OVERVIEW

We are a leading Hong Kong-based company that markets and distributes branded healthcare products with product footprint across Greater China, Southeast Asia and other select countries. In 2019, we ranked fourth by revenue among brand operators that carry both OTC proprietary medicines and OTC proprietary Chinese medicines in Hong Kong, according to the Frost & Sullivan Report. Our portfolio includes a wide range of branded healthcare products divided into two product categories, namely consumer healthcare and proprietary Chinese medicines. Our consumer healthcare products consist of branded medicines, which are proprietary medicines primarily distributed over-the-counter, and health and wellness products. Our proprietary Chinese medicines consist of OTC proprietary Chinese medicines and CCMG products.

Our ability to introduce and commercialize well-established branded healthcare products and manage the brands effectively is key to our success. As at March 31, 2020, we carried 20 principal brands (identified as our top 20 brands in terms of revenue contribution during the financial year), including 11 third-party brands and 9 own brands as primarily illustrated below, which together accounted for 94.3% of our total revenue for that financial year:

We deploy dual engines to support our business developments and growth of our product portfolio: (i) organic business growth through the sourcing of quality third-party brand products, as well as the development of product line extensions; and (ii) strategic acquisitions of and investments in synergetic brands, including Flying Eagle Woodlok Oil in 2003, Po Chai Pills in 2010, and Shiling Oil and Ho Chai Kung in 2017. For products that are new to a market, we employ a consumer-driven approach. We analyze the landscape of the target market and end-consumer base to determine our brand value proposition and formulate integrated branding strategies to increase sales and reinforce brand loyalty. Meanwhile, for our heritage household brands, we strive to rejuvenate their brand positioning to adapt to the changing demographics and consumer behaviors. Our multi-channel online and offline marketing initiatives have enabled us to establish continuous direct communication with end consumers and gather valuable market insights to drive our brand positioning strategies and product development initiatives.

We have established an extensive sales and distribution network in Hong Kong, with a geographical reach spanning over China, Macau, Taiwan and select countries in Southeast Asia, Europe, North America and the Caribbean Islands. We adopt a hybrid of sales and distribution models tailored for different products and geographic markets. In Hong Kong, we sell our products both directly and indirectly (through our Hong Kong Distributor and our trading company customers) to major modern trade chain stores, registered pharmacies and drug stores, as well as corporate clients, hospitals and clinics, and end consumers (through online platforms). In addition, we sell CCMG products to more than 3,000 Chinese medicine practitioners (which represented over 40% of the total number of active Chinese medicine practitioners in Hong Kong in 2019, according to the Frost & Sullivan Report), and from time to time, to non-profit organizations. Outside of Hong Kong, we sell selected products primarily through distributorship and wholesaling arrangements. Moreover, leveraging the favorable cross-border e-commerce policy development in China, we have been actively deploying efforts and resources in the development of cross-border e-commerce channels, including our own online store and other third-party online stores, for our select branded healthcare products. We have been cultivating the regional markets

for years and established solid local distribution networks and collaborative relationships with select product originators. We believe we are well-positioned to develop a sustainable regional platform in Asia for branded healthcare products.

Professionalism has been at the core of our corporate culture. In addition to a core management team of technically seasoned industry veterans, we also attract talents with pharmaceutical or medical backgrounds that enable us to identify and secure third-party brand products that have a niche in the market, and ensure that they are safe and are of high efficacy and quality, often researched and supported by clinical studies. We enforce stringent quality assurance and control covering a wide range of activities, including procurement, manufacturing, release of finished products, stability studies, and validation and qualification of equipment and facilities. As of the Latest Practicable Date, we remained as one of the few GMP-accredited proprietary Chinese medicine manufacturers in Hong Kong, according to the Frost & Sullivan Report.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

A leading Hong Kong-based brand operator with a notable and growing brand portfolio and proven brand management capability

We were the fourth largest brand operator that carries both OTC proprietary medicines and OTC proprietary Chinese medicines in Hong Kong in 2019 by revenue, according to the Frost & Sullivan Report. Our focus on brand management and portfolio development has enabled us to build a notable and growing brand portfolio. As at March 31, 2020, we carried a total of 20 principal brands, including 11 third-party brands and 9 own brands. These third-party brands mainly consist of notable overseas consumer healthcare brands, including Contractubex of Germany, Smartfish of Norway, Rowatanal Cream of Ireland, Oncotype DX® of the United States, and AIM Atropine of Taiwan. Our own brands also include highly recognized household brands among Chinese consumers, such as Po Chai Pills (保濟丸), Tong Tai Chung (唐太宗) and Ho Chai Kung (何濟公), as well as a leading CCMG brand among Chinese medicine practitioners in Hong Kong in 2019 according to the Frost & Sullivan Report. These 20 principal brands together accounted for 94.3% of our total revenue for the year ended March 31, 2020. Leveraging the success of our existing brand portfolio, we believe we will be able to continue to strengthen our product offerings.

A cornerstone of our success lies in our proven capability in brand management and portfolio development. We approach brand management and portfolio development generally through conducting market surveys and analyzes on the landscape of target markets and end consumer preferences, developing our brand value proposition, and formulating integrated brand strategies with multi-channel marketing initiatives to increase sales and reinforce brand loyalty. We have established a track record of introducing category-leading overseas branded healthcare products to local markets. For example, we became a pioneer of the scar treatment market in Hong Kong by introducing Contractubex to market in 2006, which has successfully addressed a then market gap and become one of the most recognizable scar treatment products in Hong Kong, with 76% of the interviewed consumers stating Contractubex as their preferred scar treatment brand, according to a Nielsen survey conducted in 2019 commissioned by us. In addition, we have successfully launched BITE-X, which is a nail-biting and thumb-sucking prevention product recommended by over 90% of interviewed parents, according to an independent survey commissioned by us in 2019. Meanwhile, we also revitalize the brand positioning of our heritage household brands based on changing demographics and consumer behaviors. For example, we have rejuvenated the brand positioning and marketing strategies of Po Chai Pills, which had the largest market share in the gastrointestinal OTC proprietary Chinese medicine market in Hong Kong in 2019, according to the Frost & Sullivan Report. We believe our brand management capability is among our core competitive advantages in the branded healthcare market.

A unique field player with a heritage of pharmaceutical background and quality-driven culture of Jacobson Pharma

Jacobson Pharma was the leading generic drug company in Hong Kong in 2019, according to the Frost & Sullivan Report. As its subsidiary, we are a unique field player with drug expertise and a heritage that continues to foster a corporate culture of prioritizing product efficacy and quality. We attract industry talents with pharmaceutical or medical backgrounds that enable us to identify and secure third-party brands and products with a niche in the market and, in particular, target cosmeceutical and nutraceutical products that are researched and supported by clinical studies. We believe third-party brand owners and product originators are also more inclined to choose to partner with us because of the ethical and trustworthy reputation and high market standing of the Jacobson Pharma Group in the pharmaceutical sector. As a result, we have been successful in sourcing clinical evidence-based products, such as AIM Atropine Eye Drops (which are clinically proven to help slow down the progression of childhood myopia), Oncotype DX Breast Recurrence Score® assay (a genomic-based breast cancer diagnostic test) and Smartfish nutraceutical products (with patented Smartfish emulsion technology that enables the products to provide high dose, oxidation-protected Omega 3 fatty acids to deliver various health benefits), which differentiate our market positioning and reputation from most brand operators.

In addition, we adhere to the high standard of quality control inherited from an ethical pharmaceutical company. As of July 31, 2020, we had a total of 32 experienced quality management personnel who are responsible for establishing and implementing strict quality management procedures to ensure that the third-party brand products we source and our own brand products are safe and of high quality. As of the Latest Practicable Date, we remained as one of the few GMP-accredited proprietary Chinese medicine manufacturers in Hong Kong, according to the Frost & Sullivan Report. We believe our long track record of providing reliable and quality products will position us to capture any future market opportunities.

Dual engines of growth through sourcing and development of category-leading products and acquisitions of synergetic brands

We have a long proven track record of deploying dual engines to support our business developments. We have a specialized product development team with relevant regional industry knowledge. We organically grow our business through our in-depth understanding and clear vision of healthcare trends and categories with market space, as well as identifying product candidates or development with fitting allure and efficacy attributes. We secure third-party brand products through a professional and knowledge-driven sourcing methodology and have successfully introduced category-leading overseas branded healthcare products. More recently, we have expanded our collaboration with the owner of several of our principal third-party brands both in terms of product and geographical representation. For our own brand products, our product development and business development teams work closely together to leverage our market insights and product development know-how to cater for new and evolving demands in the market. The majority of our own brand products are OTC proprietary medicines and OTC proprietary Chinese medicines with long established proprietary formulations based on ancient prescriptions, pharmacopeia prescriptions or customary Chinese prescriptions. Tailored to the characteristics of our own brand product portfolio, we focus our product development efforts primarily on product line extensions, formulation variations and formulation refinements upon identifying a need in a refined segment of a product market, as further described in the section headed "— Development and Manufacture of Own Brand Products — Product Development" below.

Apart from sourcing and developing new products to grow our business, we have also demonstrated our consistent ability to realize synergies through strategic acquisitions and investments. We have successfully expanded our own brand portfolio through acquisition and integration of attractive branded healthcare products, including Flying Eagle Woodlok Oil in 2003, Po Chai Pills in 2010, and Shiling Oil and Ho Chai Kung in 2017. We have also made strategic investments which are in line with our growth and business directions, including (i) our investment in Smartfish in 2019, the third-party brand owner of one of our top-10 health and wellness products during the Track Record Period; (ii) our establishment of a joint venture in 2020 to distribute Weisen-U (gastric tablets) to markets outside of Greater China and develop new product lines in other therapeutic areas under the brand "Weisen-U" for Asia; and (iii) our investment in a jointly controlled entity in 2020 established by our Hong Kong Distributor to collaborate with a renowned PRC state-owned conglomerate (the "**PRC JV Partner**") under a joint venture arrangement to undertake the distributorship of our Po Chai Pills in China as part of our strategy to further cultivate the PRC market, collect market intelligence, strengthen our PRC distribution channels and increase product penetration.

Extensive sales and distribution network in Hong Kong with multi-region geographical reach

We have established an extensive sales and distribution network in Hong Kong, with a geographical reach spanning over China, Macau, Taiwan and select countries in Southeast Asia, Europe, North America and the Caribbean Islands. We adopt a hybrid of sales and distribution models tailored for different products and geographic markets.

In Hong Kong, we sell our products both directly and indirectly (through our Hong Kong Distributor and our trading company customers) to major modern trade chain stores, registered pharmacies and drug stores, as well as corporate clients, hospitals and clinics, and end consumers (through online platforms). In addition, we sell CCMG products to more than 3,000 Chinese medicine practitioners (which represented over 40% of the total number of active Chinese medicine practitioners in Hong Kong in 2019, according to the Frost & Sullivan Report), and from time to time, to non-profit organizations. Our stable business relationships with key retailers and our Hong Kong Distributor, coupled with our reputation in delivering high quality products and our wide distribution network, have enabled us to generate effective retail penetration and commercialization of our new products.

Outside of Hong Kong, we sell products primarily through distributorship and wholesaling arrangements. We generally engage one to two well-established overseas distributors or wholesalers in each country or region for the distribution of our selected products and have maintained long-term business relationship with them. For years we have been cultivating regional markets outside of Hong Kong and have established solid local distribution networks and collaborative relationships with select product originators. We believe we are well-positioned to leverage our geographical presence and develop a sustainable regional platform in Asia for branded healthcare products.

Seasoned management team with in-depth industry knowledge and regional experience

Our core management team comprises a group of technically seasoned industry veterans with a strong track record and proven execution capabilities. Professionalism has been at the core of our corporate culture and the vast majority of our Directors and senior management team, who on average have approximately 25 years of relevant industry experience, are registered pharmacists or have pharmaceutical or medical academic backgrounds. Their technical backgrounds are crucial to the success of our knowledge-driven sourcing methodology in identifying attractive products and acquisition opportunities. In addition, certain of our senior management had prior experience in large modern trade establishments and listed multi-national companies. Several of them are also closely connected to the branded healthcare community or hold advisory roles in relevant government, academic institutions and professional associations in Hong Kong.

In particular, we are led by Wong Yat Wai, Patrick, an executive Director and the chief executive officer of our Company, who has over 32 years of experience in the healthcare business sector and in business development covering markets in Asia, the Middle East and South America and holds a master's degree in medical sciences. He is responsible for our commercial operations and for overseeing our local and overseas business and the strategic development of our consumer healthcare products. Together with Mr. Wong, our executive Director and president of the proprietary Chinese medicines business, Dr. Chu Ka Wing, play instrumental roles in our overall business growth. Dr. Chu is responsible for the operations and business development of our proprietary Chinese medicine business. He has over 18 years of experience in the pharmaceutical industry and is proficient in life sciences holding multiple patents in the medicinal area in both the United States and China. He is a registered pharmacist with a bachelor's degree in pharmacy and a Ph.D. degree from the Chinese University of Hong Kong and is an honorary adjunct assistant professor of the School of Pharmacy of the Chinese University of Hong Kong and a member of various government committees.

We believe our experienced senior management team has been and will continue to be key to our success in deployment of our dual engines of growth, allowing us to further integrate our regional resources and take advantage of new opportunities.

OUR BUSINESS STRATEGIES

Our mission is to enable better health through self-care. We intend to implement the following key business strategies:

Expand product offerings and deepen product penetration in China through cross-border e-commerce initiatives

PRC market demand for overseas healthcare products has increased in recent years as a result of the pursuit of quality products, greater healthcare awareness and aging population. Together with an increasingly structured and formalized cross-border e-commerce channel supported by favorable government policy development, the PRC cross-border e-commerce market has grown rapidly into one of the country's major sales channels. The gross merchandise volume of pharmaceutical products e-commerce market in China reached HK$50.5 billion in 2019, representing a CAGR of 61.1% from 2015, and is forecasted to reach HK$452.2 billion by 2024, according to the Frost & Sullivan Report.

The ability to gain direct borderless access to sell our select branded healthcare products without additional registration requirements in China, if applicable, is one of the main attractions of the PRC cross-border e-commerce channel. This will allow us to increase our product penetration to end consumers across all provinces, cities and counties in China and shorten our product launch time. As such, we intend to continue to actively deploy efforts and resources in the development of the following cross-border e-commerce initiatives:

- *Cross-border e-commerce presence*: There is a spectrum of business models in the cross-border e-commerce market that addresses a variety of market needs and preferences among different consumer groups. We intend to broaden our presence in cross-border e-commerce channels across a variety of popular platforms. We aim to explore opportunities to distribute products through our own and other third-party online stores. By engaging different cross-border e-commerce models, we seek to gain access to a wider online customer base.
- *Product offering*: We plan to carefully select products that are suitable for the PRC market based on consumer preferences, market trends and gaps. According to the Frost & Sullivan Report, traditional nutraceutical products with Chinese herbal ingredients, vitamins and dietary supplements account for the largest parts of the health and wellness industry in China. As such, we intend to offer eligible branded health products through cross-border e-commerce channels, such as personal care products, nutritional supplements and functional remedies.

- *Branding and marketing*: We intend to formulate integrated brand strategies to raise consumer awareness and profile of our brands and our own online store to support product launches and improve sales performance. We aim to optimize our online presence and enhance the visibility of our brand and products through multi-channel performance marketing initiatives, both online (such as search engine advertising, performance advertising, native advertising and KOL and influencer promotions on various online platforms) and offline (such as marketing quick response codes, or QR codes, in offline stores to draw traffic to our online stores).

We expect to fund the above strategy pursuit by our internal resources and, where appropriate, external financing.

Further expand our portfolio through organic growth and mergers and acquisitions

Our ability to continuously identify products that satisfy changing consumer preferences and expand the variety of quality products we offer is key to maintaining our competitive position and ensuring our future growth and success. We intend to seek organic growth for our product portfolio and are contemplating multiple approaches, such as engaging in brand promotion and advertising activities to enhance brand loyalty, market standing, profile, image and consumer stickiness for our products, expanding our collaborations with strategic partners, upstream and downstream players in our business value chain, as well as existing third-party brand owners both in terms of product and geographical representation, and sourcing from new third-party brand owners with synergetic products. In particular, for consumer healthcare products, we intend to target cosmeceutical and nutraceutical products in women's health and child care, and home diagnostic products. Furthermore, as industry trends, market preferences and consumer behaviors and habits change, we intend to adapt our product offerings and develop product line extensions by building on existing own brand products and their brand appeal, such as product line extensions under our Po Chai Pills brand, as well as our Dr. Freeman (醫臣) brand in the areas of home diagnostic, cold and flu, and hygienic and personal care.

In addition, we intend to pursue suitable opportunities to acquire synergistic businesses in line with our growth and business directions to enhance our existing product portfolio and increase local presence in other key markets for our products and business. When evaluating targeted businesses, we will assess the market potential, sales trend and commercial viability of their product portfolio, consider their reputation and industry experience, review the laboratory reports and other relevant research reports in respect of the functionality and quality of the products, and inspect their relevant qualifications.

The above strategy pursuit will be funded by our internally generated funds and supplemented by part of the proceeds from the Public Offer (approximately HK$5.0 million designated for our proprietary Chinese medicines segment have been allocated for this particular pursuit) and, where considered appropriate, external financing. For further details, see the section headed "Future Plans and Use of Proceeds — Use of Proceeds."

Develop a branded healthcare product sourcing and distribution platform in Asia through the integration of our regional resources and foothold

We have been cultivating the regional markets for years with footprint across Greater China and other select countries in Southeast Asia. In addition to distributing our products in these regions, we also source third-party brand products and secure third-party manufacturing arrangements for selected products in these regions. In the short-term, we intend to leverage our established local business relationships and networks to further enhance the on-the-ground presence of our products in the following countries or regions:

- *China*: In addition to increasing our online presence through the deployment of cross-border e-commerce initiatives as described above, we have established a joint venture with the PRC JV Partner (a renowned PRC state-owned conglomerate) through a jointly controlled entity

with our Hong Kong Distributor and intend to leverage the sales and distribution network of the PRC JV Partner to increase our product penetration and explore other collaborative opportunities in China.

- *Taiwan*: We intend to expand our existing relationship with the third-party brand owner of AIM Atropine Eye Drops by authorizing its parent company, a Taiwanese pharmaceutical company established in 1945 with a sales and distribution network covering local medical treatment outlets, pharmacies and convenient stores, to distribute our select products in Taiwan. This will allow us to benefit from their established sales and distribution network and increase our market exposure in Taiwan.

- *South Korea*: Our third-party manufacturing partner for certain of our Dr. Freeman products is a seasoned healthcare company in South Korea, with vertically integrated operations encompassing research and development capabilities, GMP manufacturing facilities and sales and distribution network. We seek to enter into mutually-beneficial arrangements to cross-sell comprehensive products from each other's portfolios. We believe this will enable us to build on their network and establish our product presence in the South Korean health and wellness market, and provide us with valuable resources to identify and secure new products that are synergistic with our existing portfolio and our strategic directions.

Our long-term goal is to strengthen our geographical reach in Southeast Asia and capture its growing demand for health and wellness products. According to the Frost & Sullivan Report, the Southeast Asian health and wellness market size reached HK$66.2 billion in 2019, representing a CAGR of 7.1% from 2015, and is projected to reach HK$77.7 billion by 2024. We aim to extend our existing collaboration with third-party brand owners in terms of geographical representation to certain strategic Southeast Asian locations. Ultimately, we will seek to leverage on our track record in those strategic locations to further source and introduce new third-party brand products and eventually develop into a sustainable branded healthcare product sourcing and distribution platform in Asia.

We expect to fund the above strategy pursuit by our internal resources and, where appropriate, external financing.

