 31 December 2018 and 2019	北京永恩力合會計師事務所有限公司 (Beijing Yongen Lihe Certified Public Accountants Co., Ltd.) *(Note iv)*

Notes:

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

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

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

(ii) No statutory audited financial statements have been prepared by Modern TCM Holdings for the period from its date of incorporation to the date of this report as it is not required to issue audited financial statements under the statutory requirements of the BVI.

(iii) No statutory audited financial statements have been prepared for HK Modern Chinese Medicine and Shijiazhuang Medical Research as they are newly incorporated and their first set of statutory audited financial statements are not yet due for issuance.

(iv) The English names of the above companies/auditors 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.

2. BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Immediately prior to and after the Reorganisation, the Company and its subsidiaries now comprising the Group are ultimately controlled by the Ultimate Controlling Party. The Group's business is mainly conducted through Chengde Yushi while the Company and other entities within the Group have not been involved in any other significant activities prior to the Reorganisation. As the Reorganisation did not result in any change in the ultimate control of and the resources employed by the Group's business, the Group is regarded as a continuity entity and, therefore, the Reorganisation is considered to be a restructuring of entities and business under common control. The Historical Financial Information as included in this report is prepared using the carrying values of the entities involved in the Reorganisation for all periods presented on a basis in accordance with the principles of merger accounting as set out in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

As further explained in the paragraph headed "Merger accounting for business combination involving entities under common control" in Note 3, the Historical Financial Information presents the combined financial position, combined financial performance, combined changes in equity and combined cash flows of the entities now comprising the Group as if the current group structure had always been in existence throughout the Track Record Period or since their respective date of establishment or incorporation, where applicable.

The Historical Financial Information aims to include assets, liabilities, income and expenses that are related to and specifically identified for the production of PCM (the "PCM Business"). During the Track Record Period, the following companies, entirely/partially owned by Chengde Yushi, were regarded as non-core assets (the "Non-core Assets") of the Group, which are not directly related to, nor form part of, the Group's principal PCM Business.

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

* The English names of the above companies 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.

For the purpose of this report, the Group had segregated the relevant financial information of the Non-core Assets from the historical financial information of the PCM Business for the preparation of the Historical Financial Information. In particular, the investment made and carrying amount of the Non-core Assets during the Track Record Period was reflected as movements and balances in the combined statements of changes in equity under the heading of "special reserve". Such presentation ceased when the Non-core Assets were formally dissolved or transferred to the independent third parties in April 2019. The Historical Financial Information excludes the movements and balances of the Non-core Assets which, in the opinion of the directors of the Company, are clearly delineated from the PCM Business and whose movements and balances are clearly identifiable.

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conforms with HKFRSs issued by the HKICPA.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Historical Financial Information has been prepared in accordance with the basis set out below which conforms with 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 Historical Financial Information also complies 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 HKICPA has issued a number of new/revised HKFRSs during the Track Record Period. For the purpose of the Historical Financial Information, the Group has consistently adopted all these new/revised HKFRSs (including HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from Contracts with Customers" and HKFRS 16 "Leases") that are relevant to its operations and are effective during the Track Record Period. The adoption of those new/revised HKFRSs, in particular, HKFRS 9, HKFRS 15 and HKFRS 16 as compared to HKAS 39, HKAS 18 and HKAS 17, does not have any significant impact on the financial position and performance of the Group.

A summary of the principal accounting policies adopted by the Group in preparing the Historical Financial Information is set out below.

Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

Basis of combinations

The Historical Financial Information comprises the financial statements of the Company and all of its subsidiaries for the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

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

Merger accounting for business combination involving entities under common control

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

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

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

Subsidiaries

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

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

Property, plant and equipment

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

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

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

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

Intangible assets

Research and development costs

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

During the Track Record Period, no development cost was capitalised by the Group.

Financial instruments

Financial assets

Recognition and derecognition

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

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

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

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

Classification and measurement

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

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

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

Financial assets measured at amortised cost

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

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

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

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

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

Financial liabilities

Recognition and derecognition

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

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

Classification and measurement

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

The Group's financial liabilities include trade and other payables, interest-bearing borrowings, lease liabilities, and amounts due to related parties. 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.

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.

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.

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 combined 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.

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).

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.

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

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

Contract assets and contract liabilities

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

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

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

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is HK$ and majority of its subsidiaries have RMB as their functional currency. The Historical Financial Information is 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.

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.

Impairment of other assets

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

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

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

Government grants

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

Borrowing costs

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

Leases

The Group as lessee

The Group leases several pieces of land, office premises and a machine during the Track Record Period. Lease term is ranging from less than 1 year to 50 years. Lease terms for the pieces of land are granted by the PRC Government authority on the use of land within the pre-approved lease period and the lease terms for the office premises and the machine are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

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

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

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

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

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

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

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

Employee benefits

Short term employee benefits

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

Defined contribution plans

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

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

Taxation

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

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

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

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

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

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

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

  (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

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

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

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

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

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

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

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

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

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

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

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

Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, 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.

Individual 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 Historical Financial Information. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty

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

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

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

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

(iii) Allowance for inventories

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

(iv) Loss allowance for ECL

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

(v) Income taxes

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

Critical judgements made in applying accounting policies

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

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

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

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

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

Future changes in HKFRSs

At the date of approving the Historical Financial Information, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the Track Record Period, which the Group has not early adopted.

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

(1) Effective for annual periods beginning on or after 1 June 2020

(2) Effective for annual periods beginning on or after 1 January 2021

(3) Effective for annual periods beginning on or after 1 January 2022

(4) Effective for annual periods beginning on or after 1 January 2023

(5) The effective date to be determined

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

4. SEGMENT INFORMATION

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

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

Information about major customers

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

	Year ended 31 December			Nine months ended 30 September	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Customer A	47,507	29,366	*Note*	*Note*	*Note*
Customer B	15,115	21,489	*Note*	*Note*	*Note*
Customer C	*Note*	18,869	*Note*	*Note*	22,650
Customer D	*Note*	23,990	*Note*	*Note*	*Note*
Customer E	*Note*	*Note*	23,511	18,636	24,524

Note: The individual customers contributed less than 10% of the total revenue of the Group in the respective years/periods.

5. REVENUE

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers within HKFRS 15					
At a point in time					
– Production of PCM	106,466	173,512	218,767	172,970	218,838

Note: The revenue recognised for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020, respectively, which was included in the contract liabilities in relation to refundable receipts in advance at the beginning of each reporting period is RMB3,686,000, RMB3,376,000, nil, nil and nil, respectively.

6. OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest income	253	130	146	120	84
Exchange gain, net	–	–	1	–	12
Government grants	–	640	–	–	–
Gain on disposal of property, plant and equipment	–	–	1	–	–
Gain on disposal of right-of-use assets	114	–	–	–	–
Sundry income	85	–	26	–	114
	452	770	174	120	210

7. PROFIT BEFORE TAX

This is stated after charging (crediting):

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Finance costs					
Interest on interest-bearing borrowings	1,191	–	–	–	171
Interest on lease liabilities	–	–	–	–	12
	1,191	–	–	–	183
Staff costs (including directors' emoluments)					
Salaries, allowances, discretionary bonus, and other benefits in kind	6,771	8,555	9,477	7,317	9,017
Contributions to defined contribution plans	1,593	1,900	1,835	1,406	914
	8,364	10,455	11,312	8,723	9,931

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other items					
Auditor's remuneration	20	20	20	15	25
Cost of inventories	62,039	99,855	119,698	92,543	120,604
Exchange gain, net	–	–	(1)	–	(12)
Depreciation of right-of-use assets (charged to "administrative and other operating expenses")	60	60	60	45	212
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate)	1,742	1,656	1,490	1,112	1,131
Gain on disposal of right-of-use assets	(114)	–	–	–	–
Loss (Gain) on disposal of property, plant and equipment	–	7	(1)	–	–
Expenses recognised under short-term leases	–	–	187	107	231
Provision for (Reversal of) loss allowance for trade receivables, net	54	(6)	(30)	10	140
Research and development expenses	–	–	8,300	5,875	6,700

Note: Cost of inventories included approximately RMB4,830,000, RMB6,970,000, RMB7,890,000, RMB5,946,000 and RMB6,783,000 relating to staff costs and approximately RMB1,715,000, RMB1,626,000, RMB1,461,000, RMB1,090,000 and RMB1,104,000 relating to depreciation, which were included in the respective amounts as disclosed above for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020, respectively.

8. DIRECTORS' REMUNERATION

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

Certain directors of the Company received remuneration from the entities now comprising the Group during the Track Record Period for their appointment as employees of these entities. The aggregate amounts of remuneration received and receivable by the directors of the Company during the Track Record Period are set out below.

Year ended 31 December 2017

	Directors' fees *RMB'000*	Salaries, allowances and other benefits in kind *RMB'000*	Discretionary bonus *RMB'000*	Contributions to defined contribution plans *RMB'000*	Total *RMB'000*
Executive directors					
Mr. Xie Wei	–	119	–	36	155
Ms. Zhang Hongli	–	93	–	29	122
Mr. Li Jinglian	–	211	–	42	253
Mr. Jiang Zhendong	–	–	–	–	–
	–	423	–	107	530

Year ended 31 December 2018

	Directors' fees *RMB'000*	Salaries, allowances and other benefits in kind *RMB'000*	Discretionary bonus *RMB'000*	Contributions to defined contribution plans *RMB'000*	Total *RMB'000*
Executive directors					
Mr. Xie Wei	–	120	–	37	157
Ms. Zhang Hongli	–	96	–	30	126
Mr. Li Jinglian	–	295	–	47	342
Mr. Jiang Zhendong	–	–	–	–	–
	–	511	–	114	625

Year ended 31 December 2019

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

Nine months ended 30 September 2019

	Directors' fees *RMB'000*	Salaries, allowances and other benefits in kind *RMB'000*	Discretionary bonus *RMB'000*	Contributions to defined contribution plans *RMB'000*	Total *RMB'000*
Executive directors					
Mr. Xie Wei	–	90	–	27	117
Ms. Zhang Hongli	–	71	–	22	93
Mr. Li Jinglian	–	285	–	39	324
Mr. Jiang Zhendong	–	71	–	21	92
	–	517	–	109	626

Nine months ended 30 September 2020

	Directors' fees *RMB'000*	Salaries, allowances and other benefits in kind *RMB'000*	Discretionary bonus *RMB'000*	Contributions to defined contribution plans *RMB'000*	Total *RMB'000*
Executive directors					
Mr. Xie Wei	–	162	–	13	175
Ms. Zhang Hongli	–	135	–	8	143
Mr. Li Jinglian	–	370	–	29	399
Mr. Jiang Zhendong	–	108	–	10	118
	–	775	–	60	835

During the Track Record Period, 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 Track Record Period.

9. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals during the Track Record Period is as follows:

	Number of individuals				
	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
Director	2	3	3	2	4
Non-director	3	2	2	3	1
	5	5	5	5	5

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

	Year ended 31 December			Nine months ended 30 September	
	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*
Salaries, allowances, discretionary bonus, and other benefits in kind	289	194	204	223	317
Contributions to defined contribution plans	88	61	59	67	12
	377	255	263	290	329

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

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
Nil to HK$1,000,000	3	2	2	3	1

During the Track Record Period, 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 Track Record Period.

