石藥集團有限公司
CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

2018 ANNUAL REPORT

CONTENT

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman and CEO)*
WANG Zhenguo *(Vice-Chairman and Rotating CEO)*
PAN Weidong *(Vice-Chairman)*
WANG Huaiyu
LU Hua
LI Chunlei
ZHANG Cuilong
WANG Qingxi
CHAK Kin Man

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
CHAN Siu Keung, Leonard
WANG Bo
LO Yuk Lam
YU Jinming
CHEN Chuan

COMMITTEES

Audit Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

Nomination Committee:
CAI Dongchen *(Chairman)*
CHAN Siu Keung, Leonard
LO Yuk Lam

Remuneration Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

PAN Weidong
CHAK Kin Man

REGISTERED OFFICE

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
The Bank of East Asia, Limited
Bank of China Limited
The Bank of Hebei Co., Ltd.
China Minsheng Banking Corp., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
The Export-Import Bank of China
Industrial and Commercial Bank of China
Bank of Communications Co., Ltd.
China Everbright Bank Company Limited

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK CODE

1093

WEBSITE

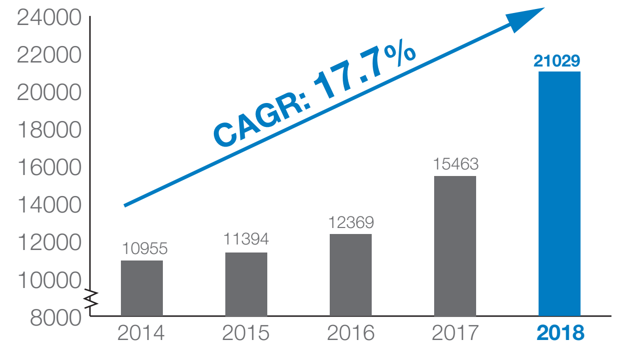
www.cspc.com.hk

Financial Highlights

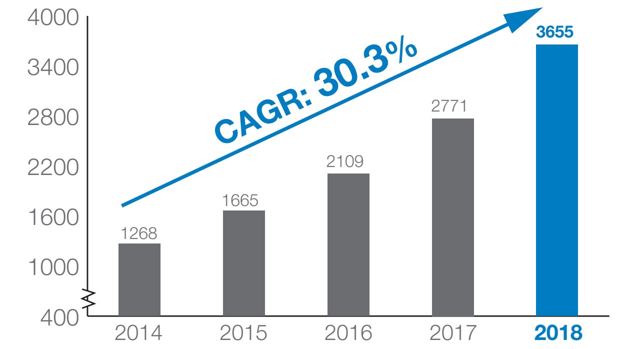
	2018 *HK$'000*	2017 *HK$'000*	Change in %	Change in % excluding foreign currency effects *(Note)*
Revenue by business units:				
Finished drugs				
Innovative drugs	**10,344,163**	6,582,194	57.2%	53.5%
Common generic drugs	**6,209,124**	4,792,219	29.6%	25.8%
Bulk drugs				
Vitamin C	**2,131,342**	1,853,700	15.0%	11.4%
Antibiotics	**1,298,050**	1,215,084	6.8%	3.1%
Caffeine and others	**1,046,192**	1,019,332	2.6%	-0.4%
Total revenue	**21,028,871**	15,462,529	36.0%	32.3%
Gross profit	**13,912,791**	9,345,968	48.9%	45.2%
Research and development expenses	**1,583,213**	815,258	94.2%	90.8%
Operating profit	**4,537,721**	3,481,643	30.3%	26.7%
Profit attributable to shareholders	**3,654,978**	2,770,522	31.9%	28.4%
Basic earnings per share	**HK58.55 cents**	HK45.48 cents	28.7%	
Final dividend per share	**HK18 cents**	HK15 cents	20.0%	

Note: Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi. Results stated on a constant currency basis are calculated by applying the average exchange rate of the prior year to current year local currency results.

Turnover (HK$ million)



Profit attributable to shareholders (HK$ million)



Chairman's Statement

RESULTS

For the year ended 31 December 2018, the Group achieved a revenue of HK$21,029 million, representing a 36.0% growth (or a 32.3% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of HK$3,655 million, representing a 31.9% growth (or a 28.4% growth on a constant currency basis) year-on-year. Basic earnings per share amounted to HK58.55 cents (2017: HK45.48 cents).

DIVIDEND

The Board of Directors of the Company has recommended the payment of a final dividend of HK18 cents per share for the year ended 31 December 2018 (2017: HK15 cents per share). Subject to approval by the shareholders in the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 14 June 2019 to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019.

INDUSTRY REVIEW AND OUTLOOK

Year 2018 witnessed a continuous deepening of the healthcare system reform. In terms of top-level design, the National Healthcare Security Administration and the National Medical Products Administration were set up to optimize the functions of different healthcare fields and improve supervision efficiency. A number of policies were promulgated to promote the quality and efficacy consistency evaluation of generic drugs, improve and supervise the control on public hospitals' expenditures and reform the medical insurance payment system. Such policies cover areas from drug research and development to production and from distribution to usage at end-user markets, having a significant impact on the pharmaceutical industry. The reforms of the pharmaceutical industry were also rapidly intensified with the establishment of the tiered medical system, the implementation of central procurement scheme in the "4+7" pilot cities and the formulation of adjuvant drug list.

In the area of promoting research and development of innovative drugs, the National Medical Products Administration has improved the approval process for drug registration and introduced policies such as the clinical trial data protection system, acceptance of overseas clinical trial data and the tacit system for clinical trial application. These reforms effectively shorten the clinical development time of innovative drugs, and at the same time accelerate the launch of imported drugs in the domestic market, which have the impact of encouraging domestic enterprises to invest more in the research and development of innovative drugs.

In 2018, oncology drugs became the focus and the biggest driving force of the Chinese pharmaceutical market. During the year, various measures specific to oncology drugs were introduced, including the inclusion of 17 oncology drugs into the national reimbursement drug list through negotiations, the reduction of import tariffs to zero and the reduction of value-added tax to 3%. On the other hand, the improvement of the drug approval system has also accelerated the approval process, providing favourable conditions for the commercial launch of oncology drugs. As the overall incidence rate of cancer shows an upward trend, the demand for drugs for the diagnosis and treatment of cancers will also continue to grow. At the same time, the global rapid development of biologics and the breakthroughs in immunotherapy also provide strong support for the long-term growth of oncology drugs. It is expected that in the next decade, oncology drugs will still have great potential in China and overseas market.

Chairman's Statement

BUSINESS OUTLOOK

Finished Drug Business

Innovative Drugs

With an improving environment for drug innovation in China, innovative drugs will embrace greater development opportunities. Leveraging its advantages, the Group will actively follow the adjustments in policies and capture the opportunities to expand the innovative drugs business. In terms of R&D, the Group will adhere to the strategy of innovation and internationalization. Internally, the Group will strengthen the R&D team, expedite the development progress of key drug candidates and speed up the initiation of R&D projects of new targets with market potential. Externally, the Group will look for potential acquisition targets to enrich the product pipelines and improve the mid-to-long term layout of innovative drugs through licensing or acquisition. With respect to marketing, increased efforts will be made to expand the professional product-dedicated marketing team and expand into the untapped markets and hospitals so as to leverage the benefits of medical reimbursement for key drug products such as "NBP" and "Jinyouli". For key new drugs such as "Keaili", more investments will be made in medical research to strengthen the clinical evidence and in professional academic-based promotion in order to enhance the recognition of the products by doctors. At the same time, close attention will be paid to policy changes in respect of national drug reimbursements and the status of provincial drug tenders, ensuring that the tender prices of key products are stable and manageable.

Common Generic Drugs

With the establishment of the National Healthcare Security Administration and the introduction of policies such as the central procurement scheme in the "4+7" cities, the prices of certain generic drugs with quality and efficacy consistency evaluation passed have been significantly reduced, putting great pressure on the prospect of the entire common generic drug market. However, the improvement in drug quality and market acceptance in the overall generic drug market brought by the quality and efficacy consistency evaluation of domestic generic drugs is conducive to the enhancement of industry consolidation and competitiveness of Chinese pharmaceutical enterprises. For large pharmaceutical companies with integrated production, marketing and distribution, they will be in a better position to gain market opportunities given their advantages of having a wide variety of products, large operation scale, strong market penetration, good reputation, extensive market coverage and stable cost.

Facing the ever-changing policy environment, the Group will adhere to the corporate philosophy of "All for good medicine, All for mankind's health". The Group will leverage its brand name, channel structure, marketing model, as well as distribution and scale advantages to further develop the low-tier medical market. At the same time, the Group will also continue to enrich its common generic drug portfolio with new product types or preparations, introduce generics such as pediatric drugs that are in line with the national policy, nurture key products with higher growth potential and develop branded generic drugs in order to ensure the continuous stable growth of the common generic drug business.

BUSINESS OUTLOOK *(continued)*

Bulk Drug Business

Both the vitamin C and caffeine businesses have achieved good performance in 2018. In 2019, the Group will continue to upgrade its technology, lower its cost and set up branches in Europe and US directly covering the end-user markets in order to maintain the leading position of the existing business in the global industry. The Group will also keep abreast of changes in the relevant policies and market conditions of the global bulk drug industry and take appropriate measures promptly.

2019 is a critical year for the development of China's pharmaceutical industry with challenges from policy reforms and changes in the business environment. I will continue to lead the management team to firmly implement the Group's development strategy and actively respond to various changes and challenges, striving to realize the Group's goal of attaining sustained and steady growth in return for the support from the shareholders.

CAI Dongchen
Chairman

Hong Kong, 18 March 2019

Management Discussion And Analysis

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2018 with sales reaching HK$16,553 million, representing a 45.5% growth (or a 41.8% growth on a constant currency basis) year-on-year.

Innovative Drug Products

During the year, the gradual deepening of healthcare reform and full implementation of the new reimbursement drug list have provided the Group's innovative drug products with increased room for market expansion. The Group swiftly expanded the dedicated sales force of its product lines, strengthened academic-based promotion and accelerated market development in major cities and hospitals. Moreover, building on the policies of national tiered medical system and combined medical treatment groups, the Group penetrated into county-level hospitals and community medical institutions for end-user market development, adding a new growth driver to the innovative drug products. With these efforts, innovative drug products continued the strong growth and achieved sales of HK$10,344 million in 2018, representing a 57.2% growth (or a 53.5% growth on a constant currency basis) year-on-year. In particular, the sales of "NBP" increased by 36.5% (or 33.1% on a constant currency basis), and the sales of oncology drug portfolio increased by 123.3% (or 119.8% on a constant currency basis), becoming a new major growth driver.

The following is an overview of the Group's major innovative drug products:

"NBP"

"NBP" is a Class 1 new chemical drug in China and a patent-protected exclusive product. Its major ingredient is butylphthalide. The drug is mainly used for the treatment of acute ischemic stroke and is currently available in the forms of soft capsule and injection.

"NBP" has been listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China (2010, 2014 and 2018 editions)". It has also been listed on a number of guidelines and consensus, including the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke of China", the "Guidelines for the Assessment and Treatment of Cerebral Collateral Circulation in Ischemic Stroke (2017)" and the "Guidelines for the Diagnosis and Treatment of Cerebral Infarction with Chinese and Western Medicines of China (2017)". These serve to recognise the clinical efficacy of "NBP" for treating acute ischemic stroke and provide a solid basis for its academic-based promotion. The inclusion of both forms of "NBP" into the national reimbursement drug list is also favourable for the promotion of sequential treatment (injection for emergency use and soft capsule for recovery use).

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"NBP" *(continued)*

Good progress has also been made in expanding "NBP" into new treatment areas. At present, 98 research projects in respect of butylphthalide are in progress, including 50 fundamental and 48 clinical projects. The phase III clinical trial of butylphthalide soft capsule for the treatment of vascular dementia has obtained ethical approval from the lead centre and enrollment will start in 2019. In addition, "NBP" also participated in six studies under the "13th Five-Year Plan", including efficacy and safety studies of butylphthalide for new treatment areas such as cerebral small vessel diseases, aortic atherosclerotic cerebral infarction and intravenous thrombolysis or endovascular treatment for acute ischemic stroke. "Butylphthalide Soft Capsule" was also granted orphan drug designation for the treatment of amyotrophic lateral sclerosis ("ALS") by the U.S. Food and Drug Administration during the year. This indication has also been undergoing the first multi-centre, randomized, double-blind and placebo-controlled clinical study on ALS in China since 2015. The study is currently under the follow-up period with all subjects enrolled in 2018. In addition, the phase II clinical trial of butylphthalide soft capsule in the U.S. has commenced with subject enrollment started. The development of new indications and markets as mentioned above will be able to bring new growth opportunities to "NBP".

During the year, the Group further expanded its dedicated sales force of "NBP" and gradually developed the lower-tier medical market of county-level hospitals and community medical centres. The number of hospitals with sales access has increased quickly and sales has maintained a high rate of growth.

"Oulaining"（歐來寧）

The major ingredient of "Oulaining" is oxiracetam. The drug is available in the forms of capsule and lyophilized powder injection and is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. At present, oxiracetam is included in the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment of China", the "Guidelines for Diagnosis and Treatment of Carbon Monoxide Poisoning" and the "Interpretation of Clinical Pathway of Therapeutic Drugs". In addition, in order to further improve evidence-based medical proof of the product and change the existing market landscape of "Oulaining", a number of fundamental and clinical studies of oxiracetam led by domestic and overseas authoritative experts of neurology have commenced, covering Alzheimer's disease, vascular dementia, aphasia after stroke and brain damage.

During the year, the Group changed the sales model of "Oulaining" to internal sales force and strengthened the marketing of the capsule form, resulting in a substantial growth in sales for the year.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Xuanning"（玄寧）

The major ingredient of "Xuanning" is maleate levamlodipine. The drug is available in the forms of tablet and dispersible tablet and is mainly used for the treatment of hypertension, chronic stable angina and variant angina. The product is included in the "Guidelines for the Prevention and Treatment of Hypertension of China 2018", "Guidelines for Rational Use of Drugs for Coronary Heart Disease", "Guidelines for the Rational Use of Drugs for Hypertension" and the "Interpretation of Clinical Pathway of Therapeutic Drugs (County-level Volume)". The results of the research study for the comparison of levamlodipine maleate ("Xuanning") and amlodipine besylate for the treatment of hypertension (a major project in the "12th Five-Year Plan") has fully demonstrated the better clinical efficacy and lower side effects of "Xuanning". The conclusion of the study will also provide solid data support for the new drug application of "Xuanning" in U.S..

During the year, the Group changed the sales model of "Xuanning" to internal sales force and stepped up efforts in exploring the lower-tier market below county level, resulting in a substantial increase in sales for the year.

"Duomeisu"（多美素）

"Duomeisu" (doxorubicin hydrochloride liposome injection) was developed by the "National Key Laboratory for New Pharmaceutical Preparations and Excipients" of the Group, and was supported by the "Major New Drug Development" projects in China. The drug has also been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines", an authoritative guideline in the U.S., for the first-line treatment of lymphoma, multiple myeloma, ovarian cancer and second-line treatment of breast cancer, bone and soft tissue sarcoma and AIDS-related progressive Kaposi sarcoma. "Duomeisu" has advantages in terms of efficacy and safety as compared to traditional anthracyclines. As the current market penetration rate is still relatively low, there is a promising market potential.

After years of academic promotion, hospital development and market nurturing, "Duomeisu" has become the leading brand of domestic doxorubicin hydrochloride liposome injection in the market, with continued rapid sales growth achieved in 2018.

In the future, the Group will continue to build on its competitive resources to strengthen professional academic promotion and improve the expert network and recognition of the product through academic conferences and clinical research projects. In addition to strengthening the existing sales areas for haematological, breast, gynecologic and bone cancers, the Group will continue to explore the application areas of anthracycline drugs for bladder cancer, liver cancer, gastric cancer and lung cancer, aiming to add growth momentum to "Duomeisu".

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Jinyouli"（津優力）

"Jinyouli" (PEG-rhGCSF injection) is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection due to low white blood cell count in patients receiving chemotherapy, thus ensuring the administration of standardized dosage for chemotherapy. "Jinyouli" is well supported by evidence with its phase IV clinical study having the largest sample size in respect of clinical study of long-acting granulocyte-stimulating factor in China, covering lung cancer, breast cancer and lymphoma, winning unanimous recommendations from domestic and foreign guidelines.

During the year, implementation of the new tender results and the national reimbursement drug list provided "Jinyouli" with a larger room for market expansion. The Group also expanded its sales force and increased its presence in hospitals, maintaining a rapid sales growth for the year.

"Jinyouli" is aimed to become the leading brand for the long-acting version in China. In terms of treatment coverage, the Group will reinforce the current areas and expand into digestive tract and urinary system; and at the same time explore opportunities in immunotherapy and combo usage with target therapy.

"Keaili"（克艾力）

"Keaili" (paclitaxel for injection (albumin-bound)) is a first-to-market generic of chemotherapy drug for targeted therapy in China. The drug was listed as a major project of new drug innovation technology in the "12th Five-Year Plan" during its research and development stage and passed the drug consistency evaluation after launch. By integrating paclitaxel with albumin using a special technology to form stable nanoparticles, "Keaili" solves the problem of paclitaxel's solubility and stability of the solution, increasing the dosage of paclitaxel and avoiding the use of toxic solvents with pre-treatment no longer required. Therefore, it is characterized by higher efficacy, lower toxicity and improved convenience and economy. As compared with the imported originator drug, the price of "Keaili" is significantly lower, enabling patients to use the drug with comparable efficacy at more affordable price. "Keaili" has been included in the provincial reimbursement drug list of Hubei, Hunan, Ningxia, Jiangsu and Shandong (critical illness), greatly relieving the patients' financial burden.

"Keaili" is currently approved for the indication of breast cancer only. The Group has increased the resources used to conduct joint clinical studies with domestic experts for its applications in different oncology areas and develop clinical evidence in order to verify the efficacy of "Keaili" in all relevant areas. The Group has also continued its marketing strategies of clinical studies and academic conferences, and strengthened its cooperation with professional academic institutions in order to establish a more solid academic platform for building a better market recognition and brand reputation of "Keaili".

After commercial launch in March this year, "Keaili" has been widely recognized by experts and patients and achieved an outstanding sales performance for the first year.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Ailineng"（艾利能）

"Ailineng" (elemene injection) is an oncology drug developed in China, mainly used for the treatment of nerve glioma, brain metastases and malignant pleural and peritoneal effusion. The product can be used in combination with chemotherapy and radiotherapy to boost the clinical efficacy of oncology therapies. After years of clinical use, it has been widely recognized by the medical profession. The new and upgraded liquid formulation of the product was granted patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume, contributing to the significant reduction of adverse clinical reaction.

During the year, sales of "Ailineng" remained satisfactory. The Group will continue to strengthen academic promotion, make further efforts in medical research projects and implement sales model transformation in certain regions in order to expand market share.

"Nuolining"（諾利寧）

"Nuolining" (imatinib mesylate tablets) is the first approved small molecule targeted oncology drug of the Group, which is mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML), Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL) and gastrointestinal stromal tumour. "Nuolining" has been recommended by a number of domestic and foreign guidelines as a first-line drug for the above diseases. Patients using "Nuolining" for its main indications are required to use it on a long-term basis, thus the accumulated number of patients provides an enormous market potential.

During the year, "Nuolining" achieved a steady growth. The Group will accelerate the consistency evaluation of "Nuolining" in response to the impact of changes in national policies.

Common Generic Drug Products

During the year, the Group continued with the strategy of enhancing its sales mix by strengthening the promotion of non-antibiotic drugs and expanding the product line of oral formulation for chronic diseases. Among which, products with relatively higher sales growth included "Ouyi"（歐意）(aspirin enteric-coated tablets), "Ouyi"（歐意）(omeprazole capsules/injections), "Linmeixin"（林美欣）(glimepiride dispersible tablets) and "Ouwei"（歐維）(mecobalamin tablets). The Group's high-end antibiotic product "Zhongnuo Shuluoke"（中諾舒羅克）(meropenem for injection) and healthcare supplement product "Guoweikang"（果維康）(vitamin C tablets) have also maintained rapid growth during the year. Furthermore, the Group actively pushed forward with the quality and efficacy consistency evaluation of generic drugs. Currently, five products have passed the consistency evaluation, including "Xinweihong"（新維宏）(azithromycin tablets), "Qimaite"（奇邁特）(tramadol hydrochloride tablets), "Zuoshuxi"（左舒喜）(captopril tablets), "Shuanglexin"（雙樂欣） (metformin hydrochloride tablets) and "Shiyao"（石藥）(amoxicillin capsules). Products passing consistency evaluation are expected to significantly lower the financial burden of patients, reduce medical insurance expense and boost the efficiency in the use of health insurance funds. The Group will fully utilize opportunities brought about by the consistency evaluation to actively strive for a larger market share for the products, and will also establish strategic cooperation with core distributors to expand and penetrate the end-user market into the low-tier medical institutions.