Unleash the sales and distribution potential of our Chinese medicine practitioner network

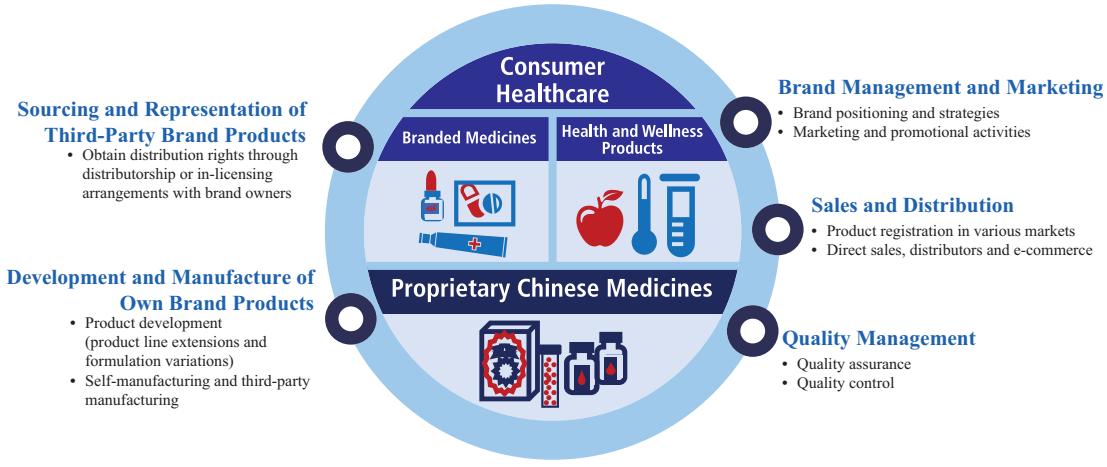
We have an extensive network of Chinese medicine practitioners in Hong Kong. According to the Frost & Sullivan Report, our own CCMG brand has been a leading brand among Chinese medicine practitioners in Hong Kong in 2019. We sell CCMG products to more than 3,000 Chinese medicine practitioners, which represented over 40% of the total number of active Chinese medicine practitioners in Hong Kong in 2019, according to the Frost & Sullivan Report. We believe our direct access and frequent interaction with Chinese medicine practitioners in Hong Kong enables us to gain specific insights and understanding of their practices, preferences and operational environment. We seek to utilize such insights to capture new business opportunities and capitalize on this distribution channel. In particular, we intend to identify suitable branded healthcare product candidates, including select Chinese medicine-based health supplements and other health and wellness products, for the clientele of Chinese medicine practitioners and explore mutually-beneficial collaborative opportunities with these practitioners to further unleash the distribution potential of this unique network. We expect to fund the above strategy pursuit by our internal resources and, where appropriate, external financing.

OUR BUSINESS MODEL

We are a leading Hong Kong-based company that markets and distributes a large portfolio of branded consumer healthcare products (consisting of branded medicines and health and wellness products) and proprietary Chinese medicines. We pride ourselves as a brand incubator and manager, with a proven track record of introducing quality overseas branded products to our local markets, as well as rejuvenating heritage household brands to stimulate market demand and broaden their market appeal. We operate a vertically integrated business encompassing brand management and marketing, sourcing and representation of third-party brand products, development and manufacturing of own brand products, and sales and distribution. We highly value the brands and products we carry and uphold our reputation through our persistence in product safety, efficacy and quality.

The following diagram illustrates our branded healthcare business model, which is built upon five core competencies below:

Branded Healthcare Business Model



- *Brand management and marketing*: We manage a portfolio of well-established and trusted third-party brands and own brands and are committed to continually driving brand engagement and sales through our multi-channel marketing campaigns. Building on our market and consumer insights, we conduct a variety of marketing and promotional activities through a wide range of offline and online channels. In addition, we stimulate consumer communications and engagement to proactively acquire insights into the differing consumer preferences for various products and markets. We seek to use such insights to devise more precise product positioning and brand management strategies to improve our product appeal and consumer interests, and drive our product development initiatives.

- *Sourcing and representation of third-party brand products*: A majority of our consumer healthcare products are sourced from overseas third-party brand owners. As at March 31, 2020, we carried 11 principal third-party brands, the majority of which were sourced from Europe, including consumer healthcare products imported from reputable European GMP-accredited, ISO-certified or SGS-certified manufacturers. For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, 77.9%, 79.2%, 80.7% and 81.3% of the number of consumer healthcare products in our portfolio was sourced from third-party brand owners, respectively.

  We generally obtain exclusive distribution rights from the third-party brand owners with which we enter into distributorship or in-licensing agreements for the sale and distribution of the relevant products in selected geographic markets. For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, our sales of third-party brand products not under exclusive distribution arrangement accounted for 8.2%, 9.1%, 20.0% and 26.8% of our

revenue from sales of third-party brand products, with a corresponding overall gross profit margin of 23.0%, 18.7%, 14.8% and 19.1%, respectively. The comparably higher percentage revenue contribution for the year ended March 31, 2020 and the four months ended July 31, 2020 and lower gross profit margin for the year ended March 31, 2020 were partly attributable to the increase in sales of certain personal hygiene products (such as face masks) that were sourced from third parties on an ad hoc basis to satisfy the surge in demand driven by the COVID-19 outbreak.

- *Development and manufacture of own brand products*: As at March 31, 2020, we owned nine principal brands of branded healthcare products. The majority of our own brand products are OTC proprietary medicines and OTC proprietary Chinese medicines with long established proprietary formulations based on ancient prescriptions, pharmacopeia prescriptions or customary Chinese prescriptions. We believe our ability to adapt our product portfolio to new and evolving consumer demands and regulatory requirements is a key to our competitiveness. Tailored to the characteristics of our own brand product portfolio, our product development efforts have been directed towards product line extensions, formulation variations and formulation refinements for targeted overseas markets and expansion into new markets. As these research and development activities do not involve development of new innovative patentable formulations or engagement of clinical trials, which are more typically associated with significant investments and expenditures, our research and development expenses during the Track Record Period were relatively immaterial.

  Apart from our own brand CCMG products which are outsourced to GMP-accredited third-party manufacturers for production, we manufacture most of the products under our principal own brands in-house. More particularly, revenue from sales of our self-manufactured own brand products accounted for 98.4% and 98.0% of our overall sales of own brand products in the years ended March 31, 2018 and 2019, respectively, which decreased to 74.3% and further to 56.5% in the year ended March 31, 2020 and the four months ended July 31, 2020, respectively, primarily as a result of the consolidation of revenue from sales of CCMG products (which are manufactured by third-party manufacturers) under the Orizen Group since August 2019. Excluding sales of CCMG products, revenue from sales of our self-manufactured own brand products accounted for 98.4%, 98.0%, 95.6% and 85.9% of our sales of non-CCMG own brand products during the same periods, respectively.

- *Sales and distribution*: We adopt a hybrid of sales and distribution models tailored for different products and geographic markets. In Hong Kong, we sell our products both directly and indirectly (through our Hong Kong Distributor and our trading company customers) to major modern trade chain stores, registered pharmacies and drug stores, as well as corporate clients, hospitals and clinics, and end consumers (through online platforms). In addition, we sell CCMG products to more than 3,000 Chinese medicine practitioners (which represented over 40% of the total number of active Chinese medicine practitioners in Hong Kong in 2019, according to the Frost & Sullivan Report), and from time to time, to non-profit organizations. Outside of Hong Kong, we sell selected products to China, Macau, Taiwan, and select countries in Southeast Asia, Europe, North America and the Caribbean Islands, primarily through distributorship and wholesaling arrangements. Meanwhile, product registration also forms an integral part of the sales and distribution of our branded medicines and proprietary Chinese medicines, which are generally subject to product registration requirements before they can be sold and distributed in certain jurisdictions. We devote dedicated resources to fulfill relevant product registration requirements and to closely monitor the regulatory regimes to ensure that our existing products and new products continue to comply with relevant product registration and product license requirements.

- *Quality management*: We enforce stringent quality assurance and control covering a wide range of activities, including procurement, manufacturing, release of finished products, stability studies, and validation and qualification of equipment and facilities. Our quality assurance personnel are responsible for ensuring GMP compliance, whereas our quality control personnel are responsible for arranging or carrying out all necessary and relevant tests on raw materials, manufacturing process, work in progress and finished products.

OUR PRODUCTS

We market and sell a wide range of branded healthcare products, which are broadly divided into two product categories: (i) consumer healthcare, consisting of branded medicines and health and wellness products; and (ii) proprietary Chinese medicines. The following table sets forth the breakdown of our revenue by product category for the periods indicated:

	Year ended March 31,						Four months ended July 31,			
	2018		2019		2020		2019		2020	
	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000 (unaudited)	% of revenue	HK$'000	% of revenue
Consumer healthcare										
Branded medicines	119,331	45.1	128,833	41.9	142,215	37.3	33,211	48.8	30,824	25.9
Health and wellness products	25,858	9.8	33,427	10.9	55,318	14.5	11,741	17.2	24,041	20.3
	145,189	54.9	162,260	52.8	197,533	51.8	44,952	66.0	54,865	46.2
Proprietary Chinese medicines	119,143	45.1	145,255	47.2	184,009	48.2	23,137	34.0	63,905	53.8
Total	**264,332**	**100.0**	**307,515**	**100.0**	**381,542**	**100.0**	**68,089**	**100.0**	**118,770**	**100.0**

Our portfolio of branded healthcare brands includes both third-party brands (where we obtained distribution rights through distributorship or in-licensing arrangements with third-party brand owners) and our own brands (where we own the brands and manufacture the products in-house or with the support of third-party manufacturers). As of March 31, 2020, we carried 194 brands, with more than 1,700 products (including more than 700 single and combo formula CCMG products) counted by SKUs as in line with industry norm according to the Frost & Sullivan Report. Given that each brand may consist of multiple products or a number of SKUs of products in different dosage forms and package sizes, the number of products we carry is materially higher than the number of brands in our portfolio. Of these 194 brands, we carried a total of 20 principal brands, including 11 third-party brands and 9 own brands, which together accounted for 94.3% of our total revenue for the year ended March 31, 2020. The majority of these principal third-party brands are sourced from Europe, including consumer healthcare products imported from reputable European GMP-accredited, ISO-certified or SGS-certified manufacturers. Meanwhile, most of our self-manufactured own brand products are manufactured at our GMP-accredited manufacturing facilities in Hong Kong.

The following table sets forth our revenue by brand ownership for the periods indicated:

	Year ended March 31,						Four months ended July 31,			
	2018		2019		2020		2019		2020	
	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000	% of revenue	HK$'000 (unaudited)	% of revenue	HK$'000	% of revenue
Third-party brand products	55,585	21.0	76,668	24.9	107,368	28.1	26,507	39.0	32,760	27.6
Own brand products	208,747	79.0	230,847	75.1	274,174	71.9	41,582	61.0	86,010	72.4
Total	**264,332**	**100.0**	**307,515**	**100.0**	**381,542**	**100.0**	**68,089**	**100.0**	**118,770**	**100.0**

The following photographs display some of our third-party brand products and own brand products:

Thirty-Party Brand Products

Own Brand Products

The following tables set forth the number of brands by brand ownership and business segment and the changes in the number of brands carried by us for or during the periods indicated:

	Year ended March 31,			Four months ended
	2018	2019	2020	July 31, 2020
Third-party brands				
Consumer healthcare				
Branded medicines	10	12	12	12
Health and wellness products	36	29	29	29
	46	41	41	41
Proprietary Chinese medicines	3	3	5	5
	49	44	46	46
Own brands				
Consumer healthcare				
Branded medicines	1	1	1	1
Health and wellness products[(1)]	31	33	33	33
	32	34	34	34
Proprietary Chinese medicines[(1)]	113	113	114	114
	145	147	148	148
	194	**191**	**194**	**194**

Note:

(1) Include miscellaneous less publicized brands whose products are primarily targeted for sale in smaller, stand-alone drug stores in Hong Kong.

	Year ended March 31,			Four months ended
	2018	2019	2020	July 31, 2020
Number of brands carried at the beginning of period	196	194	191	194
Number of new brands[(1)]	1	10	7	0
Number of brands ceased to carry [(2)]	3	13	4	0
Number of brands carried at the end of the period	194	191	194	194

Notes:

(1) Include 4 of our 20 principal brands as at March 31, 2020, namely Dr. Freeman, AIM Atropine and two CCMG brands.

(2) Include miscellaneous less publicized brands whose products are primarily targeted for sale in smaller, stand-alone drug stores in Hong Kong.

There has been no material change to the number of brands carried by us since July 31, 2020.

Consumer healthcare

Branded medicines

Branded medicines are proprietary medicines whose active ingredients are chemical compounds with a certain composition and specific dosage form and dosage, prepared for immediate medicinal use, available and prepared for dispensing to the public, and with a uniform name, packaging, container, and labeling approved for marketing by the regulatory authority. According to the Frost & Sullivan Report, our branded medicine business segment and the Hong Kong proprietary medicine industry segment represent the same category of drugs. A vast majority of our branded medicines are sold directly to consumers over-the-counter and do not require a prescription from a healthcare professional. We entered the branded medicine market in Hong Kong in 2006 with the launch of Contractubex sourced from Merz, a notable consumer healthcare brand in Germany. Over the years, we have successfully promoted Contractubex to be one of the most recognizable scar treatment products in Hong Kong, with 76% of the interviewed consumers stating Contractubex as their preferred scar treatment brand, according to a Nielsen survey conducted in 2019 commissioned by us. We have since considerably grown our portfolio to address a vast array of consumer healthcare needs in Hong Kong, Macau and other select overseas markets. For example, we acquired the brand of Ho Chai Kung in 2017 and sell Ho Chai Kung branded products in Hong Kong and Macau. In each of the years during the Track Record Period, Ho Chai Kung Tji Thung San was one of our two top-selling products.

The following table sets forth our top five branded medicines for the year ended March 31, 2020, which together accounted for 93.0% of our revenue from branded medicines and 34.7% of the total revenue of our Group for the same period, respectively. We have entered into exclusive distribution agreements for the designated territories with relevant third-party brand owners for all third-party brand products which were among our top five branded medicines during the Track Record Period.

Product	Description	Brand owner	Term of expiry
Ho Chai Kung Tji Thung San (何濟公止痛退熱散)	• A powdered form product for the speedy relief of headache, toothache, fever and influenza • Long heritage in Hong Kong with the brand "Ho Chai Kung (何濟公)" originated in the 1930s and high brand awareness in the analgesics category in Hong Kong, China and Southeast Asia markets	Our Group	N/A

Product	Description	Brand owner	Term of expiry
	• Ranked second by revenue at the distribution level in the Hong Kong antipyretic analgesics (OTC drugs) market in 2019, according to the Frost & Sullivan Report		
AIM Atropine 0.01% Eye Drops (0.01%亞妥明眼藥水).....	• An anticholinergic agent as a sterile topical preservative-free ophthalmic solution that is commonly used in the treatment of myopia, mydriasis and cycloplegia • Clinically proven by The Chinese University of Hong Kong to help slow down the progression of childhood myopia	Aseptic Innovative Medicine Co., Ltd. (Taiwan)	Commenced distributorship in 2018; current term: August 24, 2018 to August 23, 2021; automatic renewal subject to terms and conditions
Contractubex (德國秀碧除疤膏)	• A gel product for treating scars • One of the most recognizable scar treatment products in Hong Kong, with 76% of the interviewed consumers stating Contractubex as their preferred scar treatment brand, according to a Nielsen survey conducted in 2019 commissioned by us	Merz (Germany)	Commenced distributorship in 2006; current term: July 1, 2020 to June 30, 2023, automatic extension for one contract year to June 30, 2024; renewal subject to negotiation
Ho Chai Kung Analgesic Tab (何濟公止痛退熱片)	• A tablet form product for the relief of headache, toothache, fever and influenza • Another principal product under the brand "Ho Chai Kung"	Our Group	N/A
PK-Merz 100 mg Tablets (金剛胺藥片100毫克).....	• Treatment of symptoms of Parkinson's diseases and residual symptoms and complaints after stereotactic operations	Merz (Germany)	Commenced distributorship in 2006; current term: July 1, 2020 to June 30, 2023, automatic extension for one contract year to June 30, 2024; renewal subject to negotiation

Health and wellness

Health and wellness products comprise supplements, medical consumables and other non-pharmaceutical products for the general health and wellness of consumers. These products are intended to meet the everyday needs of the increasingly health-conscious consumers, ranging from personal hygiene and infection control (such as antiseptic hand rubs) to personal care (such as hair care products), skincare (such as pregnancy stretch mark cream and scar management patches) and functional supplements (such as vitamins). We believe the branded products in our health and wellness portfolio are typically more sensitive to social, health and wellness trends. We strive to actively update our health and wellness product mix to cater for and capture business opportunities from such evolving health and wellness trends, awareness and focuses of end consumers. As at March 31, 2020, 6 of the 20 principal brands we carried were health and wellness products. As a key driver of our growth strategy, we target the following high potential markets:

- *Diagnostic test kits and services*: Diagnostic test kits and services detect possible health conditions to facilitate consumers to take timely action and get early treatment to lower their chances of developing later complications, or seek effective and prompt medical treatment at the onset of the illness. We have been the exclusive distributor of the world's leading provider of genomic-based breast cancer test service kit, Genomic Health, Inc., a wholly-owned subsidiary of Exact Sciences Corporation, for its Oncotype DX Breast Recurrence Score® assay in Hong Kong and Macau since 2008. In addition, in 2020, we launched Dr. Freeman Flu/RSV Combo, a home diagnostic product marketed under our own brand, which is designed to provide test results in approximately eight minutes for a qualitative determination of influenza type A and B virus and RSV, in the retail markets of Hong Kong and Macau.
- *Functional supplements*: Functional supplements, such as nutraceutical and cosmeceutical products, represent a category of health and wellness products that are specially processed or formulated and intended for particular nutritional uses, dietary management and health functions. Since October 2019, we have launched three lines of functional supplements from Smartfish of Norway and Capricorn Life Sciences B.V. of Netherlands in Hong Kong and selected Asian countries.

The following table sets forth our top five health and wellness products (excluding face masks) for the year ended March 31, 2020, which together accounted for 53.8% of our revenue from health and wellness products and 7.8% of the total revenue of our Group for the same period, respectively. We have entered into exclusive distribution agreements for the designated territories with relevant third-party brand owners for all third-party brand products which were among our top five health and wellness products during the Track Record Period.

Product[(1)]	Description	Brand owner	Term of expiry
Oncotype DX Breast Recurrence Score® Assay (安可待乳癌基因表現檢測)….	• A service kit for performing genomic-based diagnostic test for recurrence risks of breast cancer	Genomic Health, Inc., a wholly-owned subsidiary of Exact Sciences Corporation (U.S.A.)	Commenced distributorship in 2008; current term: May 28, 2018 to May 27, 2021; automatic renewal subject to terms and conditions
Contractubex Overnight Intensive Patch (德國秀碧晚間深層除疤貼)….	• Scar treatment product developed specifically for convenient overnight application	Merz (Germany)	Commenced distributorship in 2016; current term: March 1, 2016 to June 30, 2020[(2)]
Mederma Kids (美德瑪寶兒除疤啫喱)……	• Scar treatment product for children	Laboratoire HRA PHARMA (France)	Commenced distributorship in 2016; current term: June 30, 2019 to December 31, 2021; renewal subject to negotiation

Product[(1)]	Description	Brand owner	Term of expiry
BITE-X (BITE-X寶寶手指水)	• A product formulated to prevent children from nail-biting and thumb-sucking • Recommended by over 90% of interviewed parents, according to an independent survey commissioned by us in 2019	Our Group	N/A
Dr. Freeman Alcohol-based Hand Rub	• A hand sanitizer composed of isopropyl alcohol, glycerol and hydrogen peroxide, a formulation which is recommended by the WHO for efficient inactivation of emerging COVID-19	Our Group	N/A

Notes:

(1) Excluding one-off products of face masks, which together accounted for 23.5% of our revenue from health and wellness products and 3.4% of our total revenue, respectively, for the year ended March 31, 2020. The sales of face masks was mainly due to the COVID-19 outbreak.

(2) This product has been discontinued by the third-party brand owner as a result of a change in their product portfolio. The discontinuation was not due to or related to any disagreements or disputes between the third-party brand owner and us and would not affect our existing business relationship or the continuance of the supply of any other products covered under any and all of our existing distribution agreements with the said third-party brand owner.