10. INCOME TAX EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current tax					
PRC enterprise income tax ("PRC EIT")	9,519	16,289	21,120	17,157	21,857
Deferred tax					
Changes in temporary differences *(Note 22)*	(630)	(19)	(2,101)	(1,453)	(1,754)
Total income tax expenses for the year/period	8,889	16,270	19,019	15,704	20,103

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 Track Record Period.

Hong Kong Profits Tax has not been provided as the Group had no assessable profit arising from Hong Kong for the Track Record Period.

Reconciliation of income tax expenses

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit before tax	34,770	64,507	65,256	56,629	72,874
Income tax at statutory tax rate applicable in respective tax jurisdictions	8,692	16,127	16,314	14,158	18,219
Non-deductible expenses	197	143	2,705	1,546	1,884
Income tax expenses for the year/period	8,889	16,270	19,019	15,704	20,103

11. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

12. DIVIDENDS

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Dividends declared to the then equity owners of the entities now comprising the Group	–	–	103,260	103,260	–

Dividend per share is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reconciliation of carrying amount – year ended 31 December 2017						
At 1 January 2017	7,650	5,483	246	73	896	14,348
Additions	–	1,383	13	–	–	1,396
Transfer	896	–	–	–	(896)	–
Depreciation	(686)	(857)	(164)	(35)	–	(1,742)
At 31 December 2017	7,860	6,009	95	38	–	14,002
Reconciliation of carrying amount – year ended 31 December 2018						
At 1 January 2018	7,860	6,009	95	38	–	14,002
Additions	–	564	8	–	–	572
Disposals	–	(12)	–	–	–	(12)
Depreciation	(664)	(895)	(76)	(21)	–	(1,656)
At 31 December 2018	7,196	5,666	27	17	–	12,906
Reconciliation of carrying amount – year ended 31 December 2019						
At 1 January 2019	7,196	5,666	27	17	–	12,906
Additions	410	705	–	–	–	1,115
Disposals	–	–	–	(4)	–	(4)
Depreciation	(602)	(868)	(20)	–	–	(1,490)
At 31 December 2019	7,004	5,503	7	13	–	12,527

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Reconciliation of carrying amount – nine months ended 30 September 2020						
At 1 January 2020	7,004	5,503	7	13	–	12,527
Additions	–	244	–	148	–	392
Depreciation	(428)	(684)	(3)	(16)	–	(1,131)
At 30 September 2020	6,576	5,063	4	145	–	11,788
At 31 December 2017						
Cost	18,738	11,670	1,482	573	–	32,463
Accumulated depreciation	(10,878)	(5,661)	(1,387)	(535)	–	(18,461)
Net carrying amounts	7,860	6,009	95	38	–	14,002
At 31 December 2018						
Cost	18,738	11,943	1,490	573	–	32,744
Accumulated depreciation	(11,542)	(6,277)	(1,463)	(556)	–	(19,838)
Net carrying amounts	7,196	5,666	27	17	–	12,906
At 31 December 2019						
Cost	19,148	12,648	1,490	428	–	33,714
Accumulated depreciation	(12,144)	(7,145)	(1,483)	(415)	–	(21,187)
Net carrying amounts	7,004	5,503	7	13	–	12,527
At 30 September 2020						
Cost	19,148	12,892	1,490	576	–	34,106
Accumulated depreciation	(12,572)	(7,829)	(1,486)	(431)	–	(22,318)
Net carrying amounts	6,576	5,063	4	145	–	11,788

14. RIGHT-OF-USE ASSETS

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

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
At the beginning of the reporting period	2,978	2,945	2,945	2,945
Additions	–	–	–	868
Disposals	(33)	–	–	–
At the end of the reporting period	2,945	2,945	2,945	3,813
Accumulated depreciation				
At the beginning of the reporting period	789	840	900	960
Charges	60	60	60	212
Written back on disposal	(9)	–	–	–
At the end of the reporting period	840	900	960	1,172
Carrying amount				
At the end of the reporting period	2,105	2,045	1,985	2,641

During the year ended 31 December 2017, the Group entered into and executed a sale and purchase agreement with an independent third party under which the Group agreed to sell a piece of leasehold land at a consideration of approximately RMB138,000.

The Group's right-of-use assets with a total carrying amount of approximately RMB805,000 and RMB786,000 at 31 December 2019 and 30 September 2020, respectively, were pledged to secure interest-bearing borrowings (Note 18) granted to the Group.

15. INVENTORIES

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	28,638	16,696	21,796	16,806
Work-in-progress	9,277	6,787	5,372	1,031
Finished goods	15,638	15,528	13,765	20,154
	53,553	39,011	40,933	37,991

16. TRADE AND OTHER RECEIVABLES

		At 31 December			At 30 September
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables					
From third parties		29,768	28,400	22,690	50,699
From a related company	*16(a)*	–	230	–	–
		29,768	28,630	22,690	50,699
Less: Loss allowances	*27*	(149)	(143)	(113)	(253)
	16(b)	29,619	28,487	22,577	50,446
Other receivables					
Prepayments *(Note i)*		96	50	4,958	5,225
Deposits paid to suppliers		3,113	116	81	87
Other deposits and receivables		29	27	121	103
		3,238	193	5,160	5,415
		32,857	28,680	27,737	55,861

Note i: The amounts at 31 December 2017, 2018 and 2019 and 30 September 2020 included prepaid research and development expenses of approximately nil, nil, RMB4,900,000 and RMB4,800,000, respectively.

16(a) Trade receivables from a related company

The trade receivables due from a related company ultimately controlled by Mr. Xie Donghua, the father of the Ultimate Controlling Party, are unsecured, interest-free and have a credit period of 60 days.

	Year ended 31 December 2018		
	Maximum amount outstanding during the year	Balance at 31 December 2018	Balance at 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*
吉林省天天大健康醫藥物流配送有限公司 Jilin Tiantian Universal Health Medicine Logistics Distribution Co., Ltd.* ("Jilin Tiantian")	320	230	–

	Year ended 31 December 2019		
	Maximum amount outstanding during the year	Balance at 31 December 2019	Balance at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Jilin Tiantian	535	–	230

The Group has no trade receivables due from a related company at 31 December 2017. Jilin Tiantian ceased to be the related company of the Group on 2 January 2020 when all of the equity interests on Jilin Tiantian held by Mr. Xie Donghua was disposed to an independent third party.

* *The English name of the related company represents the best effort made by the directors of the Company to translate the Chinese name as its name has not been registered officially in English.*

16(b) Trade receivables

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

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	14,029	19,819	15,293	35,479
31 to 60 days	10,900	8,545	7,234	14,967
61 to 90 days	2,943	–	50	–
Over 90 days	1,747	123	–	–
	29,619	28,487	22,577	50,446

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

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

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not yet due	24,929	28,364	22,527	50,446
Past due:				
Less than 30 days	2,943	–	50	–
31 to 60 days	461	4	–	–
61 to 90 days	–	119	–	–
Over 90 days	1,286	–	–	–
	4,690	123	50	–
	29,619	28,487	22,577	50,446

Information about the Group's exposure to credit risks and loss allowance for trade and other receivables are included in Note 27.

17. TRADE AND OTHER PAYABLES

		At 31 December			At 30 September
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables					
To third parties	*17(a)*	20,602	7,280	27,891	11,061
Other payables					
Contract liabilities – refundable receipts in advance	*17(b)*	6,314	2,938	–	–
Monetary marketing incentives payables *(Note i)*		5,010	26,847	22	6,177
Value-added tax and other tax payables		2,122	2,692	1,124	2,514
Salary payables		330	652	957	828
Accruals and other payables *(Note ii)*		3,559	4,169	9,984	8,261
		17,335	37,298	12,087	17,780
		37,937	44,578	39,978	28,841

Note i: The amounts at 31 December 2017, 2018 and 2019 and 30 September 2020 included the amount due to a related company, Jilin Tiantian (Note 16(a)), of approximately nil, RMB61,000, nil and nil, respectively. The amounts due are variable consideration payable relating to monetary marketing incentives, unsecured, interest-free and repayable on demand.

Note ii: The amounts at 31 December 2017, 2018 and 2019 and 30 September 2020 included accrued listing expenses of approximately nil, nil, RMB5,139,000 and RMB3,235,000, respectively.

17(a) Trade payables

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

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

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	2,032	2,635	27,807	10,864
31 to 60 days	3,158	4,536	78	197
61 to 90 days	868	51	6	–
Over 90 days	14,544	58	–	–
	20,602	7,280	27,891	11,061

17(b) Contract liabilities – refundable receipts in advance

The Group applies the practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The movements (excluding those arising from increases and decreases both occurred within the same reporting period) of refundable receipts in advance with customers within HKFRS 15 during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	50,000	6,314	2,938	–
Revenue recognised *(Note 5)*	(3,686)	(3,376)	–	–
Refund made	(40,000)	–	(2,938)	–
At the end of the reporting period	6,314	2,938	–	–

18. INTEREST-BEARING BORROWINGS

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loan, repayable within one year	–	–	5,000	5,000

The bank loan was drawn down on 30 December 2019, repayable on 29 December 2020 and carried a fixed interest rate of 4.6% per annum.

The bank loan was secured by legal charges over the Group's certain leasehold land and buildings with carrying amount of approximately RMB805,000 and RMB786,000 at 31 December 2019 and 30 September 2020, respectively.

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

19. LEASE

The Group as lessee

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets *(Note 14)*				
Leasehold lands	2,105	2,045	1,985	1,940
Office premises	–	–	–	701
	2,105	2,045	1,985	2,641

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation charge of right-of-use assets					
Leasehold lands	60	60	60	45	45
Office premises	–	–	–	–	167
	60	60	60	45	212

In addition to the information disclosed in Note 7, the Group had the following amounts relating to leases during the Track Record Period:

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities				
Current portion	–	–	–	403
Non-current portion	–	–	–	288
	–	–	–	691

Commitments and present value of lease liabilities:

	Lease payments At 30 September 2020	Present value of lease payments At 30 September 2020
	RMB'000	*RMB'000*
Amounts payable:		
Within one year	424	403
In the second to fifth years inclusive	293	288
	717	691
Less: future finance charges	(26)	–
Total lease liabilities	691	691

The Group leases various office premises with lease terms for 2 years.

The total cash outflows for leases were approximately RMB187,000 and RMB408,000 for the year ended 31 December 2019 and the nine months ended 30 September 2020, respectively.

At 30 September 2020, the weighted average effective interest rate for the lease liabilities of the Group was 4.6% per annum.

20. AMOUNT DUE TO THE ULTIMATE CONTROLLING PARTY

The amount due is non-trade in nature, unsecured, interest-free, repayable on demand and will be fully settled prior to the Initial Listing.

21. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

The amount due is non-trade in nature, unsecured, interest-free, repayable on demand and will be fully capitalised into share capital of the Company prior to the Initial Listing.

22. DEFERRED TAX ASSETS

The movements in the Group's deferred tax assets (liabilities) for the Track Record Period were as follows:

	Year ended 31 December			Nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	(600)	30	49	2,150
Credit to profit or loss	630	19	2,101	1,754
At the end of the reporting period	30	49	2,150	3,904

	Research and development expenses *RMB'000*	Accrued revenue and costs *RMB'000*	Total *RMB'000*
At 1 January 2017	–	(600)	(600)
Income tax credit	–	630	630
At 31 December 2017	–	30	30
At 1 January 2018	–	30	30
Income tax credit	–	19	19
At 31 December 2018	–	49	49
At 1 January 2019	–	49	49
Income tax credit	2,075	26	2,101
At 31 December 2019	2,075	75	2,150
At 1 January 2020	2,075	75	2,150
Income tax credit	1,675	79	1,754
At 30 September 2020	3,750	154	3,904

At the end of each reporting period, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the management of the Group, it is probable that the earnings will not be distributed in the foreseeable future. The estimated withholding tax effects on the distribution of accumulated profits were approximately RMB4,594,000, RMB8,936,000, RMB3,418,000 and RMB9,413,000 at 31 December 2017, 2018 and 2019 and 30 September 2020, respectively.