In 2018, sales of common generic drug products maintained a satisfactory growth in general, with sales of HK$6,209 million, representing a 29.6% growth (or a 25.8% growth on a constant currency basis) year-on-year.

Management Discussion And Analysis

BULK DRUG BUSINESS

Vitamin C

Overcapacity in the vitamin C market still lingered. However, the restraint on market supply due to pressure from environmental protection has provided opportunities for large-scale vitamin C manufacturers, enabling this business to achieve a satisfactory performance in 2018. In addition to the efforts to attain quality improvement and production cost reduction, the Group will also set up branches in Europe and U.S. to directly cover the local end-user market and continue to optimize client mix in order to expand end-user market share and improve product profitability.

Antibiotics

Market demand for antibiotics has declined mainly due to the restricted use of antibiotics policy in the end-user market. In 2018, this business segment saw a slight sales decrease in general, with unsatisfactory profit contribution. The overall weak market condition is unlikely to improve in the short term. The Group will continue to proactively implement various measures including technology advancement, management enhancement and energy conservation, with an aim to strive for continuous decrease in production costs and improvement in market competitiveness.

Caffeine and Others

During the year, thanks to a stable operating environment, this business segment recorded a steady performance with slight increase in both product prices and product costs.

RESEARCH AND DEVELOPMENT

The Group continued to increase its investment in the research and development of products. Currently there are more than 300 projects in the pipeline, primarily focusing on the therapeutic areas of cardio-cerebrovascular diseases, metabolic diseases (such as diabetes), oncology, psychiatry and neurology, as well as anti-infection. Among these product candidates, there are 30 new target macromolecule biologics, 40 new small molecule drugs and 55 Class 3 new drugs (classified as Class 3 or 4 under the new system).

The progress of the Group's major R&D projects is as follows:

1. 5 products have been granted drug registration approval by the National Medical Products Administration, namely "paclitaxel for injection (albumin-bound)", "doxofylline sodium chloride for injection", "doxofylline glucose for injection", "metformin hydrochloride tablets" and "tirofiban hydrochloride and sodium chloride for injection";

2. 8 products have passed consistency evaluation, namely "tramadol hydrochloride tablets", "azithromycin tablets", "captopril tablets", "amoxicillin capsules", "paclitaxel for injection (albumin-bound)", "metformin hydrochloride tablets", "ranitidine hydrochloride capsules" and "cefadroxil tablets";

RESEARCH AND DEVELOPMENT *(continued)*

3. 10 small molecule new drugs are under clinical trials in China, including “DBPR108 tablets”, “SKLB1028 capsules”, “ammuxetine hydrochloride tablets”, “butylphthalide soft capsules” (indication: vascular dementia) and “CSPCHA115 capsules”;

4. 2 small molecule new drugs are under clinical trials in U.S., namely “butylphthalide soft capsules” (indication: acute ischemic stroke) and “CSPCHA115 capsules”;

5. 7 macromolecule new drugs are under clinical trials in China, namely “anti-CD20 monoclonal antibody for injection”, “anti-HER2/CD3 bispecific antibody for injection”, “anti-EpCAM/CD3 bispecific antibody for injection”, “anti-PD-1 monoclonal antibody for injection”, “recombinant GLP-1 Fc fusion protein for injection”, “anti-EGFR monoclonal antibody for injection” and “anti-RANKL monoclonal antibody for injection”;

6. 4 products of new preparation are under clinical trials, namely “mitoxantrone liposome for injection” (clinical trials in both China and the U.S.), “vinorelbine tartrate liposome for injection”, “alprostadil liposome for injection” and “irinotecan liposome for injection” (clinical trials in the U.S.);

7. 26 generic drugs are currently pending for production approval in China, including “dronedarone hydrochloride tablets”, “clopidogrel hydrogen sulfate tablets”, “amphotericin B cholesterol sulfate complex for injection” (new preparation), “ iloperidone tablets”, “ticagrelor tablets”, “sunitinib malate capsules”, “pramipexole hydrochloride tablets” and “sacubitril/valsartan sodium tablets”;

8. 15 generic drugs are under bioequivalence tests, including “afatinib maleate tablets”, “linagliptin tablets”, “nintedanib esilate soft capsules” and “benzonatate soft capsules”;

9. 6 drugs are currently pending for U.S. ANDA approval, namely “pregabalin capsules”, “solifenacin succinate tablets”, “imatinib mesylate tablets”, “omega-3-acid ethyl ester 90 soft capsules”, “esomeprazole magnesium enteric-coated capsules” and “paliperidone extended-release tablets”; and “celecoxib capsules”, “memantine hydrochloride tablets”, “pramipexole hydrochloride tablets” and “duloxetine hydrochloride sustained release capsules” have obtained ANDA approval; and

10. “Mitoxantrone hydrochloride liposome for injection”, antibody-drug conjugate “DP303c”, “butylphthalide soft capsule” (indication: ALS) and “ALMB-0166” have been granted the orphan drug designation in U.S..

RESEARCH AND DEVELOPMENT *(continued)*

The Group continued to increase its investment in the pipeline of biologics and small molecule innovative drugs. Apart from in-house research and development, the Group has also been proactively seeking for external cooperation and acquisition opportunities. Cooperation or acquisition projects made recently or during the year included: (i) acquiring partial equity interests in Wuhan YZY Biopharma Co., Ltd., a leading enterprise in bispecific antibodies research in China; (ii) acquiring the entire equity interests in Yong Shun Technology Development Co., Ltd., which is mainly engaged in the research and development of new monoclonal antibodies for targeted tumor antigens and immunotherapy of various cancers; (iii) entering into an exclusive license agreement with Shanghai Institute of Materia Medica for the development and commercialization of 4 small molecule compounds; (iv) entering into an exclusive license agreement with Hangzhou Innogate Pharma Co., Ltd. for the development and commercialization of 5 small molecule compounds; (v) entering into an exclusive license agreement with I-Mab Biopharma (Shanghai) Co. Ltd. for the development and commercialization of "recombinant GLP-1 Fc fusion protein for injection"; (vi) entering into an exclusive license agreement with Sinocelltech Limited for the development and commercialization of "anti-CD20 monoclonal antibody for injection"; and (vii) entering into an exclusive license agreement with a U.S. company — Verastem for the development and commercialization of the oncology drug "Copiktra".

The Group will continue to look for acquisition targets with strong R&D capability and product candidates under development. The future acquisition efforts will mainly focus on drugs of new small molecule and macromolecule which are close to product approval and commercial launch so as to supplement the pipeline of product launch in the next few years, and fully leverage the Group's strong marketing and market development capabilities to achieve rapid sales growth of new products.

FINANCIAL REVIEW

Results

	2018	2017	Change in %
Revenue *(HK$'000)*			
Finished drugs	**16,553,287**	11,374,413	45.5%
Bulk drugs	**4,475,584**	4,088,116	9.5%
Total	**21,028,871**	15,462,529	36.0%
Operating profit *(HK$'000)*	**4,537,721**	3,481,643	30.3%
Operating profit margin	**21.6%**	22.5%	
Profit attributable to shareholders *(HK$'000)*	**3,654,978**	2,770,522	31.9%

FINANCIAL REVIEW *(continued)*

Results *(continued)*

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 45.5% to HK$16,553 million in the current year. Innovative drugs of the Group, in particular, delivered a strong growth with aggregate sales reaching HK$10,344 million, representing a growth of 57.2%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 42.6% in 2017 to 49.2% in 2018. Sales of the vitamin C business further increased in 2018 attributable to higher average selling prices.

Operating profit margin slightly decreased from 22.5% in 2017 to 21.6% in 2018. It is the mixed results of the following factors: (i) higher proportion of sales from innovative drugs which have a relatively higher profit margin; (ii) higher selling expense to revenue ratio of the finished drug business in 2018 resulting from the Group's increased efforts in market development and the adoption of direct sales model for some finished drugs as necessitated by the two-invoice system; (iii) significant increase in research and development expenses; and (iv) increased profitability of the vitamin C business in 2018 due to higher average selling prices.

Selling and Distribution Expenses

Selling and distribution expenses was HK$7,328 million in 2018 as compared to HK$4,375 million in 2017. The increase in selling and distribution expenses was primarily attributable to (i) expansion of sales force of the existing innovative drugs; (ii) establishment of sales team for the newly launched innovative drug "Keaili"; (iii) increased efforts in marketing and academic promotion for innovative drugs; (iv) adoption of direct sales model for some finished drugs as necessitated by the two-invoice system; and (iv) increased efforts in academic promotion for some generic drugs.

Administrative Expenses

Administrative expenses was HK$780 million in 2018 as compared to HK$642 million in 2017. The increase in administrative expenses was primarily attributable to the expanded scale of operation of the Group and increased payment of staff performance bonus.

Research and Development Expenses

R&D expenses was HK$1,583 million in 2018 as compared to HK$815 million in 2017. The increase in R&D expenses was primarily attributable to (i) upfront payments of HK$101 million related to a number of product co-development and license agreements; (ii) increased spending on ongoing and newly initated clinical trials; (iii) increased spending on R&D of biologic drugs; (iv) increased R&D expenses of the expanding R&D centres in the US; and (v) increased spending on quality and efficacy consistency evaluation of generics.

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Position

For the financial year of 2018, the Group's operating activities generated a cash inflow of HK$4,428 million (2017: HK$3,288 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly decreased from 40 days in 2017 to 37 days this year. Average turnover period of inventories (ratio of balance of inventories to cost of sales) slightly increased from 173 days in 2017 to 178 days this year, reflecting the expanding scale of production and a higher inventory level required to meet the increasing market demand. Current ratio of the Group was 1.9 as at 31 December 2018, lower than 2.4 a year ago. Capital expenditure for the year amounted to HK$1,973 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As at 31 December 2018, cash and cash equivalents amounted to HK$4,927 million (2017: HK$5,163 million) and total borrowings amounted to HK$80 million (2017: HK$987 million), resulting in a net cash position of HK$4,847 million (2017: HK$4,176 million). Borrowings of the Group as at 31 December 2018 represented bank loans repayable within one year.

71% of the Group's borrowings are denominated in Renminbi and 29% in US dollars. The Group's sales are denominated in Renminbi for domestic sales in China and in US dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its net foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Pledge of Assets

As at 31 December 2018, bank deposits amounting to HK$113,636,000 (2017: Nil) and structured bank deposits amounting to HK$1,567,045,000 (2017: HK$861,244,000) have been pledged to secure certain banking facilities of the Group.

Dividend Policy

It is the present intention of the Board to provide shareholders with regular dividends with a normal target payout ratio of not less than 30 per cent of the core profit on a full year basis. The actual amount of dividends will depend on a number of factors including but not limited to financial results, financial position and funding needs of the Group.

Employees

As at 31 December 2018, the Group had approximately 14,471 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, share options, share awards and bonuses to staff based on the performance of the Group and individual employee.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in bulk drug business in order to achieve long-term sustainable growth.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standards of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2018 except the deviation from code provision A.2.1 as set out under "CHAIRMAN AND CHIEF EXECUTIVE OFFICER".

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine executive directors, one non-executive director and five independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 34 to 37 of this annual report.

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the appointment of Mr. Wang Qingxi as an executive director on 20 August 2018, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board. With the resignation of Mr. Wang Jinxu as an executive director on 30 August 2018, the number of independent non-executive directors on the Board represents no less than one-third of the members of the Board as required under rule 3.10A of the Listing Rules.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of the respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2018. Individual attendance of each director at the regular board meetings and committee meetings in 2018 is set out below:

		Number of meetings attended/held		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Cai Dongchen	4/4			2/2
Wang Zhenguo	4/4			
Pan Weidong	4/4			
Wang Huaiyu	4/4			
Lu Hua	4/4			
Li Chunlei	4/4			
Chak Kin Man	4/4			
Zhang Cuilong *(appointed on 9 July 2018)*	2/2			
Wang Qingxi *(appointed on 20 August 2018)*	1/1			
Wang Jinxu *(resigned on 30 August 2018)*	3/3			
Non-Executive Director:				
Lee Ka Sze, Carmelo	3/4	3/4	3/3	
Independent Non-Executive Directors:				
Chan Siu Keung, Leonard	4/4	4/4	3/3	2/2
Wang Bo	4/4	4/4	3/3	
Lo Yuk Lam	3/4			2/2
Yu Jinming	3/4			
Chen Chuan	4/4			

The Company has received an annual confirmation of independence from each of the independent non-executive directors as of the date of this report. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

There is no financial, business, family or other material/relevant relationship between Board members.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of three years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Wang Bo.

The remuneration of directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

Three meetings were held in 2018 to consider and make recommendations to the Board on the remuneration of directors of the Company.

NOMINATION COMMITTEE

The Nomination Committee of the Company is responsible for formulating and implementing the policy for nominating potential candidates to the Board, and assessing the independence of independent non-executive directors. In discharging its duties, the committee regularly reviews the structure, size and composition of the Board so as to ensure it is aligned with the business objectives of the Group. The committee comprises three members, namely Mr. Cai Dongchen (Chairman), Mr. Chan Siu Keung, Leonard and Prof. Lo Yuk Lam.

Two meetings were held in 2018 to review the structure, size and composition of the Board and nominate Mr. Zhang Cuilong and Dr. Wang Qingxi to the Board. The nominations were made in accordance with the selection criteria (including but not limited to work experience, cultural and education background, reputation, professional experience, length of service, gender and age of the candidate) and nomination process as set out in the nomination policy of the Company.

The Company has adopted a nomination policy during the year.

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process, risk management and internal control system of the Group. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Wang Bo.

Four meetings were held in 2018. At the meetings, the committee discussed and reviewed the following matters:

1. the 2017 annual results, annual report and results announcement;

2. the external auditor's report to the Audit Committee in respect of the 2017 annual audit;

3. the quarterly results for the three months ended 31 March 2018 and results announcement;

4. the 2018 interim results, interim report and results announcement;

5. the external auditor's report to the Audit Committee in respect of the 2018 interim review;

6. the quarterly results for the nine months ended 30 September 2018 and results announcement;

7. the performance of the external auditor and its remuneration;

8. connected transactions during the year ended 31 December 2017; and

9. the systems of risk management and internal controls and the effectiveness of the internal audit function.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

Details of the participation in continuous professional development by the directors during the year are summarized in the table below.

	Attending training course/ seminar/forum/ conference	Reading regulatory update or materials relevant to the Company or its business
Executive Directors:		
Cai Dongchen	✓	✓
Wang Zhenguo	✓	✓
Pan Weidong	✓	✓
Wang Huaiyu	✓	✓
Lu Hua	✓	✓
Li Chunlei	✓	✓
Zhang Cuilong	✓	✓
Wang Qingxi	✓	✓
Chak Kin Man	✓	✓
Wang Jinxu	✓	✓
Non-Executive Director:		
Lee Ka Sze, Carmelo	✓	✓
Independent Non-Executive Directors:		
Chan Siu Keung, Leonard	✓	✓
Wang Bo	✓	✓
Lo Yuk Lam	✓	✓
Yu Jinming	✓	✓
Chen Chuan	✓	✓

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for overseeing the Group's risk management and internal control systems, and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Effective risk management is the key to sustainable business success. As a major pharmaceutical group based in mainland China, we face a diverse range of risks and uncertainties that could have a materially adverse impact on the business or results of operations. Our approach to risk management is therefore an ongoing process of identification, evaluation and management of the principal risks affecting the business.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented — principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group — regular meetings with each business unit to ensure principal risks are properly managed, and new or changing risks are identified;

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control systems — review of the annual internal audit report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

Internal Control System

The internal control system of the Group is designed to facilitate effective and efficient operations, ensure the maintenance of proper accounting records, ensure compliance with applicable laws and regulations, identify and manage potential risks and safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

During 2018, the Group's internal audit function has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering all material financial, operational and compliance controls, and risk management. In addition, the review has considered the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The internal audit report was submitted to the Audit Committee and the Board for their review.

Apart from review of the annual internal audit report submitted by the internal audit function, the Audit Committee also had regular meetings with the external auditor and reviewed the reports by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations of the external auditors to remedy the control issues identified or to further improve the internal control system.

The Board formed its own view on the effectiveness of the systems based on the review of the annual internal audit report and the recommendation of the Audit Committee.

In respect of the year ended 31 December 2018, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

1. develop and review the Company's policies and practices on corporate governance and make recommendations;

2. review and monitor the training and continuous professional development of directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

The Board has performed the above duties during the year.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$4,060,000 for audit services and HK$2,738,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and continuing connected transactions, and acting as reporting accountant for a proposed spin-off and separate listing of a subsidiary of the Company.

FINANCIAL REPORTING

The Directors' responsibilities for the financial statements are set out on page 47 and the responsibilities of the external auditor are set out on page 48 of this annual report.

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

COMPANY SECRETARY

The Company Secretary, Mr. Lee Ka Sze, Carmelo, is a practicing solicitor in Hong Kong. He is currently a partner of Messrs. Woo, Kwan, Lee & Lo and is not a full time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lee is Mr. Chak Kin Man, an executive director of the Company. During 2018, Mr. Lee has confirmed that he has taken no less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

The objective of communications with shareholders is to provide them with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner. The Company uses a range of communication tools to ensure its shareholders and investors are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

The Company also actively attends different forms of investors' communication activities, including meetings with investors, telephone conferences, activities organized by sell side institutions and non-deal roadshows, with the hope to enhance corporate transparency so that investors can have a better understanding of the business model and latest development strategy of the Group. During 2018, management of the Company has attended over 300 one-on-one or group meetings. Our persistent efforts in active communications with shareholders was widely recognized by the capital market with the consecutive winning of the titles – "Most Honored Company in Asia", "Best Investors Relations Program – First Place" and "Best Analyst Day – First Place" in the Healthcare and Pharmaceutical sector in the 2018 Institutional Investors Poll organized by the Institutional Investor Magazine.

In addition, the Company maintains a website at www.cspc.com.hk as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other key information are available for public access.

In order to enable shareholders and investors to exercise their rights in an informed manner and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders and investors may at any time send their enquiries and concerns to the Company via the Company's website. Shareholders may also make enquiries with the Board at the general meetings of the Company.

GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5 per cent of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting.

The request —

(a) must state the general nature of the business to be dealt with at the meeting;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(c) may consist of several documents in like form;

(d) may be sent in hard copy form or electronic form; and

(e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

PUTTING FORWARD PROPOSAL AT ANNUAL GENERAL MEETING ("AGM")

Pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) can make a request to circulate a resolution for an AGM if they represent–

(a) at least 2.5 per cent of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or

(b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request —

(a) may be sent in hard copy form or electronic form;

(b) must identify the resolution of which notice is to be given;

(c) must be authenticated by the person or persons making it; and

(d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The procedures for shareholders to propose a person for election as a director have been uploaded to the Company's website.

2018 GENERAL MEETING

At the 2018 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee, Remuneration Committee and Nomination Committee have attended the 2018 annual general meeting to ensure effective communication with shareholders. The attendance record of the Directors at the 2018 general meeting is set out below:

	General meeting attended/held
Directors	
Executive Directors:	
Cai Dongchen	1/1
Wang Zhenguo	0/1
Pan Weidong	0/1
Wang Huaiyu	0/1
Lu Hua	0/1
Li Chunlei	0/1
Chak Kin Man	1/1
Zhang Cuilong (appointed on 9 July 2018)	0/0
Wang Qingxi (appointed on 20 August 2018)	0/0
Wang Jinxu (resigned on 30 August 2018)	0/1
Non-Executive Director:	
Lee Ka Sze, Carmelo	1/1
Independent Non-Executive Directors:	
Chan Siu Keung, Leonard	1/1
Wang Bo	0/1
Lo Yuk Lam	0/1
Yu Jinming	0/1
Chen Chuan	0/1

CONSTITUTIONAL DOCUMENTS

During the year, there was no change in the Company's constitutional documents.

Directors' Report

The board of directors of the Company (the "Board") is pleased to present this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and joint ventures are set out in notes 42 and 17 to the consolidated financial statements, respectively.