Proprietary Chinese Medicines

Proprietary Chinese medicines comprise proprietary products (i) composed solely of (a) any Chinese herbal medicines specified in the Chinese Medicine Ordinance; or (b) any materials of herbal, animal or mineral origin customarily or widely used by the Chinese; or (c) any medicines and materials referred to in (a) and (b) respectively, as active ingredients; (ii) formulated in a finished dosage form; and (iii) known or claimed to be used for the diagnosis, treatment, prevention or alleviation of any disease or any symptom of a disease in human beings, or for the regulation of the functional states of the human body. We first entered the proprietary Chinese medicine market in 2003 and, as at March 31, 2020, own seven principal brands which are all highly recognized among Chinese consumers, enjoying strong market positions and are widely carried. For example, Po Chai Pills, which possesses 120 years of tradition, ranked first by revenue at the distribution level in the Hong Kong gastrointestinal (OTC proprietary Chinese medicines) market in 2019 according to the Frost & Sullivan Report, and was reclassified by the NMPA into the OTC category in China in 2016. We also carry Shiling Oil, which is a centenary household brand in many countries, including Hong Kong and the Caribbean Islands. As of the Latest Practicable Date, we offered proprietary Chinese medicines in a wide variety of dosage forms, including pills, tablets, powder, medicated oils, inhalers, balms and CCMG.

The following table sets forth our top five proprietary Chinese medicine products for the year ended March 31, 2020, which together accounted for 55.5% of our revenue from proprietary Chinese medicines and 26.8% of the total revenue of our Group for the same period, respectively:

Product	Description	Brand owner
Po Chai Pills (保濟丸) (known as "Puji Pills" or "普濟丸" in China).....	• A proprietary Chinese medicine made with natural Chinese herbs for the relief of indigestion, vomiting, diarrhea and bloating, which is also indicated for relieving hangovers from alcohol • Ranked first by revenue at the distribution level in the Hong Kong gastrointestinal (OTC proprietary Chinese medicines) market in 2019, according to the Frost & Sullivan Report • Reclassified into the OTC category in China by the NMPA in 2016	Our Group
Flying Eagle Woodlok Oil (飛鷹活絡油)	• An anti-rheumatic proprietary Chinese medicated oil composed of natural Chinese herbs and essential oils indicated for the relief of muscle aches, pains, bruises and swellings associated with fatigue or physical exercise • Ranked fifth by revenue at the distribution level in the Hong Kong skeletal and muscular diseases (OTC proprietary Chinese medicines) market in 2019, according to the Frost & Sullivan Report	Our Group
Shiling Oil (十靈油).....	• A proprietary Chinese medicated and external antipruritic oil composed of methyl salicylate, menthol, camphor and essential oils indicated for the relief of itchiness caused by insect bites, blocked nose and refreshment • 100-year brand with high brand awareness overseas, including the Caribbean Islands • Ranked seventh by revenue at the distribution level in the Hong Kong skeletal and muscular diseases (OTC proprietary Chinese medicines) market in 2019, according to the Frost & Sullivan Report	Our Group

Product	Description	Brand owner
Tong Tai Chung Woodlok Oil (唐太宗活絡油)	• A proprietary Chinese medicated and anti-rheumatic oil composed of a balanced combination of methyl salicylate and menthol indicated for the relief of muscle aches, pains, bruises and swellings associated with fatigue or physical exercise • A principal product of the brand "Tong Tai Chung," with approximately 25 years of history and recognized as a "Hong Kong Top Brand"	Our Group
Konsodona Medicated Oil (鎮痛霸活絡油)	• An anti-rheumatic proprietary Chinese medicated oil composed of methyl salicylate and menthol with strong and immediate efficacy on muscle aches, pains, bruises and swellings associated with fatigue or physical exercise	Our Group

CCMG products

We expanded our portfolio of proprietary Chinese medicines to include CCMG products following our acquisition of the Orizen Group in two tranches in 2018 and 2019, respectively, as a result of which the Orizen Group became our subsidiaries.

CCMG products are traditional Chinese herbal medicines processed through modern extraction and concentration technologies to arrive at a granular form for easy dispensary and administration. Our portfolio of CCMG products consist of more than 700 single herb products (單味) and combo formula (複方) products. CCMG single herb products are granules made from one Chinese herb ingredient only. CCMG combo formula products are granules made from a combination of different Chinese herb ingredients in accordance with formula set forth in the Chinese Pharmacopeia or other relevant authoritative literature of Chinese medicine. We currently carry two different brands of CCMG products:

(i) Our own Hoi Tin brand CCMG products, which are outsourced to GMP-accredited manufacturers for production on a third-party manufacturing basis. For further details, see the section headed "— Development and Manufacture of Own Brand Products — Third-Party Manufacturing" below; and

(ii) Third-party brand CCMG products, which we have the exclusive authority to distribute in Hong Kong and Macau. For further details, see the section headed "— Sourcing and Representation of Third-party Brand Products — Distributorship" below.

We have successfully integrated Orizen Group into our operations, which have swiftly contributed positively to our operating results. For the year ended March 31, 2020, we sold CCMG products to over 3,000 Chinese medicine practitioners, which represented over 40% of the total number of active Chinese medicine practitioners in Hong Kong in 2019, according to the Frost & Sullivan Report. Our CCMG products accounted for 38.5% of our revenue from proprietary Chinese medicines and 18.6% of our total revenue for the year ended March 31, 2020.

SOURCING AND REPRESENTATION OF THIRD-PARTY BRAND PRODUCTS

Selection Criteria and Major Suppliers of Third-Party Brand Products

During the Track Record Period, a majority of our principal consumer healthcare brands and one of our principal proprietary Chinese medicine brands were sourced from third-party brand owners. We believe the ability to continuously source and introduce quality third-party brand products with market potential into our product pipeline is critical to our success. We continuously observe market trends, seek to understand consumers' needs and collect up-to-date information about different brands through market research and analysis, attending trade shows and exhibitions and conducting regular visits with retailers, among others, to help us collate and accumulate relevant insights to identify and evaluate third-party brand products with market and commercialization potential. When evaluating targeted third-party brands and products that we have identified or that have approached us, we generally adopt the following approach:

(i) assess market potential, sales trend and commercial viability of target products;

(ii) consider relevant experience and reputation of the target brand owners in the industry and their established market;

(iii) review laboratory reports and other relevant research reports in respect of the functionality and quality of the target products; and

(iv) inspect the certificates, licenses, permits and other supporting documents in respect of the credentials of the target brand owners and the manufacturers engaged by them, where applicable, to ensure they are duly qualified under the applicable laws and regulations to sell, distribute and manufacture the target products.

For third-party brands or products that pass our internal assessment, we typically initiate a site visit with the third-party brand owner and compile a business proposal for them, which sets forth our plan for distribution and operation in our major target markets. We generally seek to obtain exclusive distribution rights from a third-party brand owner by entering into a distributorship or in-licensing agreement with the brand owner. Depending on the practice of the brand owner and bargaining power of the parties, we may reach an agreement on the mode of collaboration, namely distributorship or in-licensing, and commence negotiations on other terms and conditions of our collaboration and enter into a legally binding agreement. When deciding on our preferred mode of collaboration, we take into consideration various factors, including our relationship with the brand owner, the market position, life cycle, global brand image, registration requirements and level of flexibility and control required for the successful commercialization of the target product.

We believe third-party brand owners are more inclined to choose to partner with us because of our trustworthy reputation, portfolio of third-party brands and track record of successfully commercializing and popularizing third-party brand products in relevant markets. Going forward, we endeavor to continue to source compelling third-party brand products in therapeutic areas that are synergistic with our existing portfolio and our strategic directions, such as cosmeceutical and nutraceutical products in women's health and child care, and home diagnostic products, that are researched and supported by clinical studies.

Distributorship

Distributorship is currently the principal arrangement which we enter into with third-party brand owners to obtain their authorization to sell and distribute their products in the relevant markets. Under this arrangement, we typically enter into legally binding distributorship agreements with third-party brand owners, which may have a fixed term ranging from three to five years (subject to renewal) and provide the terms and conditions under which we sell and distribute their products in the relevant market as their authorized distributor. The table below sets forth a summary of the principal arrangements with our major suppliers of third-party brand products:

Principal arrangements	Summary
Duration	The term of the distribution agreement is typically three years and can be up to five years.
Exclusivity of distribution right	We are generally granted exclusive rights to sell and distribute one or more products as specified in the distribution agreement.
Distribution territories	We are authorized to distribute the third-party brand products in Hong Kong; the distribution territories may include other countries and regions such as Greater China and Singapore.
Retailers	The distribution agreement may specify that we may distribute the third-party brand products only to offline or online sales channels within the distribution territories or to the specified retailers.
Minimum purchase amount	The distribution agreement may contain provisions as to the minimum amounts of purchase by us within a specific period, subject to adjustments by mutual agreement. Achievement of such performance requirements may be set as a condition for the renewal of the distribution agreement. In the event that we fail to meet the minimum purchase amounts, the third-party brand owner may be entitled to terminate the distribution agreement by notice.
Upfront payment	We are generally not required to make any upfront payment.
Resale price management	The distribution agreement typically does not set forth a recommended retail price.
Transportation	The responsibility for transportation costs of the third-party brand products is specified in the distribution agreement, including free on board origin, ex-works, and cost, insurance and freight bases.

Principal arrangements	Summary
Product liability	The distribution agreement may require the third-party brand owner to bear the expenses of any recall required by it or any regulatory authority resulting from defective manufacturing, packaging or shipment by the third-party brand owner. It may also include a guarantee from the third-party brand owner as to the quality of products supplied and stipulate that we will be responsible for any diminishment in the quality of the third-party brand products in our possession afterwards.
Return policy	We are generally required to inform the third-party brand owners within seven to 14 days of receipt of any products with quality issues or visible defects and within five days of detection of any hidden defects, and arrange for replacement or refund.
Settlement	The credit term, payment currency and payment method are generally stated in the distribution agreement or specified by the third-party brand owner in the invoices or otherwise agreed between the third-party brand owner and us from time to time. We generally make full payment within 30 to 90 days from the date of invoice by bank transfer.
Non-competition undertaking	We are generally not allowed to manufacture, distribute, market, sell, deal in or be the agent for any products competing with those of our third-party brand owners without their prior written consent.
Renewal	The distribution agreement may be renewed or extended upon mutual agreement or deemed to be renewed if the parties do not give written notice to terminate the agreement. During the Track Record Period, we did not experience any failure to renew our distributorship agreements.
Termination	The distribution agreement may be terminated by either party, if the other party fails to perform any of its obligations under the distribution agreement and fails to rectify such breach within a prescribed time period, with 30 to 90 days of prior written notice, by mutual agreement of both parties, or by expiration of contract term, among others.

The following table sets forth the movements in the number of distribution agreements during the periods indicated:

	Year ended March 31,			Four months ended July 31,
	2018	2019	2020	2020
Number of agreements at the beginning of period	4	6	18	24
Number of lapsed agreements	1	4	4	1
Number of renewed agreements	1	3	4	1
Number of new agreements entered	2	13	6	–
Number of terminated agreements	–	–	–	–
Number of agreements at the end of the period	6	18	24	24

In-licensing

In-licensing is another type of arrangement that we use to secure authorization from third-party brand owners to sell and distribute their products. This mode of collaboration generally requires the licensee to pay an initial licensing fee as an upfront payment but provides the licensee with more support from the licensor, and more flexibility and control over brand management as compared to the distributorship arrangement. We have presently only adopted in-licensing arrangement with a European brand owner for the sale and distribution of selected health and wellness products in Greater China. The arrangement has afforded us the flexibility to refine the ingredients of one of the products with the brand owner during the Track Record Period to meet Taiwanese registration requirements. The table below sets forth a summary of the principal terms of our legally binding in-licensing agreement with this brand owner:

Principal arrangements	Summary
Duration	November 23, 2018 to November 22, 2033 (initially 10 years and subsequently extended to 15 years in November 2020).
Exclusivity of distribution right	We have been granted exclusive rights to promote, market, transfer, distribute and sell selected products as specified in the in-licensing agreement.
Distribution territories	We are authorized to distribute the products in Greater China, and the distribution territories may be extended to include other Asian markets by mutual agreement.
Retailers	The in-licensing agreement does not specify or limit our sales channels or retailers.
Minimum purchase amount	We are required to meet an annual minimum purchase amount of no less than 60% of the aggregate volume projections for all the products, subject to annual adjustments by mutual agreement. Achievement of such annual minimum purchase amount requirement is set as a condition for the retention of the exclusive distribution right granted to us.
Upfront payment	We have made upfront payments of HK$16.9 million to the third-party brand owner in accordance with the in-licensing agreement during the Track Record Period. In the event of a termination of the in-licensing agreement by the third-party brand owner with respect to one or more products for reasons other than our breach of the in-licensing agreement, the third-party brand owner will be required to pay us an amount equal to the upfront payment made by us for the remaining term of the exclusive rights granted for the terminated product.
Resale price management	There is no pre-determined resale price on the products.
Transportation	The products are delivered to us on an ex-works basis.
Product liability	The third-party brand owner will be responsible for any bodily injury, death or property damage resulting from any defect in the design, material, manufacture, fabrication, workmanship and labeling of the products.

Principal arrangements	Summary
Return policy	We are required to inform the third-party brand owner in writing within seven days of receipt of any non-conforming products at the point of destination.
Settlement	The purchase prices must be settled immediately after we accept delivery of the products.
Termination	The in-licensing agreement may be terminated by either party in the event of dissolution or insolvency, default or expiration of contract term, among others.

During the Track Record Period, we were able to fulfill all minimum purchase requirements imposed on us except for those concerning four third-party brand owners, where we fell short by a total of HK$4.7 million with regard to eight products as of March 31, 2019, and HK$8.7 million with regard to nine products as of March 31, 2020. The reasons for our inability to meet these minimum purchase requirements varied, including (i) production delay by the third-party brand owner; (ii) unexpected product registration hurdles in selected markets; and (iii) negative impact of the social unrest in the second half of 2019 and the COVID-19 outbreak in 2020 on retail spending by visitors and local consumers in Hong Kong. We have managed these situations closely with the relevant third-party brand owners and no penalty has been imposed on us. We continue to retain exclusive distribution rights with the relevant third-party brand owners for these products and are of the view that these incidents will not adversely impact our business relationships and distribution or in-licensing arrangements with the third-party brand owners.

We have not encountered any early termination of distribution rights by the third-party brand owners or had failed to renew any material distribution or in-licensing agreements upon expiration during the Track Record Period and up to the Latest Practicable Date.

DEVELOPMENT AND MANUFACTURE OF OWN BRAND PRODUCTS

Product Development

The majority of our own brand products are OTC proprietary medicines and OTC proprietary Chinese medicines with long established proprietary formulations based on ancient prescriptions, pharmacopeia prescriptions or customary Chinese prescriptions. Nevertheless, we believe product development remains a key to our competitiveness, as well as our ability to adapt to new and evolving consumer demands and regulatory requirements. In particular, tailored to the characteristics of our own brand product portfolio, our product development initiatives have been directed towards the following areas during the Track Record Period, none of which involves any development of new innovative patentable formulations or engagement of clinical trials:

- *Product line extensions*: When we identify a need in a refined segment of a product market, we may build on an existing product and its brand appeal to develop extension products with new flavors, formats, dosages, added ingredients or therapeutic extensions. For example, we have introduced or are in the process of developing the following product line extensions:
    - *Shiling Inhaler*: We introduced an inhaler as a product line extension under our "Shiling" brand in 2020, which is a compact, simple-to-use product to provide quick relief from blocked nose. The new formula for Shiling Inhaler (which is in a different dosage form from our Shiling Oil) was developed by us with reference to the basic fragrance of Shiling Oil with rounds of testing and adjustments to arrive as the final formation. New packaging and inhaler mold designs have been created to reflect a coherent "Shiling" brand image between the two products.

  - *Extensions of the Po Chai Pills product line*: In an effort to rejuvenate the brand positioning of Po Chai Pills, we have been exploring and are currently working on some potential product line extensions based on dosage form variations for easier intake and better flavorings to appeal to a wider and younger generational consumer base.

- *Product variations for overseas markets*: Different jurisdictions may have varying licensing and regulatory requirements, which may require refinements to the formulation of an existing product before it can be registered and sold in a relevant jurisdiction. For example, we have made specific formulation refinements to Po Chai Pills manufactured for sale to Taiwan while maintaining its therapeutic impact to facilitate compliance with the licensing requirements of Taiwan. We expect to complete product registration and launch the first batch of Po Chai Pills in the Taiwan market in the near future.

- *Expansion to new product markets*: We seek to develop or introduce products to underserved product markets to satisfy unmet consumer demands. For example, we are developing a line of health and wellness products under our own Dr. Freeman (醫臣) brand, including the Dr. Freeman Flu/RSV Combo and antiseptic hand rubs, to address the strong consumer demand arising from increasing awareness on infectious diseases and personal hygiene.

As of July 31, 2020, we had a total of 14 experienced and qualified professionals dedicated to the above product development initiatives. Our product development team had an average of 12 years of industry experience and over 90% of them held a bachelor's degree or above. They work closely with our business development team to leverage our market insights and product development know-how to cater for new and evolving demands in the market. During the Track Record Period, we also collaborated with an academic institution and a medical technology company for the technical research, development and testing of certain consumer healthcare products.

Procurement of Raw Materials and Packaging Materials

The primary raw materials for our self-manufactured products are menthol, paracetamol, Chinese herbs, chemicals and excipients, while the main packaging materials we use include paper and aluminum foil, most of which are general commodities commonly available in the market. We carefully select suppliers based on their qualification, reputation, quality and services. Over 75% of the active materials (by type) used in our GMP-accredited manufacturing facilities for the year ended March 31, 2020 were manufactured by GMP-accredited manufacturers. We uniformly apply our quality management procedures and quality control standards for our active materials procured in compliance with our adopted PIC/S or GMP standards (as the case may be), regardless of whether the relevant manufacturers are themselves GMP-accredited. For instance, all product quality-related suppliers for our PIC/S or GMP-accredited manufacturing facilities must undergo our vendor approval process, comprising an on-site audit or audit by questionnaire and other relevant continuous monitoring measures such as requiring relevant active materials to be accompanied with a certificate of analysis and conducting relevant analytical activities including chemical and physical analysis to confirm that they comply with our prescribed specifications. For further details of our quality management procedures and quality control checks on active substances, see the section headed "— Quality Management" below.

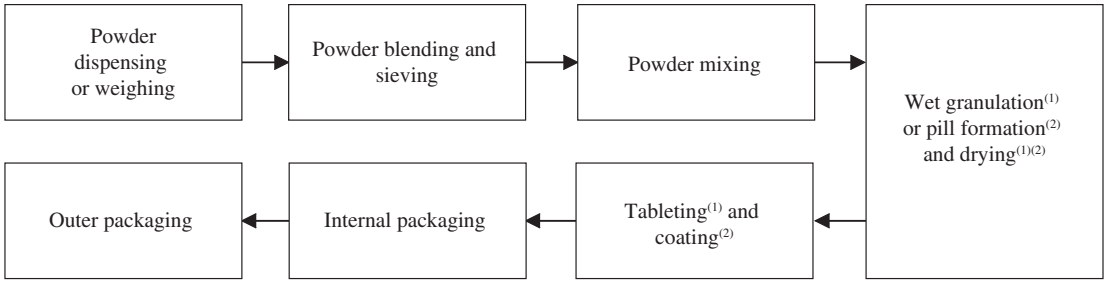
Our raw material and packaging material suppliers are primarily based in Hong Kong, China and Japan. During the Track Record Period, the production capacities of our suppliers have been adequate to meet our manufacturing needs and we believe that alternate suppliers are available. In order to reduce dependence on any single supplier, we may choose from multiple suppliers for our raw materials. We routinely monitor our suppliers for any incidents or regulatory warnings. We generally place purchase orders and do not have any agreements with our raw material and packaging material suppliers lasting longer than one year. Our local suppliers typically provide 30 days' credit term, while our PRC suppliers may require payment in advance before shipment. The lead time for delivery varies from the availability of stock maintained by the raw material and packaging material supplier, types of materials and the production cycle of the materials. The market prices of our raw materials and packaging materials may

fluctuate from time to time as a result of factors such as incidental supply and demand fluctuations, our bargaining power with suppliers, logistics and processing costs, government regulations and policies and tax. The cost of raw materials and packaging materials used in the manufacturing of our own brand products accounted for 30.3%, 32.1%, 18.3% and 9.5% of our overall cost of sales for the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, respectively. Fluctuations in cost of raw materials and packaging materials were generally in line with the fluctuations in revenue from sales of our self-manufactured products, and fluctuations of market prices of our raw materials and packaging materials did not materially impact our overall cost of sales during the Track Record Period. Further, in general, we seek to pass on increases in cost of raw materials to our customers if such increases affect our business operations and profit margin.

