

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

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2020, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Consolidated Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the financial position of the Company and the Group as at that date are set out in the consolidated financial statements on pages 80 to 200 of this report.

No interim dividend was paid during the year (six months ended 30 June 2019: HK5.72 cents (approximately RMB5.12 cents) per share).

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK4.76 cents (approximately RMB4.34 cents) per share).

DIVIDEND POLICY

The Board has adopted a dividend policy, with effect from 1 January 2019. The dividend policy of the Company aims to provide reasonable and sustainable returns to the shareholders and at the same time, maintain a stable financial position so that the Company can fully grasp any available investment and expansion opportunities from time to time.

Report of the Directors

The Board may declare dividends on an annual basis and/or declare interim dividends (as the case may be). Dividends may be distributed in the form of cash or shares. The Company determines the profit attributable to its shareholders based on the Hong Kong Accounting Standards. The Board must take into account:

- the Group's actual and anticipated operating results, liquidity and financial condition;
- capital commitment requirement;
- market environment and challenges;
- future development and investment opportunities; and
- any other factors that the Board deems appropriate.

The management will continue to review the dividend policy and propose any amendments for the Board's approval.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB1,663,255,000 (2019: RMB1,588,114,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements. The reserves available for distribution to shareholders by the Company as at 31 December 2020 are approximately RMB5,724 million (31 December 2019: approximately RMB4,339 million).

INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 18 and 19 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 48 and the Consolidated Statement of Changes in Equity in the consolidated financial statements, respectively.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in notes 34 and 35 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2020 are set out in note 47 to the consolidated financial statements.

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

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

DIRECTORS

The Board comprises the following Directors during the Reporting Period and up to the date of this report:

Executive Directors

Mr. WU Xian	<i>Chairman</i>
Mr. WANG Xiaochun	<i>Managing Director</i>
Mr. YANG Wenming	

Non-executive Directors

Mr. YANG Shanhua
Ms. LI Ru
Mr. YANG Binghua
Mr. WANG Kan
Mr. KUI Kaipin

Independent Non-executive Directors

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

Report of the Directors

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Company considers all the independent non-executive Directors to be independent.

All the Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the articles of association (the “Articles of Association”) of the Company.

In accordance with Article 101 of the Articles of Association, Ms. LI Ru, Mr. YANG Binghua, Mr. KUI Kaipin and Mr. LI Weidong shall retire by rotation at the annual general meeting (the “AGM”) and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report are set out on pages 68 to 73 of this report.

EXECUTIVE DIRECTORS’ SERVICE CONTRACTS

Mr. WU Xian entered into an employment agreement with the Company with effect from 22 June 2014 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month’s prior notice.

Mr. WANG Xiaochun renewed an appointment letter with the Company for a term of three years commencing from 3 April 2019.

Mr. YANG Wenming entered into an appointment letter with the Company for a term of three years commencing from 24 December 2018.

NON-EXECUTIVE DIRECTORS’ SERVICE CONTRACTS

Mr. YANG Shanhua renewed an appointment letter with the Company for a term of three years commencing from 28 March 2020.

Ms. LI Ru entered into an appointment letter with the Company for a term of three years commencing from 18 February 2019.

Mr. YANG Binghua entered into an appointment letter with the Company for a term of three years commencing from 24 December 2018.

Mr. WANG Kan entered into an appointment letter with the Company for a term of three years commencing from 24 December 2018.

Mr. KUI Kaipin renewed an appointment letter with the Company for a term of three years commencing from 30 May 2020.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. XIE Rong renewed an appointment letter with the Company for a term of three years commencing from 5 February 2019.

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of three years commencing from 25 November 2019.

Mr. QIN Ling entered into an appointment letter with the Company for a term of three years commencing from 18 February 2019.

Mr. LI Weidong entered into an appointment letter with the Company for a term of three years commencing from 18 February 2019.

MANAGEMENT CONTRACTS

No contract other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB23,360,000.