BUSINESS REVIEW

Overview

The Group is principally engaged in the development, manufacture and sales of medicines and pharmaceutical related products in the People's Republic of China (the "PRC" or "China"). We currently has two major business segments, namely finished drugs and bulk drugs, accounting for 79% and 21% of the Group's revenue for the year 2018, respectively.

The finished drug products of the Group are primarily sold in China. The existing product portfolio consists of antibiotics, cardio-cerebrovascular drugs, diabetes drugs, neurology drugs, oncology drugs and traditional Chinese medicine. Some products such as "NBP", "Duomeisu" and "Jinyouli" are categorized as innovative drugs while some other products such as amoxicillin capsules, ceftriaxone sodium for injection and meropenem for injection are categorized as common generic drugs. The primary end-user customers of our finished drug products include hospitals, health-care centres, clinics and pharmacy stores. We generate revenue by selling our finished drug products to distributors which in turn sell our products to the end-user customers.

Bulk drug products of the Group include antibiotics, vitamin C and caffeine in the bulk powder form. Apart from the market in China, a significant part of the bulk drug products is sold in overseas markets, including U.S., Germany, Japan and India. We generate revenue by selling our bulk drug products to pharmaceutical companies, food and beverages manufacturers and distributors.

The Group has a strong research and development team which focuses on the development of innovative drugs. We also collaborate with leading research institutions to broaden our sources of new drugs. It is our strategy to continue to invest in research and development in order to maintain a sustainable growth of our business.

With over 14,400 employees, the Group's headquarters along with its major production facilities and research and development centres are located in Shijiazhuang City, Hebei Province, the PRC.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties

The following risks and uncertainties may affect the results and business operations of the Group, some of which are inherent to pharmaceutical sector and some are from external sources.

(i) Drug approval process

The actual timing of the market launch of our products under development could vary significantly from our estimates due to a number of factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties in the outcome of regulatory approval process. If any of the necessary approvals in relation to our products under development is delayed or not obtained, this could adversely affect the timing of the market launch of our products. The Group is committed to investing in research and development of new drugs in order to ensure a rich product pipeline.

(ii) Results of drug tenders

Our sales volumes and profitability depends on our ability to win in the drug tender of each province or region in China for our products at a desirable tender price. We may fail to win bids in the tenders due to various factors, including uncompetitive bidding price. If our products fail to win in the tenders or the new tender prices are significantly cut, the market share, revenue and profitability of the products concerned could be adversely impacted. We have a team of staff monitoring and handling the drug tenders of our products. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

(iii) Compliance with certain PRC environmental and safety regulations

We are subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste, noise pollution and the safety of our workers during the manufacturing process. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocation of operating permits, shutdown of our production facilities and obligations to take corrective measures. In addition to the above, the PRC government may amend such laws, rules and regulations to impose a more stringent standard. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

(iv) Exclusion of products from certain PRC medical reimbursement list

Under the PRC national medical insurance scheme, patients can obtain reimbursement of all or a portion of the cost of certain drugs listed in the National Reimbursement Drug List or the Provincial Reimbursement Drug List (the "Reimbursement Lists"). The drugs listed in the Reimbursement Lists are reviewed and updated from time to time. There is no assurance that our products will be or continue to be listed in the Reimbursement Lists. The entry into, and the removal from the Reimbursement Lists are beyond our control. The removal of any of our products from the Reimbursement Lists may have an adverse impact on the sales of the products concerned.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties *(continued)*

(v) Illegal practice of employees or third-party distributors

The Group prohibits our employees and third-party distributors from engaging in corruption practices to influence the procurement decision of hospitals. However, we may not be able to effectively ensure that every employee or third-party distributor complies at all times with our policies. If such corruption practices or improper conduct occur, this may harm our reputation or expose us to regulatory investigations and potential punishment. The employee handbook and sales contracts entered into with third-party distributors contain specific rules to forbid employees and third-party distributors engaging in illegal practices in order to prevent misconduct from occurring.

(vi) Side effects of products

Our products may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by our customers. In addition, our products may be perceived to cause severe side effects if other pharmaceutical companies' products containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects. If our products cause or perceived to cause severe side effects, our sales and profitability could be adversely affected. We have adopted a product recall procedure to ensure that our products could be quickly recalled in case of safety or quality concerns.

(vii) Product liability

Claims for product liability and/or product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated or if we are alleged to have engaged in practices such as improper, insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. Product liability claims may attract negative publicity which may adversely affect our reputation and business. We are committed to maintaining a high technical and quality standards to ensure that the products meet the requirements in all aspects.

(viii) Currency fluctuations

We generate the majority of our sales in Renminbi. Fluctuations in the exchange rate between Hong Kong dollars and Renminbi will affect the translation into Hong Kong dollars when we prepare our financial statements of the Group.

BUSINESS REVIEW *(continued)*

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option scheme and share award scheme to recognize and reward the contribution of the employees for the Group's operations and future development.

(ii) Suppliers

We have developed long-standing relationships with a number of suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Distributors

We sell our finished drug products mainly to distributors which will sell the products to end-user customers. We work closely with the distributors to ensure that we share the view for upholding our brand value and customer services.

(iv) Hospitals

We are committed to offer a broad and diverse range of good-quality products to hospitals. We also stay connected and maintain a close relationship with the hospitals by maintaining a database and have ongoing communications with them through various channels such as visits, marketing materials and meetings.

Environmental policies

We are subject to certain PRC laws, rules and regulations concerning environmental protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste and noise pollution during our manufacturing processes.

The Group attaches importance to comply with the relevant environmental laws and regulations. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to remedy the environmental issues identified and improve the environmental performance of the Group.

BUSINESS REVIEW *(continued)*

Compliance with laws and regulations

The Group's operations are mainly carried out by the Company's subsidiaries established in the mainland China while the Company itself is incorporated in Hong Kong with its shares listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2018 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong that have a significant impact on the Group.

Recent Developments

Details of important events affecting the Group since 31 December 2018 (if any) are set out in the notes to the consolidated financial statements.

Further discussion and analysis of the business and operation of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections and the consolidated financial statements of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

At 31 December 2018, each of Mr. Cai Dongchen, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Lu Hua, Dr. Li Chunlei and Mr. Zhang Cuilong, all being directors of the Company, had an indirect interest in one of the Group's five largest customers. All transactions between the Group and the customer concerned were carried out on normal commercial terms.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on page 50 and 51, respectively.

The Board has recommended the payment of a final dividend of HK18 cents per share for the year ended 31 December 2018 (2017: HK15 cents per share). Subject to approval by the shareholders in the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 14 June 2019 to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2018 amounted to approximately HK$1,467,575,000 (2017: HK$957,368,000).

DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$25,231,000.

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately HK$1,973,124,000. Details of the movements in fixed assets of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options (if any) of the Company are set out in notes 32 and 33 to the consolidated financial statements, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 162 of this annual report.

EQUITY-LINKED AGREEMENTS

Save for the share option schemes as disclosed in the Annual Report, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets and profit of the Company against all liability incurred by him as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance policy against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company.

Directors' Report

DIRECTORS

Directors of the Company

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cai Dongchen *(Chairman and CEO)*
Wang Zhenguo *(Vice-Chairman and Rotating CEO)*
Pan Weidong *(Vice-Chairman)*
Wang Huaiyu
Lu Hua
Li Chunlei
Chak Kin Man
Zhang Cuilong *(appointed on 9 July 2018)*
Wang Qingxi *(appointed on 20 August 2018)*
Wang Jinxu *(resigned on 30 August 2018)*

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Chan Siu Keung, Leonard
Wang Bo
Lo Yuk Lam
Yu Jinming
Chen Chuan

Mr. Zhang Cuilong and Dr. Wang Qingxi were appointed as additional directors of the Company by the Board after the annual general meeting of the Comapny held on 25 May 2018. In accordance with Article 92 of the Company's Articles of Association, Mr. Zhang Cuilong and Dr. Wang Qingxi shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Pan Weidong, Chak Kin Man, Chan Siu Keung, Leonard and Wang Bo shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Wang Jinxu resigned as a director due to restructure of the Board on 30 August 2018.

DIRECTORS *(continued)*

Directors of the subsidiaries of the Company

The directors of subsidiary undertakings included in the annual consolidated financial statements of the Company (other than those listed above) were Mr. Wang Jinxu, Mr. Sun Jumin, Mr. Liu Jian, Mr. Zhang Jingshu, Mr. Wang Hui, Mr. Kang Hui, Mr. Yao Bing, Ms. Bi Sixin, Ms. Kang Yueju, Mr. Qu Buqing, Mr. Ji Mengwei, Mr. Liu Fang, Mr. Yuan Xichen, Mr. Guo Yumin, Mr. Han Feng, Mr. Li Yingui, Mr. Geng Lixiao, Ms. Tian Yumiao, Mr. Yuan Guoqiang, Mr. Pang Zhenhai, Mr. Min Longgang, Mr. Gao Jiapan, Mr. Wang Yanbin, Mr. Wang Zhenyu, Mr. Zhang Ziren, Mr. Wang Yanjun, Mr. Hou Shengjun, Mr. Zhang Hongbin, Mr. Hao Jinheng, Mr. Chen Yingxin, Mr. Guo Junchen, Mr. Liu Qin, Mr. Wang Hongbin, Mr. Zhang Heming, Mr. Yang Kai, Mr. Zhang Yu, Mr. Lei Ming, Mr. Li Han, Ms. Jiang Xin, Mr. Zhao Shiqiang, Mr. Shi Baoming, Mr. Huang Ting, Mr. Zhang Yongtai, Mr. Niu Wei, Mr. Li Quan, Ms. Liang Qian, Mr. Yuan Qian, Mr. Zhou Hongfeng, Mr. Pengfei Zhou, Ms. Chen Sufen, Mr. Qin Maximilan Lu, Mr. Petar Vazharo, Mr. Bjartur Shen, Mr. Liu Cunyi, Ms. Jia Zheng, Mr. Yang Hanyu, Ms, Liang Min, Mr. Huang Zheyan, Ms. Liu Liyun and Mr. Liu Haiyuan.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 65, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai is also the chairman of the Nomination Committee of the Company and a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

Mr. Cai is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Cai is also a director of True Ally Holdings Limited and Massive Giant Group Limited, both are substantial shareholders of the Company within the meaning of Part XV of the SFO.

WANG Zhenguo

Mr. Wang, aged 49, Vice-Chairman and Rotating Chief Executive Officer of the Company, was appointed as an executive director of the Company in 2012. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

PAN Weidong

Mr. Pan, aged 49, Vice-Chairman of the Company, was appointed as an executive director of the Company in 2006. Mr. Pan is also a director of certain subsidiaries of the Group. Mr. Pan holds an EMBA degree from Tsinghua University and has extensive finance, accounting and investment experience in the pharmaceutical industry.

Mr. Pan is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

WANG Huaiyu

Mr. Wang, aged 55, was appointed as an executive director of the Company in 2010. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LU Hua

Dr. Lu, aged 47, was appointed as an executive director of the Company in 2015. Dr. Lu is also a director of certain subsidiaries of the Group. Dr. Lu holds a bachelor's degree in science (chemistry) from Hebei Normal University, a master's degree in engineering (pharmaceutical manufacturing) from Beijing University of Chemical Technology, an EMBA degree from Tsinghua University and a doctorate in engineering (pharmaceutical manufacturing) from Tianjin University. Dr. Lu has extensive experience in pharmaceutical engineering, production management and technical research.

LI Chunlei

Dr. Li, aged 42, was appointed as an executive director of the Company in 2017. Dr. Li is currently the Chief Scientist of the Group in charge of research and development. Dr. Li is also the general manager of a subsidiary of the Company, deputy director of the Novel Pharmaceutical Preparations and Excipients State Key Laboratory and director of the Hebei Pharmaceutical Engineering Technology Centre. Dr. Li holds a bachelor's degree in engineering (biological pharmaceutics) from Jilin University and Shenyang Pharmaceutical University, a master's degree in science (microbial and biochemical pharmaceutics) from Jilin University and a doctorate in science (pharmaceutical science) from Shenyang Pharmaceutical University.

ZHANG Cuilong

Mr. Zhang, aged 50, was appointed as an executive director of the Company in 2018. Mr. Zhang is also a director of certain subsidiaries of the Group. Mr. Zhang holds a bachelor's degree in pharmacology from Hebei Medical College (now known as Hebei Medical University) and has extensive technical, marketing and management experience in the pharmaceutical industry.

WANG Qingxi

Dr. Wang, aged 53, was appointed as an executive director of the Company in 2018. Dr. Wang is also a director of certain subsidiaries of the Group. Prior to joining the Group, Dr. Wang worked at Merck & Co., Inc. in the U.S. for 20 years where he held senior positions including director of pharmaceutical R&D and director of business development and operation. Dr. Wang holds a bachelor's degree in science (chemistry) and a master's degree in science (chemistry) from Nankai University in China, a master's degree in science (polymer science) and a doctorate in chemistry from University of Connecticut in the U.S. and a MBA degree from Temple University in the U.S..

CHAK Kin Man

Mr. Chak, aged 53, was appointed as an executive director of the Company in 2005. Mr. Chak is also a director of certain subsidiaries of the Group. Mr. Chak is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chak holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relations.

Mr. Chak is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LEE Ka Sze, Carmelo

Mr. Lee, aged 58, was appointed as a non-executive director in 1996, re-designated as an independent non-executive director in 1998 and further re-designated as a non-executive director in 2004. Mr. Lee is also a member of the Audit Committee and Remuneration Committee and the Company Secretary of the Company. Mr. Lee holds a bachelor of laws degree from The University of Hong Kong. Mr. Lee is a practising solicitor and a partner of Woo, Kwan, Lee & Lo.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, Yugang International Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited and an independent non-executive director of KWG Property Holding Limited, Esprit Holdings Limited and China Pacific Insurance (Group) Co., Ltd.. All of the above companies are listed on the Stock Exchange of Hong Kong Limited. Mr. Lee is also a convenor cum member of the Financial Reporting Review Panel of the Financial Reporting Council.

Mr. Lee was appointed as a member of the InnoHK Steering Committee for a period of 2 years from 4 February 2019 to 3 February 2021 and also appointed as Chairman of the Appeal Tribunal Panel (Section 45 of the Building Ordinance (Cap. 123)) for a period of 3 years from 1 December 2018 to 30 November 2021.

CHAN Siu Keung, Leonard

Mr. Chan, aged 61, was appointed as an independent non-executive director of the Company in 2004. Mr. Chan is also the chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Chan is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. Mr. Chan holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

WANG Bo

Mr. Wang, aged 58, was appointed as an independent non-executive director of the Company in 2012. He is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. Wang is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd.. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. Mr. Wang is currently the distinguished researcher of the Research Center of National Drug Policy & Ecosystem.

Mr. Wang is also an independent director of Henan Taloph Pharmaceutical Stock Co., Ltd. (listed on Shanghai Stock Exchange) and Jiuzhitang Co., Ltd. (listed on Shenzhen Stock Exchange).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LO Yuk Lam

Prof. Lo, aged 70, was appointed as an independent non-executive director of the Company in 2014. He is also a member of the Nomination Committee of the Company. Prof. Lo is currently the President of Santai Biotechnology Research Institute, Vice-Chairman of Santai Eco Fishery Limited, Chairman of Lo & Associates Limited, Senior Director of Questmark Asia Limited and Senior Advisor of Questmark Capital Management Sdn. Bhd.. Prof. Lo is also involved in public services, currently serving as Chairman of the Advisory Council on Food and Environmental Hygiene of the Food and Health Bureau of the HKSAR, a member of the Advisory Committee of the Vocational Training Council, a general committee member of The Chinese Manufacturers' Association of Hong Kong ("CMA"), Chairman of the Innovation and Technology Committee of the CMA and a consultant of the Chinese Centre for Disease Control and Prevention. Prof. Lo is also an Adjunct Professor of The Chinese University of Hong Kong, a Fellow of The Hong Kong University of Science and Technology and an Honorary Professor of several universities in China. Prof. Lo holds a bachelor's degree in science from the University of Waterloo and an honorary doctorate of philosophy science from York University in the U.S..

Prof. Lo is also an independent director of Sinovac Biotech Limited (listed on NASDAQ) and an independent non-executive director of Luye Pharma Group Ltd. (listed on The Stock Exchange of Hong Kong Limited).

YU Jinming

Dr. Yu, aged 61, was appointed as an independent non-executive director of the Company in 2014. Dr. Yu is an Academician of Chinese Academy of Engineering, and is currently the Honorary President of Shandong Academy of Medical Sciences and the President of Shandong Cancer Hospital. Dr. Yu holds a bachelor's degree in medicine from Changwei Medical College and a doctorate in radiology from Shandong University.

CHEN Chuan

Mr. Chen, aged 55, was appointed as an independent non-executive director of the Company in 2016. Mr. Chen holds a bachelor's degree in Medicine from Norman Bethune University of Medical Science and a Master's degree in Science from Albert Einstein College of Medicine at Yeshiva University.

Mr. Chen is also a director of Beijing Dong Fang Ming Kang Medical Equipment Co., Ltd. (quoted on the National Equities Exchange and Quotations System).

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions of the Group during the year are set out in the section headed "Continuing Connected Transactions".

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	87,538,000	
	Interest of controlled corporation	1,356,619,120 *(Note)*	
		1,444,157,120	23.16%
Chak Kin Man	Beneficial owner	4,000	0.00006%

Note: Mr. Cai Dongchen is deemed to be interested in 1,356,619,120 shares, comprising (i) 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 493,880,000 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 14,000,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) （北京中宜和合眾投資管理中心（有限合夥））("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2018.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
Cai Dongchen	Beneficial owner	87,538,000	
	Interest in controlled corporation	1,356,619,120 *(Note)*	
		1,444,157,120	23.16%
True Ally Holdings Limited	Beneficial owner	493,880,000	
	Interest in controlled corporation	862,739,120	
		1,356,619,120 *(Note)*	21.75%
Massive Giant Group Limited	Beneficial owner	634,809,620	10.18%
Common Success International Limited	Beneficial owner	423,206,414	6.79%
Citigroup Inc.	Person having a security interest in shares	9,023,105	
	Interest in controlled corporation	46,704,909	
	Approved lending agents	378,652,956	
		434,380,970	6.97%
BlackRock, Inc.	Interest in controlled corporation	319,221,268	5.12%

Note: Mr. Cai Dongchen is deemed to be interested in 1,356,619,120 shares, comprising (i) 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 493,880,000 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 14,000,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership)（北京中宜和合眾投資管理中心（有限合夥））("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

SUBSTANTIAL SHAREHOLDERS *(continued)*

Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
Citigroup Inc.	Interest in controlled corporation	4,738,562	0.076%
BlackRock, Inc.	Interest in controlled corporation	28,000	0.0004%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2018.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group has entered into certain transactions which constituted connected transactions and/or continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Connected Transaction

On 6 August 2018, CSPC NBP Pharmaceutical Co. Ltd. ("NBP") entered into an agreement with CSPC Holdings Company Limited ("CHL") to acquire 29.9% equity interest in CSPC Yuanda (Dalian) Pharmaceutical Co., Ltd. for a consideration of RMB28,000,000. Details of the transaction were set out in the announcement of the Company dated 6 August 2018. The acquisition is not yet completed up to the date of report.

Continuing Connected Transactions

Name of company	Nature of transactions	Transaction amount *HKD'000*
CHL and its subsidiaries (the "CHL Group")	Sales of pharmaceutical products *(note a)*	398,128
	Rental expenses *(note b)*	1,967
	Rental expenses *(note c)*	21,827
	Rental expenses *(note d)*	—
	Purchase of steam *(note e)*	18,926
	Purchase of steam *(note f)*	16,059

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Notes:

(a) On 1 November 2015, the Company entered into a master sales agreement with CHL, pursuant to which the Company agreed to supply and to procure its subsidiaries to supply pharmaceutical products to the CHL Group for a terms of three years commencing on 1 November 2015. On 1 November 2018, the agreement was renewed for a term of three years. Details of the transaction are set out in the announcement of the Company dated 1 November 2018.

(b) On 20 July 2002, CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd ("Zhongnuo') entered into a lease agreement with CHL to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental remained unchanged at RMB138,033 upon review on 1 August 2017.

(c) On 27 June 2016, Zhongnuo and CSPC Ouyi Pharmaceutical Co. Ltd. ("Ouyi") entered into lease agreements with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2016 with an aggregate rental of RMB18,379,900 per annum.