Manufacturing Process

Our manufacturing process varies between products and depends largely on the product's dosage form and active ingredients used. We manufacture various branded medicines and proprietary Chinese medicines in several dosage forms, including pills (such as Po Chai Pills), powder (such as Ho Chai Kung Tji Thung San), tablets (such as Ho Chai Kung Analgesic Tab) and medicated oils (such as Flying Eagle Woodlok Oil, Shiling Oil and Tong Tai Chung Woodlok Oil). The following flowcharts illustrate the basic steps of our manufacturing process for (i) pills, powder and tablets; and (ii) medicated oils. The time for each step in the manufacturing process also varies depending on the specific requirements of the product.

Pills, powder and tablets



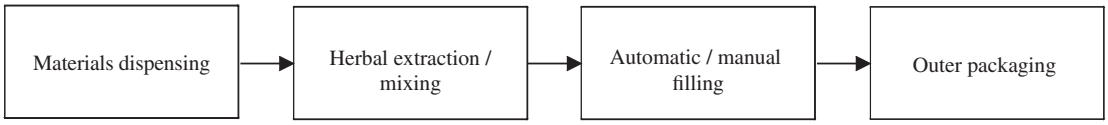
Notes:

(1) Only applicable to the manufacturing process of our tablet form products.

(2) Only applicable to the manufacturing process of our pill form products.

All starting materials are sampled and tested for their physical characteristic and identity. In many cases, upon completion of the quality tests on the starting materials, they are dispensed for blending and sieving. In the case of powdered form products, sieved powder is then mixed and homogenized to improve content uniformity and stability. The resulting product is then filled into sachets, which is further packed with outer packaging materials. For tablet form products, the sieved powder blend then undergoes a granulation process, on either a dry or wet basis, to improve the flowability of the powder mixture prior to tableting. In the case of pill form products, purified water is then added to the mixed herbal powder that is subsequently made into pill forms. The pills are then coated with colorant and dried, then packed into bottles and boxes with outer packaging. All finished products are subject to the required quality tests before being released to the market. The whole manufacturing process normally takes 25 to 72 hours, depending on the specific product involved.

Medicated oils



All starting materials are sampled and tested for their physical characteristic and identity. Upon completion of the quality tests on the starting materials, they are dispensed and mixed, together with the herbal extract, if any, until they become homogenous. The resulting mixture is filtered, bottled and finally packed with outer packaging. The products are subject to the required quality tests before being released to the market. The whole manufacturing process normally takes 20 to 85 hours, depending on the specific product involved.

Manufacturing Facilities

Our manufacturing facilities are located in Hong Kong and comprise (i) a PIC/S GMP-accredited manufacturing facility for the production of our Ho Chai Kung branded products; (ii) two GMP-accredited manufacturing facilities mainly for the production of Po Chai Pills and Flying Eagle Woodlok Oil; and (iii) other manufacturing facilities primarily used for the production of certain other proprietary Chinese medicines. We have obtained all necessary licenses, permits and approvals for our manufacturing facilities. As of July 31, 2020, we had a total of 162 factory, warehouse and operations personnel, who are responsible for the manufacturing operations and maintenance of our manufacturing facilities and equipment to ensure their optimal performance. We replace and upgrade manufacturing equipment and machinery when necessary to enhance productivity or functionality. We did not experience any material interruptions to our manufacturing process during the Track Record Period.

The following table sets forth our major assets and equipment in our manufacturing facilities:

Name of the equipment	Purpose of the equipment	Place of origin	Average length of time in use (years)	Average remaining useful life (years)[(1)]
Herbal powder grinding system	Powder grinding	China	5.5	5.5
Mixer	Powder mixing	China	12	5
Pills production line	Pills production	China	4.5	5.5
Coater	Pills coating	China	7	5
Tablet pressing machine	Tablet pressing	China	13.5	4.5
Pills filling machine	Pills filling	Hong Kong	6	5
Sachet filling machine	Filling powder in sachets	China	11	4

Note:

(1) Based on the best estimation of our management.

Production capacity and utilization rate

The following table sets forth a summary of our annual production capacity and utilization rates for our manufacturing facilities for the periods indicated. We have maintained moderate utilization rates during the Track Record Period, which we believe would provide us with a reasonable buffer in production capacity to cater for further business growth.

Production line	Operational Information	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Four months ended July 31, 2019	Four months ended July 31, 2020
Pills, powder and tablets	Maximum designed production capacity *(in kg)*[(1)]	352,800	352,800	352,800	114,374	114,374
	Output *(in kg)*	144,201	178,028	152,796	56,258	58,450
	Utilization rate[(2)]	41%	50%	43%	49%	51%

Notes:

(1) Maximum designed production capacity is calculated assuming 300 days per year, six days of operation per week and 12 hours of operation per day at maximum output batch size.

(2) Utilization rate is calculated by dividing actual output by maximum designed production capacity.

Adjustment and upgrade of manufacturing facility

In conjunction with our Reorganization, we resolved to optimize and upgrade the manufacturing process for certain of our proprietary Chinese medicines by relocating their production to one of our GMP-accredited manufacturing facilities in Tai Po, Hong Kong, which has been used principally for our production of Flying Eagle Woodlok Oil. We suspended operation of this manufacturing facility and commenced renovation works in February 2020 to remodel the layout and expand the production area. During the months leading up to the suspension of this manufacturing facility, we had increased the production and finished goods inventory of Flying Eagle Woodlok Oil and other relevant products to cover for the anticipated demand of these products during the suspension. During the period of production suspension we had not encountered any material issues concerning the fulfillment of sales orders, or experienced any material impact on our results of operations. We have since completed the renovation works of the GMP-accredited manufacturing facilities and received the manufacturer license and the GMP certificate in connection with the adjustment of the design and usage of the facility, and have, from late September 2020 onward, gradually resumed basic operations of the said manufacturing facility, including materials procurement in preparation of our production orders with scheduled product deliveries in the first quarter of 2021.

Third-Party Manufacturing

Apart from our own brand CCMG products which are outsourced to GMP-accredited third-party manufacturers for production, we manufacture most of products under our principal own brands in-house. While our manufacturing facilities remained moderately utilized during the Track Record Period, our equipment are designed for specific dosage forms, such as pills, powder and tablets, and are considered by our management as the minimum set-up for the production of relevant products in their respective dosage forms. Those outsourced own brand products, on the other hand, have differing dosage forms (such as pei pa koa and concentrated decoction products) involving different production processes and production equipment, some of which are also marketed under miscellaneous brands with sporadic order quantities. Outsourcing the production of these products under third-party manufacturing therefore enables us to supply such products to the market without the need for significant capital investments in manufacturing facilities and equipment.

We have implemented strict quality control procedures to ensure the quality, safety and reliability of our products that are outsourced to third-party manufacturers. We typically conduct site inspections of the manufacturing facilities of potential third-party manufacturers and select them based on a variety of factors, including their compliance with GMP standards and other relevant international safety standards, relevant experience and reputation in the industry, quality control measures, receipt of required certificates, licenses and permits and pricing terms. We also implement stringent product quality requirements on our third-party manufacturers and quality control checks on the final products to ensure that they meet the quality requirements as set out by us.

Currently, we outsource to third-party manufacturers the production of the following products:

- *Own brand health and wellness products*: We collaborate with select GMP-accredited or ISO-certified manufacturers, including but not limited to the Jacobson Connected Persons (as further described in the section headed "Connected Transactions — Partially Exempt Continuing Connected Transactions — 2. Manufacturing Services Agreement"), for the production of BITE-X and certain Dr. Freeman products.
- *Own brand CCMG products*: We have engaged multiple GMP-accredited manufacturers, including a long-established provincial state-owned manufacturer whose manufacturing facilities are GMP-certified in accordance with both PRC and TGA standards, to manufacture all our own brand CCMG products.
- *Other proprietary Chinese medicines*: We outsource the production of miscellaneous proprietary Chinese medicines, including pei pa koa (枇杷膏), that are not produced in large quantities to a Hong Kong manufacturer.

Save for the Jacobson Connected Persons, all the remaining third-party manufacturers we engage are Independent Third Parties and have maintained stable business relationships with us. We did not experience any material issue or dispute in relation to product quality or product delivery schedule with any of our third-party manufacturers during the Track Record Period, except the voluntary product recall incident by the Orizen Group, our then associates, concerning a third-party manufacturer of our own brand CCMG products as described in the section headed "— Sales and Distribution — Product Returns, Recalls and Warranties" below.

For our antiseptic hand rubs (manufactured by the Jacobson Connected Persons), BITE-X and certain miscellaneous proprietary Chinese medicines, we place purchase orders on an on-demand basis during the Track Record Period. The table below sets forth a summary of the principal arrangements with the rest of our third-party manufacturers:

Principal arrangements	Summary
Duration	The term of the third-party manufacturing arrangements is generally for three years.
Manufacturing period	The manufacturing period varies depending on the product type, quantity of order and manufacturing capacity.
Intellectual property rights	We generally have the intellectual property rights of our products, except for the home diagnostic influenza product, where the third-party manufacturer retains the patents for the technologies invented in connection with the product while we own the trade mark such as "Dr. Freeman (醫臣)."
Raw material procurement policy	The third-party manufacturer must procure the raw materials that comply with the prescribed specifications themselves.

Principal arrangements	Summary
Quality requirements	The third-party manufacturer is generally required to carry out all necessary quality control measures and keep the manufacturing records well in order to meet our product quality standards and relevant manufacturing requirements. A certificate of analysis is typically attached to the products delivered to us confirming that the products comply with the specifications and quality standards as required by us or endorsed by the relevant regulatory requirements. We will only accept products that meet the prescribed specifications.
Basis of determining relevant fees	Fees are generally calculated based on cost of goods and market prices, in line with industry norm and subject to adjustments through mutual consent in the event of changes to market conditions that are reasonably beyond the control of either party.
Return policy	We are generally required to inform the third-party manufacturers within seven to 15 days of receipt of any defective or damaged products and arrange for replacement or refund.
Settlement	Settlement terms range from full payment prior to delivery of the products to within 30 days of receipt of the products.
Non-competition	The third-party manufacturer is prohibited from manufacturing our products for itself or any other entity within our distribution territories as specified in the agreement.
Renewal	The third-party manufacturing arrangements may generally be renewed or extended upon mutual agreement or deemed to be renewed if the parties do not give written notice to terminate the arrangement.
Termination	The third-party manufacturing arrangements may be terminated by either party in the event of a material breach that is not remedied within a prescribed time period or expiration of contract term, among others.

BRAND MANAGEMENT AND MARKETING

We manage a portfolio of well-established and trusted third-party brands and own brands, and are committed to driving high brand engagement and sales through our multi-channel marketing campaigns. As of July 31, 2020, we had a dedicated brand management and marketing team of 11, with an average of 14 years of experience in brand management and marketing. Our brand management and marketing team is responsible for evaluating the strengths, weaknesses, opportunities and threats of a product and its market, to identify market position of the product and distinct subsets within its consumer base and target market, and to create marketing plans. Our team also liaises with certain third-party brand owners and overseas distributors to build a consistent global brand image and share marketing materials. We employ a marketing strategy based on consumer insights and combine various media forms in a synergistic way to effectively penetrate our targeted consumer population. We conduct a range of marketing and promotional activities through various offline and online channels. Our advertising and promotion cost amounted to HK$32.5 million, HK$32.6 million, HK$31.8 million and HK$8.1 million, or 12.3%, 10.6%, 8.3% and 6.8% of our total revenue, for the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, respectively.

Offline Advertising and Promotion

We consider the traditional advertising channels, such as advertisements on television, prints (including newspaper and magazines), radio and outdoor billboards (such as posters on buses), sponsorships, product conventions and point-of-sale channels (such as in-store posters or light-box displays in registered pharmacies and retail outlets), are effective modes to promote our brands and products. Historically we have deployed a variety of offline advertising and marketing campaigns, some examples of which include:

- *Television advertisements*: We sponsored a primetime television show, "Come Home Love" (愛 • 回家), on Television Broadcasts Limited in 2019, for product placement advertisements to increase the public exposure of one of our branded medicines.
- *Event title sponsorships*: We were the event title sponsor of certain youth sports events, which is one of our target demographics. The events were titled and marketed together with the logo of Po Chai Pills.
- *Vending machines*: We set up pop-up vending machines for Flying Eagle Woodlok Oil in multiple locations in Hong Kong with advertising video, sales page and banner to expand the reach of consumer interaction.
- *Academic marketing*: To further promote and facilitate the usage of our CCMG products and strengthen our relationship with Chinese medicine practitioners, our medical director regularly participates as expert speaker in academic seminars, informational training sessions and presentations for Chinese medicine practitioners to enhance their industry knowledge.

The following pictures illustrate some of our offline advertising and marketing campaigns:

Online Marketing

We leverage various new media and social platforms to enhance exposure to end consumers through online marketing, including online coupon promotions and social media promotion. We cooperate with KOLs and influencers on major social media platforms (such as Facebook and Instagram) to promote various product contents tailored to different targeted consumer groups.

We integrate our online and offline marketing campaigns by engaging celebrities to promote our products in our online and offline marketing activities, such as online video series demonstrating the different efficacies of Po Chai Pills and sponsoring youth sports events, to maximize our marketing impact. We also stimulate consumer communications and engagement through different online platforms (such as Facebook) and offline activities. By establishing continuous direct communication with end consumers online and offline, we are able to gather insights into the differing consumer preferences in various products and markets. We seek to use such insights to devise more precise product positioning and brand management strategies to improve our product appeal and consumer interests, and at the same time to drive our product development initiatives, thereby achieving a virtuous cycle and propelling our continuous growth.

The following pictures illustrate some of our online branding and marketing campaigns:

Channel Marketing

We engage channel marketing through selected corporate clients, such as airlines, amusement parks and public transport companies, for our consumer healthcare products. This has allowed us to efficiently tap into our clients' large established network of employees and consumers to gain market coverage and increase brand awareness and product exposure with relatively cost-efficient promotional expenses.

Overseas Marketing

Our brand management and marketing team liaises with certain third-party brand owners and overseas distributors to build a consistent global brand image and share marketing materials. We mainly rely on overseas distributors to organize below-the-line marketing and promotional activities (such as in-store displays in retail chains, occasional special discount offers and promotional packs), while we focus on above-the-line advertisements (such as product placement in television commercials and billboard advertisements) and online marketing (such as advertising on popular PRC e-commerce and social media platforms, including Xiaohongshu (小紅書), Soyoung (新氧), Mama (媽媽網) and our WeChat and Weibo public accounts).

SALES AND DISTRIBUTION

Product registration is generally required for our branded healthcare products before they can be sold and supplied in Hong Kong, China and other select overseas markets. We have a dedicated team that closely monitors applicable regulatory regimes to ensure the successful and timely registration of our products in various countries and the continuous compliance with relevant product registration and product license requirements.

In terms of sales and distribution, we adopt a hybrid of sales and distribution models tailored for different products and geographic markets. We manage our sales and distribution networks in Hong Kong, China and other select overseas markets from our headquarters in Hong Kong. Our Hong Kong sales and distribution team is responsible for establishing sales plans, developing strategies for the introduction of products into new markets, expansion of our distribution network and overseeing local sales and marketing teams, who are responsible for effecting direct sales. Outside of Hong Kong, we sell our products primarily through distributorship and wholesaling arrangements with local third-party distributors, wholesalers and trading companies. We generally engage one to two well-established overseas distributors or wholesalers per region for the distribution of our selected products. The Notice on Improving Supervision over Cross-border E-commerce Retail Imports (《關於完善跨境電子商務零售進口監管有關工作的通知》) that came into effect on January 1, 2019, permits sellers outside China to sell goods, including selected branded healthcare products, that fall within the List of Imported Goods in Cross-border E-commerce Retail directly to PRC consumers through certain registered e-commerce platforms. To capture the e-commerce market opportunities, our sales efforts in China have been increasingly focused on online distribution channel.

The table below sets forth our revenue by geographic region for the periods indicated:

	Year ended March 31,						Four months ended July 31,			
	2018		2019		2020		2019		2020	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
Hong Kong[(1)]	214,398	81.1	233,586	76.0	285,589	74.9	53,916	79.2	104,110	87.7
China and Macau	32,499	12.3	43,621	14.2	64,350	16.9	5,235	7.7	4,359	3.7
Others	17,435	6.6	30,308	9.8	31,603	8.2	8,938	13.1	10,301	8.6
Total	**264,332**	**100.0**	**307,515**	**100.0**	**381,542**	**100.0**	**68,089**	**100.0**	**118,770**	**100.0**

Note:

(1) Includes sales to our Hong Kong distributor for its on-sale to China through cross-border e-commerce channel.

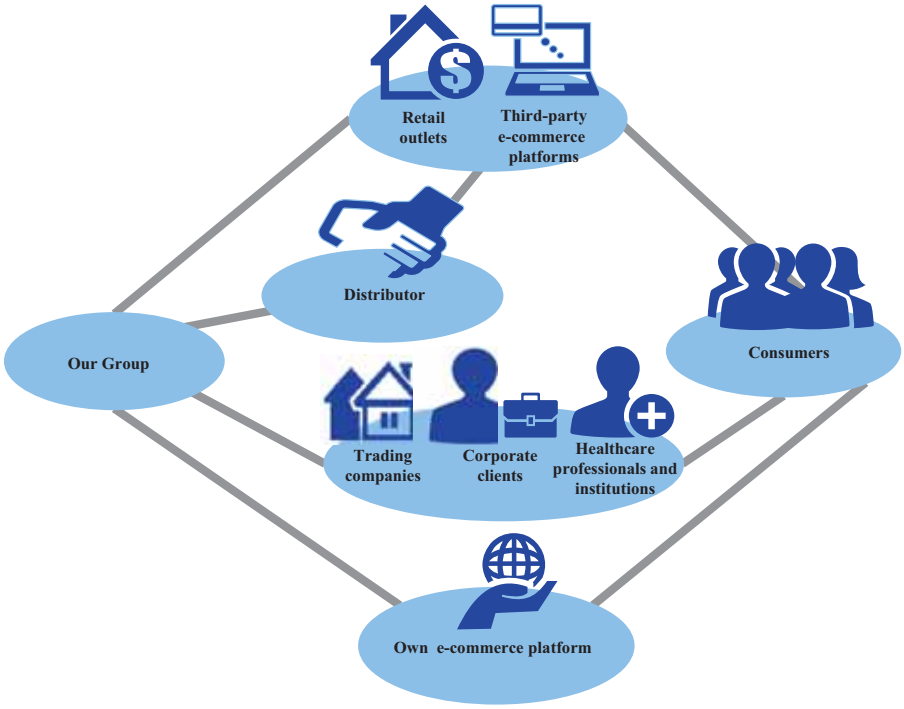
The table below sets forth our revenue by distribution channel for the periods indicated:

	Year ended March 31,						Four months ended July 31,			
	2018		2019		2020		2019		2020	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
Direct sales	227,881	86.2	245,365	79.8	323,265	84.7	57,852	85.0	104,242	87.8
Distributors and wholesalers	36,451	13.8	62,150	20.2	58,277	15.3	10,237	15.0	14,528	12.2
Total	**264,332**	**100.0**	**307,515**	**100.0**	**381,542**	**100.0**	**68,089**	**100.0**	**118,770**	**100.0**

Hong Kong

As of July 31, 2020, we had a sales team of 15, with an average of 17 years of experience in the industry. Many of them have worked in pharmaceutical companies or laboratories, medical device companies, trading companies, retail chain stores, dispensaries or clinics. We have maintained long-term business relationships with numerous key customers and have developed a deep familiarity with and understanding of the decision-making landscape of our different customer types, which enable us to formulate effective sales strategies and identify new business opportunities. In Hong Kong, the majority of our products are sold directly to major modern trade chain stores, registered pharmacies, drug stores, trading companies, corporate clients and (for CCMG products) Chinese medicine practitioners.