DIRECTORS OF SUBSIDIARIES

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website at www.china-tcm.com.cn.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration and evaluation committee of the Company (the "Remuneration and Evaluation Committee") and the emoluments of the non-executive Directors and independent non-executive Directors are recommended by the Remuneration and Evaluation Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2020, the fee for the eligible independent non-executive Directors were fixed at HK\$250,000 per annum.

PERMITTED INDEMNITY PROVISION

Article 178 of the Articles of Association provides that every Director or other officer or auditors shall be indemnified out of assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. Such provisions were in force during the course of the year and remained in force as at the date of this report.

Article 179 of the Articles of Association provides that every Director and officer shall be entitled to be insured against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company. Every Director and officer shall be entitled to be insured against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company. The Company has arranged appropriate liability insurance to indemnify its directors and officers in respect of legal actions against the Directors. The amount of coverage is reviewed on an annual basis.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company after the date of 2020 interim report is as follows:

- An emolument of Mr. WU Xian, an executive Director was RMB2,548,000 in 2020.
- An emolument of Mr. WANG Xiaochun, an executive Director was RMB2,360,000 in 2020.
- An emolument of Mr. YANG Wenming, an executive Director was RMB2,430,000 in 2020.
- Mr. YU Tze Shan Hailson, an independent non-executive Director resigned as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) with effect from September 2020.
- Mr. LI Weidong, an independent non-executive Director resigned as an independent director of Hainan Development Holdings Nanhai Co., Ltd. (formerly known as Avic Sanxin Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002163)) with effect from June 2020.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
WANG Xiaochun	Interest of controlled corporation	270,001,042 (long position) (Note 1)	5.36%

Note:

- The 270,001,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2020, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2020, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) (Note 1)	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) (Note 1)	32.46%
Ping An Life Insurance	Beneficial owner	604,296,222 (long position) (Note 2)	12.00%
Ping An	Interest of controlled corporations	604,296,222 (long position) (Note 2)	12.00%
Hanmax	Beneficial owner	270,001,042 (long position)	5.36%

Notes:

1. The 1,634,705,642 shares are held by Sinopharm Hongkong, which is indirectly wholly owned by CNPGC.
2. The 604,296,222 shares are held by Ping An Life Insurance Company of China Ltd. ("Ping An Life Insurance") which is a subsidiary of Ping An. Ping An is deemed to be interested in Ping An Life Insurance's interest in the Company under SFO.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2020.

CONTINUING CONNECTED TRANSACTIONS

Deposit Service Agreement with Ping An Bank Co., Ltd. ("Ping An Bank")

On 15 January 2020, the Company and Ping An Bank entered into the Deposit Service Agreement, pursuant to which Ping An Bank agreed to provide deposit service to the Group commencing from 15 January 2020 for a term of three years ("Deposit Service Agreement").

In accordance with the Deposit Service Agreement, the annual caps for the deposit service during the validity term of the agreement (i.e from 15 January 2020 to 14 January 2023) shall be the maximum daily deposit balance of not higher than RMB600,000,000 (including any interest accrued thereon).

Ping An Bank is a subsidiary of Ping An, which is the holding company of Ping An Life. Ping An Life holds 604,296,222 shares, representing 12% of the issued shares of the Company. Ping An Bank is therefore a connected person of the Company as defined in the Listing Rules, and the transactions contemplated under the Deposit Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Board is of the view that entering into the Deposit Service Agreement is in the interest of the Group as it provides the Group with more options in respect of its funding management and the Group shall at its sole discretion select the most suitable service provider. In addition, in view of the close relationship between the Group and Ping An Group, it is expected that the application procedures for deposit service of Ping An Bank will be more efficient, convenient and flexible as compared to those of independent commercial banks, and the terms offered by Ping An Bank under the Deposit Service Agreement will be no less favorable than those offered by independent commercial banks to the Group.

For further details of the Deposit Service Agreement, please refer to the announcement of the Company dated 15 January 2020.