(d) On 21 December 2018, NBP, Ouyi, Zhongnuo and CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd., entered into a lease agreement with CHL to lease certain premises in the PRC for a term of three years commencing on 1 January 2019 with an aggregate rental of RMB57,240,000 per annum. Details of the transaction are set out in the announcement of the Company dated 21 December 2018.

(e) On 29 August 2017, CSPC XNW Pharmaceutical Joint Stock Company Limited ("XNW") entered into a steam supply agreement with Hebei Hongyuan Re Dian Limited Liability Company ("Hongyuan") for the purchase of steam by XNW from Hongyuan for a term of three years commencing on 29 August 2017.

(f) On 13 June 2016, Hebei Shengxue Glucose Limited Liability Company ("Shengxue") entered into a steam supply agreement with Hongyuan for the purchase of steam by Shengxue from Hongyuan for a term of three years commencing on 13 June 2016.

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in CHL through a series of corporations. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. In addition, each of Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Lu Hua, Dr. Li Chunlei and Mr. Zhang Cuilong, all being directors of the Company, is also indirectly interested in CHL.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to carry out assurance procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

The significant related party transactions which were undertaken in the normal course of business are set out in note 40 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) but are not disclosed in the section headed "Connected transactions and continuing connected transactions" under the Listing Rules, they are exempt from reporting, annual review and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

INTERESTS IN COMPETITOR

CHL holds certain equity interest in CSPC Jiangxi Jinfurong Pharmaceutical Co., Ltd, a company principally engaged in the manufacture and sales of traditional Chinese medicines in the PRC and which may compete with the Group in certain aspects of its business.

Each of Mr. Cai Dongchen, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Lu Hua, Dr. Li Chunlei and Mr. Zhang Cuilong, all being directors of the Company, had an indirect interest in CHL.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 33 to the consolidated financial statements.

SHARE AWARD SCHEME

The Company has adopted a share award scheme on 20 August 2018 to provide additional incentives to employees and help in retaining them for the Group's operations and future development. Further details of the share award scheme are set out in note 33 to the consolidated financial statements.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent.

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

During the year, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	**Number of ordinary shares**	**Highest price per share paid**	**Lowest price per share paid**	**Aggregate consideration paid**
		HK$	*HK$*	*HK$'000*
October 2018	4,680,000	15.66	14.72	71,015
December 2018	2,000,000	14.06	13.68	27,839
	6,680,000			98,854

The above shares were cancelled upon delivery of the share certificates during the year.

The repurchase of shares were made for the benefit of the shareholders with a view to enhancing the earnings per share as well as maximizing shareholders' return.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2018.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
CAI Dongchen
Chairman

Hong Kong, 18 March 2019

Deloitte. 德勤

TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 162, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2018, the Group's net trade receivables amounting to approximately HK$2,346,506,000, which represented approximately 9% of total assets of the Group and out of these trade receivables of approximately HK$230,921,000 were past due. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("HKFRS 9") and no additional allowance for impairment has been recognized against accumulated profits as at 1 January 2018 as the amount involved is insignificant. As disclosed in note 38 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables with significant outstanding balances are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 38 to the consolidated financial statements, the Group's lifetime ECL on trade receivables as at 31 December 2018 amounted to approximately HK$13,706,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 1 January 2018 and 31 December 2018, including their identification of significant outstanding balances, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 20 and 38 to the consolidated financial statements; and • Testing subsequent settlements of trade receivables with significant balances, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for inventories	
We identified the provision for inventories as a key audit matter due to the magnitude of the inventories and the significant judgement and estimates with respect to the net realisable value of inventories. As detailed in note 4 to the consolidated financial statements, the Group estimates the provision for inventory based on the ageing of the inventories to identify slow-moving and obsolete inventories. Provision for inventories will be made for an item of inventory which has a net realisable value lower than its carrying amount. At 31 December 2018, the carrying amount of inventories is HK$3,460,589,000 (net of provision for inventories of HK$6,704,000).	Our procedures in relation to the estimated provision for inventories included: • understanding the key control and evaluating the basis of how slow-moving or obsolete inventories are identified by the management and their assessment of the net realisable value of inventories; • identifying and assessing aged and obsolete inventories when attending physical inventory counts; • testing the accuracy of the inventory ageing and assessing whether allowance is properly provided for aged inventories or inventories close to expiry dates; • testing the net realisable values of the inventories by reference to current and subsequent selling price and quantity and assessing whether allowance is properly provided for if required; and • performing retrospective review of the accuracy of management judgements and assumptions relating to the provision for inventories made in the prior year.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Au Chun Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	**21,028,871**	15,462,529
Cost of sales		**(7,116,080)**	(6,116,561)
Gross profit		**13,912,791**	9,345,968
Other income		**165,897**	119,681
Other gains or losses		**181,192**	(59,505)
Selling and distribution expenses		**(7,328,277)**	(4,374,637)
Administrative expenses		**(779,915)**	(641,656)
Research and development expenses		**(1,583,213)**	(815,258)
Other expenses		**(30,754)**	(92,950)
Operating profit		**4,537,721**	3,481,643
Finance costs	6	**(87,561)**	(26,631)
Share of results of joint ventures	17	**51,449**	10,277
Profit before tax		**4,501,609**	3,465,289
Income tax expense	8	**(872,991)**	(685,245)
Profit for the year	7	**3,628,618**	2,780,044
Profit for the year attributable to:			
Owners of the Company		**3,654,978**	2,770,522
Non-controlling interests		**(26,360)**	9,522
		3,628,618	2,780,044
		HK cents	*HK cents*
Earnings per share			
Basic	11	**58.55**	45.48
Diluted	11	**N/A**	45.48

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**3,628,618**	2,780,044
Other comprehensive (expense) income:		
Items that will not be reclassified to profit or loss:		
Exchange differences arising on translation of financial statements to presentation currency	**(921,870)**	816,415
Share of exchange differences of joint ventures arising on translation of financial statements to presentation currency	**(5,611)**	6,780
Fair value gain on investments in financial assets measured at fair value through other comprehensive income	**45,028**	—
Item that may be reclassified subsequently to profit or loss:		
Fair value gain on available-for-sale investments	**—**	3,177
Other comprehensive (expense) income for the year, net of income tax	**(882,453)**	826,372
Total comprehensive income for the year	**2,746,165**	3,606,416
Total comprehensive income attributable to:		
Owners of the Company	**2,818,001**	3,591,527
Non-controlling interests	**(71,836)**	14,889
	2,746,165	3,606,416

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	13	**7,604,795**	6,662,523
Prepaid lease payments	14	**598,753**	573,080
Goodwill	15	**159,946**	121,736
Other intangible assets	16	**917,030**	103,176
Interests in joint ventures	17	**143,500**	109,978
Financial assets measured at fair value through other comprehensive income/available-for-sale investments	18	**763,935**	316,742
Deferred tax assets	30	**21,530**	20,721
Bank deposits	24	**113,636**	—
Deposits and prepayments	21	**373,863**	—
		10,696,988	7,907,956
Current assets			
Inventories	19	**3,460,589**	2,900,781
Trade receivables	20	**2,346,506**	1,850,409
Deposits, prepayments and other receivables	21	**546,690**	483,870
Bills receivables	22	**1,473,141**	1,477,001
Trade receivables due from related companies	40	**72,094**	69,536
Amounts due from joint ventures	40	**232,329**	276,830
Prepaid lease payments	14	**18,829**	18,263
Other financial assets		**503**	732
Structured bank deposits	23	**2,604,961**	1,315,789
Restricted bank deposits	24	**3,306**	3,480
Bank balances and cash	24	**4,926,833**	5,238,033
		15,685,781	13,634,724
Current liabilities			
Trade payables	25	**1,840,177**	1,485,365
Other payables	26	**3,318,480**	3,028,018
Contract liabilities	29	**795,540**	—
Bills payables	27	**1,880,079**	59,809
Contingent consideration payable	34	**14,063**	—
Trade payable due to a joint venture	40	**—**	9,319
Amounts due to related companies	40	**32,301**	43,419
Tax liabilities		**274,392**	206,685
Borrowings	28	**80,215**	927,282
		8,235,247	5,759,897
Net current assets		**7,450,534**	7,874,827
Total assets less current liabilities		**18,147,522**	15,782,783

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Contingent consideration payable	34	**22,613**	—
Deferred tax liabilities	30	**270,360**	131,602
Borrowings	28	**—**	59,809
Other payables	26	**207,277**	183,976
		500,250	375,387
Net assets		**17,647,272**	15,407,396
Capital and reserves			
Share capital	32	**12,922,199**	12,922,199
Reserves		**4,182,642**	2,400,174
Equity attributable to owners of the Company		**17,104,841**	15,322,373
Non-controlling interests		**542,431**	85,023
Total equity		**17,647,272**	15,407,396

The consolidated financial statements on pages 50 to 162 were approved and authorised for issue by the Board of Directors on 18 March 2019 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Equity attributable to owners of the Company										
	Share capital *HK$'000*	Other reserve *HK$'000* *(note a)*	Statutory reserves *HK$'000* *(note b)*	Capital contribution reserve *HK$'000* *(note c)*	Investments revaluation reserve *HK$'000*	Share options reserve *HK$'000* *(note 33)*	Translation reserve *HK$'000*	Accumulated profits *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2017	10,569,620	(5,523,729)	769,815	57,443	–	1,814	(1,041,222)	5,273,885	10,107,626	83,696	10,191,322
Profit for the year	–	–	–	–	–	–	–	2,770,522	2,770,522	9,522	2,780,044
Other comprehensive income for the year	–	–	–	–	3,177	–	817,828	–	821,005	5,367	826,372
Total comprehensive income for the year	–	–	–	–	3,177	–	817,828	2,770,522	3,591,527	14,889	3,606,416
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(3,495)	(3,495)
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	(726,482)	(726,482)	–	(726,482)
Transfer to statutory reserve	–	–	275,169	–	–	–	–	(275,169)	–	–	–
Exercise of share options	7,784	–	–	–	–	(1,814)	–	–	5,970	–	5,970
Shares issued *(note 32)*	2,351,160	–	–	–	–	–	–	–	2,351,160	–	2,351,160
Transaction costs attributable to the issuance of new shares	(6,365)	–	–	–	–	–	–	–	(6,365)	–	(6,365)
Acquisition of a subsidiary *(note 34)*	–	–	–	–	–	–	–	–	–	8,927	8,927
Acquisition of additional interests in subsidiaries *(note d)*	–	–	–	–	–	–	–	(1,063)	(1,063)	(18,994)	(20,057)
At 31 December 2017	**12,922,199**	**(5,523,729)**	**1,044,984**	**57,443**	**3,177**	**–**	**(223,394)**	**7,041,693**	**15,322,373**	**85,023**	**15,407,396**
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,654,978**	**3,654,978**	**(26,360)**	**3,628,618**
Other comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**45,028**	**–**	**(882,005)**	**–**	**(836,977)**	**(45,476)**	**(882,453)**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**45,028**	**–**	**(882,005)**	**3,654,978**	**2,818,001**	**(71,836)**	**2,746,165**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,463)**	**(2,463)**
Dividends recognised as distribution *(note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(936,453)**	**(936,453)**	**–**	**(936,453)**
Transfer to statutory reserve	**–**	**–**	**289,400**	**–**	**–**	**–**	**–**	**(289,400)**	**–**	**–**	**–**
Acquisition of subsidiaries *(note 34)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**528,148**	**528,148**
Non-controlling interest arising from incorporation of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,559**	**3,559**
Disposal of investments in equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**(1,181)**	**–**	**–**	**1,181**	**–**	**–**	**–**
Repurchase of ordinary shares *(note 32)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(98,854)**	**(98,854)**	**–**	**(98,854)**
Transaction costs attributable to repurchase of ordinary shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(226)**	**(226)**	**–**	**(226)**
At 31 December 2018	**12,922,199**	**(5,523,729)**	**1,334,384**	**57,443**	**47,024**	**–**	**(1,105,399)**	**9,372,919**	**17,104,841**	**542,431**	**17,647,272**

Notes:

(a) The balance in other reserve mainly included an amount of HK$5,038,291,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of HK$3,288,998,000 and the fair value of the consideration paid by the Company of HK$8,327,289,000 in the reverse acquisition on 29 October 2012.

(b) The statutory reserves were appropriated from profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(c) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 40, which comprise 1) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under Robust Sun Group in 2012; 2) the imputed interest arising on a non-interest bearing loan from CHL in 2012; and (3) deemed capital contribution of approximately RMB11,879,000 arising from the acquisition of CSPC Shengxue Glucose Co., Ltd from CHL in 2016.

(d) In February 2017 and October 2017, the Group completed the acquisition from related parties of the remaining 10% equity interest of Hebei Union Pharmaceutical Co., Ltd ("Union") and 1.31% equity interest of CSPC Innovation Pharmaceutical Co., Ltd ("XNW") not previously owned, which became wholly-owned subsidiaries of the Company. Accordingly, the differences between the carrying amounts of net assets attributable to the additional interests acquired at the date of acquisitions and the fair value of considerations paid by the Company for these acquisitions were debited to accumulated profits.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**4,501,609**	3,465,289
Adjustments for:		
Amortisation of other intangible assets	**23,741**	86,186
Amortisation of prepaid lease payments	**18,623**	17,483
Depreciation of property, plant and equipment	**703,721**	612,856
Finance costs	**87,561**	26,631
Government grant income	**(34,080)**	(34,353)
Loss (gain) on fair value change of other financial assets	**202**	(169)
Interest income	**(62,471)**	(25,148)
Fair value changes on structured bank deposits	**(131,788)**	—
Loss on disposal of property, plant and equipment	**18,993**	19,947
Impairment loss on trade receivables	**14,210**	3,417
Reversal of impairment loss of trade receivables	**(13,363)**	(797)
Share of results of joint ventures	**(51,449)**	(10,277)
Operating cash flows before movements in working capital	**5,075,509**	4,161,065
Increase in inventories	**(727,527)**	(774,399)
Increase in trade receivables	**(609,339)**	(206,003)
Increase in deposits, prepayments and other receivables	**(4,684)**	(50,974)
Increase in bills receivables	**(72,564)**	(159,670)
(Increase) decrease in trade receivables due from related companies	**(6,292)**	8,876
Increase in trade payables	**437,996**	237,358
Increase in other payables	**812,341**	677,503
Increase in contract liabilities	**171,336**	—
Increase (decrease) in bills payables	**118,349**	(46,030)
(Decrease) increase in trade payable due to a joint venture	**(9,231)**	8,965
Increase in government grants	**93,849**	34,669
Cash generated from operations	**5,279,743**	3,891,360
Income tax paid	**(763,875)**	(575,073)
Interest paid	**(87,561)**	(28,143)
NET CASH FROM OPERATING ACTIVITIES	**4,428,307**	3,288,144

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Placement of structured bank deposits		**(3,838,956)**	(1,265,822)
Purchase of property, plant and equipment		**(1,947,470)**	(1,177,248)
Purchase of financial assets measured at fair value through other comprehensive income		**(442,133)**	—
Deposits paid for prepaid lease payments		**(271,327)**	—
Advances to joint ventures		**(267,318)**	(140,683)
Acquisition of subsidiaries and assets	*34*	**(177,547)**	(379,853)
Purchase of other intangible assets		**(122,139)**	(35,295)
Prepayment for acquisition of intangible assets		**(118,483)**	—
Placement of bank deposits		**(118,483)**	—
Prepaid lease payments paid		**(63,145)**	(7,101)
Placement of restricted bank deposits		**(7,284)**	(4,990)
Purchase of available-for-sale investments		**—**	(221,833)
Placement of bank deposits with more than three months to maturity upon placement		**—**	(71,844)
Capital injection to joint ventures		**—**	(21,240)
Withdrawal of structured bank deposits		**2,625,418**	—
Repayment from joint ventures		**312,119**	—
Withdrawal of bank deposits with more than three months to maturity upon placement		**73,972**	—
Interest received		**67,077**	20,397
Receipts of government grants related to acquisition of property, plant and equipment		**47,621**	—
Proceeds on disposal of property, plant and equipment		**17,551**	13,601
Withdrawal of restricted bank deposits		**7,284**	4,603
Disposal of financial assets measured at fair value through other comprehensive income		**4,381**	—
NET CASH USED IN INVESTING ACTIVITIES		**(4,218,862)**	(3,287,308)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
FINANCING ACTIVITIES		
Repayment of borrowings	**(941,650)**	(1,717,183)
Dividends paid	**(936,453)**	(726,482)
Share repurchased	**(98,854)**	—
Repayment to related companies	**(19,981)**	(96,550)
Dividends paid to non-controlling interests	**(2,463)**	(3,495)
Expenses on share repurchase	**(226)**	—
Acquisition of non-controlling interests in subsidiaries	**—**	(20,057)
Expenses on issuance of shares	**—**	(6,365)
Proceeds from issuance of shares	**—**	2,351,160
Receipt on issuance of shares upon exercise of share options	**—**	5,970
Proceeds from discounted bills	**1,782,681**	—
New borrowings raised	**23,534**	1,524,045
Advances from related companies	**10,723**	320,369
Capital contribution from non-controlling interests	**3,559**	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(179,130)**	1,631,412
NET INCREASE IN CASH AND CASH EQUIVALENTS	**30,315**	1,632,248
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**5,163,353**	3,234,678
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(266,835)**	296,427
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**4,926,833**	5,163,353
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash in the consolidated statement of financial position	**4,926,833**	5,238,033
Bank deposits with more than three months to maturity upon placement	**—**	(74,680)
Cash and cash equivalents in the consolidated statement of cash flows	**4,926,833**	5,163,353

1. GENERAL

CSPC Pharmaceutical Group Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries (hereinafter together with the Company collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 42.

The functional currency of the Company is Renminbi ("RMB") and the consolidated financial statements are presented in Hong Kong dollar ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to Hong Kong Accounting Standard ("HKAS") 28	As part of the Annual Improvements to HKFRSs 2014 — 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the manufacture and sales of pharmaceutical products.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

As at 31 December 2017, advance payments from customers included in other payables of HK$664,435,000 were classified as "contract liabilities" on the consolidated statement of financial position on 1 January 2018.

As at 31 December 2018, contract liabilities of HK$795,540,000, representing advance payments from customers would have been included in other payables without application of HKFRS 15.

The increase in contract liabilities of HK$171,336,000 for the year ended 31 December 2018 disclosed on the consolidated statement of cash flow statement would have been included in "increase in other payables" without application of HKFRS 15.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Available-for-sale investments

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as available-for-sale ("AFS") investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$316,742,000 were reclassified from AFS investments to financial assets at fair value through OCI, of which HK$255,476,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$3,177,000 relating to those investments previously carried at fair value continued to accumulate in investments revaluation reserve.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

2.2 HKFRS 9 Financial Instruments

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and trade receivables due from related companies. Except for those which had been determined as credit-impaired under HKAS 39, trade receivables with outstanding significant balances have been assessed individually, and the remaining balances are grouped based on common credit risk characteristics and past due analysis.

Except for those which had been determined as credit-impaired under HKAS 39, ECL for other financial assets at amortised cost, including bank deposits, trade receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, restricted bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company (the "Directors") reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional allowance for impairment has been recognised against accumulated profits as the amount involved is insignificant.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 — 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, the Directors anticipate that the application of all other amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* ("HKAS 17") and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

HKFRS 16 Leases *(continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for own use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold land where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$243,076,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$939,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

HKFRS 16 Leases *(continued)*

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment* ("HKFRS 2"), leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets* ("HKAS 36").

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has the rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Group, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date when the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or when applicable, the cost on initial recognition of an investment in a joint venture or an associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustment depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units ("CGU"s) (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of a joint venture is described below.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in joint ventures *(continued)*

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the joint venture that is not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when goods are delivered and titles have passed.

Dividend income from investments is recognised when the rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease terms on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimate, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment *(continued)*

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets not yet available for use that are acquired separately are not amortised but tested individually for impairment annually and carried at cost less any subsequent accumulated impairment losses.