The following diagram illustrates the relationships among us, our principal customers and end consumers in Hong Kong:



During the Track Record Period, we primarily utilized direct sales for our third-party brand products and CCMG products, while adopting a hybrid model of direct sales and distributorship for sales of our other own brand products:

- *Third-party brand products*: We adopted a direct sales model for our third-party brand products mainly because we consider active marketing and promotion to be an important aspect of creating consumer awareness of these third-party brands and demand for these products. We believe direct sales provides us with access to consumer trends, preferences and purchasing behavior that can be valuable to our formulation of targeted marketing, advertising and promotional activities.
- *CCMG products*: We used direct sales for our CCMG products primarily because of their relatively unique and defined customer base of entirely Chinese medicine practitioners.
- *Other own brand products*: For our other own brand products, we utilized direct sales as well as distributorship mainly as a means of optimizing our coverage in different market segments and to leverage on the established distribution network of our distributors.

In light of the risk of cannibalization among our distributors and other customers, our sales team maintains close contact with our customers, reviews their purchase amounts and regularly visits retail outlets that carry our products to observe their end market prices. Any material fluctuations are discussed and reviewed with our senior sales management at monthly internal sales meetings to consider any further course of action.

Direct sales

We have established direct sales arrangements for the majority of our consumer healthcare products and proprietary Chinese medicines as follows:

- *Consumer healthcare*: We sell the majority of our consumer healthcare products directly to our corporate customers (including major modern trade chain stores, registered pharmacies and drug stores, trading companies, corporate clients and hospitals and clinics), and our end consumers (through our own online platform, GoSmart, and selected third-party online platforms such as Big Big Shop and HKTVmall).
  - *Corporate customers*: We generally do not impose standardized terms and conditions with our corporate customers. Instead, terms and conditions are discussed and negotiated on a customer-by-customer basis. Typically, these terms and conditions (to the extent there is a framework agreement) are for a one year period and include provisions such as our right to adjust our selling prices, our recommended (non-legally binding) retail prices and right of returns for defective products. We are generally required to pay shelving fees (subject to negotiation) to our direct modern trade chain retail store customers but not to our direct non-chain retail store customers. Our corporate customers generally place orders twice or thrice a month. For further details of our product return policy, see the section headed "— Product Returns, Recalls and Warranties" below.
  - *E-commerce*: We sell a selection of approximately 40 consumer healthcare products online directly to end consumers in Hong Kong through (i) our own online platform, GoSmart; and (ii) selected third-party online platforms, such as Big Big Shop and HKTVmall. The service agreements entered into between the third-party online platforms and us are generally open-ended. These third-party online platforms place purchase orders with us based on actual online orders they receive from end consumers. The retail prices for our products are paid by the end consumers to the payment gateway of the third-party online platforms, who then settle with us, net of commissions and any other applicable fees and charges payable by us to the third-party online platforms, on a monthly basis.
- *Proprietary Chinese medicines*: We presently directly sell our proprietary Chinese medicines (other than CCMG products) to trading companies, drug stores and pharmacies. We generally do not impose standardized terms and conditions with the trading companies. Instead, terms and conditions are discussed and negotiated on a customer-by-customer basis. The order placement pattern of the trading companies, drug stores and pharmacies may range from once every month to once every four months. We also sell our CCMG products to more than 3,000 Chinese medicine practitioners (which represented over 40% of the total number of active Chinese medicine practitioners in Hong Kong in 2019, according to the Frost & Sullivan Report). Chinese medicine practitioners that are frequent customers generally place purchase orders with us a few times a month and we would generally arrange delivery of products on a same-day basis. From time to time, we may also sell our CCMG products to non-profit organizations.

During the Track Record Period, we also sold certain third-party brand health and wellness products and proprietary Chinese medicines manufactured by us to a then subsidiary of Jacobson Pharma (which, subsequent to the Track Record Period, became an associated company of Jacobson Pharma as a result of a disposal of the equity interests by Jacobson Pharma in this subsidiary) for on-sale in their drugstores in Hong Kong.

Distributor

We engage a third-party distributor, our Hong Kong Distributor, which was ranked among the top three players in the proprietary Chinese medicine distribution market in Hong Kong in 2019 in terms of revenue, according to the Frost & Sullivan Report, to carry certain of our proprietary Chinese medicines and branded medicines (including Po Chai Pills, Tong Tai Chung Woodlok Oil and Konsodona Medicated Oil) primarily into large-scale modern trade chain stores in Hong Kong. We selected this distributor for its well-reputed track record in carrying branded proprietary Chinese medicines into sizable and popular chain operators in Hong Kong and its established relationship and bargaining position with these chain operators.

We entered into a three-year distribution agreement with our Hong Kong Distributor, specifying a variety of terms including the payment method, pricing policies and delivery arrangements, for its distribution of our products in Hong Kong (through certain specified modern trade retail chain stores) and China (through certain specified cross-border e-commerce platforms). The table below sets forth a summary of our current principal arrangements with our Hong Kong Distributor:

Principal arrangements	Summary
Duration	April 1, 2019 to March 31, 2022.
Order placement	We do not impose order frequency requirement on our Hong Kong Distributor, but it generally places orders once a every two to six months.
Designated distribution area	Our Hong Kong Distributor is only authorized to distribute our products in Hong Kong and, through certain specified cross-border e-commerce platforms, China. We may terminate the agreement in the event of non-compliance.
Rights and obligations of parties	Our Hong Kong Distributor is liable for any breaches of the distribution agreement and is responsible for indemnifying us for damages as a result of such breaches. During the Track Record Period, we did not experience any material breaches of the distribution agreement.
Obsolete stock management	As our Hong Kong Distributor is not required to return obsolete products, we do not impose any requirements on how they deal with obsolete stock.
Minimum purchase amount	Our Hong Kong Distributor undertakes a minimum annual purchase amount, and may be incentivized with retrospective volume discounts in the following year if they reach a specified purchase quantity. In the event our Hong Kong Distributor fails to meet its annual minimum purchase requirement, we may terminate the agreement.
Sales and expansion target	Sales of our products outside of the designated distribution area are subject to our written approval. No expansion target is imposed.
Pricing policy	We sell products to our Hong Kong Distributor at pre-determined prices as stipulated in the distribution agreement. Any adjustments to such prices will be subject to special terms where circumstances require.
Resale price management	Recommended resale prices are set forth in the distribution agreement for the reference of our Hong Kong Distributor.
Transportation	We are responsible for delivering the products to the destination point specified by our Hong Kong Distributor.

Principal arrangements	Summary
Sales and inventory reports and estimates	Our Hong Kong Distributor is required to provide sales reports detailing sales of our products in different types of chain retail operators on a monthly basis.
Return or exchange of products and product liability	Our Hong Kong Distributor is generally not allowed to return or exchange our products except for defective products. We are not liable to indemnify our Hong Kong Distributor or their related entities for any direct or indirect losses suffered by them, including circumstances where our product is found to be defective or has caused any adverse effect on the consumers.
Payment and credit terms	Payment shall be made within 30 days from the last day of the month when our Hong Kong Distributor placed a purchase order.
Conditions for termination and renewal	The distribution agreement may be terminated by either party in the event of dissolution or insolvency, a material breach by the other party that is not remedied within a prescribed time period, or inability by the other party to perform its obligations under the agreement due to force majeure events, or expiration of contract term, among others. The distribution agreement may be renewed upon mutual agreement.

We have separately entered into two other distribution agreements with our Hong Kong Distributor for its distribution of Po Chai Pills in China (valid from April 1, 2020 to March 31, 2022) and Macau (through pharmacies, drug stores, retail stores and wholesalers from June 1, 2020 to March 31, 2022) in similar terms as described above. Under the distribution agreements with our Hong Kong Distributor, we have a seller-buyer relationship with our Hong Kong Distributor and we do not have any contractual relationship with or impose any control or oversight over any of its downstream customers. We retain no ownership over the products that we sell to our Hong Kong Distributor, and all significant risks and rewards associated with these products are transferred to our Hong Kong Distributor upon delivery to and acceptance by it. For details of our China and Macau distribution arrangements with our Hong Kong Distributor, see the sections headed "— China — Distributors — Po Chai Pills" and "— Select Overseas Markets" below.

China

Our distributors engaged in China primarily carried Flying Eagle Woodlok Oil and Po Chai Pills (under the trade name and packaging of Puji Pills) during the Track Record Period. None of our products are sold (directly or indirectly) to hospitals and clinics in China.

Distributors

Flying Eagle Woodlok Oil

We sell Flying Eagle Woodlok Oil in the PRC market through an independent third-party distributor (our "**Flying Eagle Woodlok Oil Distributor**"). We maintain a seller-buyer relationship with this distributor and leverage on its established distribution network and access to the local PRC retail channels and markets. Our Flying Eagle Woodlok Oil Distributor distributes the products to its downstream customers, including sub-distributors and drug stores, with whom we do not have any contract relationships or impose any control or oversight over. All significant risks and rewards associated with our products are transferred to our Flying Eagle Woodlok Oil Distributor upon delivery to and acceptance by it of our products and we do not retain any ownership over the products. For details of our distributor management, see the section headed "— Distributor Management" below.

We entered into a three-year distribution agreement with our Flying Eagle Woodlok Oil Distributor for the sale of our Flying Eagle Woodlok Oil, specifying a variety of terms including the payment method, pricing policies and delivery arrangements. The table below sets forth a summary of our principal arrangements with our Flying Eagle Woodlok Oil Distributor in China:

Principal terms	Summary
Duration	November 4, 2019 to December 31, 2022.
Order placement	We do not impose order frequency requirement on our Flying Eagle Woodlok Oil Distributor.
Designated distribution area	Our Flying Eagle Woodlok Oil Distributor is only authorized to distribute our products in China. We may terminate the agreement in the event of non-compliance.
Rights and obligations of parties	Our Flying Eagle Woodlok Oil Distributor is liable for any breaches of the agreement and is responsible for indemnifying us for damages as a result of such breaches. During the Track Record Period, we did not experience any material breaches of the distribution agreement.
Obsolete stock management	As our Flying Eagle Woodlok Oil Distributor is not required to return obsolete products, we do not impose any requirements on how it deals with obsolete stock.
Minimum purchase amount	Our Flying Eagle Woodlok Oil Distributor undertakes a minimum annual purchase amount.
Sales and expansion target	Sales expansion may be proposed by our Flying Eagle Woodlok Oil Distributor and is subject to our approval. No expansion target is imposed but the proposed minimum annual purchase amount cannot be less than that of the previous year.
Pricing policy	We sell products to our Flying Eagle Woodlok Oil Distributor at pre-determined prices as stipulated in the agreement, subject to adjustments by mutual agreement within a prescribed framework in the second and third year or in the event of any material changes to manufacturing costs.
Resale price management	We do not set recommended resale price on our Flying Eagle Woodlok Oil Distributor.
Transportation	Our products are delivered to our Flying Eagle Woodlok Oil Distributor on an ex-works basis.
Sales and inventory reports and estimates	Our Flying Eagle Woodlok Oil Distributor is required to provide sales reports detailing sales of our products in different sales channels on a monthly basis.
Return or exchange of products and product liability	Our Flying Eagle Woodlok Oil Distributor is not allowed to return or exchange products except for defective products which shall be reported to us within seven days of receiving such products. We are not liable to indemnify our Flying Eagle Woodlok Oil Distributor or their related entities for any direct or indirect losses suffered by them, including circumstances where our product is found to be defective or has caused any adverse effect on the consumers.

Principal terms	Summary
Payment and credit terms	Payment shall be made on the date of delivery of our products.
Conditions for termination and renewal	The distribution agreement may be terminated by either party in the event of dissolution or insolvency, failure by the other party to perform its obligations under the agreement that is not rectified within a prescribed time period, by mutual agreement of both parties, or expiration of contract term, among others. The distribution agreement may be renewed upon mutual agreement or deemed to be renewed if the parties continue their seller-buyer relationships.

Po Chai Pills

During the Track Record Period, we sold Po Chai Pills (under the trade name and packaging of Puji Pills) in the PRC market through two independent third-party distributors. We have ceased to do business with our former distributor after our distribution agreement lapsed in the fourth quarter of 2019 in preparation for our strategic move to further cultivate the PRC market. In 2020, we invested in a jointly controlled entity established by our Hong Kong Distributor to collaborate with the PRC JV Partner, a renowned PRC state-owned conglomerate, under a joint venture arrangement to undertake the distributorship of our Puji Pills in China. Upon obtaining a GSP certificate under the joint venture arrangement which, to the best of our understanding, is currently expected to be in or around early 2021, we plan to commence our application procedures with the relevant PRC authorities for the change of our Puji Pills PRC distributor, and thereafter to proceed with utilizing this joint venture arrangement to undertake the distribution of our Puji Pills in China, which we currently expect to be in or around the first half of 2021. We believe this strategic collaboration will enable us to have better access to market intelligence, strengthen our PRC distribution channels and increase our product penetration. As an interim measure until the distribution of our Puji Pill in China can be formally overtaken under this joint venture arrangement, we have entered into a two-year distributorship agreement with our Hong Kong Distributor for the sale of Puji Pills in the PRC market, whereby it may purchase our Puji Pills for export and on-sell to its downstream customers in China to service any product demand in the region during this transition period. The terms of this distributorship agreement are similar to our arrangement with it for the sale of our products in Hong Kong as set forth in the section headed "— Sales and Distribution — Hong Kong — Distributor" above, except that this distribution agreement includes a maximum allowable return of damaged or obsolete goods capped at 2% of its actual purchase.

Cross-border e-commerce

The Notice on Improving Supervision over Cross-border E-commerce Retail Imports (《關於完善跨境電子商務零售進口監管有關工作的通知》) that came into effect on January 1, 2019 permits sellers outside China to sell goods, including selected branded healthcare products, that fall within the List of Imported Goods in Cross-border E-commerce Retail directly to PRC consumers through certain registered e-commerce platforms. We believe that cross-border e-commerce channels provide a cost-effective platform for us to reach out to our targeted consumers in China. Tapping into this massive online community with relevant health and wellness information will allow us to connect the dots between our products and the related lifestyle propositions. In addition to their appeal to customers who seek a convenient shopping experience, cross-border e-commerce channels also facilitate our market penetration to consumers in less affluent and more remote areas where modern retail channels are less established. As such, by leveraging the favorable policy development, we have been deploying resources in the development of cross-border e-commerce channels primarily for our health and wellness products, including:

- *Third-party online stores*: We have collaborated with our Hong Kong Distributor and others to distribute select products via cross-border e-commerce channels at their online flagship stores on different third-party e-commerce platforms, including JD.hk (京東國際) and Tmall (天貓); and

- *Own online store*: We are in the process of establishing a new online store on Tmall Global (天貓國際), a cross-border e-commerce platform under Tmall (天貓) at Tmall.hk. This online store will be established as a Tmall marketplace flagship store (天貓賣場型旗艦店), a type of Tmall Global merchant with high entry barrier designated for established corporations, for the direct retail sales of select branded healthcare products to PRC end consumers. As of the Latest Practicable Date, we have received approval from Tmall for the establishment and operation of our online flagship store and the admission of nine branded healthcare brands for the launch of their respective products. We intend to apply for approval from Tmall for the admission of an additional nine branded healthcare brands and are currently planning for an official launch of our flagship store in or around the Lunar New Year holidays in 2021, along with a range of cross-border e-commerce marketing initiatives, more particularly online performance marketing campaigns and pre-Lunar New Year festive promotions, to enhance our online presence and support the launch of our online store.

Select Overseas Markets

We sell our products outside of Hong Kong and China to Macau, Taiwan, as well as select countries in Southeast Asia, Europe, North America and the Caribbean Islands, primarily through distributorship and wholesaling arrangements with local third-party distributors, wholesalers and trading companies. We generally engage one to two well-established local distributors or wholesalers per country or region for the distribution of our selected products in their respective local markets. We have maintained long-term business relationship with our distributors and wholesalers.

We generally enter into a three-year distribution agreement with our distributors outside of China and Hong Kong, which includes provisions such as (i) our right to adjust the prices at which we sell products to the distributors; (ii) recommended (non-legally binding) retail prices; (iii) volume discounts (for selected customers from time to time as negotiated); (iv) product returns (which generally are not accepted unless the products are defective upon the receipt of goods); and (v) terms of delivery.

We do not generally offer indemnities to the distributors of our branded healthcare products. However, under exceptional circumstances such as when we expand our product into a new geographic market or where we are covered by a back-to-back indemnification from the third-party brand owner, we may (subject to negotiation) accept provisions to indemnify the relevant distributors against all direct losses, liabilities, claims, demands, damages, costs and expenses (except for loss of profit and any indirect or consequential loss suffered) which may be suffered or incurred by the distributor arising out of or in connection with any and all claims by any third parties solely due to any inherent defect in the product.

Our products are generally delivered to our distributors on a cost, insurance and freight basis. In particular, we have entered into a distribution agreement with our Hong Kong Distributor for its distribution of Po Chai Pills in Macau in similar terms to our distribution arrangement in Hong Kong as described in the section headed "— Sales and Distribution — Hong Kong — Distributor" above. For further details of our product return policy, see the section headed "— Product Returns, Recalls and Warranties" below.

We maintain a seller-buyer relationship with these distributors and we do not have any contractual relationship with or impose any control or oversight over their on-selling activities or their respective downstream customers. We retain no ownership over the products we sell to these distributors, and all significant risks and rewards associated with these products are transferred to these distributors upon delivery to and acceptance by them. For details of our distributor management, see the section headed "— Distributor Management" below.

While we do not enter into formal or term agreements with our overseas wholesalers and trading companies, our trading practices and terms with them are generally similar to those with our distributors outside of China and Hong Kong. Order placement frequency from our overseas distributors, other

wholesaler and trading company customers varies depending on various factors, including the size of market demand for our products in those regions, lead time required for product shipping and delivery, shelf lives of the relevant products, customers' warehouse capacity and shipment cost, but in general may range from once to four times a year.

In addition, we also subscribe to certain overseas sales administrative services provided by the Jacobson Connected Persons, including orders management, sales and customer support services, to facilitate our sales of certain consumer healthcare products in Macau, Taiwan and Singapore. For further details, see the section headed "Connected Transactions — Partially Exempt Continuing Connected Transactions — 3. Overseas Sales Administrative Services Agreement."

Selection of Distributors

The engagement of distributors allow us to extend our product footprint and penetration in a market. We select our local and overseas distributors based on a number of factors, including their sales network, track record, industry experience, market position and reputation. We consider our success in cultivating and maintaining solid and stable relationships with our distributors to be founded on, among other factors, (i) working with a limited number of reputable and reliable distributors in each region; (ii) our well-recognized brands; and (iii) a competitive pricing strategy.

Distributor Management

We closely monitor the performance of our distributors by communicating with them on a regular basis or reviewing their sales and inventory reports and their sale targets as applicable. We periodically evaluate their performance based on various factors, including (i) maintenance of creditworthiness; (ii) quality of internal management; (iii) development and expansion of distribution network; (iv) warehousing facilities and delivery capabilities; (v) operating and business management capabilities; and (vi) overall sales performance.

By working with a limited number of reputable and reliable distributors, we are able to manage them through the above measures to ensure that they comply with the terms and conditions of the relevant distribution agreements. In the event of any non-compliance or performance issues, we can timely inform the relevant distributors to cease the non-compliant activities or improve their performance. We can terminate the relevant distribution agreement in case of a material breach by them that is not remedied within a prescribed time period. The above procedures, combined with our policies that we generally do not accept product returns unless the products are defective, help to ensure that our sales to distributors reflect genuine market demand and mitigate the risk of inventory accumulation in the distribution channels. We are not aware of any material accumulation of stock by our distributors during the Track Record Period.

Our distributors are entitled to choose their sub-distributors and negotiate the transaction terms directly with them. We do not have contractual relationship with any sub-distributors that are used by our distributors and we do not impose any control or oversight over them.