23. SHARE CAPITAL AND THE FINANCIAL INFORMATION OF THE COMPANY

23(a) Share capital

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

Pursuant to the Reorganisation completed on 26 February 2020 (subject to the capitalisation of loan of HK$1,000,000 owning by the Company to Modern Biotechnology as set out in Note 31), the Company became the holding company of the entities now comprising the Group. Further details of the change in authorised and issued capital of the Company since its incorporation are set out in the paragraph headed "Reorganisation" of the section headed "History, Development and Reorganisation" of the Prospectus.

Save as disclosed above, the Company has not commenced any significant business or operation since its incorporation.

23(b) Investment in a subsidiary

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

23(c) Amount due from the immediate holding company

The amount due from the immediate holding company is non-trade in nature, unsecured, interest-free and repayable on demand.

23(d) Amount due from a subsidiary

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

23(e) Amount due to a subsidiary

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

23(f) Reserves of the Company

	Translation reserve *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
At 12 August 2019 (date of incorporation)	–	–	–
Loss for the period	–	(9,806)	(9,806)
Other comprehensive loss			
Item that may be reclassified subsequently to profit or loss			
Exchange difference on translation	(138)	–	(138)
At 31 December 2019	(138)	(9,806)	(9,944)
At 1 January 2020	(138)	(9,806)	(9,944)
Loss for the period	–	(6,986)	(6,986)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Exchange difference on translation	223	–	223
At 30 September 2020	85	(16,792)	(16,707)

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

During the year ended 31 December 2019 and the nine months ended 30 September 2020, certain corporate administrative costs of the Company and the expenses for the Initial Listing were borne by the subsidiary of the Company without recharge.

24. RESERVES

24(a) Capital reserve

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

24(b) Special reserve

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

As further explained in Note 2, the Historical Financial Information excludes the Non-core Assets. For the purposes of preparation of the Historical Financial Information, the Group's balances in the Non-core Assets at 1 January 2017 and each subsequent measurement dates (if applicable) have been excluded from the Group's combined financial information as an adjustment to the special reserve at 1 January 2017 and each subsequent measurement dates (if applicable).

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

On 3 September 2019, the Group has deregistered Hebei Yushi as it did not have material business operation during the Track Record Period.

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

24(c) Translation reserve

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

24(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 2019, the accumulated statutory reserve has reached 50% of the registered share capital of the respective PRC subsidiary.

25. RELATED PARTY INFORMATION

In addition to the transactions/information disclosed elsewhere in the Historical Financial Information, during the Track Record Period, further information of the related parties is set out below.

(a) Related party balances

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables from Jilin Tiantian* *(Notes 16(a) and 25(a)(i))*	–	230	–	–
Amount due to Jilin Tiantian* *(Notes 17 and 25(a)(ii))*	–	(61)	–	–
Amount due to the immediate holding company *(Notes 21 and 25(a)(iii))*	–	–	–	(867)
Amount due to the Ultimate Controlling Party *(Notes 20 and 25(a)(iv))*	–	–	(5,316)	(12,893)

(i) The trade receivables from Jilin Tiantian, a company ultimately controlled by Mr. Xie Donghua, the father of the Ultimate Controlling Party, are unsecured, interest-free and have a credit period of 60 days.

(ii) Amount due to Jinlin Tiantian represented variable consideration payable relating to monetary marketing incentives, is unsecured, interest-free and repayable on demand.

(iii) The amount due is non-trade in nature, unsecured, interest-free, repayable on demand and will be fully capitalised into share capital of the Company prior to the Initial Listing.

(iv) The amount due is non-trade in nature, unsecured, interest-free, repayable on demand and will be fully settled prior to the Initial Listing.

(b) Related party transactions

(i) Transactions between the group entities have been eliminated on combination and are not disclosed. During the Track Record Period, the Group had the following significant transactions with related parties. In the opinion of the directors of the Company, they are under normal commercial terms that are fair and reasonable and in the best interests of the Group.

Name of the related company	Nature of transaction	Year ended 31 December			Nine months ended 30 September	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Jilin Tiantian* *(Note 16(a))*	Sales of PCM	–	758	1,485	1,254	–

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

(ii) Remuneration for key management personnel (including directors of the Company) of the Group:

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, allowances, discretionary bonus, and other benefits in kind	423	511	703	517	775
Contributions to defined contribution plans	107	114	146	109	60
	530	625	849	626	835

Further details of the Company's directors' remuneration are set out in Note 8.

26. ADDITIONAL INFORMATION ON THE COMBINED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the nine months ended 30 September 2020, the Group entered into lease arrangements in respect of right-of-use assets with total value of the inception of leases of RMB868,000.

(b) Reconciliation of liabilities arising from financing activities

During the year ended 31 December 2018, the Group has no liabilities arising from financing activities. The movements in the Group's liabilities arising from financing activities during the years ended 31 December 2017 and 2019 and the nine months ended 30 September 2019 and 2020 are as follows:

			Non-cash changes			
	At 1 January 2017	Net cash flows	Exchange difference	Declaration of dividends	Addition of right-of-use assets	At 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017						
Amount due to the Ultimate Controlling Party	5,696	(5,696)	–	–	–	–
Interest-bearing borrowings	35,000	(35,000)	–	–	–	–
Total liabilities from financing activities	40,696	(40,696)	–	–	–	–

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

	At 1 January 2020 *RMB'000*	Net cash flows *RMB'000*	Non-cash changes: Exchange difference *RMB'000*	Non-cash changes: Declaration of dividends *RMB'000*	Non-cash changes: Addition of right-of-use assets *RMB'000*	At 30 September 2020 *RMB'000*
Nine months ended 30 September 2020						
Amount due to the Ultimate Controlling Party	5,316	7,471	106	–	–	12,893
Amount due to the immediate holding company	–	867	–	–	–	867
Interest-bearing borrowings	5,000	–	–	–	–	5,000
Lease liabilities	–	(177)	–	–	868	691
Total liabilities from financing activities	10,316	8,161	106	–	868	19,451

	At 1 January 2019 *RMB'000*	Net cash flows *RMB'000*	Non-cash changes: Exchange difference *RMB'000*	Non-cash changes: Declaration of dividends *RMB'000*	Non-cash changes: Addition of right-of-use assets *RMB'000*	At 30 September 2019 *RMB'000*
Nine months ended 30 September 2019						
Amount due to the Ultimate Controlling Party	–	4,795	–	–	–	4,795
Dividend payable	–	(103,260)	–	103,260	–	–
Total liabilities from financing activities	–	(98,465)	–	103,260	–	4,795

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise trade and other receivables, bank balances and cash, trade and other payables, interest-bearing borrowings, lease liabilities, amounts due to related parties. 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 Historical Financial Information, 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.

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	32,761	28,630	22,779	50,636
Bank balances and cash	12,865	89,940	35,891	62,149
	45,626	118,570	58,670	112,785

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 2017, 2018 and 2019 and 30 September 2020, the Group had a concentration of credit risk as approximately 24%, 17%, 11% and 10% of the total trade receivables was due from the Group's largest trade debtor, respectively, and approximately 67%, 69%, 35% and 43% of the total trade receivables was due from the Group's five largest trade debtors, respectively.

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 Track Record Period.

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 2017, 2018 and 2019 and 30 September 2020, and no material change in late payment and default risk as well as forward-looking factors throughout the Track Record Period, 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 Track Record Period.

The Group does not hold any collateral over trade receivables at 31 December 2017, 2018 and 2019 and 30 September 2020.

Having considered the expected loss rate of 0.5% for the Track Record Period, the Group recognised the loss allowance of approximately RMB149,000, RMB143,000, RMB113,000 and RMB253,000 on the trade receivables at 31 December 2017, 2018, 2019 and 30 September 2020, respectively. The movement in the loss allowance for trade receivables during the Track Record Period is summarised below.

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	95	149	143	113
Provision for (Reversal of) loss allowance, net	54	(6)	(30)	140
At the end of the reporting period	149	143	113	253

None of the trade receivables were written-off during the Track Record Period.

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 combined 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 Track Record Period.

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	Total contractual undiscounted cash flow	On demand or less than 1 year	1 to 2 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017				
Trade and other payables	29,171	29,171	29,171	–

	Total carrying amount	Total contractual undiscounted cash flow	On demand or less than 1 year	1 to 2 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018				
Trade and other payables	38,296	38,296	38,296	–
At 31 December 2019				
Trade and other payables	37,897	37,897	37,897	–
Interest-bearing borrowings	5,000	5,228	5,228	–
Amount due to the Ultimate Controlling Party	5,316	5,316	5,316	–
	48,213	48,441	48,441	–
At 30 September 2020				
Trade and other payables	25,499	25,499	25,499	–
Interest-bearing borrowings	5,000	5,056	5,056	–
Lease liabilities	691	717	424	293
Amount due to the Ultimate Controlling Party	12,893	12,893	12,893	–
Amount due to the immediate holding company	867	867	867	–
	44,950	45,032	44,739	293

28. 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.

29. COMMITMENTS

Capital expenditure commitments

	At 31 December			At 30 September
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided net of deposits paid for acquisition of property, plant and equipment	–	–	7,548	7,548

30. 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 Track Record Period.

31. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 September 2020, save as disclosed elsewhere in the Historical Financial Information, the Group has the following subsequent events:

(i) On 18 December 2020, 99 shares were allotted, issued and credited as fully paid by the Company to Modern Biotechnology in consideration of the capitalisation of loan in the amount of HK$1,000,000 (equivalent to approximately RMB867,000) owning by the Company to Modern Biotechnology.

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

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

(iv) In response to the COVID-19 since the beginning of 2020, the relevant government authorities have imposed certain quarantine and distancing measures. At the date of this report, the Group does not expect those events or measures have any significant adverse impacts to the financial position as at 30 September 2020 and the application of going concern basis for the preparation of the Historical Financial Information.

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared in accordance with HKFRSs and/or other applicable financial reporting standards for the Company or any of its subsidiaries in respect of any period subsequent to 30 September 2020.

The information set forth in this appendix does not form part of the Accountants' Report prepared by Mazars CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group attributable to equity owners of the Company at 30 September 2020 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to equity owners of the Company at 30 September 2020 or at any future dates following the Global Offering. It is prepared based on the audited combined net tangible assets of the Group attributable to equity owners of the Company at 30 September 2020 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets do not form part of the Accountants' Report as set out in Appendix I to this Prospectus.