Internally generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets not yet available for use that are acquired in a business combination are not amortised but tested individually for impairment annually and carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain and loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amounts of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset is belonged to. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on tangible and intangible assets other than goodwill *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provision are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investments revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including bank deposits, trade receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, bank deposits, restricted bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the trade receivables, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade receivables due from related companies. The ECL on these assets are assessed individually for trade receivables with significant balances and collectively for remaining balances based on common credit risk characteristics and past due analysis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables and trade receivables due from related companies, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, bills receivables, bank deposits, restricted bank deposits and bank balances and cash are each assessed as a separate group. Trade receivables due from related companies and amounts due from joint ventures are assessed for ECL on an individual basis);

- Past-due status;

- Nature, size and industry of trade receivables; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and trade receivables due from related companies, where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in other gains or losses. Fair value is determined in the manner described in note 38c.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits, prepayments and other receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, bank deposits, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and trade receivables due from related companies, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and trade receivables due from related companies are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables, bills payables, trade payable due to a joint venture, amounts due to related companies and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration of an acquirer in a business combination to which HKFRS 3 applies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over YZY Biopharma

Note 34 describes that YZY Biopharma (as defined in note 34) is a subsidiary of the Group although the Group has only 39.56% ownership interest and voting rights in YZY Biopharma. Details of YZY Biopharma are set out in note 34.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Critical judgements in applying accounting policies *(continued)*

Control over YZY Biopharma *(continued)*

The Directors assessed whether or not the Group has control over YZY Biopharma based on whether the Group has the practical ability to direct the relevant activities of YZY Biopharma unilaterally. As a result of a contractual arrangement with certain shareholders of YZY Biopharma, the Group is given the power to control the majority of the votes in shareholders' and board of directors' meetings of YZY Biopharma that direct the relevant activities of YZY Biopharma. After assessment, the Directors concluded that the Group has sufficiently dominant voting interest and therefore the Group has control over YZY Biopharma.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables based on the grouping of various trade receivables that have similar loss patterns. The provision matrix is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 38.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill was HK$159,946,000 (2017: HK$121,736,000). Details of the recoverable amount calculation are disclosed in note 15.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Estimated impairment of other intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its other intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. As at 31 December 2018, the carrying amount of other intangible assets was HK$917,030,000 (2017: HK$103,176,000). Details of the recoverable amount calculation are disclosed in note 16.

Estimated provision for inventories

Inventories are valued at the lower of cost and net realisable value. The Group regularly inspects and reviews the ageing of the inventories to identify slow-moving and obsolete inventories. When the Group identifies an item of inventory which has a net realisable value lower than its carrying amount or is slow-moving or obsolete, the Group would write down that inventory in that year. As at 31 December 2018, the carrying amount of inventories was HK$3,460,589,000 (2017: HK$2,900,781,000), net of provision for inventories of HK$6,704,000 (2017: HK$7,057,000).

Fair value measurement of financial instruments

Unquoted equity instruments amounting to HK$688,638,000 as at 31 December 2018 are measured at fair values determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 38c for further disclosures.

5. REVENUE AND SEGMENT INFORMATION

	2018	2017
	HK$'000	*HK$'000*
Sale of goods	**21,028,871**	15,462,529

Information reported to executive directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 Operating Segments are as follows:

(a) Finished drugs

(b) Vitamin C (bulk drugs)

(c) Antibiotics (bulk drugs)

(d) Caffeine (bulk drugs) and others

All reportable and operating segments are engaged in the manufacture and sales of pharmaceutical products.

Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

All sales of goods are for a period of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2018

	Finished drugs HK$'000	Vitamin C HK$'000	Antibiotics HK$'000	Caffeine and others HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
SEGMENT REVENUE							
External sales	16,553,287	2,131,342	1,298,050	1,046,192	21,028,871	–	21,028,871
Inter-segment sales	–	60,954	107,167	7,653	175,774	(175,774)	–
TOTAL REVENUE	16,553,287	2,192,296	1,405,217	1,053,845	21,204,645	(175,774)	21,028,871
SEGMENT PROFIT	3,469,298	812,528	41,341	183,747	4,506,914		4,506,914
Unallocated income							232,455
Unallocated expenses							(201,648)
Operating profit							4,537,721
Finance costs							(87,561)
Share of results of joint ventures							51,449
Profit before tax							4,501,609

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2017

	Finished drugs	Vitamin C	Antibiotics	Caffeine and others	Segment total	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE							
External sales	11,374,413	1,853,700	1,215,084	1,019,332	15,462,529	–	15,462,529
Inter-segment sales	–	39,624	93,437	8,060	141,121	(141,121)	–
TOTAL REVENUE	11,374,413	1,893,324	1,308,521	1,027,392	15,603,650	(141,121)	15,462,529
SEGMENT PROFIT	2,724,406	614,164	45,336	200,109	3,584,015		3,584,015
Unallocated income							25,148
Unallocated expenses							(127,520)
Operating profit							3,481,643
Finance costs							(26,631)
Share of results of joint ventures							10,277
Profit before tax							3,465,289

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, finance costs, exchange gain (loss) arising from the Company, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment.

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2018

	Finished drugs HK$'000	Vitamin C HK$'000	Antibiotics HK$'000	Caffeine and others HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Depreciation and amortisation	**376,278**	**160,610**	**140,977**	**43,120**	**720,985**	**25,100**	**746,085**

For the year ended 31 December 2017

	Finished drugs HK$'000	Vitamin C HK$'000	Antibiotics HK$'000	Caffeine and others HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Depreciation and amortisation	386,749	125,209	149,415	31,177	692,550	23,975	716,525

Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of customers:

	2018 HK$'000	2017 HK$'000
The PRC (country of domicile)	**17,410,876**	12,340,123
Other Asian regions	**1,512,012**	1,264,272
Americas	**933,673**	851,288
Europe	**973,819**	862,902
Others	**198,491**	143,944
	21,028,871	15,462,529

The Group's operations are substantially based in the PRC and substantially all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

6. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on discounted bills receivables	**53,868**	—
Interest on bank loans	**33,469**	25,025
Interest on loans from a related company	**224**	1,606
	87,561	26,631

7. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration *(note 9)*		
— salaries, wages and other benefits	**1,450,537**	1,015,460
— contribution to retirement benefit schemes	**150,384**	109,183
Total staff costs	**1,600,921**	1,124,643
Amortisation of other intangible assets	**23,741**	86,186
Amortisation of prepaid lease payments	**18,623**	17,483
Depreciation of property, plant and equipment	**703,721**	612,856
Total depreciation and amortisation	**746,085**	716,525
Auditor's remuneration	**4,060**	3,640
Fair value changes on structured bank deposits (included in other gains or losses)	**(131,788)**	—
Government grant income *(note 31)*	**(34,080)**	(34,353)
Interest income	**(62,471)**	(25,148)
Loss on disposal of property, plant and equipment (included in other gains or losses)	**18,993**	19,947
Minimum lease payments paid under operating leases	**41,433**	38,543
Net foreign exchange (gain) loss (included in other gains or losses)	**(69,449)**	36,938

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2018 and 2017.

8. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current taxation:		
— PRC Enterprise Income Tax ("PRC EIT")	**747,684**	546,780
— PRC withholding tax on dividends distributed by subsidiaries	**86,205**	59,950
— United States of America ("USA") Federal and State Income tax	**10,630**	14,989
	844,519	621,719
Deferred taxation *(note 30)*	**28,472**	63,526
	872,991	685,245

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company's PRC subsidiaries is 25%, under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2020.

The calculation of USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

8. INCOME TAX EXPENSE *(continued)*

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	HK$'000	*HK$'000*
Profit before tax	**4,501,609**	3,465,289
Tax at the PRC EIT rate of 25% (2017: 25%)	**1,125,402**	866,322
Tax effect of expenses not deductible for tax purpose	**107,681**	153,305
Tax effect of share of results of joint ventures	**(12,862)**	(2,569)
Utilisation of tax losses previously not recognised	**–**	(136,267)
Tax effect of tax losses not recognised	**11,706**	3,827
Effect of tax relief and concessions granted to the PRC subsidiaries	**(478,287)**	(321,743)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,215)**	4,277
PRC withholding tax on dividends distributed by subsidiaries	**120,566**	118,093
Income tax expense for the year	**872,991**	685,245

Details of deferred taxation and unused tax losses are set out in note 30.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 16 (2017: 16) directors were as follows:

2018

	Executive directors										Non-executive director	Independent non-executive directors					
	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Wang Zhenguo HK$'000	Pan Weidong HK$'000	Wang Huaiyu HK$'000	Lu Hua HK$'000	Li Chunlei HK$'000	Zhang Cuilong HK$'000 *(note ii)*	Wang Qingxi HK$'000 *(note iii)*	Chak Kin Man HK$'000	Wang Jinxu HK$'000 *(note i)*	Lee Ka Sze, Carmelo HK$'000	Chan Siu Keung, Leonard HK$'000	Wang Bo HK$'000	Lo Yuk Lam HK$'000	Yu Jinming HK$'000	Chen Chuan HK$'000	Total HK$'000
Fees	60	60	60	60	60	60	30	20	60	40	350	250	100	120	80	100	1,510
Salaries	4,802	784	757	755	748	754	341	503	2,251	527	–	–	–	–	–	–	12,222
Performance-related bonuses	8,500	3,515	3,473	3,311	3,318	3,890	3,921	1,163	2,750	1,888	–	–	–	–	–	–	35,729
Contributions to retirement benefit schemes	443	79	97	79	79	79	34	6	208	64	–	–	–	–	–	–	1,168
Total emoluments	13,805	4,438	4,387	4,205	4,205	4,783	4,326	1,692	5,269	2,519	350	250	100	120	80	100	50,629

2017

	Executive directors										Non-executive director	Independent non-executive directors					
	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Wang Zhenguo HK$'000	Pan Weidong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000 *(note iv)*	Wang Jinxu HK$'000	Lu Hua HK$'000	Li Chunlei HK$'000 *(note v)*	Chak Kin Man HK$'000	Wang Shunlong HK$'000 *(note vi)*	Lee Ka Sze, Carmelo HK$'000	Chan Siu Keung, Leonard HK$'000	Wang Bo HK$'000	Lo Yuk Lam HK$'000	Yu Jinming HK$'000	Chen Chuan HK$'000	Total HK$'000
Fees	60	60	60	60	60	60	60	–	60	–	350	250	100	120	80	100	1,480
Salaries	4,365	493	720	498	460	706	493	27	2,046	–	–	–	–	–	–	–	9,808
Performance-related bonuses	8,500	4,213	3,868	3,580	–	2,264	3,588	92	2,750	–	–	–	–	–	–	–	28,855
Contributions to retirement benefit schemes	403	67	85	67	55	85	67	3	189	–	–	–	–	–	–	–	1,021
Total emoluments	13,328	4,833	4,733	4,205	575	3,115	4,208	122	5,045	–	350	250	100	120	80	100	41,164

Notes:

(i) Dr. Wang Jinxu resigned as executive director on 30 August 2018.

(ii) Mr. Zhang Cuilong was appointed as executive director on 9 July 2018.

(iii) Dr. Wang Qingxi was appointed as executive director on 20 August 2018.

(iv) Mr. Lu Jianmin resigned as executive director on 5 December 2017.

(v) Dr. Li Chunlei was appointed as executive director on 12 December 2017.

(vi) Mr. Wang Shunlong did not offer himself for re-election at the annual general meeting held on 25 May 2017 and accordingly, was not re-elected as executive director.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The performance-related incentive payment is determined by the remuneration committee for both years having regard to the performance of the Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the Directors waived any emoluments in both years.

Mr. Cai Dongchen is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive. The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as the Directors.

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received market remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its fellow subsidiaries or subsidiaries was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group for the year ended 31 December 2018 are the 5 (2017: 5) directors and the chief executive of the Company, details of their emoluments are set out in note 9 above.

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

11. EARNINGS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share	**3,654,978**	2,770,522

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,242,083**	6,091,481
Effect of dilutive potential ordinary shares:		
Share options granted by the Company	**N/A**	224
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	6,091,705

No diluted earnings per share is presented for the year ended 31 December 2018 as there was no potential ordinary shares in issue during the year.

12. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2017 Final, paid — HK15 cents (2017: 2016 Final, paid — HK12 cents) per share	**936,453**	726,482

The Board of Directors (the "Board") of the Company has recommended the payment of a final dividend of HK18 cents per share for the year ended 31 December 2018 (2017: HK15 cents per share). Subject to approval by the shareholders in the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on 14 June 2019 to the shareholders of the Company whose names appear on the register of members of the Company on 6 June 2019.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2017	2,556,964	3,852,120	166,298	24,625	916,642	7,516,649
Exchange adjustments	196,309	288,794	13,452	1,113	71,248	570,916
Additions	59,172	178,079	21,384	4,478	1,056,831	1,319,944
Transfers	272,782	438,361	22,205	–	(733,348)	–
Acquisition of subsidiaries and assets *(note 34)*	43,661	29,021	1,243	228	93,792	167,945
Disposals	(8,842)	(141,805)	(5,956)	(2,010)	–	(158,613)
At 31 December 2017	**3,120,046**	**4,644,570**	**218,626**	**28,434**	**1,405,165**	**9,416,841**
Exchange adjustments	**(167,378)**	**(239,987)**	**(12,192)**	**(1,495)**	**(129,697)**	**(550,749)**
Additions	**199,268**	**184,516**	**22,004**	**5,774**	**1,561,562**	**1,973,124**
Transfers	**230,684**	**577,617**	**24,487**	**–**	**(832,788)**	**–**
Acquisition of subsidiaries and assets *(note 34)*	**33,815**	**42,594**	**422**	**530**	**19,124**	**96,485**
Disposals	**(2,396)**	**(131,630)**	**(5,344)**	**(5,489)**	**–**	**(144,859)**
At 31 December 2018	**3,414,039**	**5,077,680**	**248,003**	**27,754**	**2,023,366**	**10,790,842**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2017	588,979	1,395,012	98,709	18,917	–	2,101,617
Exchange adjustments	46,940	108,512	8,126	1,332	–	164,910
Provided for the year	152,039	436,256	22,119	2,442	–	612,856
Eliminated on disposals	(4,753)	(115,939)	(2,694)	(1,679)	–	(125,065)
At 31 December 2017	**783,205**	**1,823,841**	**126,260**	**21,012**	**–**	**2,754,318**
Exchange adjustments	**(46,037)**	**(109,559)**	**(7,071)**	**(1,010)**	**–**	**(163,677)**
Provided for the year	**200,111**	**477,002**	**22,094**	**4,514**	**–**	**703,721**
Eliminated on disposals	**(1,074)**	**(97,387)**	**(5,073)**	**(4,781)**	**–**	**(108,315)**
At 31 December 2018	**936,205**	**2,093,897**	**136,210**	**19,735**	**–**	**3,186,047**
CARRYING VALUES						
At 31 December 2018	**2,477,834**	**2,983,783**	**111,793**	**8,019**	**2,023,366**	**7,604,795**
At 31 December 2017	2,336,841	2,820,729	92,366	7,422	1,405,165	6,662,523

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2018, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to HK$61,407,000 (2017: HK$64,639,000). In the opinion of the Directors, as the buildings are currently in use and generate economic benefits to the Group, there is no impairment of the relevant buildings. The Directors also believe that formal title to these buildings will be granted to the Group in due course.

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over their estimated useful lives, after taking account their residual value, as follows:

Buildings in the PRC	Over the shorter of the relevant lease, or 20 to 25 years
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20% — 33.33%
Motor vehicles	20%

14. PREPAID LEASE PAYMENTS

	2018	2017
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**18,829**	18,263
Non-current asset	**598,753**	573,080
	617,582	591,343

Prepaid lease payments comprise medium-term leasehold land in the PRC.

15. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1 January 2017	111,785
Exchange adjustments	8,084
Arising on acquisition of a subsidiary *(note 34)*	1,867
At 31 December 2017	**121,736**
Exchange adjustments	**(9,915)**
Arising on acquisition of a subsidiary *(note 34)*	**48,125**
At 31 December 2018	**159,946**

15. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL *(continued)*

For the purpose of impairment testing, goodwill has been allocated to four individual CGUs. The carrying amounts of goodwill as at 31 December 2018 allocated to these units are as follows:

	2018	2017
	HK$'000	*HK$'000*
OYY Group *(note a)*	**93,378**	98,293
Baike Group *(note a)*	**20,313**	21,382
Gold Faith Group *(note a)*	**1,959**	2,061
YZY Biopharma *(note b)*	**44,296**	—
	159,946	121,736

Notes:

(a) The recoverable amounts of OYY (as defined in note 42) and its subsidiaries (collectively referred to as "OYY Group"), Baike Yantai (as defined in note 42) and its subsidiaries (collectively referred to as "Baike Group") and Gold Faith (as defined in note 34) and its subsidiaries (collectively referred to as "Gold Faith Group") have been determined based on value in use calculations. Their recoverable amounts are based on certain key assumptions. That calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. The rates used to discount the projected cash flows of OYY Group, Baike Group and Gold Faith Group are 12%, 15% and 15% (2017: 12%, 15% and 15%) per annum, respectively. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. The Directors believes that any reasonably possible changes in any of these assumptions would not cause the carrying amounts of OYY Group, Baike Group and Gold Faith Group to exceed the recoverable amount of each unit.

(b) The recoverable amount of YZY Biopharma (as defined in note 34) has been determined based on value in use calculation. The recoverable amount is based on certain key assumptions. That calculation uses cash flow projection based on financial budget approved by the management covering a 9-year period. The use of more than 5 years' projection is because the first drug candidate of YZY Biopharma is only expected to be commercialised by the fifth year of the projection. The rate used to discount the projected cash flows of YZY Biopharma is 23% per annum. Cash flows beyond the 9-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on management's expectations for the market development. Any reasonably possible changes in any of these assumptions may cause the carrying amount of YZY Biopharma to exceed the recoverable amount. In the opinion of the Directors, no impairment was recognized during the year, as the acquisition of YZY Biopharma was just completed during the year ended 31 December 2018 and there is no significant change in the clinical stage drugs development during the year.

During the years ended 31 December 2018 and 2017, the Directors of the Group determines that there is no impairment of any of its CGUs containing goodwill.

16. OTHER INTANGIBLE ASSETS

	Development costs HK$'000 (note a)	In-process research and development projects HK$'000 (note b)	Exclusive distribution right HK$'000 (note c)	Licenses and patents HK$'000 (note d)	Total HK$'000
COST					
At 1 January 2017	56,208	–	–	89,984	146,192
Acquisition of subsidiaries *(note 34)*	69,754	–	–	–	69,754
Additions	1,292	–	–	34,003	35,295
Exchange adjustments	3,690	–	–	6,610	10,300
At 31 December 2017	**130,944**	**–**	**–**	**130,597**	**261,541**
Acquisition of subsidiaries *(note 34)*	**684**	**780,131**	**–**	**–**	**780,815**
Additions	**3,913**	**–**	**118,226**	**–**	**122,139**
Exchange adjustments	**(5,596)**	**(62,056)**	**(358)**	**(2,584)**	**(70,594)**
At 31 December 2018	**129,945**	**718,075**	**117,868**	**128,013**	**1,093,901**
AMORTISATION AND IMPAIRMENT					
At 1 January 2017	37,425	–	–	29,535	66,960
Provided for the year	76,339	–	–	9,847	86,186
Exchange adjustments	2,958	–	–	2,261	5,219
At 31 December 2017	**116,722**	**–**	**–**	**41,643**	**158,365**
Provided for the year	**7,544**	**–**	**–**	**16,197**	**23,741**
Exchange adjustments	**(2,422)**	**–**	**–**	**(2,813)**	**(5,235)**
At 31 December 2018	**121,844**	**–**	**–**	**55,027**	**176,871**
CARRYING VALUES					
At 31 December 2018	**8,101**	**718,075**	**117,868**	**72,986**	**917,030**
At 31 December 2017	14,222	–	–	88,954	103,176

16. OTHER INTANGIBLE ASSETS *(continued)*

Notes:

(a) Development costs mainly represent costs internally generated or techniques acquired from third parties for the development of products and production technology.

(b) In-process research and development projects ("IPR&D"s) were acquired through business combination. IPR&Ds are not yet available for use and are not amortised, but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

The recoverable amount of IPR&Ds has been determined based on a value in use calculation using cash flow projection which is based on financial forecast approved by the Directors. The discount rate applied to the cash flow projection is 23%, which is determined by reference to the average discount rate for IPR&Ds with similar business risk and after taking into account the risk premium in connection with the related research and development efforts.

The following describes each key assumptions on which management has based its cash flow projections to undertake impairment testing of IPR&Ds:

The estimation of cash inflows/outflows include budgeted sales and gross margin which are based on management's expectation for the market development.

Discount rate — The discount rate used is before tax and reflects specific risks in respect of the related research and development efforts.

Growth rate — The growth rate is based on the estimated growth rate of related products taking into account the industry growth rate, past experience and the medium-term or long-term growth target.