The following table sets forth the changes in the number of our distributors during the periods indicated:

	Year ended March 31,			Four months ended July 31,
	2018	2019	2020	2020
Number of distributors at the beginning of period	5	6	10	9
Number of new distributors	1	4	4	0
Number of terminated or lapsed distributors	0	0	5	0
Number of distributors at the end of the period	6	10	9	9
Number of overseas markets outside of Hong Kong covered at the end of the period	3	5	5	5

The following table sets forth the major products distributed and markets covered by our distributors during the periods indicated:

Distributors	Major products distributed							Year ended March 31,			Four months ended July 31,
	Hong Kong	PRC	Macau	Singapore	Malaysia	Thailand	Canada	2018	2019	2020	2020
Our Hong Kong Distributor	Po Chai Pills, Tong Tai Chung Woodlok Oil, Konsodona Medicated Oil[1]	Puji Pills[1]	Po Chai Pills[1]	–	–	–	–	√	√	√	√
Distributor A	–	Puji Pills	–	–	–	–	–	√	√	T/L[2]	–
Distributor B	–	–	–	Po Chai Pills	–	–	–	√	√	√	√
Distributor C	–	–	–	Po Chai Pills	–	–	–	√	√	T/L[2]	–
Distributor D	–	–	–	–	Po Chai Pills	–	–	√	√	T/L[2]	–
Distributor E	–	–	–	–	–	–	Po Chai Pills	–	√	T/L[2]	–
Distributor F	–	–	–	–	–	Po Chai Pills	–	–	–	√	√
Distributor G	–	Flying Eagle Woodlok Oil	–	–	–	–	–	√	√	T/L[2]	–
Distributor H	–	Flying Eagle Woodlok Oil	–	–	–	–	–	–	–	√	√
Distributor I	–	–	–	Ear–sol Ear Drops, Benastat Wound Powder	–	–	–	–	√	√	√
Distributor J	–	–	–	AIM Atropine Eye Drops	–	–	–	–	√	√	√
Distributor K	–	–	–	–	–	Certain Smartfish products	–	–	√	√	√
Distributor L	–	–	Certain Ho Chai Kung branded products	–	–	–	–	–	–	√	√
Distributor M	–	–	–	–	AIM Atropine Eye Drops	–	–	–	–	√	√

Notes:

(1) Aside from the existing distribution agreement entered into on April 1, 2019 for the distribution of selected products through large-scale modern trade chain stores in Hong Kong and specified cross-border e-commerce platforms, we have also separately entered into two distribution agreements with our Hong Kong Distributor for its distribution of Puji Pills in China from April 1, 2020 and Po Chai Pills in Macau from June 1, 2020.

(2) Distributorship was terminated or lapsed during the financial year as indicated.

During the year ended March 31, 2020 we terminated our distribution agreement with Distributor G prior to its term of expiry mainly as a result of its unsatisfactory performance. During the same financial year, distribution agreements with four of our distributors were also lapsed without renewal, being: (i) Distributor A, our then Po Chai Pills distributor for the PRC market (as described in the section headed "— Sales and Distribution — China — Distributors — Po Chai Pills" above) which we have since ceased to do business with; (ii) Distributors C and D which, in light of our long-term business relationships, we have continued to trade with as wholesalers based on our pre-existing distribution terms after the lapse of our agreements with an objective of re-visiting our terms of trade and cooperative arrangements going forward; and (iii) Distributor E, mainly due to their shift in business direction as noted by our management.

To the best knowledge of our Directors, (i) the use of distribution model is consistent with industry norm; (ii) all our distributors during the Track Record Period are Independent Third Parties; and (iii) our distributors are primarily engaged in the distribution of branded healthcare products in their respective jurisdictions.

Other than our Hong Kong Distributor, whom Jacobson Pharma has subscribed for its shares at the time of its initial public offering pursuant to a cornerstone investment agreement, and who is the parent company of Profit Cape Limited (being one of our Strategic Investors), none of our distributors have any past or present relationship with our Group other than the distributorship arrangements with us. For further details of our Strategic Investors, see the section headed "History, Reorganization and Corporate Structure — Pre-IPO Investments — Background of the Strategic Investors."

Pricing Policy

We set the prices of our products with reference to general market conditions and various factors, including demand and supply of our products, product costs (including raw materials, packaging materials), overheads (including production, quality control and quality assurance costs), relative pricing of competing products, our bargaining power, historical sales data and anticipated market trends. We also take into account the expected profit margin of our customers when setting the prices of our products to avoid large variance in retail prices at different points of sale. For products sold through the e-commerce channels, we also take into account the various discounts and promotional events that are held by the e-commerce platforms. We may offer volume discounts and performance rebates to our customers on a case-by-case basis. For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, the volume discounts and performance rebates granted to our customers amounted to HK$4.4 million, HK$5.4 million, HK$9.9 million and HK$1.2 million, or 1.7%, 1.8%, 2.6% and 1.0% of our total revenue, respectively. During the Track Record Period, credit terms granted to our customers generally ranged from prepayment of partial deposits to 108 days upon delivery depending on the product type and the type and credit worthiness of the customers. As of July 31, 2020, our highest priced product, the Oncotype DX Breast Recurrence Score® assay (a genomic-based breast cancer diagnostic test), was priced at HK$35,200. The rest of our product prices ranged from approximately HK$30 to approximately HK$350 per SKU for branded medicines, from approximately HK$30 to approximately HK$420 per SKU for our health and wellness products and from approximately HK$8 to approximately HK$50 per SKU for our proprietary Chinese medicines.

Distribution and Logistics

In light of our multiple manufacturing locations and the frequent delivery of a variety of products to a large number of locations, we primarily utilize external logistics services to facilitate deliveries of our finished products (except for Po Chai Pills). Historically, we also utilized certain inventory and logistical management services from the Jacobson Connected Persons to manage the large volume of our wide variety of finished products and the frequent shipments of products from third-party brand owners in various countries.

Hong Kong

In Hong Kong, we primarily employ three different logistics services for different products:

- *Jacobson Connected Persons*: During the Track Record Period, we utilized the logistics services of the Jacobson Connected Persons for the distribution of some of our products. Under that arrangement, the Jacobson Connected Persons provided services from usage of warehousing facilities, loading and unloading, trucking, as well as invoicing and payment settlements for certain of our products, which we consider to be largely in line with market practice. The Jacobson Connected Persons operate with a Wholesaler Dealer License holder approved by the Pharmacy and Poisons Board of Hong Kong. It is also supported with a SAP-powered system to handle sales and accounts data management, which enables direct interfacing with our SAP-powered system to facilitate real-time ordering and inventory updates. In preparation for the Spin-off and in line with our growth strategies, we have, subsequent to the Track Record Period, expanded our warehousing logistics capability and consolidated and internalized the inventory management, invoicing and payment settlement logistics for our Ho Chai Kung Tji Thung San, Ho Chai Kung Analgesic Tab, Tong Tai Chung

Woodlok Oil and Konsodona Medicated Oil (the sales of these products together accounted for 25.5% of our total revenue for the year ended March 31, 2020), and accordingly streamlined our logistics services arrangements with the Jacobson Connected Persons to only include primarily loading and unloading, and trucking services for our consumer healthcare products and certain proprietary Chinese medicines. For further details, see the sections headed "Connected Transactions — Partially Exempt Continuing Connected Transactions — 1. Logistics Services Agreement" and "Financial Information — Related Party Transactions."

- *In-house delivery fleet*: We maintain an in-house delivery fleet principally for the transport and delivery of our Po Chai Pills to trading companies in Hong Kong.
- *Independent third-party logistics service providers*: We utilize the logistics services of independent third-party logistics service providers for the transport and delivery of our CCMG products to Chinese medicine practitioners and for our products to end consumers who placed their orders online through GoSmart or HKTVMall.

Overseas

The responsibility for transportation costs from Hong Kong to our overseas distributors is subject to negotiation. Subject to the terms of agreement with our overseas distributors, we may utilize independent third-party logistics services for the transport and delivery of our products from Hong Kong to overseas ports of destination.

During the Track Record Period and as of the Latest Practicable Date, we had not experienced any significant delay or poor handling of goods that had materially and adversely affected our business operations. Furthermore, we do not anticipate any shortage of logistics services for the foreseeable future and we believe the current logistics market already provides sufficient alternative options of logistics service providers which can offer similar terms as our existing logistics service providers.

Seasonality

In general, the sales of our branded healthcare products remained fairly stable throughout the year during the Track Record Period and we do not consider that seasonality in any of our product categories was material.

Product Returns, Recalls and Warranties

Generally we do not accept product returns from our customers (except for our major modern trade chain store customers) unless the products are defective and proven to be our fault, which we believe to be in line with industry norm. For such defective products, we are fully responsible for the cost of return and replacement of these products and will properly dispose of the returned products. In respect of the return policy with our distributors, see the principal arrangements with our Hong Kong and PRC distributors as set forth in the sections headed "— Sales and Distribution — Hong Kong — Distributor" and "— Sales and Distribution — China — Distributors" above. On the other hand, we may allow the return of selected products of miscellaneous less publicized brands (such as pei pa koa, ointments and medicated oils that are primarily targeted for sale in smaller, stand-alone drug stores with relatively sporadic order placement patterns and slower-moving stocks) that will expire or have expired within three months as a means to incentivize our customers to carry these products by reducing their risk of accumulating obsolete stocks. Upon receipt of a product return application from our customers, the returned products are delivered and recounted at our warehouses, then transferred to our quality control personnel for assessment of product status and recount. Where products are validly returned, we will arrange for exchange. During the Track Record Period, we did not provide any warranties on our products. For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, 0.2%, 0.4%, 0.2% and 0.3% of our sales were returned, respectively.

We have also established relevant product recall procedures with reference to relevant requirements, including the GMP. Once we identify a branded medicine or proprietary Chinese medicine that is known or suspected to be harmful to users due to defective quality, safety, efficacy or regulatory status in the market, we will initiate our recall procedure pursuant to the recall guidelines issued by the Department of Health. A pharmaceutical product problem report form (including details of products and nature of problem) will be submitted to the Department of Health as notification. Once the recall is approved by the Department of Health, a recall letter and a recall reply form will be sent to all affected parties (which may include retailers, distributors, trading companies, corporate clients or consumers depending on the level of recall) according to our distribution records requesting the return of unused stock. Distributors and trading companies are required to arrange recall from its retailers systematically and then return all unused stock to us. All recalled products will be returned to us and a final report form of recall shall be prepared and submitted to Department of Health. The report shall record the reconciliation between the delivered and recovered quantities of the product. For regulatory recalls not due to quality issues and recall of our health and wellness products, we will initiate recall procedures internally. Similar procedures will be followed, except filling and submission of pharmaceutical product problem report form and final report form of recall to the Department of Health are not necessary.

During the Track Record Period before the Orizen Group became our subsidiaries, we were informed by the management of the Orizen Group of one incident of voluntary product recall concerning three batches of three of their own brand CCMG products (which later formed part of our own brand CCMG product offerings after we acquired control of the Orizen Group in August 2019) produced by a third-party manufacturer, and was primarily a result of the third-party manufacturer's unsolicited decision to change the amount of excipients used in the extraction process of the production with a view of reaching the registered rate of extraction from the medicinal ingredients. However, it was found that such changes in the amount of excipients used did not match with the particulars of their registration records. The subsequent Department of Health investigation revealed that no evidence on safety issue of the related products was found and no related adverse reports have been received. The affected batch of CCMG products being recalled represented 0.04% of our CCMG product sales during the financial year of the said incident.

In order to prevent similar incidents in the future, we have taken the following measures:

- outsourcing the production of a majority of our own brand CCMG products to another third-party manufacturer who is a long-established provincial state-owned manufacturer whose manufacturing facilities are GMP-accredited in accordance with both PRC and TGA standards;
- requesting our third-party manufacturers to operate manufacturing processes strictly in accordance with the registered particulars; and
- requesting our third-party manufacturers to inform us whenever there is a change in the manufacturing process, and to work out a solution together, so the third-party manufacturers would not be allowed to change the manufacturing method on their own.

During the Track Record Period, we also had an incident of voluntary product recall related to the lack of package insert in our Tong Tai Chung balm oil. According to the Chinese Medicine Ordinance, package inserts must be supplied for the sale of proprietary Chinese medicines in Hong Kong. Despite the lack of package inserts, the particulars required to be stated on the package insert were included in the outer packaging of Tong Tai Chung balm oil. We have duly rectified the incident by adding back the appropriate package inserts into the voluntarily recalled products and returned them to the customers.

The above incidents did not have any significant negative impact on our business, operation and financial condition. Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, there have been no material product returns or product recalls from our direct customers and we had not experienced any material complaint or product liability or other legal claims from our customers due to problems with the quality of our products.

MAJOR SUPPLIERS AND CUSTOMERS

Major Suppliers

Our suppliers include (i) raw material or packaging material suppliers; and (ii) finished good suppliers (namely third-party brand owners and third-party manufacturers).

Raw material or packaging material suppliers

For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, our five largest raw material or packaging material suppliers accounted for 72.9%, 66.4%, 67.3% and 78.3% of our total purchases of raw materials and packaging materials, respectively.

The table below sets forth certain information with respect to our five largest raw material or packaging material suppliers during the periods indicated:

Rank	Five largest raw material or packaging material suppliers	Major product categories bought from the supplier	Purchase for the period	Percentage to our total purchases of raw materials and packaging materials for the period	Principal business of the supplier	Length of relationship with us as of July 31, 2020	Credit period
			(HK$'000)	(%)		(year)	
Year ended March 31, 2018							
1	Supplier A	Packaging materials for proprietary Chinese medicines	9,857	28.9	Providing print-related services and products	9	30 days
2	Supplier B	Raw materials for proprietary Chinese medicines	7,132	20.9	Wholesaling Chinese medicines	9	30 days
3	Supplier C	Raw materials for branded medicines	3,320	9.7	Importing pharmaceutical ingredients	3	30 days
4	Supplier D	Raw materials for proprietary Chinese medicines	2,517	7.4	Importing and exporting raw materials and ingredients of Chinese medicines and pharmaceuticals	14	30 days
5	Supplier E	Packaging materials for branded medicines	2,031	6.0	Exporting packaging materials	3	Advance payment
Year ended March 31, 2019							
1	Supplier A	Packaging materials for proprietary Chinese medicines	10,817	24.6	Providing print-related services and products	9	30 days
2	Supplier B	Raw materials for proprietary Chinese medicines	8,092	18.4	Wholesaling Chinese medicines	9	30 days
3	Supplier D	Raw materials for proprietary Chinese medicines	6,339	14.4	Importing and exporting raw materials and ingredients of Chinese medicines and pharmaceuticals	14	30 days
4	Supplier E	Packaging materials for branded medicines	2,230	5.0	Exporting packaging materials	3	Advance payment
5	Supplier F	Packaging materials for proprietary Chinese medicines	1,766	4.0	Providing print-related services and products	15	30 days

Rank	Five largest raw material or packaging material suppliers	Major product categories bought from the supplier	Purchase for the period	Percentage to our total purchases of raw materials and packaging materials for the period	Principal business of the supplier	Length of relationship with us as of July 31, 2020	Credit period
			(HK$'000)	(%)		(year)	
Year ended March 31, 2020							
1	Supplier A	Packaging materials for proprietary Chinese medicines	8,109	20.0	Providing print-related services and products	9	30 days
2	Supplier B	Raw materials for proprietary Chinese medicines	6,299	15.6	Wholesaling Chinese medicines	9	30 days
3	Supplier D	Raw materials for proprietary Chinese medicines	6,103	15.1	Importing and exporting raw materials and ingredients of Chinese medicines and pharmaceuticals	14	30 days
4	Supplier C	Raw materials for branded medicines	3,585	8.9	Importing pharmaceutical ingredients	3	30 days
5	Supplier E	Packaging materials for branded medicines	3,132	7.7	Exporting packaging materials	3	Advance payment
Four months ended July 31, 2020							
1	Supplier A	Packaging materials for proprietary Chinese medicines	3,410	37.5	Providing print-related services and products	9	30 days
2	Supplier G	Raw materials for proprietary Chinese medicines	1,512	16.6	Exporting raw materials of Chinese medicines	2	60 days
3	Supplier H	Packaging materials for proprietary Chinese medicines	861	9.5	Providing print-related services and products	3	30 days
4	Supplier C	Raw materials for branded medicines	699	7.7	Importing pharmaceutical ingredients	3	30 days
5	Supplier D	Raw materials for proprietary Chinese medicines	631	7.0	Importing and exporting raw materials and ingredients of Chinese medicines and pharmaceuticals	14	30 days

Finished good suppliers

For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, our five largest finished good suppliers (namely third-party brand owners and third-party manufacturers) accounted for 91.8%, 88.6%, 58.7% and 63.3% of our total purchases of finished goods, respectively.

The table below sets forth certain information with respect to our five largest finished good suppliers during the periods indicated:

Rank	Five largest finished good suppliers	Major product categories bought from the supplier	Purchase for the period	Percentage to our total purchases of finished goods for the period	Principal business of the supplier	Length of relationship with us as of July 31, 2020	Credit period
			(HK$'000)	(%)		(year)	
Year ended March 31, 2018							
1	Merz	Branded medicines and health and wellness	9,062	39.4	Manufacturing medical esthetics, neurotoxin therapy, prescription medicine and consumer health and beauty products	13	90 days
2	Genomic Health, Inc., a wholly-owned subsidiary of Exact Sciences Corporation	Health and wellness	4,561	19.8	Providing diagnosis services	11	60 days
3	Supplier I	Health and wellness	3,984	17.3	Selling products in consumer, health care, safety and industrial, transportation and electronics businesses	20	30 days
4	Supplier J	Branded medicines	2,470	10.8	Manufacturing pharmaceutical and healthcare products	21	90 days
5	Supplier K[(1)]	Health and wellness	1,030	4.5	Manufacturing medical devices, non-prescription medicines and healthcare products	10	30 days
Year ended March 31, 2019							
1	Merz	Branded medicines and health and wellness	15,730	41.0	Manufacturing medical esthetics, neurotoxin therapy, prescription medicine and consumer health and beauty products	13	90 days
2	Genomic Health, Inc., a wholly-owned subsidiary of Exact Sciences Corporation	Health and wellness	6,354	16.6	Providing diagnosis services	11	60 days
3	Supplier L	Branded medicines	4,863	12.7	Manufacturing eye and oral medicines	1	Invoice month end
4	Supplier I	Health and wellness	4,157	10.8	Selling products in consumer, health care, safety and industrial, transportation and electronics businesses	20	30 days
5	Supplier J	Branded medicines	2,875	7.5	Manufacturing pharmaceutical and healthcare products	21	90 days
Year ended March 31, 2020							
1	Supplier M[(1)]	Proprietary Chinese medicines	25,476	19.1	Manufacturing Chinese medicines	Less than 1	Advance payment
2	Merz	Branded medicines and health and wellness	15,411	11.5	Manufacturing medical esthetics, neurotoxin therapy, prescription medicine and consumer health and beauty products	13	90 days
3	Supplier N[(1)]	Health and wellness	13,807	10.3	Manufacturing and selling consumer healthcare products	1	Advance payment

Rank	Five largest finished good suppliers	Major product categories bought from the supplier	Purchase for the period	Percentage to our total purchases of finished goods for the period	Principal business of the supplier	Length of relationship with us as of July 31, 2020	Credit period
			(HK$'000)	(%)		(year)	
4	Supplier O[(1)(2)]	Proprietary Chinese medicines and health and wellness	13,378	10.0	Manufacturing Chinese medicines and health and wellness products	Less than 1	30 days
5	Supplier P	Proprietary Chinese medicines	10,433	7.8	Manufacturing Chinese medicines	Less than 1	30 days
Four months ended July 31, 2020							
1	Supplier O[(1)(2)]	Proprietary Chinese medicines and health and wellness	11,459	28.8	Manufacturing Chinese medicines and health and wellness products	Less than 1	30 days
2	Supplier M[(1)]	Proprietary Chinese medicines	4,755	11.9	Manufacturing Chinese medicines	Less than 1	Advance payment
3	Supplier N[(1)]	Health and wellness	4,105	10.3	Manufacturing and selling consumer healthcare products	1	Advance payment
4	Supplier P	Proprietary Chinese medicines	2,626	6.6	Manufacturing Chinese medicines	Less than 1	30 days
5	Merz	Branded medicines and health and wellness	2,244	5.7	Manufacturing medical esthetics, neurotoxin therapy and prescription medicine and consumer health and beauty products	13	90 days

Notes:

(1) A third-party manufacturer for one of our principal own brands in the year ended March 31, 2020.

(2) During the Track Record Period, we also sold face masks to Supplier O, primarily as a result of the outbreak of COVID-19. For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, we sold nil, nil, HK$7.0 million and nil of face masks to Supplier O, respectively, which accounted for nil, nil, 1.8% and nil of our total revenue for the respective periods. Gross profit generated from Supplier O was nil, nil, HK$1.3 million and nil for the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, respectively.