	Audited combined net tangible assets attributable to owners of the Company at 30 September 2020		**Estimated net proceeds from the Global Offering**		**Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company**		**Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company per Share**	
	(Note 1)	*(Note 6)*	*(Note 6)*	*(Note 2)*			*(Note 3)*	*(Note 6)*
	RMB'000	*HK$'000*	*RMB'000*	*HK$'000*	*RMB'000*	*HK$'000*	*RMB*	*HK$*
Based on the Offer Price of HK$0.92 per Offer Share	121,856	135,396	95,357	105,952	217,213	241,348	0.36	0.40
Based on the Offer Price of HK$1.47 per Offer Share	121,856	135,396	159,212	176,902	281,068	312,298	0.47	0.52

NOTES TO THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

1. The audited combined net tangible assets of the Group attributable to owners of the Company at 30 September 2020 is based on the audited combined net assets attributable to owners of the Company at 30 September 2020 of approximately RMB121,856,000, extracted from the Group's combined financial information included in the Accountants' Report as set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on 150,000,000 new Shares and the indicative Offer Price of HK$0.92 and HK$1.47 per Offer Share, respectively, after deduction of relevant estimated underwriting commissions and fees and other related expenses payable by the Company excluding approximately RMB19,865,000 (equivalent to approximately HK$22,072,000 listing-related expenses which has been accounted for prior to 30 September 2020. The estimated net proceeds have not taken into account any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates given to the Directors.

3. The calculation of the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is based on 600,000,000 Shares expected to be in issue after the completion of the capitalisation of loan, the Capitalisation Issue and the Global Offering. It has not taken into account any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates given to the Directors.

4. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 September 2020.

5. These amounts are converted from Renminbi to Hong Kong dollars or Hong Kong dollars to Renminbi at an exchange rate of RMB0.90 to HK$1.00. No representation is made that Renminbi/Hong Kong dollars amount have been, could have been or may be converted to Hong Kong dollars/Renminbi at that rate or at all.

The following is the text of a report received from the independent reporting accountants of the Company, Mazars CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

B. ASSURANCE REPORT FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP

31 December 2020

The Board of Directors
Modern Chinese Medicine Group Co., Ltd.
Soochow Securities International Capital Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Modern Chinese Medicine Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") prepared by the directors of the Company (the "Directors"). The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets attributable to the equity owners of the Company at 30 September 2020 and related notes as set out on pages II-1 and II-2 of Appendix II to the prospectus issued in connection with the initial listing of the Company's shares in the Main Board of The Stock Exchange of Hong Kong Limited dated 31 December 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 and II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group's combined financial position at 30 September 2020 as if the Global Offering had taken place on 30 September 2020. As part of this process, information about the Group's financial position at 30 September 2020 has been extracted by the Directors from the Group's combined historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' responsibility for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting accountants' independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We did not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those report were addressed by us at the date of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions at 30 September 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Mazars CPA Limited
Certified Public Accountants
Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of the Companies Act.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019 under the Companies Act. Our Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 18 December 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of our Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the

necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(iii) Alteration of capital

Our Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of our Company.

(v) Power of our Company to purchase its own shares

Our Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then 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 at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to our Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither our Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence

of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Act to be exercised or done by our Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Companies Act, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of our Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than our Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, our Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by our Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if our Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and our Company's name

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meeting

Our Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by our Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear Business Days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear Business Days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Act or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANIES ACT

Our Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by our Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of our Company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of our Company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, our Company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of our Company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of our Company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our Company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of our Company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of our Company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of our Company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, our Company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of our Company, the directors of our Company resolve to hold such shares in the name of our Company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, our Company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, our Company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of our Company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of our Company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of our Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of our Company's assets (including any distribution of assets to members on a winding up) may be made to our Company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of our Company to challenge (a) an act which is ultra vires our Company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of our Company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of our Company in issue, appoint an inspector to examine into the affairs of our Company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that our Company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of our Company's affairs in the future, (b) an order requiring our Company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of our Company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of our Company by other shareholders or by our Company itself and, in the case of a purchase by our Company itself, a reduction of our Company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our Company's memorandum and articles of association.

(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of our Company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by our Company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by our Company; and (iii) the assets and liabilities of our Company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of our Company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, our Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 14 October 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. Our Company shall cause to be kept at the place where our Company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) Register of Directors and Officers

Our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of our Company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands.

Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of our Company are listed on the Stock Exchange, our Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of our Company have passed a special resolution requiring our Company to be wound up by the Court, or where our Company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of our Company as contributories on the ground that it is just and equitable that our Company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of our Company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of our Company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of our Company by other members or by our Company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when our Company so resolves by special resolution or when our Company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of our Company shall be in the custody of the Court.

As soon as the affairs of our Company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of our Company has been disposed of, and thereupon call a general meeting of our Company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by our Company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Ogier, our Company's legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of the Companies Act. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the subsection headed "Documents delivered to the Registrar of Companies and available for inspection – Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of the Companies Act or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Act with limited liability on 12 August 2019. Our registered office is at the office of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. Our Company has established a principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 14 January 2020. Ms. Lau Ching Sze has been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As we are incorporated in the Cayman Islands, we operate subject to the Companies Act and to our constitution, which comprises the Memorandum of Association and Articles of Association. A summary of various provisions of our constitution and relevant aspects of the Companies Act is set out in "Summary of the Constitution of our Company and the Companies Act" in Appendix III to this prospectus.

2. Changes in the share capital of our Company

As at the date of incorporation, our Company had an authorised share capital of HK$380,000, divided into 38,000,000 shares of HK$0.01 each. Upon its incorporation, one Share was allotted and issued in cash at par, to its initial subscriber, which was transferred to Modern Biotechnology on the same day.

On 18 December 2020, 99 Shares were allotted and issued all credited as fully paid to Modern Biotechnology, in consideration of the capitalisation of loan in the amount of HK$1,000,000 owning by our Company to Modern Biotechnology.

Pursuant to resolutions passed by our Shareholder on 18 December 2020, our authorised share capital was increased from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 Shares of HK$0.01 each by the creation of additional 9,962,000,000 Shares.

Immediately following the completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK$6,000,000, divided into 600,000,000 Shares, all fully paid or credited as fully paid.

Save as disclosed above and in "3. Resolutions in writing of our Shareholder passed on 18 December 2020" below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of our Shareholder passed on 18 December 2020

On 18 December 2020, our Shareholder passed resolutions in writing, pursuant to which, amongst other matters:

(a) our Company approved and adopted the Memorandum in substitution for and to the exclusion of the then existing memorandum of association of our Company with immediate effect and the Articles in Substitution for and to the exclusion of the then existing articles of association of our Company with effect from the Listing Date;

(b) the authorised share capital of our Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional 9,962,000,000 Shares with immediate effect;

(c) subject to the conditions set out in "Structure and Conditions of the Global Offering – Conditions of the Global Offering" having been fulfilled or waived:

(i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the new Shares pursuant to the Global Offering and the Over-allotment Option;

(ii) the Listing was approved and our Directors were authorised to implement the Listing;

(iii) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise an amount of HK$4,499,999 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 449,999,900 Shares, such Shares to be allotted and issued to our Shareholder(s) whose name(s) appearing on the register of members of our Company at the close of business on 18 December 2020 (or as such Shareholder(s) may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company;

(iv) subject to the restrictions under Rule 10.08 of the Listing Rules, a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by our Directors other than pursuant to (aa) a rights issue, (bb) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares, (cc) the exercise of options granted pursuant to the Share Option Scheme, (dd) a

specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the number of Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme (subject to adjustment in the case of a consolidation or subdivision of the Shares) and (2) the number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in sub-paragraph (v) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of (I) the conclusion of our next annual general meeting, (II) the expiry of the period within which we are required by any applicable laws or the Articles of Association to hold our next annual general meeting and (III) the date on which the authority given to our Directors by this resolution is revoked or varied by an ordinary resolution of our Shareholders in general meeting (the "**Relevant Period**");

(v) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to buyback Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and the requirements of the Listing Rules, not exceeding 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme (subject to adjustment in the case of a consolidation or subdivision of the Shares), such mandate to remain in effect during the Relevant Period (the "**Buyback Mandate**");

(vi) conditional upon sub-paragraphs (iv) and (v) above being passed, the general unconditional mandate granted to our Directors for the time being in force to exercise the powers of our Company to allot, issue and deal with any unissued Shares pursuant to the sub-paragraph (iv) above was extended by the addition to the number of the Shares which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the number of the Shares repurchased by our Company under the authority granted pursuant to the sub-paragraph (v) above; and

(d) conditional upon the Listing Committee granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme and the commencement of trading of the Shares on the Stock Exchange, the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to, among others, grant options to subscribe for Shares, and to allot, issue and deal with the Shares pursuant to the exercise of the options granted under the Share Option Scheme, in accordance with the rules of the Share Option Scheme.

4. Our subsidiaries

Certain details of our subsidiaries are set out in Appendix I to this prospectus. Save as set out in Appendix I to this prospectus, we do not have any other subsidiaries.

Save as disclosed in the section headed "History, Development and Reorganisation" in this prospectus, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

5. Corporate reorganisation

In order to rationalise our structure and prepare for the Listing, our Group has undertaken several restructuring steps, particulars of which are set out in the subsection headed "History, Development and Reorganisation – Reorganisation" of this prospectus.

6. Repurchase of Shares

As mentioned in "3. Resolutions in writing of Shareholder passed on 18 December 2020" above, a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed.

(a) Provisions of the Listing Rules

The Listing Rules permit a company with a primary listing on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution by shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Repurchases must be funded out of funds legally available for such purpose in accordance with our Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchase by our Company may be made out of the profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Act, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Act, out of capital.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A listed company is required to procure that the broker appointed by it to effect a repurchase of securities shall disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased securities

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of repurchases

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid, and the reasons for making the repurchases.

(vii) Connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms

upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing Shares, our Company may only apply funds lawfully available for such purpose in accordance with our Memorandum of Association and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material and adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Buyback Mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the mandate to such extent as would, in the circumstances, have a material and adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the Buyback Mandate, on the basis of 600,000,000 Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme), could accordingly result in up to 60,000,000 Shares being repurchased by our Company during the period prior to:

(i) the conclusion of our next annual general meeting; or

(ii) the expiry of the period within which we are required by any applicable laws or the Articles of Association to hold our next annual general meeting; or

(iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the Buyback Mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Buyback Mandate.

Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) the Deed of Indemnity;

(b) the Exclusive Business Cooperation Agreement;

(c) the Exclusive Option Agreement;

(d) the Power of Attorney;

(e) the Equity Pledge Agreement;

(f) the Spouse's Undertaking;

(g) the loan capitalisation agreement dated 18 December 2020 and made between our Company and Modern Biotechnology, pursuant to which our Company allotted and issued 99 Shares, credited as fully paid, to Modern Biotechnology by way of capitalisation of loan in the amount of HK$1,000,000 owing by our Company to Modern Biotechnology; and

(h) the Hong Kong Public Offering Underwriting Agreement.

2. Material intellectual property rights

As at the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights in the PRC which, in the opinion of our Directors, are material in relation to our business.