Any reasonably possible changes in any of these assumptions may cause the carrying amount of IPR&Ds to exceed the recoverable amount. In the opinion of the Directors, no impairment was recognized during the year, as the acquisition was just completed during the year ended 31 December 2018 and there is no significant change in the clinical stage drugs development in related to these IPR&Ds during the year.

(c) During the year, the Group entered into an agreement with a third party in relation to the commercialisation of a drug that has already received new drug application approval from U.S. Food and Drug Administration. Pursuant to the agreement, the Group is responsible for the drug application and commercialisation of the product in the PRC.

The consideration payable by the Group comprises upfront payments and milestone payments subject to the progress of obtaining regulatory approval for treatment in the PRC of the product. As at 31 December 2018, an aggregate amount of United States Dollars ("USD") 15,000,000 (approximately HK$117,868,000) paid by the Group was capitalised as intangible assets.

The exclusive distribution right is not yet available for use and is not amortised but tested individually for impairment annually until regulatory approval in the PRC of the product has been obtained.

(d) Licenses and patents were acquired from third parties.

Intangible assets having finite useful lives are amortised on a straight-line basis over their estimated useful lives:

Licenses and patents	3 to 10 years
Development costs	1 to 10 years

17. INTERESTS IN JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

	2018 HK$'000	2017 HK$'000
Cost of investment in joint ventures	**91,397**	91,397
Share of post-acquisition profits, net of dividends received	**55,840**	16,707
Exchange adjustments	**(3,737)**	1,874
	143,500	109,978

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/ voting rights held by the Group 2018	2017	Principal activities
Hebei Boao Medical Laboratory Co., Ltd ("Boao") *(note)*	Limited liability	The PRC	**49%**	49%	Provision of pharmaceutical research and development services
Hebei Huarong Pharmaceutical Co., Ltd ("Huarong")	Sino foreign equity joint venture	The PRC	**50%**	50%	Manufacture and sale of Vitamin B12 product
Yantai Jiashi Pharmaceutical Technology Co., Ltd ("Yantai Jiashi")	Sino foreign equity joint venture	The PRC	**50%**	50%	Provision of pharmaceutical research and development services

Note: Pursuant to the relevant agreement and articles of association of Boao, the strategic financial and operating decisions relating to the relevant activities require the unanimous consent of the Group and other joint venture partner. Accordingly, Boao is accounted for as joint venture.

Since the joint ventures are not significant individually, summarised aggregate financial information in respect of the Group's joint ventures are set out below. The aggregate summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

17. INTERESTS IN JOINT VENTURES *(continued)*

The joint ventures are accounted for using the equity method in these consolidated financial statements.

	2018	2017
	HK$'000	*HK$'000*
Current assets	**2,185,253**	2,105,452
Non-current assets	**484,242**	275,409
Current liabilities	**(2,372,187)**	(2,147,529)
Non-current liabilities	**(10,295)**	(13,362)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**514,235**	496,448
Current financial liabilities (excluding trade and other payables and provisions)	**–**	(17,493)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(10,295)**	(7,924)
Revenue	**621,940**	514,441
Profit for the year	**102,897**	20,554
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**102,897**	20,554
Dividends declared from a joint venture during the year	**24,631**	16,818

17. INTERESTS IN JOINT VENTURES *(continued)*

The above profit for the year includes the following:

	2018 HK$'000	2017 HK$'000
Depreciation and amortisation	**(23,738)**	(19,710)
Interest income	**–**	1,768
Finance costs	**(5,875)**	(4,818)
Income tax expense	**(31,479)**	(14,492)

Reconciliation of the above summarised financial information to the carrying amount of the interests in joint ventures recognised in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Net assets of Huarong and Yantai Jiashi	**286,404**	219,252
Proportion of the Group's ownership interests in Huarong and Yantai Jiashi	**50%**	50%
Carrying amount of the Group's interests in Huarong and Yantai Jiashi	**143,202**	109,626

	2018 HK$'000	2017 HK$'000
Net assets of Boao	**609**	718
Proportion of the Group's ownership interest in Boao	**49%**	49%
Carrying amount of the Group's interest in Boao	**298**	352

	2018 HK$'000	2017 HK$'000
Carrying amount of the Group's interests in joint ventures	**143,500**	109,978

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	HK$'000	*HK$'000*
Listed equity investment in Hong Kong, at fair value *(note i)*	**75,297**	61,266
Unlisted equity investments in partnerships, at fair value/cost *(note ii)*	**387,969**	239,402
Unlisted equity investments, at fair value/cost *(note iii)*	**300,669**	16,074
	763,935	316,742

These investments are not held for trading; instead, they are held for long-term strategic purposes. The Directors have elected to designate these investments in financial assets measured at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

Notes:

(i) The amount represents equity security listed in Hong Kong and the fair value of the investment is determined based on the quoted market bid prices available on the relevant exchange. The investment is not intended to be held in short-term to earn a profit.

(ii) Unlisted equity investments in partnerships included five limited partnership enterprises (the "Partnership Enterprises"). The Partnership Enterprises specialise in making equity investment. The Group has an intention of holding them as long-term investments.

According to the Partnership Enterprise agreements, each Partnership Enterprise is managed by a general partner. The Group participates in the Partnership Enterprises as one of the limited partners whom does not have the power on selection nor removal of assets manager or general partner of the Partnership Enterprises. In addition, the Group does not have any right on making operating, investing and financing decision of the Partnership Enterprises. The Directors are of the opinion that the Group does not have any control nor significant influence to affect the variable returns through its investment in the partnership enterprises and therefore these investments are accounted for as financial assets measured at FVTOCI.

As at 31 December 2017, the unlisted equity investments in partnerships were measured at cost less impairment at the end of the reporting period. Upon adoption of HKFRS 9 as at 1 January 2018, the unlisted equity investments in partnerships were measured at FVTOCI and are not subject to impairment assessment at the end of the reporting period.

(iii) The amount represents investments in unlisted equity interests in entities established in the PRC. As at 31 December 2017, the unlisted equity investments were measured at cost less impairment at the end of the reporting period. Upon adoption of HKFRS 9 as at 1 January 2018, the unlisted equity investments are measured at FVTOCI and are not subject to impairment assessment at the end of the reporting period.

In the current year, the Group disposed some of the listed investments in Hong Kong, at a consideration of HK$4,381,000, which was also the fair value as at the date of disposal as the investment no longer meets the investment objective of the Group. A cumulative gain on disposal of HK$1,181,000 has been transferred to accumulated profits.

19. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	779,762	671,861
Work in progress	408,038	389,036
Finished goods	2,272,789	1,839,884
	3,460,589	2,900,781

20. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	2,360,212	1,863,900
Less: allowance for impairment	(13,706)	(13,491)
	2,346,506	1,850,409

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$2,360,212,000 and HK$1,863,900,000, respectively.

The Group allows a general credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for impairment) at the end of the reporting period presented based on the invoice dates which approximated the respective revenue recognition dates:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	2,115,585	1,590,027
91 to 180 days	213,981	238,594
181 to 365 days	8,954	21,788
More than 365 days	7,986	—
	2,346,506	1,850,409

20. TRADE RECEIVABLES *(continued)*

Trade receivables with aggregate carrying amount of HK$230,921,000 (2017: HK$260,382,000) are past due as at the reporting date. The amounts are not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it has a legal right of offset against any amounts owed by the Group to the counterparty.

Ageing of trade receivables which are past due but not impaired

	2017 *HK$'000*
91 to 180 days	238,594
181 to 365 days	21,788
	260,382

Movements in the allowance for doubtful debts

	2017 *HK$'000*
Balance at beginning of the year	10,423
Impairment loss recognised	3,417
Reversal of impairment loss	(797)
Exchange adjustments	448
Balance at end of the year	13,491

As at 31 December 2018, the Group's trade receivables denominated in USD amounted to HK$218,901,000 (2017: HK$380,260,000).

Details of impairment assessment of trade receivables as at 31 December 2018 are set out in note 38.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Prepayments for purchase of raw materials	**162,576**	202,499
Prepaid research and development expenses	**50,527**	—
Prepayment for acquisition of intangible assets *(note)*	**113,636**	—
Deposits paid for prepaid lease payments	**260,227**	—
Deposits and prepayments for utilities	**40,228**	50,733
Other taxes recoverable	**80,405**	92,827
Others	**212,954**	137,811
	920,553	483,870
Analysed as:		
Current	**546,690**	483,870
Non-current	**373,863**	—
	920,553	483,870

Note: During the year ended 31 December 2018, the Group entered into a collaboration agreement with a third party and paid a total of RMB100,000,000 (equivalent to HK$113,636,000) as upfront payment for acquiring the exclusive commercialisation license of a pharmaceutical product which is undergoing phase III clinical trials in the PRC.

22. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 365 days (2017: less than 180 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information and experience.

During the year, bills receivables issued by group companies for settlement of intragroup transactions were discounted to bank without recourse for proceeds of HK$1,782,681,000, and the related liabilities were included in bills payables as at 31 December 2018.

23. STRUCTURED BANK DEPOSITS

As at 31 December 2018, the structured bank deposits of HK$2,604,961,000 (2017: HK$1,315,789,000) were placed with the banks in the PRC and HK$1,567,045,000 (2017: HK$861,244,000) have been pledged to secure certain banking facilities of the Group. Details of the structured bank deposits are as follows:

The structured bank deposits of HK$2,570,870,000 carry no guaranteed return and have a total expected return up to 5.70% (31 December 2017: HK$311,009,000 carry no guaranteed return and have a total expected return up to 5.40%), depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the terms of relevant deposits.

The structured bank deposits of HK$34,091,000 carry guaranteed return of 1.35% and have a total expected return up to 3.80% (31 December 2017: HK$1,004,780,000 carry guaranteed return ranging from 1.00% to 2.85% and have a total expected return up to 4.67%), depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives.

24. BANK BALANCES/RESTRICTED BANK DEPOSITS/BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates ranging from 0.01% to 1.95% (2017: 0.01% to 4.10%) per annum.

Bank deposits with term of five years amounting to HK$113,636,000 (2017: nil) carry interest at market interest rate at 4.75% (2017: nil) per annum and have been pledged to secure certain banking facilities granted to the Group.

As at 31 December 2018 and 2017, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade payables and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term bank facilities.

The bank balances and restricted bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2018	2017
	HK$'000	*HK$'000*
HK$	**168,123**	780,142
USD	**319,323**	914,404

25. TRADE PAYABLES

The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**1,653,975**	1,098,644
91 to 180 days	**68,287**	232,799
More than 180 days	**117,915**	153,922
	1,840,177	1,485,365

The general credit period on purchases of goods is 90 days (2017: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

26. OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Customers' deposits	**387,285**	245,051
Advance payments from customers *(note)*	**–**	664,435
Other taxes payable	**234,403**	159,531
Selling expense payable	**1,080,452**	443,697
Payables arising from construction cost and acquisition of property, plant and equipment	**960,577**	985,234
Government grants *(note 31)*	**409,518**	322,655
Staff welfare payable	**272,225**	188,388
Others	**181,297**	203,003
	3,525,757	3,211,994

Note: Upon adoption of HKFRS 15, advance payments from customers of HK$664,435,000 were classified as contract liabilities on the consolidated statement of financial position on 1 January 2018.

26. OTHER PAYABLES *(continued)*

	2018	2017
	HK$'000	*HK$'000*
Analysed as:		
Current	**3,318,480**	3,028,018
Non-current — government grants *(note 31)*	**207,277**	183,976
	3,525,757	3,211,994

27. BILLS PAYABLES

All bills payables of the Group are aged within 365 days (2017: 180 days) and not yet due at the end of the reporting period. As at 31 December 2018, bills payables of HK$1,709,756,000 (2017: nil) are secured by bank deposits and certain structured bank deposits.

28. BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Floating-rate RMB bank loan	**56,818**	59,809
Fixed-rate USD bank loan	**23,397**	54,712
Fixed-rate RMB bank loans	**–**	863,599
Fixed-rate RMB loans from a related company *(note 40)*	**–**	8,971
	80,215	987,091
The carrying amounts of the above borrowings are repayable as follows*:		
Within one year	**80,215**	927,282
Within a period of more than one year, but not exceeding two years	**–**	59,809
	80,215	987,091
Less: Amounts due within one year shown under current liabilities	**(80,215)**	(927,282)
Amounts shown under non-current liabilities	**–**	59,809

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

28. BORROWINGS *(continued)*

As at 31 December 2017, borrowings of HK$863,599,000 have been secured by certain structured bank deposits.

As at 31 December 2018, floating-rate RMB bank loan of HK$56,818,000 (2017: HK$59,809,000) and fixed-rate USD bank loan of HK$23,397,000 (2017: HK$54,712,000) were guaranteed by CHL (as defined in note 40).

The ranges of effective interest rates (which also equal to contracted interest rates) on the Group's borrowings at the end of each reporting period are as follows:

Effective interest rate:	**2018**	2017
Floating-rate RMB bank loan	**4.10% per annum**	3.50% — 5.23% per annum
Fixed-rate USD bank loan	**4.60% per annum**	2.90% per annum
Fixed-rate RMB bank loans	**N/A**	4.35% per annum
Fixed-rate RMB loans from a related company	**N/A**	4.60% per annum

The floating-rate RMB borrowing is subject to interest at benchmark interest rate of the PRC plus a spread.

The Group's borrowing that is denominated in currency other than the functional currency of the relevant group entities are set out below:

	2018 ***HK$'000***	2017 *HK$'000*
USD	**23,397**	54,712

At the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2018 ***HK$'000***	2017 *HK$'000*
Floating-rate HK$ bank loans	**345,000**	645,000
Floating-rate RMB bank loans	**79,545**	83,732
Fixed-rate USD bank loans	**42,625**	—
	467,170	728,732

29. CONTRACT LIABILITIES

Contract liabilities represent deposits received from sales of goods.

The Group receives certain percentage of the contract value from customers when the sale agreements are signed or purchase orders are placed. This gives rise to contract liability at the start of a contract until revenue is recognised.

During the year ended 31 December 2018, revenue recognised in the current year relating to carried-forward contract liabilities is HK$664,435,000.

30. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018	2017
	HK$'000	*HK$'000*
Deferred tax assets	**21,530**	20,721
Deferred tax liabilities	**(270,360)**	(131,602)
	(248,830)	(110,881)

30. DEFERRED TAXATION *(continued)*

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior years:

	Unrealised profits on inventories *HK$'000*	Property, plant and equipment *HK$'000*	Prepaid lease payments *HK$'000*	Other intangible assets *HK$'000*	Withholding tax on undistributed profits of subsidiaries *HK$'000*	Total *HK$'000*
At 1 January 2017	26,355	(7,495)	(6,509)	(8,094)	(45,136)	(40,879)
(Charge) credit to profit or loss	(8,686)	1,631	418	1,254	(58,143)	(63,526)
Acquisition of subsidiaries *(note 34)*	–	(333)	(1,950)	–	–	(2,283)
Exchange adjustments	1,443	(488)	(557)	(525)	(4,066)	(4,193)
At 31 December 2017	**19,112**	**(6,685)**	**(8,598)**	**(7,365)**	**(107,345)**	**(110,881)**
Credit (charge) to profit or loss	**1,687**	**2,474**	**438**	**1,290**	**(34,361)**	**(28,472)**
Acquisition of subsidiaries *(note 34)*	**–**	**(2,875)**	**(185)**	**(117,020)**	**–**	**(120,080)**
Exchange adjustments	**(806)**	**457**	**425**	**9,621**	**906**	**10,603**
At 31 December 2018	**19,993**	**(6,629)**	**(7,920)**	**(113,474)**	**(140,800)**	**(248,830)**

At the end of the reporting period, the Group has unused tax losses of approximately HK$102,319,000 (2017: HK$81,280,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The unused tax losses will be expired as follows:

	2018 ***HK$'000***	2017 *HK$'000*
2018	**–**	27,268
2019	**8,193**	7,957
2020	**26,943**	26,168
2021	**4,713**	4,577
2022	**15,644**	15,310
2023	**46,826**	–
	102,319	81,280

30. DEFERRED TAXATION *(continued)*

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$6,337,108,000 (2017: HK$5,054,129,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant deferred taxation for the year or at the end of the reporting period.

31. GOVERNMENT GRANTS

	2018	2017
	HK$'000	*HK$'000*
Current (included in other payables in note 26)		
— Acquisition of property, plant and equipment *(note a)*	**10,961**	9,166
— Other subsidies *(note b)*	**191,280**	129,513
	202,241	138,679
Non-current		
— Acquisition of property, plant and equipment *(note a)*	**207,277**	183,976
	409,518	322,655

Notes:

(a) Government grants include cash subsidies received from the PRC government by the Group which are specific for the purchase of plant and machinery and will be transferred to profit or loss over the useful lives of the related assets upon the Group has complied with the conditions attaching to the grants. During the year, the Group recognised income of HK$11,384,000 (2017: HK$10,288,000).

(b) Other subsidies are generally provided in relation to development of pharmaceutical products or improvement of production efficiency. Such amounts are included in other payables until the conditions attaching to the grants have been fulfilled. During the year, the Group recognised income of HK$22,696,000 (2017: HK$24,065,000).

32. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Issued and fully paid		
At 1 January 2017	6,052,518,403	10,569,620
Exercise of share options *(note a)*	1,500,000	7,784
Issue of ordinary shares by private placement *(note b)*	189,000,000	2,351,160
Transaction costs attributable to issue of new shares *(note b)*	—	(6,365)
At 31 December 2017 and 1 January 2018	6,243,018,403	12,922,199
Share repurchased and cancelled *(note c)*	(6,680,000)	—
At 31 December 2018	6,236,338,403	12,922,199

Notes:

(a) In March 2017, the Company issued 1,500,000 shares upon exercise of share options at an exercise price of HK$3.98 under the 2004 Scheme (as set out in note 33). These new shares rank pari passu in all respects with the then shares in issue.

(b) Pursuant to a placing agreement dated 12 October 2017, a total of 189,000,000 shares of the Company have been placed at the price of HK$12.44 per share, representing a discount of approximately 6.75% to the closing market price of the Company's shares on the immediate preceding business day before the completion date. The net proceeds from this placing amounted to HK$2,344,795,000.

These new shares rank pari passu with other shares in issue in all respects.

(c) During the year, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
October 2018	4,680,000	15.66	14.72	71,015
December 2018	2,000,000	14.06	13.68	27,839
	6,680,000			98,854

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

33. LONG TERM INCENTIVE PROGRAM

(a) Share option scheme

(i) 2004 share option scheme

The share option scheme adopted on 6 July 2004 has expired on 5 July 2014. Details of the fair value measurements are set out in the Group's consolidated financial statements for the year ended 31 December 2013.

No share options were outstanding during the year ended and as at 31 December 2018 and 2017. 1,500,000 share options were exercised during the year ended 31 December 2017 and the weighted average share price at the dates on which the share options were exercised was HK$10.04.

(ii) 2015 share option scheme

The share option scheme (the "2015 Scheme") was adopted on 9 December 2015. The purpose of the 2015 Scheme is to provide the Company with a flexible means of giving incentive to Directors and employees of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the Board. The 2015 Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the 2015 Scheme unless the Company obtains a fresh approval from its shareholders. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding the independent non-executive director of the Company who is the grantee). Where the granting of options to a participant who is an independent non-executive director of the Company or a substantial shareholder of the Company would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant in aggregate exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company by poll in general meeting.

33. LONG TERM INCENTIVE PROGRAM *(continued)*

(a) Share option scheme *(continued)*

(ii) 2015 share option scheme *(continued)*

Options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer (both dates inclusive) upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the Board to each grantee and such period shall expire not later than 10 years from the date of grant of options. No share options have been granted under the 2015 Scheme since its adoption.

(b) 2018 share award scheme

The Board has adopted a share award scheme on 20 August 2018 (the "2018 Share Award Scheme"). The purposes of the 2018 Share Award Scheme are to a) provide any participant selected by the Board with an opportunity to acquire a proprietary interest in the Company; b) to encourage and retain such individuals to work with the Company; and c) to provide additional incentive to them to achieve performance goals and help in retaining them.

The total number of shares which may be purchased or issued pursuant to the 2018 Share Award Scheme shall not in aggregate exceed 2% of the shares of the Company in issue as at the date of approval of the 2018 Share Award Scheme. The maximum number of shares which may be granted to a selected participant at any one time or in aggregate under the 2018 Share Award Scheme must not exceed 0.5% of the shares of the Company in issue as at the date of approval of the 2018 Share Award Scheme.