We believe that we have good relationships with our major suppliers. To the best knowledge of our Directors, all of our five largest raw material or packaging material suppliers and our five largest finished good suppliers during the Track Record Period are Independent Third Parties and none of our Directors, supervisors or their associates or any person who owned 5% or more of our issued share capital as of the Latest Practicable Date had any interest in any of them. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any major difficulties in finding suitable suppliers. Furthermore, we did not have disputes with any or our major raw material or packaging material suppliers or finished good suppliers that would have a material impact on our business, financial condition or results of operations during the Track Record Period and up to the Latest Practicable Date.

Major Customers

For the years ended March 31, 2018, 2019 and 2020 and the four months ended July 31, 2020, our five largest customers accounted for 35.2%, 40.4%, 28.3% and 40.9% of our revenue, respectively. There was a general decline in sales to our five largest customers in the year ended March 31, 2020, which we attributed in part to the negative impact of the social unrest in the second half of 2019 and the COVID-19 outbreak in 2020 on retail spending by visitors and local customers in Hong Kong. Sales to our five largest customers as a percentage of our total revenue also declined in the year ended March 31, 2020, which we attributed in turn to the additional revenue contributed by the sales of CCMG products since we acquired the controlling stake of the Orizen Group in August 2019.

The table below sets forth certain information with respect to our five largest customers during the periods indicated:

Rank	Five largest customers	Major product categories sold to the customer	Revenue for the period	Percentage to our total sales for the period	Principal business of the customer	Length of relationship with us as of July 31, 2020	Credit period
			(HK$'000)	(%)		(year)	
Year ended March 31, 2018							
1	Our Hong Kong Distributor	Branded medicines and proprietary Chinese medicines	27,897	10.6	Distributing and selling branded medicines, healthcare products and Chinese medicines	3	Cash-on-delivery or 30 days
2	Customer A	Branded medicines and health and wellness	19,792	7.5	Operating chain stores and retail outlets	10	60 days
3	Customer B	Proprietary Chinese medicines	18,906	7.1	Trading Chinese medicines	7	Cash-on-delivery
4	Customer C	Branded medicines and proprietary Chinese medicines	17,208	6.5	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery
5	Customer D	Branded medicines and proprietary Chinese medicines	9,361	3.5	Trading Chinese medicines and pharmaceutical drugs	2	60 days
Year ended March 31, 2019							
1	Our Hong Kong Distributor	Branded medicines and proprietary Chinese medicines	37,088	12.1	Distributing and selling branded medicines, healthcare products and Chinese medicines	3	Cash-on-delivery or 30 days
2	Customer C	Branded medicines and proprietary Chinese medicines	25,858	8.4	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery
3	Customer E	Branded medicines and proprietary Chinese medicines	21,808	7.1	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery
4	Customer A	Branded medicines and health and wellness	19,789	6.4	Operating chain stores and retail outlets	10	60 days
5	Customer F	Branded medicines and proprietary Chinese medicines	19,643	6.4	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery
Year ended March 31, 2020							
1	Our Hong Kong Distributor	Branded medicines and proprietary Chinese medicines	27,151	7.1	Distributing and selling branded medicines, healthcare products and Chinese medicines	3	Cash-on-delivery or 30 days
2	Customer C	Branded medicines and proprietary Chinese medicines	26,793	7.0	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery
3	Customer E	Branded medicines and proprietary Chinese medicines	26,051	6.8	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery
4	Customer A	Branded medicines and health and wellness	14,844	3.9	Operating chain stores and retail outlets	10	60 days
5	Customer F	Branded medicines and proprietary Chinese medicines	13,140	3.5	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery

Rank	Five largest customers	Major product categories sold to the customer	Revenue for the period	Percentage to our total sales for the period	Principal business of the customer	Length of relationship with us as of July 31, 2020	Credit period
			(HK$'000)	(%)		(year)	
Four months ended July 31, 2020							
1	Our Hong Kong Distributor	Branded medicines and proprietary Chinese medicines	27,820	23.4	Distributing and selling branded medicines, healthcare products and Chinese medicines	3	Cash-on-delivery or 30 days
2	Customer G	Health and wellness	6,783	5.7	Manufacturing and distribution of post-surgery lingerie	Less than 1	30 days
3	Customer H	Branded medicines and health and wellness	6,645	5.6	Managing Hong Kong's public hospitals services	7	30 days
4	Customer A	Branded medicines and health and wellness	4,226	3.6	Operating chain stores and retail outlets	10	60 days
5	Customer C	Branded medicines and proprietary Chinese medicines	3,119	2.6	Trading Chinese medicines and pharmaceutical drugs	8	Cash-on-delivery

To the best knowledge of our Directors, none of our Directors, supervisors or their associates or any person who owned 5% or more of our issued share capital as of the Latest Practicable Date had any interest in any of our five largest customers during the Track Record Period, and all our five largest customers during the Track Record Period were Independent Third Parties.

QUALITY MANAGEMENT

We have established strict quality management procedures to ensure that our products are safe and of high quality. As of July 31, 2020, we had a total of 32 quality management personnel, comprised 19 quality control personnel and 13 quality assurance personnel. Among them, two are registered pharmacists, four possess master's degrees, and many of them had relevant prior working experience in GMP manufacturing or quality control.

As of July 31, 2020, we had a total of 12 individuals who had been approved by the Pharmacy and Poisons (Manufacturers Licensing) Committee as authorized person (responsible for releasing the products to the market), production manager (responsible for managing production) and quality control manager (responsible for quality control activities), and other personnel who are graduates of science related discipline and with more than three years of working experiences in GMP-accredited pharmaceutical companies carrying out related duties. These 12 individuals held the roles of authorized person, quality control manager, production manager, operational manager and general manager of various manufacturing facilities within our Group, respectively. In particular, six of these individuals were employed for the manufacturing of our Ho Chai Kung branded medicines (which, pursuant to the requirements under PIC/S GMP regime, is required to have an authorized person, a production manager and a quality control manager approved by the Pharmacy and Poisons (Manufacturers Licensing) Committee), which we believe would provide us with a reasonable buffer against any personnel changes without materially affecting our manufacturing operations.

Quality Assurance

Our quality assurance personnel are responsible for maintaining adequate systems to ensure the quality, efficacy and safety of our self-manufactured products and to ensure GMP compliance, where applicable. Certain of our self-manufactured branded medicines and proprietary Chinese medicines for select overseas markets must be manufactured under conditions and practices required by the GMP guidelines, which covers all aspects of production from the starting materials, premises and equipment to the training and personal hygiene of staff.

Our quality assurance personnel formulate detailed written procedures for each process that could affect the quality of a finished product. They ensure that these procedures are consistently followed at each step of the manufacturing process with documented proof that (i) the facilities and equipment are in good condition, properly maintained and calibrated; (ii) staff are qualified and fully trained; and (iii) processes are reliable and reproducible. Qualification and validation are carried out to generate sufficient data to provide assurance and documented evidence that the facility, equipment, process or an analytical method operating within specified parameters consistently produce results within predetermined specifications. Our quality assurance personnel establish standards and specifications, maintain and monitor document control and review, manage material suppliers, maintain environmental and facility controls and monitoring, manage change controls, manage corrective actions and preventive actions, manage product deviations, manage risks, monitor GMP compliance, oversee training, and manage audit activities. For example, our quality assurance personnel maintain an approved vendors list from which our procurement department can source raw materials. New raw material suppliers are subject to the review and approval of our quality assurance personnel using a vendor management system, and their GMP certificates or suitable standard certificates must be available for review and verified. Any changes would need to be reported to our quality assurance personnel for evaluation and approval.

Quality Control

Our quality control personnel are responsible for arranging or carrying out all necessary and relevant tests on raw materials, work in progress, finished products, verification of manufacturing processes, environmental and water monitoring, method and process validation and equipment calibration. We have adopted manufacturing quality control policies strictly in accordance with Hong Kong and international standards. These policies are implemented throughout our manufacturing process, including supplier qualification, raw material inspection, manufacturing process control, packaging and product inspections. Our quality control personnel are responsible for the preparation of analytical procedures, establishing raw materials and product specifications and arranging or carrying out sampling and analysis. Analytical activities include chemical and physical analysis of raw materials, work in progress and finished products, setting up stability program, performing microbiological testing to prevent biological hazards for branded medicines and carrying out stability studies to determine storage condition and product shelf life.

When we receive APIs, the API manufacturers (regardless of whether they are GMP-accredited or not) must include a certificate of analysis confirming that the materials comply with the prescribed specifications. Each lot of raw materials, packaging materials, work in progress (where appropriate) and finished products are quarantined until they have been sampled, tested and released for use by our quality control personnel. Final release of products from quarantine area is carried out only when all documents pertaining to the production have been reviewed by the heads of the related departments and approved by the authorized person.

Quality Standards and Certifications

According to our Legal Counsel, our operations are in compliance with applicable Hong Kong laws and regulations in relation to the manufacturing and sales of branded healthcare products in all material respects. Our manufacturing facilities and certain products have also been accredited with various international quality management certifications. For example,

- we have established a quality control system in accordance with ISO 9001 and have operated with GSDP accreditation issued by SGS; and
- we have obtained the relevant drug registration licenses or authorization in the relevant product markets.

In order to obtain and maintain these certifications, we have to meet the quality and hygiene standards set by the relevant governments and recognized organizations, covering different stages of the manufacturing process from raw materials procurement, manufacturing and maintenance of manufacturing facilities to finished products and storage of our consumer healthcare products.

PIC/S GMP accreditation

In Hong Kong, all Western medicines must be manufactured under GMP in accordance with the PIC/S GMP Guide set forth by the Pharmacy and Poisons Board of Hong Kong, which aligns the Western medicines produced in Hong Kong with international GMP standards and quality systems. Accordingly, our manufacturing facility for the production of our Ho Chai Kung branded products is PIC/S GMP-accredited and is subject to annual inspection by the Department of Health to ensure GMP-compliance. We have obtained the License for Manufacturer and GMP Certificate issued by the Pharmacy and Poisons Board of Hong Kong for this manufacturing facility and they may be renewed together by submitting a renewal application form to the Pharmacy and Poisons Board of Hong Kong approximately six months prior to their expiry dates.

GMP accreditation

The Chinese Medicines Board has developed GMP guidelines on the standards of manufacture and quality control of proprietary Chinese medicines in Hong Kong. While GMP-accreditation is not compulsory for the production of proprietary Chinese medicines in Hong Kong, we have two GMP-accredited manufacturing facilities mainly for the production of Po Chai Pills and Flying Eagle Woodlok Oil. As of the Latest Practicable Date, we remained as one of the few GMP-accredited proprietary Chinese medicine manufacturers in Hong Kong, according to the Frost & Sullivan Report. We have obtained the Manufacturer License and GMP Certificate issued by the CMCHK for these manufacturing facilities. We generally submit renewal applications for these licenses and certificates (which are processed separately by the CMCHK) approximately six months prior to their expiry dates. In addition to reviewing our renewal application that includes detailed documentations (including a list of quality control documents, manufacturing manual and product samples), the Chinese Medicine Regulatory Office of the Department of Health will also conduct on-site audit to determine GMP-compliance. We are subject to such inspection from the Chinese Medicine Regulatory Office of the Department of Health once every two years as part of the renewal process.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material findings of rectifications or recommendations from the relevant government authorities and accreditation bodies.

Quality Management over Manufacturing Process

The following are the key steps of our quality management over the manufacturing process of our own brand products and the packaging process of products produced by our third-party manufacturers:

- *Starting materials*: Each lot of incoming raw materials received by the warehouse is assigned with a unique receiving lot number. A quarantine label affixed on each container. Sampling, identification and any prescribed tests and assay (for APIs) are conducted by our quality control personnel according to standard operating procedures. The released label is affixed on each container after our quality control personnel release the material.

- *Packaging materials*: Each lot of incoming packaging materials is sampled and verified against the packaging material specification by our quality control personnel. The released label is affixed on each container after the quality control personnel release the packaging material.

  Packaging materials are stored at our warehouse and distributed to packaging section at the time of production. The quantity issued for packaging use is based on the amount specified in the batch packaging record. The identity and quantity of packaging material is checked by our quality control personnel before product manufacturing or upon receipt of products produced by third-party manufacturers. Reconciliation is carried out for printed packaging materials at the end of the packing process.

- *Work in progress*: Work in progress are subjected to sampling and testing by our quality control personnel. They are released for production of the next stage by our quality control personnel. In-process control testing is performed by our product manufacturing personnel at regular intervals during production to ensure that the process is under control.

- *Finished products*: All finished batches are sampled for quality control testing according to finished product specifications after final packaging and become quarantined. Quarantined finished products are stored in designated quarantine area of the warehouse. The head of the quality control team verifies the analytical data in the product analysis record against specifications. The head of our production team reviews and counterchecks the production batch records, packaging records and other related documents. The authorized person is responsible for the final approval of the release for sale. The approved finished products are affixed with released label.

Quality Management over Finished Products Manufactured by Others

We also implement quality control procedures to ensure the quality, safety and reliability of the finished products supplied by third-party brand owners and own brand products produced by third-party manufacturers. Our quality control personnel conduct inspection upon the delivery of such finished products to our warehouses in accordance with the packages and product descriptions under the purchase order form or delivery note. While we do not conduct sample testing on all finished products supplied by others, our quality control personnel will ensure the finished products delivered to us are attached with a certificate of analysis, which details the quality test results of the products. We will only accept products that meet the specification and quality standards as required by us. After each inspection by our quality control personnel, we will maintain records of the inspection conducted.

Upon completion of the said inspection procedures, the products are delivered and transported to the designated location in our warehouse for storage. If such products do not pass the examination, or if the quantities, packages and descriptions of the products are not in line with the purchase order, our quality control personnel will move such products to a designated area and will then notify the respective suppliers as soon as possible for product exchange.

INVENTORY CONTROL

We focus on optimizing our inventory management to provide high quality products. We believe our efficient and responsive inventory management system enables us to better manage the time to market of our products, our rates of inventory turnover, our inventory levels and our storage space and costs, thereby helping us to remain competitive and reduce the risks associated with the deterioration of raw materials and products.

Inventory Management

Our inventories primarily consist of raw materials, packaging materials, work in progress and finished products. We maintain computerized enterprise resource planning ("**ERP**") systems to track the incoming and outgoing inventory. These systems enable us to monitor levels of inventory on a timely basis so as to maintain an optimum level of raw materials, packaging materials, work in progress and finished products. Our safety inventory levels for raw materials, work in progress and finished products are based on our historical sales, actual sales activities available from our ERP systems and through the communication among operating departments and information from our customers to assess the market demand for our products, and future sales projections. Where we identify inventory closer to expiration, we may liaise with our customers to organize promotional campaigns to stimulate faster moving of such products.

Raw Materials and Packaging Materials

All of our manufacturing facilities are equipped with warehouses for storage of raw materials and packaging materials. Our procurement team purchases raw materials and packaging materials based on the sales plans prepared by our sales team. To cope with the market demand and manufacturing schedule, we manage our raw material inventory levels carefully to have not more than four to six months inventory for items with two to three months lead time and maintain higher inventory level for high consumption materials or items with longer lead times.

Finished Products

Prior to the recent expansion of our warehousing logistics capability, we mainly utilized the logistics services of the Jacobson Connected Persons for finished products storage, as well as certain independent third-party logistics providers (for certain e-commerce sales). We generally stock our finished products at safety inventory levels that are sufficient for fulfilling the forecasted demand and, on average, around three to six months of inventory. For third-party brand products, the lead time from order placement to delivery of products to our warehouses ranges from three to four months.

LICENSES, PERMITS AND APPROVALS

Our branded healthcare products are subject to various compliance requirements: in Hong Kong, (i) some of our branded medicines are classified as pharmaceutical products under the Pharmacy and Poisons Ordinance (Chapter 138 of the Laws of Hong Kong), which must be (a) registered with the Pharmacy and Poisons Board of Hong Kong; and (b) manufactured under GMP in accordance with the PIC/S GMP Guide set forth by the Pharmacy and Poisons Board of Hong Kong; and (ii) our proprietary Chinese medicines are generally classified as proprietary Chinese medicines under the Chinese Medicine Ordinance, which must be registered with the Chinese Medicines Board. For further details, see the section headed "Regulatory Overview — Laws and Regulations Relating to Our Business Operations in Hong Kong."

The following table sets forth our material licenses, permits and certificates:

License/Permit/Certificate	Issuing authority	Purpose	Company name	Expiry date
Pharmaceutical products				
License for Manufacturer	Pharmacy and Poisons Board of Hong Kong	Required for the legal manufacturing of pharmaceutical products in Hong Kong	• Karen Pharma	February 27, 2021[(1)(2)]
Certificate for Manufacturer (GMP Certificate)	Pharmacy and Poisons Board of Hong Kong	Required for the legal manufacturing and marketing of drugs and pharmaceutical products in Hong Kong	• Karen Pharma	February 27, 2021[(1)(2)]
Permit under the Antibiotics Ordinance	Department of Health	Required to purchase antibiotics raw material and manufacture products controlled under the Antibiotics Ordinance (Chapter 137 of the Laws of Hong Kong)	• Karen Pharma	September 30, 2021
Wholesale Dealer License	Pharmacy and Poisons Board of Hong Kong	Required for selling or supplying, by wholesale dealing, poisons and pharmaceuticals products controlled under the Pharmacy and Poisons Ordinance	• HCK Medicine	June 28, 2021
			• Vincents Pharma	January 1, 2022
			• Karen Pharma	January 1, 2022
Wholesale Dealer's License to Supply Dangerous Drugs	Department of Health	Required for being a wholesale dealer to supply dangerous drugs under the supervision of a person in charge of dangerous drugs	• Karen Pharma	January 1, 2022
License to Manufacture Preparations of Dangerous Drugs	Department of Health	Required for manufacturing preparations of dangerous drugs under the supervision of a registered pharmacist in charge of dangerous drugs	• Karen Pharma	January 1, 2022
License under the Water Pollution Control Ordinance	Environmental Protection Department	Required for discharging industrial trade effluent under section 20 of the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)	• Karen Pharma	November 30, 2024
License under the Control of Chemicals Ordinance	Customs and Excise Department	Required for importing, exporting and selling controlled materials controlled under the Control of Chemicals Ordinance	• Karen Pharma	June 19, 2021
Proprietary Chinese medicines				
Manufacturer License	CMCHK	Required for the legal production of proprietary Chinese medicines in Hong Kong	• Europharm TCM	May 20, 2022
			• LCST (Holdings)	March 11, 2022
			• Jetstar	June 9, 2022
			• PCCH	March 20, 2022

License/Permit/Certificate	Issuing authority	Purpose	Company name	Expiry date
Certificate for Manufacturer (GMP Certificate)	CMCHK	Certifies that a manufacturer is licensed under the Chinese Medicine Ordinance	• Europharm TCM	September 17, 2022
			• LCST (Holdings)	March 26, 2022
Wholesaler License in Chinese Herbal Medicines.	CMCHK	Required for conducting business in the wholesale of Chinese herbal medicines in Hong Kong	• PCCH	April 24, 2021
Wholesaler License in Proprietary Chinese Medicines	CMCHK	Required for conducting business in the wholesale of proprietary Chinese medicines in Hong Kong	• PCCH	April 24, 2021

Notes:

(1) We have submitted our renewal application to the Pharmacy and Poisons Board of Hong Kong in August 2020.

(2) As advised by our Legal Counsel, we do not expect any legal impediments in the renewal of such licenses and certificates.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) we had obtained all necessary registrations, licenses, permits and approvals from the relevant authorities that are material for our business operations, and such licenses, permits and approvals remained in full effect; and (ii) no circumstances existed that would render the revocation or cancelation of any registrations, license, permit or approval that are material to our business operations, and we did not experience any material difficulty in obtaining or renewing any required registrations, license, permit or approval.