During the period from 15 January 2020 to 31 December 2020, the maximum daily deposit balance by the Group from Ping An Bank amounted to RMB598,100,000 which was below the cap for the maximum daily deposit balance amount of RMB600 million (including any interest accrued thereon) for the year ended 31 December 2020.

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 20 November 2019, the Company and CNPGC entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ending 31 December 2020, 2021 and 2022.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase TCM, chemical materials and equipment to be supplied by the CNPGC Group during the period from 1 January 2020 to 31 December 2022. The value of the purchases shall not exceed the annual caps of RMB55 million, RMB63 million and RMB70 million for each of the three financial years ending 31 December 2020, 2021 and 2022 respectively.

Report of the Directors

Pursuant to the New Master Supply Agreement, during the period from 1 January 2020 to 31 December 2022, the Group conditionally agreed to supply the products to the CNPGC Group and the CNPGC Group conditionally agreed to purchase the products.

Pursuant to the New Master Supply Agreement, the value of the sales shall not exceed the annual caps of RMB1,200 million, RMB1,450 million and RMB1,700 million for each of the three financial years ending 31 December 2020, 2021 and 2022 respectively.

On 20 November 2019, Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. CNPGC is the parent company of Sinopharm Hongkong and therefore CNPGC is a connected person of the Company. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The principal business activities of the Group are the manufacture and sale of TCM and pharmaceutical products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

The agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the business opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is a large state-owned pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its core businesses are pharmaceutical distribution, pharmaceutical scientific research and manufacture of pharmaceutical products. Members of the CNPGC Group have been the suppliers of the Materials and customers of the Products since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity and a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality supply of the Materials and the equipment for its business use, while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC is one of the largest pharmaceutical companies in the PRC and has a long-term relationship with the Group, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group's distributor.

For details of these renewed continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2019 and 28 December 2019 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 17 January 2020.

During the period from 1 January 2020 to 31 December 2020, the actual purchases of materials by the Group from CNPGC Group amounted to RMB38,816,000 (including value added tax) (RMB34,632,000 (excluding value added tax)) which was below the cap amount of RMB55,000,000 for the year ended 31 December 2020.

During the period from 1 January 2020 to 31 December 2020, the actual sales of products by the Group to CNPGC Group amounted to RMB945,001,000 (including value added tax) (RMB840,246,000 (excluding value added tax)) which was below the cap amount of RMB1,200,000,000 for the year ended 31 December 2020.

Financial Services Framework Agreement with Sinopharm Group Finance

On 20 November 2019, the Company entered into the Financial Services Framework Agreement with Sinopharm Group Finance Co., Ltd. ("Sinopharm Group Finance"), and set the annual caps for the deposit services and the loan services (i.e. the maximum daily deposit balance and general credit limit) during the effective period of the Financial Services Framework Agreement (i.e. from 20 November 2019 to 19 November 2022).

Pursuant to the Financial Services Framework Agreement, the maximum daily deposit balance and general credit limit of the Group shall not exceed the annual caps of RMB600 million and RMB1,200 million during the period from 20 November 2019 to 19 November 2022 respectively. The Group expects the service fees payable to Sinopharm Group Finance for the Other Financial Services will not exceed HK\$3 million for each of the three years ending 19 November 2020, 2021 and 2022.

On 20 November 2019, Sinopharm Hongkong is the controlling Shareholder holding 1,634,705,642 Shares, representing approximately 32.46% of the total number of issued Shares. Sinopharm Group Finance is owned as to 80% by CNPGC and as to 20% by Sinopharm Group Co., Ltd. (a subsidiary of CNPGC). CNPGC is the parent company of Sinopharm Hongkong and Sinopharm Group Finance. As such, both CNPGC and Sinopharm Group Finance are connected persons of the Company and the procurement of the Financial Services constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Sinopharm Group Finance is a non-bank financial institution regulated by the People's Bank of China and China Banking Regulatory Commission ("CBRC"). Sinopharm Group Finance is principally engaged in the provision of financial services to the members of the CNPGC Group, including deposit taking, provision of loans, bills acceptance and discounting, finance lease, entrustment loans, settlement services as well as other financial services such as provision of credit certification, financial advisory and other advisory agency services, guarantee services and other services as may be approved by the CBRC.