Where any grant of shares is proposed to be made to any selected participant who is a Director (including any independent non-executive director), such grant must first be approved by all the independent non-executive directors and in each case excluding any independent non-executive director who is the proposed selected participant.

Subject to any early termination in accordance with the rules of the 2018 Share Award Scheme, the 2018 Share Award Scheme shall be valid and effective for a period of 10 years commencing from its adoption. Any shares held by the trustee on behalf of a selected participant shall be vested by selected participant in accordance with the vesting conditions or vesting schedule as set out in the grant notice. Restricted shares which do not vest will be forfeited and may be re-granted to other selected participants by the Board. No share has been granted under the 2018 Share Award Scheme since its adoption.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS

For the year ended 31 December 2018

i) On 9 January 2018, the Group entered into an equity transfer agreement with independent third parties to acquire an aggregate 37% interest in Wuhan YZY Biopharma Co., Ltd. ("YZY Biopharma") for a cash consideration of RMB203,574,000 (equivalent to HK$251,326,000) and a contingent consideration payable in cash up to RMB55,426,000 (equivalent to HK$68,427,000), depending on the achievement of certain milestone events. On the same date, the Group also entered into a capital injection agreement pursuant to which the Group would inject RMB76,242,000 (equivalent to HK$94,126,000) to YZY Biopharma upon completion of the aforesaid equity transfer. YZY Biopharma is principally engaged in the development of innovative biopharmaceutical drugs. The acquisition was completed on 31 January 2018 and together with the capital injection, the Group holds a 39.56% interest in YZY Biopharma.

As a result of a contractual arrangement with certain equity owners of YZY Biopharma, the Group is given the power to control the majority of the votes in equity owners' and board of directors' meetings of YZY Biopharma that direct the relevant activities of YZY Biopharma. As such, the Group has obtained control over YZY Biopharma upon the acquisition and accounted it as a subsidiary.

ii) On 3 March 2018, the Group entered into an equity transfer agreement to acquire 60% equity interest in CSPC Anwoqin Pharmaceutical (Taizhou) Co., Ltd. ("Anwoqin") from a non-wholly owned subsidiary of CHL, for a cash consideration of RMB15,615,000 (equivalent to HK$19,518,000). Anwoqin is principally engaged in the manufacturing and sales of pharmaceutical products. The acquisition was completed on 27 March 2018.

All of the above acquisitions have been accounted for using the acquisition method of accounting.

Consideration transferred

	YZY Biopharma	Anwoqin	Total
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration	345,452	19,518	364,970
Contingent consideration *(note)*	39,846	–	39,846
	385,298	19,518	404,816

Note: Based on the relevant agreement, the Group is required to pay an additional consideration up to RMB55,426,000 (equivalent to HK$68,427,000) if milestone events in relation to two bispecific antibodies can be achieved by the respective agreed timeline from 2018 to 2020. The fair value of such contingent consideration amounted to RMB32,275,000 (equivalent to HK$39,846,000) as at the date of acquisition and RMB32,275,000 (equivalent to HK$36,676,000) at 31 December 2018.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2018 *(continued)*

Assets acquired and liabilities recognised at the date of acquisitions

	YZY Biopharma	Anwoqin	Total
	HK$'000	*HK$'000*	*HK$'000*
Fair value of assets and liabilities recognised at the date of acquisition:			
Non-current assets			
Property, plant and equipment	96,325	160	96,485
Prepaid lease payments	12,605	—	12,605
Other intangible assets *(note)*	780,815	—	780,815
Current assets			
Inventories	2,404	5,357	7,761
Trade receivables	—	5,520	5,520
Deposits, prepayments and other receivables	85,381	9,185	94,566
Bills receivables	—	434	434
Bank balances and cash	170,894	16,529	187,423
Current liabilities			
Trade payables	(6,785)	(3,034)	(9,819)
Other payables	(132,090)	(1,621)	(133,711)
Non-current liabilities			
Other payables	(4,444)	—	(4,444)
Deferred tax liabilities	(120,080)	—	(120,080)
Borrowings	(32,716)	—	(32,716)
Total identifiable net assets acquired	852,309	32,530	884,839

Note: The intangible assets represent the IPR&Ds acquired for the development of products and production technology. IPR&Ds are not yet available for use and are not amortised but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

The fair value of assets and liabilities of YZY Biopharma and Anwoqin are valued by independent qualified professional valuer which are not connected to the Group.

The fair values of trade receivables, deposits, prepayments and other receivables and bills receivables of the acquired entities at the date of acquisition amounted to HK$100,520,000 and represents the gross contractual amounts at the date of acquisition.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2018 *(continued)*

Goodwill arising from acquisition

	YZY Biopharma	Anwoqin	Total
	HK$'000	*HK$'000*	*HK$'000*
Consideration transferred	385,298	19,518	404,816
Plus: Non-controlling interests (60.44% in YZY Biopharma and 40% in Anwoqin respectively)	515,136	13,012	528,148
Less: Recognised amount of identifiable net assets acquired	(852,309)	(32,530)	(884,839)
Goodwill arising on acquisition	48,125	—	48,125

Goodwill arose in the acquisition of YZY Biopharma because of the expected synergies, revenue growth, future market development and the assembled workforce of YZY Biopharma. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

The acquisition-related costs incurred are insignificant.

Non-controlling interests

The non-controlling interests in YZY Biopharma and Anwoqin recognised at the acquisition dates were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets and amounted to HK$528,148,000.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2018 *(continued)*

Net cash outflow on acquisition of subsidiaries

	YZY Biopharma	Anwoqin	Total
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration paid	345,452	19,518	364,970
Bank balances and cash acquired	(170,894)	(16,529)	(187,423)
Net cash outflow	174,558	2,989	177,547

All acquired entities did not have any significant contribution to the Group's revenue or results for the year ended 31 December 2018. Had the acquisitions of the above entities been completed on 1 January 2018, total amount of the Group's revenue for the year ended 31 December 2018 would have been HK$21,039,083,000 and the profit for the year ended 31 December 2018 would have been HK$3,629,133,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2018, nor is it intended to be a projection of future results.

For the year ended 31 December 2017

(a) Business combinations

During the year ended 31 December 2017, the following business acquisitions took place:

(i) On 3 January 2017, the Group entered into an agreement to acquire 100% equity interest in Cenway Pharmaceutical (Inner Mongolia) Co. Ltd. ("Cenway") from an independent third party for a cash consideration of RMB68,000,000 (equivalent to HK$75,978,000). The acquisition was completed on 12 January 2017 and the name of Cenway was changed to CSPC Neimenggu Zhongnuo Pharmaceutical Co. Ltd. ("NMG Zhongnuo") on the same date. NMG Zhongnuo is engaged in the manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's production capability; and

(ii) On 23 January 2017, the Group entered into an agreement to acquire 100% equity interest in Gold Faith Investments Limited ("Gold Faith") and its subsidiaries, Rockley Inc. ("Rockley") and Hebei Union Pharmaceutical Co., Ltd ("Union"), from an independent third party for a cash consideration of RMB72,710,000 (equivalent to HK$82,167,000). Gold Faith holds 100% equity interest in Rockley and Rockley holds 90% equity interest in Union. The acquisition was completed on 23 January 2017. Gold Faith Group is engaged in the manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's product portfolio.

All the above acquisitions have been accounted for using the acquisition method of accounting.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2017 *(continued)*

***(a)* Business combinations** *(continued)*

Assets acquired and liabilities recognised at the dates of acquisitions

	NMG Zhongnuo	Gold Faith Group	Total
	HK$'000	*HK$'000*	*HK$'000*
Fair value of assets and liabilities recognised at the date of acquisitions			
Non-current assets			
Property, plant and equipment	130,206	25,888	156,094
Prepaid lease payments	—	19,164	19,164
Other intangible assets	—	9	9
Available-for-sale investments	—	126	126
Current assets			
Inventories	7,692	16,947	24,639
Trade receivables	41,223	8,136	49,359
Deposits, prepayments and other receivables	33,076	11,975	45,051
Bills receivables	5,403	4,076	9,479
Prepaid lease payments	—	512	512
Bank balances and cash	986	25,705	26,691
Current liabilities			
Trade payables *(note)*	(39,891)	(3,210)	(43,101)
Other payables	(102,717)	(17,815)	(120,532)
Tax liabilities	—	(3)	(3)
Non-current liability			
Deferred tax liabilities	—	(2,283)	(2,283)
Total identified not assets acquired	75,978	89,227	165,205

Note: Included in trade payables was an amount of HK$7,752,000 due to the Group.

The fair values of assets and liabilities of NMG Zhongnuo and Gold Faith Group were valued by independent qualified professional valuer which are not connected to the Group.

The fair value of trade receivables and deposits, prepayments and other receivables of the acquired entities at the date of acquisition amounted to HK$94,410,000 which represented the gross contractual amounts at the date of acquisition.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2017 *(continued)*

(a) Business combinations *(continued)*

Goodwill arising from acquisition

	NMG Zhongnuo	Gold Faith Group	Total
	HK$'000	*HK$'000*	*HK$'000*
Consideration transferred	75,978	82,167	158,145
Plus: Non-controlling interests	—	8,927	8,927
Less: Recognised amount of identifiable net assets acquired	(75,978)	(89,227)	(165,205)
Goodwill arising on acquisition	—	1,867	1,867

Goodwill arose in the acquisition of Gold Faith Group because of the expected synergies, revenue growth, future market development and the assembled workforce of Gold Faith Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

The acquisition-related costs incurred are insignificent.

Non-controlling interests

The non-controlling interests in Gold Faith Group recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets of Union and amounted to HK$8,927,000.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2017 *(continued)*

(a) Business combinations *(continued)*

Net cash outflow on acquisition of subsidiaries

	NMG Zhongnuo	Gold Faith Group	Total
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration paid	75,978	82,167	158,145
Bank balances and cash acquired	(986)	(25,705)	(26,691)
Net cash outflow	74,992	56,462	131,454

All of the acquired entities did not have any significant contribution to the Group's revenue or results for the year ended 31 December 2017. Had the acquisitions of the above entities been completed on 1 January 2017, total amount of the Group's revenue for the year would have been HK$15,466,006,000 and the profit for the year would have been HK$2,781,006,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2017, nor is it intended to be a projection of future results.

(b) Asset acquisitions

During the year ended 31 December 2017, the following asset acquisitions took place as they did not operate any business prior to the date of acquisitions, and have been accounted for as acquisitions of assets.

(i) On 3 March 2017, the Group entered into an agreement to acquire 100% equity interest in Hebei Shiwei Pharmaceutical Trading Co., Ltd. ("Hebei Shiwei") from China Charmaine Pharmaceutical Company Limited, which is a wholly-owned subsidiary of CHL for a cash consideration of RMB200,030,689 (equivalent to HK$225,259,000). The acquisition was completed on 20 March 2017 and the name of Hebei Shiwei was changed to Shijiazhuang Ouyihe Medical Trading Co., Ltd. ("Ouyihe") on the same date. The acquisition enabled the Group to commence its wholesale business for a new line of pharmaceutical products immediately after completion of the acquisition and to save time for applying the pharmaceutical operation permit; and

(ii) On 9 May 2017, the Group entered into an agreement to acquire 100% equity interest in CSPC Dophen Corporation ("Dophen") from CHL for a consideration of USD9,700,000 (equivalent to HK$75,314,000). The acquisition was completed on 9 May 2017. Dophen is principally engaged in research and development of pharmaceutical products. The acquisition will be able to strengthen the Group's research and development capability of biopharmaceuticals and supplement its product pipeline.

34. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

For the year ended 31 December 2017 *(continued)*

(b) ***Asset acquisitions*** *(continued)*

	Ouyihe	Dophen	Total
	HK$'000	*HK$'000*	*HK$'000*
Assets acquired and liabilities recognised at the dates of acquisitions			
Non-current assets			
Property, plant and equipment	4	11,847	11,851
Other Intangible assets	—	69,745	69,745
Current assets			
Other receivables *(note)*	181,282	—	181,282
Bank balances and cash	44,870	7,304	52,174
Current liability			
Other payables	(897)	(13,582)	(14,479)
	225,259	75,314	300,573
Net cash outflow on acquisition of assets			
Cash consideration paid	225,259	75,314	300,573
Bank balances and cash acquired	(44,870)	(7,304)	(52,174)
Net cash outflow	180,389	68,010	248,399

Note: Other receivables comprised the amount due from the Group.

35. OPERATING LEASE COMMITMENTS

The Group as lessee

	2018	2017
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year	**41,433**	38,543

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**85,910**	30,580
In the second to fifth year inclusive	**147,998**	17,898
Over five years	**9,168**	2,863
	243,076	51,341

Operating lease payments represent rentals payable by the Group for certain of its warehouses and office premises. Leases are negotiated and rentals are fixed for an average term of four years.

36. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2018	2017
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,515,220**	1,280,940
Other commitments arising from unlisted equity investments in partnerships	**470,227**	404,822
Other commitments arising from research and development projects	**120,916**	131,388

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 28 and amounts due to related companies in note 40, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

38. FINANCIAL INSTRUMENTS

38a. Categories of financial instruments

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Mandatorily measured at FVTPL		
— other financial assets	**503**	732
— structured bank deposits	**2,604,961**	1,315,789
Financial assets measured at FVTOCI	**763,935**	—
Financial assets at amortised cost/loans and receivables (including cash and cash equivalents)	**9,167,845**	8,915,289
Available-for-sale investments	**—**	316,742
Financial liabilities		
Amortised cost	**6,146,026**	4,212,606

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies

The major financial instruments of the Group include financial assets measured at FVTOCI/available-for-sale investments, trade receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, other financial assets, bank deposits, structured bank deposits, restricted bank deposits, bank balances and cash, trade payables, other payables, bills payables, trade payable due to a joint venture, amounts due to related companies and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in USD, listed equity investments denominated in HK$, unlisted equity investment in partnerships denominated in USD and bank balances and cash denominated in USD and HK$, and the Company has raised HK$ bank loans and USD bank loans, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**–**	20,342	**168,123**	841,408
USD	**94,101**	54,712	**538,224**	1,425,184

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to currency risk of HK$ and USD.

The following table details the sensitivity of the Group to a 5% (2017: 5%) increase and decrease in RMB against HK$ and USD. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% (2017: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2017: 5%) against the relevant currency. For a 5% (2017: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	HK$ Impact (i)		**USD Impact (ii)**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Post-tax profit	**(6,724)**	(32,843)	**(17,764)**	(54,819)

(i) This is mainly attributable to the exposure to outstanding HK$ denominated bank balances and bank loans as at the end of the reporting period.

(ii) This is mainly attributable to the exposure to outstanding USD denominated bank balances, bank loans and trade receivables as at the end of the reporting period.

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 28 for details of these borrowings), which were raised from banks in the PRC and amount due from a joint venture (see note 40 for details).

The Group is also exposed to cash flow interest rate risk in relation to the floating-rate bank borrowings (see note 28 for details of these borrowings). It is the policy of the Group to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances expose the Group to cash flow interest rate risk due to the fluctuation of the prevailing interest rates. The Directors consider the Group's exposure is not significant as the bank deposit interest rates have no material fluctuation during the year.

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group was mainly concentrated on the fluctuation of benchmark interest rate of the PRC arising from the Group's RMB loans.

The interest rate risk on the structured bank deposits is limited because the maturity periods of these deposits are short.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank borrowings. The analysis is prepared assuming the financial liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2017: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the year ended 31 December 2018, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by HK$227,000 (2017: HK$239,000).

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(iii) *Other price risk*

The Group is exposed to equity price risk through its investments in listed equity instruments. The Group's equity price risk is mainly concentrated on the financial assets measured at FVTOCI.

The price risk on the structured bank deposits is limited because the maturity periods of these deposits are short.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective listed equity instruments had been 5% (2017: 5%) higher/lower:

- post-tax profit for the year ended 31 December 2018 would increase/decrease by HK$20,000 (2017: increase/decrease by HK$29,000) as a result of the changes in fair value of other financial assets; and

- investments revaluation reserve would increase/decrease by HK$3,765,000 (2017: HK$3,063,000) for the Group as a result of the changes in fair value of the listed equity investments measured at FVTOCI/available-for-sale investments.

Credit risk and impairment assessment

As at 31 December 2018, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

The Group's concentration of credit risk by geographical locations on trade receivables is mainly in the PRC. The Group has concentration of credit risk as 22% (31 December 2017: 20%) and 35% (31 December 2017: 30%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has applied the simplified approach in HKFRS 9 (2017: incurred loss model) to measure the loss allowance at lifetime ECL. Except for trade receivables with significant outstanding and credit-impaired balances which are assessed individually, the Group determines the ECL on the remaining balances by using a provision matrix grouped by common risk characteristic. As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Trade receivables with significant outstanding balances and with aggregate gross carrying amount of HK$1,035,033,000 as at 31 December 2018 are assessed individually. These balances are from counterparties which have low risk of default and usually settled within credit period. The exposure to credit risk for these balances are assessed within lifetime ECL with an average loss rate of approximately 0.02%, impairment allowance of HK$244,000 was provided by the Group as at 31 December 2018.

The remaining trade receivables with gross carrying amount of HK$1,325,179,000 are assessed based on debtors' aging.

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL.

Gross carrying amount

	Average loss rate	Trade receivables *HK$'000*
Current (not past due)	0.13%	1,163,759
1-270 days past due	4.24%	147,958
More than 270 days past due	42.49%	13,462
		1,325,179

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Gross carrying amount *(continued)*

The estimated loss rates are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific trade receivable is updated.

As at 31 December 2018, the Group provided HK$13,462,000 impairment allowance for trade receivables based on the provision matrix other than those significant outstanding balances.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 31 December 2017 under HKAS 39	—	13,491	13,491
Adjustment upon application of HKFRS 9	—	—	—
As at 1 January 2018	—	13,491	13,491
Impairment losses recognised	14,210	—	14,210
Impairment losses reversed	—	(13,363)	(13,363)
Exchange adjustments	(504)	(128)	(632)
As at 31 December 2018	13,706	—	13,706

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivable is over two years past due, whichever occurs earlier.

Bank deposits/bank balances/restricted bank deposits/structured bank deposits

The credit risks on bank deposits, bank balances, restricted bank deposits and structured bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measure the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2018, the gross carrying amount of bank deposits, bank balances, restricted bank deposits and structured bank deposits are HK$113,636,000, HK$4,926,833,000, HK$3,306,000 and HK$2,604,961,000 respectively.

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Gross carrying amount *(continued)*

Bills receivables

The credit risk of bills receivables is limited because the counterparties are mainly banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measure the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2018, the gross carrying amount of bills receivables is HK$1,473,141,000.

Trade receivables due from related companies

In order to minimise the credit risk, the Group will assess the credit quality of related companies. Other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. The Group measures the loss allowance at lifetime ECL. As at 31 December 2018, the gross carrying amount of trade receivables due from related companies is HK$72,094,000.

For the purpose of impairment assessment for trade receivables from related companies, the ECL is considered to be immaterial after considering counterparties financial background and creditability.

Amounts due from joint ventures

The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2018, the gross carrying amount of amounts due from joint ventures is HK$232,329,000.

For the purpose of impairment assessment for amounts due from joint ventures, the ECL is considered to be immaterial after considering counterparty financial background and creditability. The amount of impairment is considered insignificant.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2018, the Group has available unutilised bank loan facilities of HK$467,170,000 (2017: HK$728,732,000). Details of which are set out in note 28.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and derivative instrument. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2018

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	2,926,646	1,226,785	–	–	4,153,431	4,153,431
Bills payables	–	–	421,983	1,458,096	–	1,880,079	1,880,079
Amounts due to related companies	–	32,301	–	–	–	32,301	32,301
Borrowings							
– floating-rate	4.1	–	–	59,432	–	59,432	56,818
– fixed-rate	4.6	–	–	24,356	–	24,356	23,397
		2,958,947	1,648,768	1,541,884	–	6,149,599	6,146,026
Derivative							
Contingent consideration payable	4.9	–	–	14,716	25,029	39,745	36,676

38. FINANCIAL INSTRUMENTS *(continued)*

38b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2017

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	–	2,380,539	732,429	–	–	3,112,968	3,112,968
Bills payables	–	–	–	59,809	–	59,809	59,809
Amounts due to related companies	–	43,419	–	–	–	43,419	43,419
Trade payable due to a joint venture	–	9,319	–	–	–	9,319	9,319
Borrowings							
– floating-rate	4.10	–	–	–	62,261	62,261	59,809
– fixed-rate	4.27	–	–	966,847	–	966,847	927,282
		2,433,277	732,429	1,026,656	62,261	4,254,623	4,212,606

The amounts included above for variable interest rate instruments for financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

38. FINANCIAL INSTRUMENTS *(continued)*

38c. Fair value measurement of financial instruments

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liability	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2018 *HK$'000*	31 December 2017 *HK$'000*				
Equity securities listed in the PRC	**503**	732	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity securities listed in Hong Kong	**75,297**	61,266	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unquoted equity investments	**688,638**	N/A	Level 3	Income approach — in this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Long-term pre-tax operating margin	The higher the long-term pre-tax operating margin, the higher the fair value, vice versa.