COMPETITION

We are a leading Hong Kong-based company that markets and distributes branded healthcare products with product footprint across Greater China and other select countries in Southeast Asia, Europe, North America and the Caribbean Islands. In 2019, we were the fourth largest brand operator that carries both OTC proprietary medicines and OTC proprietary Chinese medicines in Hong Kong by revenue, according to the Frost & Sullivan Report. We primarily compete with manufacturers and distributors of pharmaceutical or healthcare products, drugs or traditional Chinese medicines, including local companies and multi-national corporations in countries where we operate. Our key competitive advantages include (i) strong ability to identify and source third-party brand products; (ii) track record of developing or manufacturing own brand products that are safe and of high efficacy and quality; (iii) breadth of product choice; (iv) time-honored and trusted brands; (v) effective brand management and marketing strategies; and (vi) established sales and distribution network. We believe there are relatively high entry barriers to the branded healthcare industry, for example:

- *Product registration*: Product registration is required for certain branded healthcare products before they can be sold and supplied in Hong Kong, China and other select overseas markets. New entrants need the expertise and stringent quality management procedures to meet these regulatory requirements.
- *Product portfolio*: Established market players generally have long and stable relationships with third-party brand owners, strong product development and manufacturing capabilities and a portfolio of high quality products. As such, third-party brand owners may favor them when a new product is launched, making it more difficult or capital intensive for new entrants to expand their product portfolio, and build their reputation and brand recognition. New entrants may also be at a disadvantage with respect to manufacturing costs of their own brand products because they may be purchasing raw materials at a higher price with the lack of economies of scale.
- *Sales and distribution networks*: Extensive distribution and sales networks are required for entry into our markets. Established market players generally have well-connected sales and distribution networks and are preferred for their reputation, high consumers' loyalty and proven sales performance, making it more difficult for new entrants to increase their points of sales. New entrants may also be less flexible to sell their products at more competitive prices and with discounted packages than competitors that have substantial financial and other resources.

For further details of the industry trends and competitive landscape, see the section headed "Industry Overview."

AWARDS AND RECOGNITIONS

The following table sets forth the major awards and certifications we have received:

Year	Brand/product receiving award	Award/recognition	Awarding institution/authority
2019	Po Chai Pills	Most Favorable Gastrointestinal Healthcare Product — Chinese medicine category (最愛腸胃保健產品 — 中式)	CR Care Company Limited
2015-2019	Contractubex	Health, Wellness and Beauty Silver Award (閃銀級健康美麗大獎 — 健康美肌產品)	Watsons
2018	Po Chai Pills	Ultimate Travel Brand Of Essential Gastrointestinal Medicine For Travel	Sky Publishing
2017	Po Chai Pills	Hong Kong Premier Brand (香港卓越名牌)	Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong
2016	Po Chai Pills	TVB Most Popular TV Commercial Awards — Citation for Excellence (TVB最受歡迎電視廣告大獎 — 優異獎)	TVB
2016	Tong Tai Chung	Hong Kong Top Brand (香港名牌)	Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong
2015	Smartfish	Sunday Kiss Citywide Favorite Parent-child Brand (Sunday Kiss 全城至愛親子品牌大獎)	Sunday Kiss Magazine
2015	Po Chai Pills	Hong Kong Top Brand (香港名牌)	Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong
2015	Po Chai Pills	Premium Chinese Medicine Enterprise Chinese Medicine Promotion Award (優質中藥企業 — 弘揚中藥獎)	Hong Kong Chinese Medicine Industry Ltd.
2014-2015	Mederma	Jessica Baby The Best Seller	Jessica Baby Magazine
2014	Contractubex	Top 10 Hong Kong Consumer Product Brands — Recommended Brands for Individual Visits (十大香港消費名牌)	China Post Trade Development Co., Ltd.
2014	Po Chai Pills	Top 10 Hong Kong Consumer Brand (十大香港消費名牌)	China Post Trade Development Co., Ltd.
2013	Contractubex	Customer's Most Favorable Hong Kong Brands (全國消費者最喜愛香港名牌系列活動之金獎品牌)	China Enterprise Reputation and Credibility Association (Overseas) Ltd.
2013	Contractubex	Jessica Supreme Award	Jessica Magazine
2013	Rowachol Capsules	Customer's Most Favorable Hong Kong Brands (2013年度全國消費者最喜愛香港名牌系列活動之金獎品牌)	China Enterprise Reputation and Credibility Association (Overseas) Ltd.

EMPLOYEES

As of July 31, 2020, we had a total of 275 employees based in Hong Kong. The following table sets forth a breakdown of our employees by function as of July 31, 2020:

Function	Number of employees
Procurement	4
Sales and marketing	42
Quality management	32
Factory, warehouse and operations	162
Finance, human resources and others	35
Total	**275**

Our employees are important strategic resources for our development. As of July 31, 2020, we had 5 registered pharmacists, and 17 employees with master's degrees or above.

Our employees typically enter into standard employment contracts with us, covering matters such as wages, employee benefits, productivity-related incentives, performance-related bonus, confidentiality obligations for commercial secrets, and grounds for termination. We set performance attributes for our employees based on their position and department and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. We offer various benefit plans to our employees, including top-up leave entitlement, pension, medical, life insurance and maternity benefits. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant difficulty in recruiting new employees and any significant employee turnover, as well as any incidence of strikes, work stoppages or significant labor disputes which materially affected or were likely to have an adverse effect on the operations of our business.

We place high value on recruiting, training and retaining our employees. We maintain high recruitment standards and provide competitive compensation packages. We also provide in-house and external trainings relating to management and professional skills and knowledge. We also sponsor the external training of our employees. We provide our manufacturing staff with general training on GMP practice, equipment operation and manufacturing. When new employees join, they will be closely monitored by experienced staff, and their training will be deemed complete if the trained techniques, operation procedures, manufacturing process can be performed correctly and independently and with the approval of the manufacturing supervisor or manufacturing manager. We engage recruitment agencies for placing candidates for certain highly specialized roles.

OCCUPATIONAL HEALTH AND SAFETY

Our employees' health and safety are one of our main concerns, and we emphasize on matters related to work safety. We are subject to various safety laws and regulations in Hong Kong that stipulate the requirements to maintain safe manufacturing conditions and to protect the occupational health of employees. Pursuant to these requirements, an entity that is not sufficiently facilitated or equipped to ensure safe manufacturing shall not engage in manufacturing and business operations. The design, manufacture, installation, use, inspection and maintenance of manufacturing facilities and equipment are required to conform to applicable national or industrial standards. For further details, see the section headed "Regulatory Overview — Laws and Regulations Relating to Our Business Operations in Hong Kong — Occupational Safety and Health Ordinance."

We have implemented safety measures at our manufacturing facilities to ensure compliance with applicable regulatory requirements and to minimize the risk of injury to employees. We provide manufacturing safety education and trainings to our employees to enhance their awareness of work safety. We also conduct periodic inspections of our facilities to ensure that our operations are in compliance with existing laws and regulations. We have a proper system in place for recording and handling accidents and maintaining health and safety laws and regulations in all material respects. We believe we are in compliance with applicable health and safety laws and regulations in all material respects. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material accidents and our Directors were not aware of any claims for personal or property damages in connection with health and occupational safety. During the Track Record Period, we are not aware of any non-compliance with the relevant laws and regulations in Hong Kong that had significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

ENVIRONMENTAL AND SOCIAL MATTERS

Environmental matters

We endeavor to minimize any adverse impact on the environment resulting from our business activities. We are subject to various Hong Kong laws, rules and regulations in relation to environmental protection. These laws and regulations govern a range of environmental matters, including air pollution, noise emissions, discharge of effluent water and general waste during our manufacturing processes and the controlled use, storage, handling and disposal of hazardous materials and chemicals. For further details of the applicable laws and regulations, see the section headed "Regulatory Overview — Laws and Regulations Relating to Our Business Operations in Hong Kong."

Our Directors believe that our manufacturing processes do not create any excessive environmental pollution, the impact of our operations on the environment is minimal and we have taken all necessary internal environmental protection measures. Prior to the Listing, we have adopted internal policies and procedures set by Jacobson Pharma, a company listed on the Main Board of the Stock Exchange, on various compliance matters, including the Stock Exchange's requirements on corporate governance and environmental, social and governance matters. We, as a subsidiary of Jacobson Pharma, have cultivated a compliance culture and will adopt similar policies and procedures as a separate listed company effective upon the Listing.

We maintain waste disposal measures and engage a waste collecting service provider to ensure that no chemical waste, dangerous waste or medical waste is produced during our manufacturing processes pursuant to the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) and the Public Cleansing and Prevention of Nuisances Regulation (Chapter 132BK of the Laws of Hong Kong). In addition, we have adopted anti-pollution measures for the effective maintenance of environmental protection standards. Our costs incurred for compliance of relevant environmental laws, rules and regulations during the Track Record Period were relatively insignificant, and we expect our cost of compliance going forward will not have any material impact on our results of operations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fines or other penalties due to non-compliance with environmental regulations and we were not involved in any material environmental claims, lawsuits, penalties or administrative sanctions. There is, nevertheless, no assurance that we will not in the future be subject to environment liabilities or litigation that could result in the assessment of damages, imposition of fines against us or suspension of productions. For more details, see the section headed "Risk Factors — Risks Relating to Our Business — Our operations are subject to environmental regulations and may be exposed to liability and potential costs for environment compliance." In addition, changes in environmental regulations could necessitate additional capital expenditures, modification of operations or other compliance actions.

Social Matters

We have adopted policies on compensation and dismissal, equal opportunities, diversity, anti-discrimination, and other benefits and welfare. For example:

- we enter into employment contracts with our employees to protect the interests of the contract parties;
- we have an annual review system to assess the performance of our employees which forms the basis for salary raises, bonuses and promotion;
- we provide orientation programs for new employees and on-the-job trainings; and
- we are aware of the importance of board diversity and have implemented such policy which sets forth the objective and approach to achieve and maintain diversity of our Board.

For further details of the social matters, see the sections headed "— Employees" above, "— Occupational Health and Safety" above and "Directors and Senior Management — Board Diversity."

INSURANCE

We maintain limited insurance coverage such as material damage insurance, product liability insurance, public liability insurance, marine cargo insurance, money insurance, motor insurance, employees' compensation insurance, employees' life insurance and loss of profit insurance. Our Directors believe that the insurance coverage for our operation was adequate and was in line with industry practice in Hong Kong as of the Latest Practicable Date. However, the risks related to our business and operations may not be fully covered by insurance. See the section headed "Risk Factors — Risks Relating to Our Business — Our insurance coverage may not completely cover the risks related to our business and operations." During the Track Record Period and up to the Latest Practicable Date, we had not made, neither had we been the subject of, any insurance claims which are of a material nature to our Group.

INTELLECTUAL PROPERTY RIGHTS

The formulations and manufacturing processes of primarily all of our own brand branded healthcare products (namely our branded medicines, health and wellness products and proprietary Chinese medicines) are not confidential or patentable. In particular, our own brand branded medicines and proprietary Chinese medicines (including CCMG products produced by third-party manufacturers) are based on long established proprietary formulations based on ancient prescriptions, pharmacopeia prescriptions or customary Chinese prescriptions which are common to the public domain. These products are generally not eligible for grant of a patent as they are not patentable, new and inventive innovations that are capable of industrial applications.

Therefore, we primarily rely on the following to protect our intellectual property rights:

- *Trade marks*: Trade mark registration of our own brands is the most critical protection of our own brand branded healthcare products. Due to the proprietary or branded nature of branded healthcare brands and consumer recognition of branded healthcare products by their brands, the most valuable intellectual property protection associated with these products are their widely recognizable brand names, product names and logos, which are protected by trade marks.

  In particular, we hold 65 registered trade marks in Hong Kong, Macau, Taiwan, China, Indonesia, Malaysia, Singapore, Thailand and the United States which are material to our business. We also have three pending trade mark applications in Hong Kong which are material to our business, including our Company's logo.

- *Domain names and other intellectual property rights*: We are the owner of one domain name which is material to our business. For further details of our intellectual property rights, see "B. Further Information About Our Business — 2. Intellectual Property Rights of Our Group" in Appendix IV to this prospectus.
- *Contractual provisions*: Our confidential proprietary technologies, processes and know-how (including those relating to the formulation and manufacturing process of our own brand products including Flying Eagle Woodlok Oil and Po Chai Pills) are protected by intellectual property, confidentiality or non-competition clauses in the employment contracts of relevant employees and distribution agreements.
- *Anti-counterfeit protection*: We have also applied certain anti-counterfeit protection to the packaging of our products to differentiate them from fake or counterfeit products, such as anti-counterfeit ultraviolet marks to our Po Chai Pills (including Puji Pills for sales in China) and Flying Eagle Woodlok Oil and unique identification numbers to certain Ho Chai Kung branded products that correspond with our internal record of product batch list. In addition, our sales team regularly visits retail outlets in Hong Kong that carry our products to observe their general end market responses and incidents of fake or counterfeit products.
- *Designated personnel:* We have designated personnel that work with external lawyers and consultants to handle our intellectual property matters, such as the registration and maintenance of our intellectual property rights, the coordination to obtain or grant intellectual property licenses, and the litigation of any infringement or misappropriation actions. We identify potential infringement incidents by regularly conducting intellectual property searches (such as patent infringement searches) and review of competitors' trade marks conducted or obtained by our designated personnel.

During the Track Record Period and up to the Latest Practicable Date, we were not subject to, nor were we party to, any intellectual property rights infringement claims or litigations, and we had complied with all applicable intellectual property laws and regulations in all material respects. We have not been subject to any material infringement of our intellectual property rights or experienced any material incidents of counterfeit products during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that they were not aware of any incidents of intellectual property rights infringement, or restrictions with respect to our uses of intellectual property rights which would have a material adverse effect on our operations.

For risks relating to intellectual property rights infringement, see the sections headed "Risk Factors — Risks Relating to Our Business — We may be exposed to infringement claims, which may lead to monetary damages, the forfeiture of intellectual property and disruptions to our business" and "Risk Factors — Risks Relating to Our Business — We may not be able to adequately protect our intellectual property rights and prevent the existence of counterfeit products on the market."

RISK MANAGEMENT AND INTERNAL CONTROL

To manage our external and internal risks and to ensure the smooth operation of our business, we have engaged an internal control consultant (the "**Internal Control Consultant**") on January 21, 2020 to perform an overall assessment on our internal control system. Our Internal Control Consultant conducted fieldwork in Hong Kong between January 21, 2020 and April 10, 2020 and with testing performed on samples selected from January 1, 2019 to December 31, 2019, and also conducted follow up review from May 4, 2020 to May 22, 2020 to assess remediation of the control deficiencies identified.

During the internal control review, while our Internal Control Consultant has provided some recommendations for our management's consideration to enhance our internal control system, it has not identified any deficiencies in our risk management and internal control system in its initial and follow up reviews that would have had a material adverse impact on our business, financial condition or results of operations.

We have devoted ourselves to establishing and maintaining risk management and internal control systems to safeguard our Shareholders' investment and our assets at all times. We have adopted, or expect to adopt before the Listing, a series of internal control policies, procedures and programs that we consider to be appropriate for our business operations, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- *Code of conduct*: Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behavior. Our code of conduct also includes whistleblowing policies to encourage all employees to speak up against any sub-standard behavior.

- *Anti-corruption policies*: We have established anti-bribery policies and controls in payment and adopted control practice in bidding and market entry processes. Our policy prohibits paying or receiving bribes and kickbacks in commercial transactions. During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, our employees and distributors have not made any improper or illegal incentive payments.

- *Internal audit function*: We plan to set up an audit function, which will be responsible for evaluating the internal control environment based on the internal plan and report directly to the Audit Committee.

- *Compliance with the Listing Rules*: Our various policies aim to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by our Directors.

- *Compliance with the Competition Ordinance*: We have taken the following measures to ensure compliance with the Compliance Ordinance: (i) our executive Directors and senior management team have reviewed the latest publications and guidance materials issued by the Competition Commission to understand the requirements and implications of the Competition Ordinance and will review any new publication and guidance materials as they become available; and (ii) our executive Directors are responsible for reviewing our business practices on a regular basis to identify risks relating to competition laws that our business may face and consider the seriousness of the risks, and if necessary, to seek advice from our external professional advisors, including legal advisors.

The ultimate goal of our risk management process is to focus on the issues in our business operations that create impediments to our success. Our risk management process starts with identifying the major risks associated with our corporate strategy, goals and objectives. We encourage an all-embracing culture of risk management that ensures all employees are aware of and responsible for managing risks. Our Audit Committee, and ultimately the Board supervise the implementation of our risk management policy at the corporate level by bringing together each operating department, such as quality control, product development and sales, to collaborate on risk issues among different functions. For details of the qualifications and experiences of the members of our Audit Committee and the Board, see section headed "Directors and Senior Management." Based on the above, our Directors are of the view that we have taken reasonable steps to establish an internal control system and procedures to manage the risks exposed to us and to enhance the control environment in both daily operation and management levels. Accordingly, our Directors are of the view that the internal control system currently implemented by our Group is adequate and effective to our operations.

PROPERTIES

Owned Properties

The table below sets forth the properties we own in Hong Kong:

Location	Business purpose	Total gross floor area
		(sq.m.)
Tuen Mun	Manufacturing, warehouse, offices and parking	2,117
Kwai Chung	Warehouse and parking	511

All properties occupied by us are used for non-property activities. As of July 31, 2020, none of the properties held by us had a carrying amount of 15% or more of our consolidated total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32 L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings.

Leased Properties

The table below sets forth the properties we lease in Hong Kong:

Location	Business purpose	Total gross floor area	Range of expiry dates in relevant lease agreements
		(sq.m.)	
Kwun Tong.....	Headquarters	300	September 21, 2022
Kwun Tong.....	Offices and parking	962	July 31, 2021 to August 31, 2021
Tai Po[(1)(2)]	Manufacturing, warehouse, offices and parking	3,129	November 30, 2025
Tai Po[(1)(3)]	Manufacturing, offices and parking	2,338	November 30, 2025
Kwai Chung.....	Manufacturing, warehouse and offices	612	June 30, 2022
Tsuen Wan	Warehouse	323	June 30, 2021
Lai Chi Kok.....	Warehouse and workshop	1,703	September 5, 2020 to May 15, 2022
Shatin[(1)(4)]	Warehouse and logistics	858	November 30, 2025
Shatin[(1)(5)]	Warehouse and logistics	428	November 30, 2023

Notes:

(1) Other than these properties in Tai Po and Shatin which are leased or subleased from the Jacobson Connected Persons as owner or lessee, the remaining properties are leased from Independent Third Parties.

(2) We have entered into an agreement with a Jacobson Connected Person (which leased this property from an Independent Third Party) to extend the expiry date of our right to use this property from March 31, 2023 to November 30, 2025 for a rental payment of HK$2.6 million per year. The payments are recognized as lease liabilities and right-of-use assets in accordance with HKFRS 16.

(3) We have completed the renovation of one of our GMP-accredited manufacturing facilities in Tai Po, which was used principally for our production of Flying Eagle Woodlok Oil during the Track Record Period, and received the updated GMP certificate in September 2020. We have entered into a five-year agreement with a Jacobson Connected Person (which leased this property from an Independent Third Party) to lease this property for a rental payment of HK$3.0 million per year. The payments are recognized as lease liabilities and right-of-use assets in accordance with HKFRS 16.

(4) We have entered into a five-year agreement with a Jacobson Connected Person to lease this property for a total rental payment of HK$8.9 million. The lease payments are recognized as lease liabilities and right-of-use assets in accordance with HKFRS16.

(5) We have entered into a three-year agreement with a Jacobson Connected Person (which leased this property from an Independent Third Party) to lease this property for a total rental payment of HK$3.2 million. The lease payments are recognized as lease liabilities and right-of-use assets in accordance with HKFRS16.

LEGAL PROCEEDINGS AND COMPLIANCE

We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of business, which primarily include business disputes brought by our suppliers, customers or other business partners. We have detailed compliance procedures to identify and control the legal risks in our operations. As of the Latest Practicable Date, there was no litigation, arbitration or administrative proceedings pending or threatened against us or any of our Directors which could have a material and adverse effect on our financial condition or results of operations.

We are also subject to a wide variety of laws, rules and regulations in the ordinary course of our business operations. For further details, see the section headed "Regulatory Overview." During the Track Record Period and up to the Latest Practicable Date, as confirmed by our Legal Counsel, there were no material breaches or violations of laws and regulations applicable to us which are expected to have a material adverse effect on our business, financial condition or results of operations.