(a) Trademarks

As at the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademarks	Registered Owner	Registration number	Class	Place of registration	Expiry date
1.	御室	Chengde Yushi	3894873	5	PRC	6 July 2026
2.	承德御室金丹药业有限公司	Chengde Yushi	5335339	5	PRC	6 August 2029
3.	御室	Chengde Yushi	6018430	35	PRC	6 May 2030
4.	康医生	Chengde Yushi	9188152	35	PRC	13 March 2022
5.	御室1677	Chengde Yushi	10421697	35	PRC	20 March 2023
6.	Imperial Palace	Chengde Yushi	11610393	5	PRC	13 April 2024
7.	健康世纪	Chengde Yushi	12006148	35	PRC	27 July 2024
8.	御室1677	Chengde Yushi	12573159	5	PRC	13 October 2024
9.	御室 · 御品天下	Chengde Yushi	12573417	5	PRC	13 October 2024
10.	御室 凤之道	Chengde Yushi	12982964	5	PRC	20 January 2025
11.	御室 龙之道	Chengde Yushi	12983016	5	PRC	13 February 2025

No.	Trademarks	Registered Owner	Registration number	Class	Place of registration	Expiry date
12.	御室 龙凤道	Chengde Yushi	12983056	5	PRC	13 February 2025
13.	二十六位妩媚	Chengde Yushi	13276013	5	PRC	13 January 2025
14.	御室	Chengde Yushi	13373543	5	PRC	20 January 2025
15.	御室	Chengde Yushi	13374856	35	PRC	20 January 2025
16.	Gidootol	Chengde Yushi	13848798	5	PRC	13 March 2025
17.	Gidootol	Chengde Yushi	13849079	35	PRC	27 February 2025
18.	御室御品天下	Chengde Yushi	13984485	35	PRC	13 March 2025
19.	御室天下	Chengde Yushi	13984497	35	PRC	27 April 2025
20.	御室礼到家	Chengde Yushi	14016433	35	PRC	13 April 2025
21.	御室 一六七七	Chengde Yushi	14031927	35	PRC	20 March 2025
22.	御室龙凤欢	Chengde Yushi	14423020	5	PRC	27 May 2025
23.		Chengde Yushi	14432166	5	PRC	27 May 2025
24.		Chengde Yushi	14432201	5	PRC	27 May 2025
25.		Chengde Yushi	14432822	35	PRC	27 May 2025
26.		Chengde Yushi	14432841	35	PRC	27 May 2025
27.		Chengde Yushi	14617508	35	PRC	27 July 2025
28.	御室皇家礼物	Chengde Yushi	15375084	35	PRC	6 November 2025
29.	御室	Chengde Yushi	15917868	5	PRC	20 February 2026

No.	Trademarks	Registered Owner	Registration number	Class	Place of registration	Expiry date
30.	御室金色逸站	Chengde Yushi	15950657	35	PRC	20 February 2026
31.	御室可以养生	Chengde Yushi	15970314	35	PRC	6 March 2026
32.	御室大健康	Chengde Yushi	16118307	5	PRC	13 March 2026
33.	御室大健康	Chengde Yushi	16118312	35	PRC	13 March 2026
34.	御室品	Chengde Yushi	16249291	35	PRC	13 April 2026
35.	御室中	Chengde Yushi	16249292	5	PRC	13 April 2026
36.	御室中	Chengde Yushi	16249297	35	PRC	13 April 2026
37.	御室官	Chengde Yushi	16249298	5	PRC	13 April 2026
38.	御室官	Chengde Yushi	16249303	35	PRC	13 April 2026
39.	室御	Chengde Yushi	16249354	5	PRC	13 April 2026
40.	室御	Chengde Yushi	16249359	35	PRC	13 April 2026
41.	御室武媚娘	Chengde Yushi	16249360	35	PRC	13 April 2026
42.	御室爱新觉罗	Chengde Yushi	16249362	35	PRC	6 August 2026
43.	御室乾坤大	Chengde Yushi	16249363	35	PRC	13 April 2026
44.	爱心天地宽	Chengde Yushi	16249365	35	PRC	6 August 2026
45.	御室 皇家礼物	Chengde Yushi	16249373	5	PRC	6 July 2026
46.	御室 皇家标准	Chengde Yushi	16249758	35	PRC	6 April 2026
47.	御室品	Chengde Yushi	16249759	5	PRC	6 May 2026
48.	御室 皇家标准	Chengde Yushi	16250691	5	PRC	6 April 2026
49.	御室武媚娘	Chengde Yushi	16268623	5	PRC	6 June 2026

No.	Trademarks	Registered Owner	Registration number	Class	Place of registration	Expiry date
50.	参精	Chengde Yushi	16268944	35	PRC	27 March 2026
51.	御室一品	Chengde Yushi	16268949	35	PRC	27 March 2026
52.	御室一品	Chengde Yushi	16268954	5	PRC	6 June 2026
53.		Chengde Yushi	16426088	5	PRC	27 August 2026
54.		Chengde Yushi	16426118	35	PRC	27 August 2026
55.	御室皇家生活馆	Chengde Yushi	16671200	35	PRC	27 May 2026
56.	御室启泰	Chengde Yushi	17660577	5	PRC	27 September 2026
57.	御室啟泰	Chengde Yushi	17660669	5	PRC	6 October 2026
58.	御室啟泰	Chengde Yushi	17661519	35	PRC	6 October 2026
59.	御室启泰	Chengde Yushi	17661583	35	PRC	6 October 2026
60.	御室养生堂	Chengde Yushi	18453267	35	PRC	6 January 2027
61.		Chengde Yushi	18453332	35	PRC	13 March 2027
62.	觉罗皇家贡礼	Chengde Yushi	19636774	35	PRC	27 May 2027
63.	御室 皇家贡礼	Chengde Yushi	19642655	35	PRC	6 September 2027
64.	御室爱新	Chengde Yushi	19642656	35	PRC	6 September 2027
65.	御室1616	Chengde Yushi	20284883	35	PRC	27 July 2027
66.	御室参工堂	Chengde Yushi	20284989	35	PRC	27 July 2027
67.	皇家爱新觉罗	Chengde Yushi	22240887	35	PRC	6 April 2028
68.	皇家爱新觉罗	Chengde Yushi	22242158	5	PRC	6 March 2028
69.	御室永明	Chengde Yushi	22913529	5	PRC	27 February 2028

No.	Trademarks	Registered Owner	Registration number	Class	Place of registration	Expiry date
70.	御室神盾	Chengde Yushi	22913812	5	PRC	27 February 2028
71.	御室满	Chengde Yushi	23052988	5	PRC	6 March 2028
72.	御室宫廷	Chengde Yushi	25521453	5	PRC	20 August 2028
73.	御室皇家	Chengde Yushi	25531714	5	PRC	20 August 2028
74.	御室皇家	Chengde Yushi	25535606	35	PRC	27 July 2028
75.	十二位帝皇	Chengde Yushi	26017381	35	PRC	13 August 2028
76.	十二位帝皇	Chengde Yushi	26018556	5	PRC	13 November 2028
77.		Chengde Yushi	14617503	5	PRC	13 August 2026
78.	御室天下	Chengde Yushi	13984562	5	PRC	6 November 2026
79.	御室皇	Chengde Yushi	12230768	35	PRC	13 August 2024
80.	御室皇	Chengde Yushi	12230613	5	PRC	13 August 2024
81.	康医生	Chengde Yushi	12006147	35	PRC	27 June 2024
82.	御室	Chengde Yushi	12006146	35	PRC	27 June 2024
83.	御室1677	Chengde Yushi	12006145	35	PRC	27 June 2024
84.	御室 · 御品天下	Chengde Yushi	12006144	35	PRC	27 June 2024
85.	意祥	Chengde Yushi	12006143	35	PRC	27 June 2024
86.	如吉	Chengde Yushi	12006142	35	PRC	27 June 2024
87.		Chengde Yushi	12006141	35	PRC	27 June 2024
88.		Chengde Yushi	12006140	35	PRC	27 June 2024

No.	Trademarks	Registered Owner	Registration number	Class	Place of registration	Expiry date
89.	御室皇家	Chengde Yushi	35007758	5	PRC	27 July 2029
90.	御室宗医堂	Chengde Yushi	31632188	35	PRC	6 March 2029
91.	御室宗医堂	Chengde Yushi	31610266	5	PRC	13 March 2029
92.	御室皇家秘方	Chengde Yushi	37598928	5	PRC	16 April 2029
93.	愛新覺羅	Chengde Yushi	35481623	35	PRC	27 January 2030
94.	御世贡	Chengde Yushi	42212055	35	PRC	13 July 2030
95.	愛新覺羅	Chengde Yushi	37936863	35	PRC	20 May 2030
96.		Chengde Yushi	37571072	35	PRC	13 April 2030
97.	御耀堂	Chengde Yushi	5252404	5	PRC	20 September 2029
98.	愛新覺羅	Chengde Yushi	41468997	35	PRC	6 October 2030
99.	御室皇家秘方	Chengde Yushi	37571175	35	PRC	16 April 2029
100.	愛新覺羅	Chengde Yushi	40715336	35	PRC	27 November 2030

(b) Domain Name

As at the Latest Practicable Date, we have registered the following domain name which is material to our business:

Registration No.	Domain Name	Registrant	Expiry date
ICP No. 20001072-1	cdysjdyy.com	Chengde Yushi	28 November 2023

(c) Patents

As at the Latest Practicable Date, we have registered the following patents which are material to our business:

No.	Title of Invention	Type	Registration number	Place of registration	Registered owner	Effective period
1	An efficient slicing machine that cuts Chinese herbal medicines into even slices (一種高效切片均勻的中藥材切片機)	Utility model	2017201959490	PRC	Chengde Yushi	10 years from 2 March 2017
2	A high speed drying apparatus that dries Chinese herbal medicines (一種醫療中草藥快速乾燥裝置)	Utility model	2017204231042	PRC	Chengde Yushi	10 years from 21 April 2017
3	A crushing machine that processes dried Chinese herbal medicines (一種中草藥乾燥粉碎機)	Utility model	2017206348633	PRC	Chengde Yushi	10 years from 2 June 2017
4	A rapid planting method for grade 2 ginseng (一種地蔘的快速繁殖方法)	Invention patent	2015106783226	PRC	Chengde Yushi	20 years from 20 October 2015

As at the Latest Practicable Date, we have filed the following patent application which is pending, published and material to our business:

No.	Title of Invention	Type	Application number	Place of application	Applicant	Filing date
1	One of the Menstrual Discomfort Relief Pill and its preparation method (一種加味逍遙丸及其製備方法)	Invention patent	2017106118890	PRC	Chengde Yushi	15 September 2017
2.	One of the Kidney Invigoration Pill and its preparation method (一種金匱腎氣丸及其製備方法)	Invention patent	2017106118867	PRC	Chengde Yushi	15 September 2017

(d) Copyrights

As at the Latest Practicable Date, we have registered the following copyrights which are material to our business:

No.	Copyright	Registered owner	Registration number	Place of registration	Registration date
1.	Yushi Jindan Pharmaceutical Product Freezer Monitoring Platform V1.0 (御室金丹藥品冷藏庫監控平台V1.0)	Chengde Yushi	2017SR444959	PRC	14 August 2017
2.	Yushi Jindan Medicine Information Management Software V1.0 (御室金丹醫藥信息管理軟件V1.0)	Chengde Yushi	2017SR437951	PRC	10 August 2017
3.	Yushi Jindan Medicine Inventory Logistic System V1.0 (御室金丹醫藥倉儲物流記錄系統V1.0)	Chengde Yushi	2017SR436648	PRC	10 August 2017
4.	Pharmaceutical Laboratory Real-Time Monitoring System V1.0 (藥劑化學實驗室實時監測系統V1.0)	Chengde Yushi	2017SR385933	PRC	20 July 2017
5.	Capsule Cooling Chain Intelligence Control System V1.0 (膠囊藥劑冷鏈智能控制系統V1.0)	Chengde Yushi	2017SR373010	PRC	14 July 2017
6.	Capsule Production Equipment Inspection System V1.0 (膠囊生產設備檢測軟件V1.0)	Chengde Yushi	2017SR372999	PRC	14 July 2017

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY

1. Disclosure of interests

Immediately following the completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, the interests and/or short positions of our Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange, will be as follows:

(i) Interests in the Shares

Name of Director/chief executive	Capacity/Nature of interest	Number of Shares	Approximate percentage of total number of issued shares
Mr. Xie*(Note)*	Interest of a controlled corporation	450,000,000 Shares (long position)	75%

Note: These Shares are held by Modern Biotechnology, the entire issued share capital of which is owned by Mr. Xie. Mr. Xie is deemed to be interested in the Shares held by Modern Biotechnology under the SFO.