The Board considers that the entering into of the Financial Services Framework Agreement is in the interest of the Group as it will provide more options to the Group in procuring financial services for its treasury management. In addition, it is expected that the application procedures for financial services from Sinopharm Group Finance are more efficient, convenient and flexible than the independent commercial banks given the Group's close relationship with the CNPGC Group, and the terms offered by Sinopharm Group Finance will be no less favourable than those offered by the independent commercial banks to the Group according to the Financial Services Framework Agreement.

For further details of the Financial Services Framework Agreement, please refer to the announcement of the Company dated 20 November 2019.

Report of the Directors

During the period from 1 January 2020 to 31 December 2020, the maximum daily deposit balance by the Group from Sinopharm Group Finance amounted to RMB593,043,000 which was below the cap for the maximum daily deposit balance amount of RMB600 million for the year ended 31 December 2020. As the Group did not utilise the loan services of Sinopharm Group Finance and did not accrue the service fees payable to Sinopharm Group Finance for the Other Financial Services.

Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Guangdong Medi-World, an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the “R&D Agreements”) with Shanghai Institute of Pharmaceutical Industry (“SIPI”) and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or “SPERC”) respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB136,270,000.

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry (“CSIPI”), which is a subsidiary of CNPGC. CNPGC wholly owned Sinopharm Hongkong, a controlling shareholder of the Company. Therefore, each of SIPI and SPERC is a connected person of the Company under the Listing Rules and the transactions contemplated under the R&D Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

SIPI is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R&D Agreements, please refer to the announcements of the Company dated 23 December 2013 and 5 March 2014.

During the period from 1 January 2020 to 31 December 2020, there is no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2020 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from Independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. During 2020, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 46 of the audited consolidated financial statements of this report. Such related party transactions include the transactions as disclosed in the “CONTINUING CONNECTED TRANSACTIONS” of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditors

For the propose to Rule 14A.56 of the Listing Rules, the auditors of the Company has provided a letter to the Board, confirmed that nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions:

- (i) have not been approved by the Board;
- (ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;
- (iii) were not entered into, in all material respects, in accordance with relevant agreements governing the transactions; and
- (iv) have exceeded the annual cap.

A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DEBENTURES ISSUED

For the year ended 31 December 2020, no debenture is issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No contracts of significance to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Save as disclosed in "CONTINUING CONNECTED TRANSACTIONS" of this section, none of the Company or any of its subsidiaries entered into contract of significance with the controlling shareholders or any of its subsidiaries other than the Group, nor was there any contract of significance between the Group and the controlling shareholders or any of its subsidiaries other than the Group in relation to provision of services.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 5.7% and 14.0% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 5.7% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and the five largest suppliers accounted for around 2.1% and 8.2% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.7% of the Group's total purchases during the year.

Save as disclosed above, at no time during the year, none of the Directors, their close associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in note 37 to the financial statements.

AUDITORS

Deloitte Touche Tohmatsu shall retire as auditor upon the expiration of its current term of office.

A resolution for the re-appointment or appointment of auditor of the Company for the financial year ending 31 December 2021 is to be proposed at the forthcoming annual general meeting. If it is intended at the forthcoming annual general meeting to appoint an auditor other than the retiring auditor or to provide expressly that the retiring auditor shall not be re-appointed, an announcement in relation to the proposed change of auditor will be made by the Company as soon as practicable.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2020 have been reviewed by the audit committee of the Company (the "Audit Committee"). Information relating to the terms of reference of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 50 to 67 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 50 to 67 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

WU Xian
Chairman

Hong Kong, 30 March 2021