(ii) Interests in the shares of our associated corporations

Name of Director/chief executive	Name of associated corporation	Capacity/ Nature of interest	Number of Shares	Approximate percentage of total number of issued shares/ interests
Mr. Xie	Modern Biotechnology	Beneficial owner	One Share of US$1.00 (long position)	100%
	Chengde Yushi	Beneficial owner	N/A*(Note)*	100%

Note: As Chengde Yushi is a limited liability company established in the PRC, the percentage of shareholding is determined with reference to the percentage of subscribed registered capital of the shareholder.

So far as is known to any Director or the chief executive of our Company as at the Latest Practicable Date, save as disclosed above, none of our Directors or chief executive of our Company will, immediately following the completion of the Global Offering and the Capitalisation Issue and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme, have any interests in the shares, underlying shares or debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange.

So far as is known to any Director or the chief executive of our Company as at the Latest Practicable Date, immediately following completion of the Capitalisation Issue and Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares to be issued upon the exercise of options which may be granted under the Share Option Schemes, the persons (other than a Director or the chief executive of our Company) who will have interests and/or short positions in our Shares, underlying Shares or debentures of our Company which will fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once our Shares are listed on the Stock Exchange or who will be directly or indirectly interested in 10% or more of the number of issued voting shares of any other member of our Group are as follows:

Name	Capacity/Nature of interest	Number of Shares held in our Company immediately after the completion of the Capitalisation Issue and the Global Offering	Percentage of shareholding in our Company immediately after the completion of the Capitalisation Issue and the Global Offering
Modern Biotechnology	Beneficial owner	450,000,000 Shares	75%

Note: Modern Biotechnology is a company incorporated in the BVI, the entire issued share capital of which is owned by Mr. Xie.

2. Directors' service contracts and letters of appointment

Each of the executive Directors has entered into a service contract with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from 18 December 2020, which may be terminated by not less than three months' notice in writing served by either the executive Director or our Company.

The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

Each of the independent non-executive Directors has signed an appointment letter with our Company for a term of one year with effect from 18 December 2020. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of our Directors has entered into, or has proposed to enter into, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for FY2017, FY2018, FY2019 and 9M2020 were approximately RMB530,000, RMB625,000, RMB849,000 and RMB835,000, respectively.

Save as disclosed above, no other payments have been made or are payable, in respect of FY2017, FY2018, FY2019 and 9M2020, by any of member of the Group to any of our Directors.

Under the arrangements currently in force, the aggregate remuneration, excluding discretionary bonus, of our Directors for FY2020 is approximately RMB1.1 million.

4. Directors' competing interests

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

(a) None of our Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) Save in connection with the Underwriting Agreements and the Contractual Arrangements, none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by our Shareholder on 18 December 2020.

(a) Purpose of the Share Option Scheme

The Share Option Scheme is a share incentive scheme and is established to enable our Group to (1) recognise and acknowledge the contributions that eligible participants have (or may have) made or may make to our Group (whether directly or indirectly); (2) attract and retain and appropriately remunerate the best possible quality of employees and other eligible participants; (3) motivate the eligible participants to optimise their performance and efficiency for the benefit of our Group; (4) enhance its business, employee and other relations; and/or (5) retain maximum flexibility as to the range and nature of rewards and incentives which our Group can offer to eligible participants.

(b) Eligible participants to the Share Option Scheme

Eligible participants mean (1) any employee or officer employed by any member of our Group or an affiliate (whether full time or part time) and any of his/her close associates; (2) any director or proposed director of any member of our Group or any company which is an affiliate and their respective close associates; and (3) any consultant, professional, customer, supplier, agent, franchisee, partner, adviser or contractor of any member of our 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 Share Option 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 our Shareholders. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The Scheme Mandate Limit may be refreshed if so approved by our Shareholders at general meeting from time to time provided always that 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 our Shareholders at general meeting (the "**Refreshed Limit**"). Upon such renewal, all options granted under the Share Option Scheme and other schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or other schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Refreshed Limit. A circular must be sent to our Shareholders containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought. The Board may seek separate approval by our Shareholders at general meeting to grant options beyond the

Scheme Mandate Limit or the Refreshed Limit provided that the options in excess of the Scheme Mandate Limit or the Refreshed Limit are granted only to the eligible participants specifically identified by our Company before such approval is sought and our Company must issue a circular to our Shareholders containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such eligible participants. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option 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 Share Option Scheme, no options may be granted under the Share Option Scheme or other schemes if this will result in the said 30% limit being exceeded.

(d) Maximum entitlement of a grantee

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 Share Option 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. Any grant of further options above this limit shall be subject to, among others, (1) approval of our Shareholders at general meeting, with such eligible participant and his close associates (or his associates if such eligible participant is a connected person of our Company) abstaining from voting; (2) a circular in relation to the proposal for such further grant having been sent by our Company to our Shareholders with such information from time to time as required by the Listing Rules; and (3) the number and terms (including the Exercise Price (as defined in paragraph (f) below) of the options to be granted to such proposed grantee shall be fixed before the shareholders' approval mentioned in (1) above.

(e) Performance target

Subject to the provisions of the Share Option Scheme and applicable laws, the Board may, on a case-by-case basis and at its discretion when making an offer, impose any conditions, restrictions or limitations in relation thereto in addition to those expressly set out in the Share Option Scheme as it may think fit (which shall be stated in the offer letter) including, vesting period and conditions, restrictions or limitations relating to the achievement of operating or financial targets; and if applicable, the satisfactory performance of certain obligations by the grantee as the Board may determine from time to time.

(f) Exercise price

Subject to any adjustment made pursuant to paragraph (o) below, 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 (where our Company has been listed for less than five Business Days, the new issue price shall be used as the closing price for any Business Day falling within the period before the Listing Date); and

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

(g) 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 Share Option Scheme.

(h) Options granted to directors or substantial shareholders of our Company

Any grant of options to any director, chief executive or substantial shareholder of our Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of such options). Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or their respective associates would result in the Shares issued and to be issued upon exercise of the options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by our Shareholders. Our Company must send a circular to our Shareholders containing such information as required under the applicable laws. The relevant grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting. Any vote taken at the meeting to approve the grant of such options must be taken on a poll in accordance with the Listing Rules.

(i) Grant offer letter and notification of grant of options

An offer shall be made to an eligible participant by an offer letter, which shall specify the following: (1) the name and address of the eligible participant; (2) the number of Shares to which the option to be granted to the eligible participant relates; (3) the procedure for acceptance of the option and the last date by which the offer must be accepted; (4) the period within which a grantee may exercise of the option pursuant to the terms and conditions of the Share Option Scheme to be notified by the Board to each grantee which the Board may in its absolute discretion determine, save that such period shall not be more than ten (10) years from the commencement date in respect of any particular option ("**Exercise Period**"), the Exercise Price and the manner of payment of the Exercise Price; and (5) such other terms and conditions of the offer as may be imposed by the Board at its discretion either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme; and (6) a statement requiring the eligible participant to undertake to hold the option on and subject to the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. An offer shall be deemed to have been accepted when our Company receives a duplicate offer letter duly signed from the grantee together with a remittance of RMB1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof. Such remittance shall in no circumstances be refundable. Once accepted, the option shall be deemed to have been granted as from the date on which it was offered to the relevant eligible participant. No offer shall be capable of or open for acceptance after the expiry of ten (10) years from the effective date of the Share Option Scheme. Any offer may be accepted for a number of Shares less than which is offered, provided that it is accepted in respect of a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof. To the extent that the offer is not accepted in the manner set out in the offer letter and cannot be accepted by an eligible participant who ceases to be qualified as an eligible participant after the offer has been made, the offer shall be deemed to have been irrevocably declined and lapsed automatically without notice.

(j) Restriction of grant of options

The Board shall not make any offer:

(i) after inside information (as defined under the SFO) has come to its knowledge until such inside information has been announced by our Company pursuant to the relevant requirements of any applicable laws and regulations of Hong Kong or other relevant jurisdictions (including but not limited to the Listing Rules); or

(ii) during the period commencing one month immediately before the earlier of:

I. the date of the Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

II. the deadline for our Company to announce its result for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, or during any period of delay in publication of a results announcement.

(k) Time of exercise of an option

Subject to the relevant Exercise Period and the other terms and conditions of the offer, an option shall be exercised in whole or in part by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

(l) Cancellation of options

Any option may be cancelled in whole or in part and at any time:

(i) if agreed between our Company and the relevant grantee; or

(ii) if the Board offers to grant to the grantee replacement options of equivalent value of the options being cancelled; or

(iii) if our Company pays or procures to be paid to the grantee an amount equal to the cash value of the options being cancelled as at the date of cancellation as determined by the Board by reference to the difference between the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of the cancellation and the Exercise Price. Where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made under a scheme with available unissued options (excluding for this purpose all cancelled options) and in compliance with the terms of the Share Option Scheme.

(m) Lapse of an option

An option (to the extent not already exercised) shall lapse and not be exercisable on the earliest of:

(i) the expiry of the Exercise Period;

(ii) the expiry of any of the periods referred to in paragraphs (p) and (q) below;

(iii) subject to paragraph (r) below, the date of the commencement of the winding-up of our Company;

(iv) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph (s) below;

(v) in the case of the grantee being an employee or officer or any of his/her close associates, the date on which the relevant employee ceases to be an employee on the grounds that he has been guilty of serious misconduct, or there exist grounds allowing summary dismissal under the relevant employment contract or under common law, or he has been convicted of any criminal offence involving his integrity or honesty ("**Culpable Termination**");

(vi) the occurrence of bankruptcy of the grantee, unless otherwise determined to the contrary by the Board;

(vii) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise determined to the contrary by the Board; and

(viii) the date on which the Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria in accordance with the terms of the Share Option Scheme.

(n) Voting and dividend rights

No dividends shall be payable and no voting rights shall be exercisable in relation to any options or Shares that are the subject of options that have not been exercised.

(o) Effect of alteration in the share capital of our Company

In the event of any alteration in the capital structure of our Company while any option remains exercisable, and such event arises from, including a capitalization issue, rights issue, subdivision or consolidation of Shares, or reduction of capital of our Company (other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party), the Board may, if it deems appropriate, direct that such corresponding adjustments (if any) be made in:

(i) the number of Shares subject to the options so far as unexercised; and/or

(ii) the Exercise Price; and/or

(iii) the number of Shares subject to the Share Option Scheme, as the auditors or an independent financial adviser appointed by our Company for such purpose shall certify in writing that the adjustments satisfy the requirements, among others, that the adjustments must give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled, but no such adjustments may be made to the extent that Shares would be issued at less than their nominal value. The capacity of the auditors or the independent financial adviser is that of experts and not of arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby. The costs of the auditors or the independent financial adviser for the purpose of and in connection with the Share Option Scheme shall be borne by our Company.

(p) Retirement, death or permanent physical or mental disability of an eligible participant

In the event of death of the grantee before exercising the option in full, his personal representative(s) may exercise the option (to the extent exercisable and not already exercised) either in full or in part until the earlier of the expiry of the Exercise Period and the expiry of 12 months following his death or such longer period as the Board may determine. In the event of the grantee (being an employee or officer or director (or proposed director) or their respective close associates) ceasing to be an eligible participant by reason of disability of the relevant employee or director (or proposed director), the grantee may exercise the option (to the extent exercisable and not already exercised) either in full or in part until the earlier of the expiry of the Exercise Period and the expiry of six months following such cessation or such longer period as the Board may determine. In the event of the grantee ceasing to be an eligible participant for any reason other than his death or disability, bankruptcy or Culpable Termination of the relevant employee or director (or proposed director), the grantee may exercise the option (to the extent exercisable and not already exercised) either in full or in part until the earlier of the expiry of the Exercise Period and the expiry of 30 days following such cessation or such longer period as the Board may determine.

(q) Rights on takeover and schemes of compromise or arrangement

In the event of a takeover or merger offer (other than by way of a scheme of arrangement) being made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such takeover or merger offer becomes or is declared unconditional, the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part at any time up to the close of such offer (or any revised offer) unless the Board shall determine to the contrary. In the event of a takeover or merger offer by way of a scheme of arrangement (other than for the purpose of reconstruction or amalgamation of our Company) being made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any

person acting in concert with the offeror) and the scheme of arrangement is approved by the requisite resolutions of shareholders of our Company at general meeting, the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part not later than three Business Days (excluding any period(s) of closure of our Company's share register(s)) immediately preceding the date of the proposed meeting, and our Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of our Company's share register(s)) immediately preceding the date of the proposed meeting, allot and issue such number of Shares to the grantees which falls to be issued on such exercise. With effect from the date of the proposed meeting, the rights of all grantees to exercise the options shall forthwith suspended. Upon the scheme of arrangement becoming effective, all options shall lapse. If the scheme of arrangement is not approved by the relevant court, the rights of the grantees to exercise the options shall with effect from the date of the court's decision be restored in full. No claim shall lie against our Company or the Board for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(r) Rights on voluntary winding up

In the event of a notice being given by our Company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to all grantees on the same date as it gives notice of the meeting to its shareholders, and thereupon the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part not later than three Business Days (excluding any period(s) of closure of our Company's share register(s)) immediately preceding the date of the proposed meeting, and our Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of our Company's share register(s)) immediately preceding the date of the proposed meeting, allot and issue such number of Shares to the grantees which falls to be issued upon such exercise.

(s) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), our Company shall forthwith give notice thereof to all grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon the grantees may exercise the options (to the extent exercisable and not already exercised) either in full or in part by giving notice in writing to our Company accompanied by a remittance for the full amount of the Exercise Price for the Shares in respect of which the notice is given not later than three Business Days (excluding any period(s) of closure of our Company's share register(s)) immediately preceding the date of the proposed meeting, and our Company

shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of our Company's share register(s)) immediately preceding the date of the proposed meeting, allot and issue such number of Shares to the grantees which falls to be issued on such exercise.

(t) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option shall be subject to all the provisions of the Articles of Association and the applicable laws in force as at the date on which Shares are allotted and issued to a grantee pursuant to the exercise of an option hereunder ("**Allotment Date**") and shall rank pari passu in all respects with the existing fully paid Shares in issue on the Allotment Date and accordingly shall entitle the holder to participate in all dividends or other distributions paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the Allotment Date.

(u) Duration

The Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the effective date of the Share Option Scheme, after which no further options may be offered or granted under the Share Option Scheme but the provisions of the Share Option 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 Share Option Scheme.

(v) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board save for the following alterations which may be effected only with the prior approval of our Shareholders at general meeting:

(i) any alterations to the provisions relating to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantees or prospective grantees;

(ii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature except where such alterations take effect automatically under the existing terms of the Share Option Scheme; and

(iii) any change to the authority of the Board in relation to any alterations to the terms of the Share Option Scheme,

provided always that the amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the Listing Rules and any other applicable laws.

(w) Termination

Our Company by resolution at general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options may be offered or granted under the Share Option Scheme but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to the termination or otherwise as may be required in accordance with the terms and conditions of the Share Option Scheme.

(x) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

(i) the passing of the necessary resolution by our Shareholders at general meeting as required by our articles of association for approving the adoption of the Share Option Scheme;

(ii) the Stock Exchange granting approval for the listing of and permission to deal in the Shares to be allotted and issued by our Company pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme; and

(iii) the commencement of the dealings in the Shares on the Stock Exchange.

If the conditions above are not satisfied on or before 31 March 2021 (or such later date as the Board may determine), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. An application has been made to the Listing Committee to the Stock Exchange for the listing of, and permission to deal in, the new Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme. As at the Latest Practicable Date, no option had been granted or agreed to be granted by our Company pursuant to the Share Option Scheme. Our Company will disclose in the annual and interim reports details of the Share Option Scheme including the number of options granted/exercised/cancelled/lapsed, date of grant, vesting period, exercise period and exercise price during the relevant financial year/period in accordance with the Listing Rules in force from time to time.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Tax and Other Indemnities

Our Controlling Shareholders have entered into a deed of indemnity in favour of our Company (for ourselves and as trustee for each of our subsidiaries) (being a contract referred to in the subsection headed "B. Further Information About Our Business – 1. Material contracts" in this appendix) to provide indemnities on a joint and several basis in respect of, among other things, taxation resulting from profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) and/or assets acquired by any member of our Group, as well as any property claim or estate duty to which any member of our Group may be subject and payable on or before the date on which the Global Offering becomes unconditional.

3. Sole Sponsor's fees and its independence

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, and the Shares to be issued as mentioned in this prospectus. The Sole Sponsor will receive an aggregate fee of HK$5,600,000 for acting as the sponsor for the Listing. The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

4. Qualification of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in, or referred to in, this prospectus (the "**Experts**") are set out below:

Name	Qualifications
Soochow Securities International Capital Limited	Licensed to conduct Type 6 (advising on corporate finance) of the regulated activities under the SFO
Mazars CPA Limited	Certified Public Accountants, Hong Kong
Commerce & Finance Law Offices	Legal advisers to our Company as to the laws of the PRC
Ogier	Legal advisers to our Company as to the laws of the Cayman Islands
Euromonitor International Limited	Industry research consultant

5. Consents of experts

Each of the Experts has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

6. Interests of experts

None of the Experts has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

None of the Experts has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. No amount or benefit has been paid or given within the two years immediately preceding the date of this prospectus or intended to be paid or given to any promoter.

8. Preliminary expenses

The preliminary expenses incurred by our Company amounted to approximately HK$26,000 and were paid by our Company.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. No material adverse change

Save as disclosed in the subsection headed "Summary – Recent Developments and No Material Adverse Change" in this prospectus, our Directors confirm that there had been no material adverse change in our financial or trading position since 30 September 2020, being the date of our latest audited combined financial statements were made up and up to the date of this prospectus.

12. Miscellaneous

(a) Save as disclosed in the section headed "History, Development and Reorganisation" in this prospectus and the subsection headed "A. Further Information about our Group – 2. Changes in the Share Capital of our Company" in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of any member of our Group has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group; and

(iii) no commission (except commission to underwriters) has been paid or payable to any person for subscribing, agreeing to subscribe, or procuring or agreeing to procure subscription, for any shares in or debentures of our Company.

(b) Save as disclosed in this subsection headed "D. Share Option Scheme" in this Appendix, no share or loan capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option.

(c) No founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued.

(d) Our Company has no outstanding convertible debt securities or debentures.

(e) There is no arrangement under which future dividends are waived or agreed to be waived.

(f) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

(g) The principal register of members of our Company will be maintained in the Cayman Islands by Ogier Global (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

(h) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

(i) No company within our Group is presently listed on any stock exchange or traded on any trading system.

1. PCM manufactured and produced under the brand of our Company

The following table sets out the details of all 59 types of PCM products we had as at the Latest Practicable Date[(1)]:

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[(2)]
1.	Circulation Enhancement Pill[(3)] (氣血雙補丸)	Replenishing Qi and boosting blood production; reducing chronic tiredness or sleepiness, dizziness, sore or aching muscles	June 2023	OTC medicine
2.	Cardiotonic Enhancement Capsule[(4)] (山玫膠囊)	Replenishing Qi and enhancing blood circulation; alleviating coronary heart condition, headache and facial pain	August 2025	Prescribed medicine
3.	Vigour and Vitality Supplement Pill (補腎填精丸)	Replenishing Qi and enhancing blood circulation; improving kidney and testicles conditions	September 2025	OTC medicine
4.	Heart Wellness Capsule (心安膠囊)	Dilating blood vessels; improving blood supply to the heart; lowering fatty acids and cholesterol; alleviating chest pain and high blood pressure	August 2025	Prescribed medicine
5.	Menstrual Discomfort Relief Pill (加味逍遙丸)	Replenishing Qi and improving liver and spleen conditions; temporary relief of menstrual discomfort and relevant chest pain	April 2021	OTC medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
6.	Liver Detox Tablet (護肝片)	Replenishing Qi and improving liver and spleen conditions; normalising liver enzyme	August 2025	Prescribed medicine
7.	Kidney Invigoration Pill (金匱腎氣丸)	Improving the conditions of kidney and edema, loin, knees and limbs	September 2025	Prescribed medicine
8.	Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸)	Alleviating the conditions of externally-contracted wind-cold, which include headache, dizziness, abdominal distension, vomiting and diarrhoea	August 2025	OTC medicine
9.	Six-Ingredient Rehmannia Pill (六味地黃丸)	Improving kidney conditions. Alleviating dizziness, sore loin pain, fever and night sweats	August 2025	OTC medicine
10.	Lycium, Chrysanthemum and Rehmannia Pill (杞菊地黃丸)	Improving the conditions of liver and kidney. Alleviating dizziness and excess tears and blurred vision	August 2025	OTC medicine
11.	Mulberry Leaf and Chrysanthemum Flu Tablets (桑菊感冒片)	Improving the conditions of lung and alleviating cough. Used for early symptoms of flu, headache, cough, sore throat	August 2025	OTC medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
12.	Arborvitae Seed Heart Nourishing Pill (柏子養心丸)	Replenishing Qi and boosting blood production. Improving the conditions of heart, alleviating insomnia dreaminess and memory	August 2025	Prescribed medicine
13.	Nvjin Pill (女金丸)	Replenishing Qi and boosting blood production, regulating the flow of Qi and enhancing blood circulation, relieving pain. Improving conditions of Qi and blood menstruation	September 2025	OTC medicine
14.	Calculus Bovis Detoxification Tablet (牛黃解毒片)	Alleviating condition of sore throat, swelling and developing of boils in the mouth and eyes	September 2025	Prescribed medicine
15.	Bazhen Yimu Pill (八珍益母丸)	Replenishing Qi and boosting blood production, enhancing blood circulation and regulating the menstrual function	August 2025	OTC medicine
16.	Sight Acuity Improving Rehmannia Pill (明目地黃丸)	Nourishing the kidney, nourishing the liver, improving acuity of sight. Used for liver and kidney weakness, dryness, blurred vision and excess tears	August 2025	OTC medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
17.	Relief Pill (逍遙丸)	Improving the condition of liver and spleen, boosting blood production and regulating the menstrual function. Alleviating dizziness and appetite conditions	August 2025	OTC medicine
18.	Cinnabar Nerve-calming Pill (朱砂安神丸)	Improving the condition of heart and boosting blood production, calming the nerves. Used for irritable feverish sensation in chest	August 2025	Prescribed medicine
19.	Spleen Invigorating and Qi Replenishing Pill (補中益氣丸)	Used for weakness of spleen and stomach	August 2025	OTC medicine
20.	Gastrodia Pill (天麻丸)	Improving the conditions of liver and kidney and relieving the relevant pains	September 2025	Prescribed medicine
21.	Liver-dispersing and Stomach-regulating Pill (舒肝和胃丸)	Regulating the stomach and relieving pain. Alleviating loss of appetite, hiccup and vomiting	August 2025	OTC medicine
22.	Special Cough Relief Capsule (咳特靈膠囊)	Relieving cough and diminishing inflammation. Used for cough and panting and chronic bronchitis	September 2025	OTC medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
23.	Rehmannia and Stomach-cooling Pill (牛黃清胃丸)	Improving the conditions of stomach and moisturising dryness	September 2025	Prescribed medicine
24.	Antelope Lung-cooling Pill (羚羊清肺丸)	Improving the condition for lungs and throat, relieving cough. Alleviate sickness, hotness of body and dizziness, sore and tiredness	August 2025	Prescribed medicine
25.	Lily Bulb Metal-Securing Pill (百合固金丸)	Reducing sputum and relieving cough. Improving the conditions of lungs and kidney. Alleviating the condition of cough, dry throat and sore throat	August 2025	OTC medicine
26.	Liuhe Dingzhong Pill (六合定中丸)	Improving the condition of spleen and promoting digestion. Used for infection caused by noxious heat and dampness, indigestion, headache with chills and fever	August 2025	OTC medicine
27.	LingQiao Detoxification Pill (羚翹解毒丸)	Alleviating flu, fever, dizziness, cough, sore throat and swollen cheeks	August 2025	OTC medicine
28.	Digestion-promoting and Qi-smoothening Pill (開胸順氣丸)	Promoting the circulation of Qi and relieving pain. Used for indigestion, distending pain of chest caused by Qi stagnation	August 2025	Prescribed medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[(2)]
29.	Loin-strengthening and Kidney-invigorating Pill (壯腰健腎丸)	Strengthening the loin pain and the kidney, boosting blood production. Improving conditions of kidney, loin, knee and bones	August 2025	OTC medicine
30.	Chinese Goldthread Rhizome Lamb Liver Pill (黃連羊肝丸)	Improving the conditions of eyes and alleviating painful eyes, poor vision and excess tears	August 2025	OTC medicine
31.	Guifu Rehmannia Pill (桂附地黃丸)	Improving conditions of kidney, loin, knee, limbs and body. Alleviating complex symptoms of excessive eating, drinking	August 2025	OTC medicine
32.	Qingguo Pill (青果丸)	Relieving heat and relieving sore throat, relieving swelling and relieving pain. Used for red and swelling throat, sore throat, loss of voice and dry cough	August 2025	OTC medicine
33.	Dashanzha Pill (大山楂丸)	Improving appetite and promoting digestion. Used for loss of appetite, indigestion, swelling bowels caused by indigestion	August 2025	OTC medicine
34.	Children Lung-cooling Pill (兒童清肺丸)	Alleviating young children's conditions of sweating, red cheeks, noxious heat, coughing and sore throat	August 2025	OTC medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[(2)]
35.	Calculus Bovis Supernatant Pill (牛黃上清丸)	Alleviating noxious heat, headache and dizziness, redness of eyes, sore throat, growing of boils in the month and tongue	August 2025	OTC medicine
36.	Chinese Goldthread Rhizome Supernatant Pill (黃連上清丸)	Alleviating dizziness, painful teeth, growing of boils in the month and tongue	August 2025	OTC medicine
37.	Tangerine Pill (橘紅丸)	Cooling lungs, reducing sputum, relieving cough. Used for abundant, yellowish and sticky sputum, chest tightness and dry mouth	August 2025	OTC medicine
38.	Campanulaceae Fuyuka Hitomi Tablet (桔梗冬花片)	Relieving cough and removing sputum. Used for cough and abundant sputum caused by turbid sputum blocking the lungs	August 2025	OTC medicine
39.	Calculus Bovis Detoxification Pill (牛黃解毒丸)	Alleviating sore throat, growing of boils in the mouth and tongue and painful eyes	August 2025	Prescribed medicine
40.	Calculus Bovis Fire-relieving Pill (牛黃清火丸)	Alleviating dizziness, growing of boils in the mouth and nose, toothache and sore throat	August 2025	Prescribed medicine
41.	Calculus Bovis Zhibao Pill (牛黃至寶丸)	Alleviating headache and dizziness, redness of eyes, dry mouth and dry throat	August 2025	Prescribed medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
42.	Calculus Bovis Supernatant Tablet (牛黃上清片)	Alleviating noxious heat, headache and dizziness	August 2025	OTC medicine
43.	Fever-removing and Detoxification Pill (清瘟解毒丸)	Alleviating fever condition. Used for high fever with aversion to cold, headache and sweatless	August 2025	Prescribed medicine
44.	Injuries Pill (跌打丸)	Enhancing blood circulation and removing blood-stasis, relieving swelling and relieving pain. Used for injuries from falls, fractures, contusions and strains, laceration of muscles and tendons and bone fractures	August 2025	OTC medicine
45.	Daochi Pill (導赤丸)	Alleviating developing of boils in the month and tongue, sore throat and short and reddish urine	August 2025	OTC medicine
46.	Lonicerae and Forsythiae Detoxification Pill (銀翹解毒丸)	Alleviating flu, fever, headache, cough and dry mouth	August 2025	OTC medicine
47.	Jisheng Kidney-Qi Pill (濟生腎氣丸)	Promoting fluid circulation and relieving swelling. Improving conditions of kidney and alleviating stagnation of water and dampness internally	August 2025	Prescribed medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
48.	Small Meridian-activating Pill (小活絡丸)	Enhancing blood circulation and relieving pain	August 2025	Prescribed medicine
49.	Yin-nourishing and Lung-cooling Pill (養陰清肺丸)	Moisturising dryness, cooling lungs and relieving sore throat. Improving the conditions of dry lungs, dry and sore throat and dry cough	August 2025	OTC medicine
50.	Anemarrhena, Phellodendron and Rehmannia Pill (知柏地黃丸)	Alleviating night sweats, dry mouth and sore throat	August 2025	OTC medicine
51.	Tianwang Heart-replenishing Pill (天王補心丸)	Boosting blood production, replenishing the heart-Qi and calming the nerves. Improving the conditions of heart energy, forgetfulness, insomnia	August 2025	Prescribed medicine
52.	Ginseng Spleen-invigorating Pill (人蔘健脾丸)	Invigorating the spleen and replenishing Qi, regulating the stomach and stops diarrhoea. Used for indigestion, noisy bowels with distension, nausea and vomiting, stomach-ache and loose stool, loss of appetite	August 2025	OTC medicine
53.	Dizziness-relieving Pill (清眩丸)	Alleviating dizziness, headache, nasal congestion and toothache	August 2025	OTC medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
54.	Lung-ventilating and Lung-regulating Pill (通宣理肺丸)	Improving the conditions of lung. Alleviating flu and cough	August 2025	OTC medicine
55.	Spleen-invigorating Pill (歸脾丸)	Improving the conditions of heart and spleen. Alleviating the shortness of breath and palpitation, insomnia and dreaminess	August 2025	OTC medicine
56.	Nutgrass Galingale Rhizome Pill (香附丸)	Replenishing Qi and improving liver and spleen conditions, boosting blood production and regulating the menstrual function	September 2021	OTC medicine
57.	Eight-ingredient Rehmannia Pill (麥味地黃丸)	Improving the conditions of lungs, kidney, loin pain and knees. Alleviating fever, night sweats, dry throat, coughing of blood, dizziness and complex symptoms of excessive eating, drinking	August 2025	OTC medicine
58.	Calculus Bovis Heart-relieving Pill (牛黃清心丸)	Clearing heart heat, calming and reliving rheumatic pains. For dizziness caused by phlegm, abundant expectorations, unconsciousness, slurred speech, convulsions and epilepsy	August 2025	Prescribed medicine

	Product name	Intended therapeutic effect	Product approval expiration	Prescribed medicine or OTC medicine[2]
59.	Ermu Cough-relieving Pill (二母寧咳丸)	Clearing lung-heat, moistening dryness and resolving phlegm and cough. For cough caused by lung-heat, yellow and sticky phlegm, chest tightness and gasp, persistent cough, and hoarse voice and sore throat	August 2025	OTC medicine

Notes:

(1) During the Track Record Period and as at the Latest Practicable Date, we owned 71 Drug Approval Numbers which were associated with 59 types of PCM products because some of our PCM products were assigned with more than one Drug Approval Number. As at the Latest Practicable Date, we have renewed 68 Drug Approval Numbers which expired in September 2020, and the 68 renewed Drug Approval Numbers will be valid until August/September 2025. For the remaining three Drug Approval Numbers, two will expire in 2021, and one will expire in 2023.

(2) State Non-Prescription Medicine Catalogues I to VI published from 1999 to 2004.

(3) Circulation Enhancement Pill (氣血雙補丸) has been listed as one of the protected traditional Chinese medicinal products (Grade 2) by the State Food and Drug Administration from October 2012 to November 2017.

(4) Cardiotonic Enhancement Capsule (山玫膠囊) has been listed as one of the protected traditional Chinese medicinal products (Grade 2) by the State Food and Drug Administration from July 2010 to November 2015.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of **WHITE**, **YELLOW**, and **GREEN** Application Forms;

(b) the written consents referred to in the subsection headed "Statutory and General Information – E. Other Information – 5. Consents of experts" in Appendix IV to this prospectus; and

(c) copies of the material contracts referred to in the subsection headed "Statutory and General Information – B. Further Information about our Business – 1. Material contracts" in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Deacons at 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles of Association;

(b) the Accountants' Report of our Group received from Mazars CPA Limited, the text of which are set forth in Appendix I to this prospectus;

(c) the report received from Mazars CPA Limited in relation to the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this prospectus;

(d) the audited combined financial statements of our Group for the three financial years ended 31 December 2019 and the nine months ended 30 September 2020;

(e) the legal opinions issued by Commerce & Finance Law Offices, our PRC Legal Advisers, in respect of certain general corporate matters of our Group and the property interests of our Group;

(f) the letter of advice prepared by Ogier, our legal adviser on Cayman Islands Law, summarising certain aspects of the Companies Act referred to in Appendix III to this prospectus;

(g) the Companies Act;

(h) the written consents referred to in the subsection headed "Statutory and General Information – E. Other Information – 5. Consents of experts" in Appendix IV to this prospectus;

(i) the material contracts referred to in the subsection headed "Statutory and General Information – B. Further Information about our Business – 1. Material contracts" in Appendix IV to this prospectus;

(j) the service contracts and the letters of appointment with our Directors referred to in the subsection headed "Statutory and General Information – C. Further Information about our Directors and Chief Executive and Substantial Shareholders of our Company – 2. Directors' service contracts and letters of appointment" in Appendix IV to this prospectus;

(k) the Euromonitor Report; and

(l) the terms of the Share Option Scheme.

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