38. FINANCIAL INSTRUMENTS *(continued)*

38c. Fair value measurement of financial instruments *(continued)*

(i) ***Fair value of the Group's financial assets that are measured at fair value on a recurring basis*** *(continued)*

Financial assets/ financial liability	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Structured bank deposits	**2,604,961**	1,315,789	Level 2	Discounted cash flows — future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risks of various counterparties.	N/A	N/A
Contingent consideration payable in a business combination	**36,676**	N/A	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Probability of the achievement of certain milestone events	The higher the probability, the higher the fair value, vice versa.

38. FINANCIAL INSTRUMENTS *(continued)*

38c. Fair value measurement of financial instruments *(continued)*

(i) ***Fair value of the Group's financial assets that are measured at fair value on a recurring basis*** *(continued)*

There were no transfers between levels in the current year.

Unrealised fair value gain of HK$45,028,000 included in OCI for the year ended 31 December 2018 is related to financial assets measured at FVTOCI held at 31 December 2018 and are reported as changes of 'investments revaluation reserve'.

The Board has set up a valuation committee, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the Directors every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

(ii) ***Reconciliation of Level 3 Measurements***

	Unquoted equity investments	**Contingent consideration payable**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017 and 31 December 2017	—	—	—
From cost to fair value	255,476	—	255,476
Total gains			
— in other comprehensive income	26,616	—	26,616
Purchase of unquoted equity investments	442,133	—	442,133
Acquisition of subsidiaries	—	39,846	39,846
Exchange adjustments	(35,587)	(3,170)	(38,757)
At 31 December 2018	688,638	36,676	725,314

38. FINANCIAL INSTRUMENTS *(continued)*

38c. Fair value measurement of financial instruments *(continued)*

(iii) Fair value of financial instruments that are recorded at amortised cost

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings HK$'000 (note 28)	Amounts due to related companies HK$'000 (note 40)	Dividend payable HK$'000 (note 12)	Dividend payable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	**987,091**	**43,419**	**–**	**–**	**1,030,510**
Financing cash flows	**(918,116)**	**(9,258)**	**(936,453)**	**(2,463)**	**(1,866,290)**
Acquisition of subsidiaries	**32,716**	**–**	**–**	**–**	**32,716**
Dividend declared	**–**	**–**	**936,453**	**2,463**	**938,916**
Foreign exchange translation	**(21,476)**	**(1,860)**	**–**	**–**	**(23,336)**
At 31 December 2018	**80,215**	**32,301**	**–**	**–**	**112,516**

	Borrowings HK$'000 (note 28)	Amounts due to related companies HK$'000 (note 40)	Dividend payable HK$'000 (note 12)	Total HK$'000
At 1 January 2017	1,138,157	657	–	1,138,814
Financing cash flows	(193,138)	223,819	(726,482)	(695,801)
Assets acquisitions	–	(181,208)	–	(181,208)
Dividend declared	–	–	726,482	726,482
Foreign exchange translation	42,072	151	–	42,223
At 31 December 2017	987,091	43,419	–	1,030,510

40. RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Other than those disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following significant transactions with related parties and the balances with them at the end of the reporting period are as follows:

(i) Related companies

Name of company	Nature of transactions/balances	2018 HK$'000	2017 HK$'000
CSPC Holdings Company Limited ("CHL") *(note f)*, and its subsidiaries and associates (the "CHL Group")	Purchase of pharmaceutical products	–	3,590
	Sale of pharmaceutical products	402,015	420,803
	Rental expense	23,794	23,119
	Interest expense on other loans	224	1,606
	Purchase of steam	34,985	23,009
	Provision of utility service from the Group	3,117	2,599
	Warehouse service income	9,652	7,945
	Balance due from/to the CHL Group		
	— trade receivables *(note b)*		
	aged 0-90 days	72,094	64,147
	aged 91-180 days	–	5,389
		72,094	69,536
	— other payables	32,301	43,419
	— borrowings repayable within one year *(note c)*		
	— current	–	8,971
	Guarantees provided to banks to secure general banking facilities granted to the Group *(note d)*	236,330	198,253

40. RELATED PARTY DISCLOSURES *(continued)*

(ii) Joint ventures

Name of company	Nature of transactions/balances	2018 HK$'000	2017 HK$'000
Huarong	Purchase of raw materials	**24,970**	60,346
	Provision of utility services by the Group	**111,236**	96,373
	Sales of raw materials	**162,439**	185,534
	Balance due from/to Huarong — other receivables *(note a)*	**75,338**	74,834
	— trade payable *(note e)* aged 0-90 days	**–**	9,319
Yantai Jiashi	Interest income	**–**	8,602
	Balance due from Yantai Jiashi — other receivables *(note a)*	**156,991**	201,996

Notes:

a. Amounts are unsecured, non-interest bearing and repayable on demand. The amounts included dividend declared by the joint venture during the year ended 31 December 2018 of HK$12,316,000 (2017: HK$8,409,000).

b. The Group allows a general credit period of 90 days for the sale.

c. The Group obtained loans from a related company which were unsecured, bore interest at 4.6% per annum and repayable within 1 to 3 years from draw down. The Group has repaid the loans in the current year.

d. In July 2017, May 2018 and August 2018, CHL entered into guarantee agreements with banks to secure the general banking facilities granted to the Group, amounting to RMB120,000,000, USD8,500,000 and RMB30,000,000 (2017: RMB120,000,000 and USD7,000,000) respectively at nil consideration to the Group.

e. The general credit period on purchases of goods is 90 days.

f. Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significant influence over the Company and exercises control over CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.

(iii) Compensation to key management personnel

The details of the compensation paid to key management personnel are set out in note 9.

41. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs which contribution is matched by employees.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK$150,384,000 (2017: HK$109,183,000), of which HK$985,000 (2017: HK$906,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

42. PARTICULARS OF SUBSIDIARIES

42.1 General information of subsidiaries

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company				Principal activity
				Directly		Indirectly		
				%		%		
				2018	2017	**2018**	2017	
China Pharmaceutical Group Limited	Hong Kong	Limited liability	HK$3	**100**	100	**–**	–	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability	HK$2	**100**	100	**–**	–	Investment holding
Dragon Merit Holdings Limited ("Dragon Merit")	Hong Kong	Limited liability	HK$1	**–**	–	**100**	100	Investment holding
Robust Sun Holdings Limited	The British Virgin Islands	Limited liability	US$2	**100**	100	**–**	–	Investment holding
CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd	The PRC	Foreign investment enterprise with limited liability	US$27,345,500	**100**	100	**–**	–	Manufacture and sale of pharmaceutical products
CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd	The PRC	Sino-foreign equity joint venture with limited liability	RMB678,555,900	**88.82**	88.82	**10.57**	10.57	Manufacturing and sale of pharmaceutical products

42. PARTICULARS OF SUBSIDIARIES *(continued)*

42.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2018	2017	**2018**	2017	
CSPC Zhongqi Pharmaceutical Technology (Tianjin) Co., Ltd.	The PRC	Limited liability	RMB1,000,000	**–**	–	**100**	100	Provision of pharmaceutical research and development services
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	**100**	100	**–**	–	Provision of pharmaceutical research and development services
CSPC Hebei Zhongrun Huanbao Co., Ltd	The PRC	Limited liability	RMB5,000,000	**–**	–	**100**	100	Sewage and pharmaceutical products
Zhongrun Huanbao Technology (Shijiazhuang) Co., Ltd ("Huanbao") *(note i)*	The PRC	Limited liability	RMB1,000,000	**–**	–	**–**	100	Sewage and pharmaceutical by-products
CSPC Yinhu Pharmaceutical Co., Ltd	The PRC	Limited liability	RMB150,000,000	**–**	–	**90**	90	Manufacture and sale of pharmaceutical products
CSPC Zhongzheng Pharmaceutical Logistic Company Limited	The PRC	Limited liability	RMB50,000,000	**–**	–	**99**	99	Storage, sourcing and distribution
CSPC Zhongnuo Pharmaceutical Import and Export Trading Co., Ltd.	The PRC	Limited liability	RMB1,000,000	**–**	–	**100**	100	Sale of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Limited liability	RMB150,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC NBP Pharmaceutical Co., Ltd. ("NBP")	The PRC	Foreign investment enterprise with limited liability	RMB413,594,300	**50**	50	**50**	50	Manufacture and sales of pharmaceutical products
CSPC OYY Pharmaceutical Co., Ltd. ("OYY")	The PRC	Foreign investment enterprise with limited liability	RMB300,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products

42. PARTICULARS OF SUBSIDIARIES *(continued)*

42.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly % 2018	Directly % 2017	Indirectly % 2018	Indirectly % 2017	Principal activity
CSPC Ouyi Pharmaceutical Import and Export Trade Co., Ltd.	The PRC	Limited liability	RMB100,000	**–**	–	**100**	100	Trading of pharmaceutical products
CSPC Innovation Pharmaceutical Co., Ltd. ("XNW")	The PRC	Limited liability	RMB150,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Huasheng Pharmaceutical Co., Ltd. ("Huasheng") *(note i)*	The PRC	Sino-foreign equity joint venture with limited liability	RMB4,000,000	**–**	45	**–**	55	Manufacture and sales of pharmaceutical products
CSPC Baike (Yantai) Biopharmaceutical Co., Ltd ("Baike Yantai") *(note ii)*	The PRC	Sino-foreign equity joint venture with limited liability	RMB223,000,000	**–**	68.61	**–**	31.39	Investment and property holding
CSPC Baike (Shandong) Biopharmaceutical Co., Ltd ("Baike Shandong")	The PRC	Limited liability	RMB223,000,000	**68.61**	–	**31.39**	100	Manufacture and sales of pharmaceutical product
Conjupro Bioerapecitics Inc.	USA	Limited liability	USD7,513,686	**–**	–	**100**	100	Research and development in pharmaceutical products
CSPC Medsolution (Ghana) Limited	Ghana	Limited liability	Ghanaian Cedi 437,400	**–**	–	**100**	100	Sales of pharmaceutical products
CSPC Shengxue Glucose Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB26,191,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
Hebei Jialing Pharmaceutical Limited	The PRC	Limited liability	RMB35,000,000	**–**	–	**60**	60	Sales of pharmaceutical products
Hebei Zhongnuo GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB80,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products

42. PARTICULARS OF SUBSIDIARIES *(continued)*

42.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2018	2017	2018	2017	
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB30,000,000	–	–	100	100	Sales of pharmaceutical products
Shijiazhuang Enpu Anti-oncology Investment Limited	The PRC	Limited liability	RMB50,000,000	–	–	100	100	Manufacture and sales of pharmaceutical products
CSPC Healthcare Inc.	USA	Limited liability	USD500,000	–	–	100	100	Sales of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Tianjin) Limited	The PRC	Limited liability	RMB160,000,000	–	–	100	100	Manufacture and sales of pharmaceutical products
CSPC Huanglu Medical Equipment (Taizhou) Limited	The PRC	Limited liability	RMB32,000,000	–	–	100	100	Sales of pharmaceutical equipments
CSPC Hebei Meiwei Modernised Chinese Medicine Co., Ltd	The PRC	Limited liability	RMB50,000,000	–	–	100	100	Sales of pharmaceutical products
NMG Zhongnuo	The PRC	Limited liability	RMB66,867,900	–	–	100	100	Manufacture and sales of pharmaceutical products
Gold Faith	Samoa	Limited liability	HKD311,758	–	–	100	100	Investment holding
Rockley Inc.	Samoa	Limited liability	USD1	–	–	100	100	Investment holding
Union	The PRC	Limited liability	RMB25,480,000	–	–	100	100	Manufacture and sales of pharmaceutical products
Ouyihe	The PRC	Limited liability	RMB200,000,000	–	–	100	100	Sales of pharmaceutical products
Dophen	USA	Limited liability	USD9,849,745	–	–	100	100	Research and development in pharmaceutical products

42. PARTICULARS OF SUBSIDIARIES *(continued)*

42.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2018	2017	**2018**	2017	
Megalith Pharmaceuticals Inc.	USA	Limited liability	USD1,000	**–**	–	**100**	100	Research and development in pharmaceutical products
AlaMab Therapeutics, Inc.	USA	Limited liability	USD4,650,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
Shijiazhuang Zhongrun Pharmaceutical Technology Limited	The PRC	Limited liability	RMB227,744,400	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
Xinshi Biopharmaceutical Limited	The PRC	Limited liability	RMB13,280,000	**–**	–	**100**	100	Research and development in pharmaceutical products
Novarock Biotherapeutics Limited	USA	Limited liability	USD1,000	**–**	–	**100**	100	Research and development in pharmaceutical products
Loyang Zhongchen Pharmaceutical Limited	The PRC	Limited liability	RMB10,000,000	**–**	–	**100**	100	Storage, sourcing and distribution
Shanghai Qianzhong Trade Co., Ltd	The PRC	Limited liability	RMB5,000,000	**–**	–	**100**	100	Investment holding
Acquired during the year								
YZY Biopharma	The PRC	Limited liability	RMB141,428,600	**–**	–	**39.56**	–	Research and development in pharmaceutical products
Anwoqin	The PRC	Limited liability	USD4,000,000	**100**	–	**–**	–	Manufacture and sales of pharmaceutical products

42. PARTICULARS OF SUBSIDIARIES *(continued)*

42.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2018	2017	**2018**	2017	
Established during the year								
Hebei Children's Hospital of Integrated Traditional Chinese and Western Medicine	The PRC	Others	RMB1,500,000	**–**	–	**100**	–	Provision of medical service
CSPC Jiangshu Enpu Medical Equipment Limited	The PRC	Limited liability	RMB3,000,000	**–**	–	**100**	–	Sales of pharmaceutical equipment
Hebei Enshi Pharmaceutical Technology Limited	The PRC	Limited liability	RMB12,000,000	**–**	–	**100**	–	Provision of pharmaceutical research and development services

Notes:

(i) During the year ended 31 December 2018, Huanbao and Huasheng were dissolved.

(ii) During the year ended 31 December 2018, Baike Yantai was dissolved and merged into Baike Shandong.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

42. PARTICULARS OF SUBSIDIARIES *(continued)*

42.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2018	31/12/2017	**31/12/2018**	31/12/2017	**31/12/2018**	31/12/2017
				HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
YZY Biopharma	The PRC	**60.44%**	N/A	**33,024**	N/A	**441,837**	N/A
Individually immaterial subsidiaries with non-controlling interests						**100,594**	85,023
						542,431	85,023

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

YZY Biopharma

	31/12/2018
	HK$'000
Current assets	**39,888**
Non-current assets	**817,905**
Current liabilities	**(7,977)**
Non-current liabilities	**(117,800)**
Equity attributable to owners of the Company	**289,586**
Non-controlling interests of YZY Biopharma	**442,430**

42. PARTICULARS OF SUBSIDIARIES *(continued)*

42.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

	For the period from 1 February 2018 to 31 December 2018 ***HK$'000***
Revenue	**–**
Expenses	**(54,640)**
Loss for the period	**(54,640)**
Loss attributable to owners of the Company	**(21,616)**
Loss attributable to the non-controlling interests of YZY Biopharma	**(33,024)**
Loss for the period	**(54,640)**
Other comprehensive expense attributable to owners of the Company	**(4,560)**
Other comprehensive expense attributable to the non-controlling interests of YZY Biopharma	**(6,966)**
Other comprehensive expense for the period	**(11,526)**
Total comprehensive expense attributable to owners of the Company	**(26,175)**
Total comprehensive expense attributable to the non-controlling interests of YZY Biopharma	**(39,991)**
Total comprehensive expense for the period	**(66,166)**
Dividends paid to non-controlling interests of YZY Biopharma	**–**
Net cash outflow from operating activities	**(47,450)**
Net cash outflow from investing activities	**(34,699)**
Net cash outflow from financing activities	**(86,843)**
Net cash outflow	**(168,992)**

43. EVENTS AFTER THE REPORTING PERIOD

On 4 January 2019, Dragon Merit, a wholly-owned subsidiary of the Company, entered into agreement with an independent third party to acquire all the issued shares in Yong Shun Technology Development Limited ("Yong Shun") for a consideration of RMB252,880,000. The Group believes that the investment in Yong Shun would provide a good opportunity to expand the Group's presence in the biopharmaceutical drug market in the PRC. Details of the acquisition are set out in the Company's announcement dated 7 January 2019. The management of the Company are currently in the process of assessing the financial impact of the acquisition.

On 15 January 2019, the Board resolved to grant 2,394,000 shares to certain employees of the Company or its subsidiaries under the 2018 Share Award Scheme. The shares shall be vested within 3 to 5 years from date of grant. The 2,394,000 shares granted have been purchased by a trustee through market transactions.

On 5 March 2019, XNW, a subsidiary of the Company, issued a prospectus in connection with its proposed listing on Shenzhen Stock Exchange. XNW proposed to issue 50,000,000 A shares at the offer price to be determined. The management of the Company are currently in the process of assessing the financial impact of the separate listing of XNW.

44. COMPARATIVE FIGURES

Research and development expenses amounting to HK$815,258,000 for the year ended 31 December 2017 were reclassified from other expenses to research and development expenses in the consolidated financial statements so as to conform with the current year presentation.

Certain other losses amounting to HK$59,505,000 for the year ended 31 December 2017 were reclassified from other income, administrative expense and other expenses to other gains or losses in the consolidated financial statements so as to conform with the current year presentation.

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Property, plant and equipment	**628**	847
Investments in subsidiaries	**9,697,865**	10,219,943
Financial assets measured at FVTOCI/available-for-sale investments	**75,297**	61,266
Amounts due from subsidiaries	**1,275,815**	359,643
	11,049,605	10,641,699
Current assets		
Other receivables	**1,336**	5,980
Amounts due from subsidiaries	**2,374,105**	2,287,730
Bank balances and cash	**520,126**	1,577,049
	2,895,567	3,870,759
Current liabilities		
Other payables	**109,880**	44,430
Amount due to a subsidiary	**–**	521,161
Amount due to a related company	**–**	20,350
Tax liabilities	**61,430**	42,938
	171,310	628,879
Net current assets	**2,724,257**	3,241,880
Net assets	**13,773,862**	13,883,579
Capital and reserves		
Share capital	**12,922,199**	12,922,199
Reserves	**851,663**	961,380
Total equity	**13,773,862**	13,883,579

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 18 March 2019 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Other reserve HK$'000	Investments valuation reserve HK$'000	Translation reserves HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2017	835	–	–	1,814	756,422	759,071
Profit for the year	–	–	–	–	927,428	927,428
Other comprehensive income for the year	–	3,177	–	–	–	3,177
Total comprehensive income for the year	–	3,177	–	–	927,428	930,605
Dividend recognised as distribution	–	–	–	–	(726,482)	(726,482)
Exercise of share options	–	–	–	(1,814)	–	(1,814)
At 31 December 2017 and 1 January 2018	**835**	**3,177**	**–**	**–**	**957,368**	**961,380**
Profit for the year	**–**	**–**	**–**	**–**	**1,544,559**	**1,544,559**
Other comprehensive income (expense) for the year	**–**	**18,412**	**(637,155)**	**–**	**–**	**(618,743)**
Total comprehensive income (expense) for the year	**–**	**18,412**	**(637,155)**	**–**	**1,544,559**	**925,816**
Dividend recognised as distribution	**–**	**–**	**–**	**–**	**(936,453)**	**(936,453)**
Disposal of investments in equity investments at FVTOCI	**–**	**(1,181)**	**–**	**–**	**1,181**	**–**
Repurchase of ordinary shares	**–**	**–**	**–**	**–**	**(98,854)**	**(98,854)**
Transaction costs attributable to repurchase of ordinary shares	**–**	**–**	**–**	**–**	**(226)**	**(226)**
At 31 December 2018	**835**	**20,408**	**(637,155)**	**–**	**1,467,575**	**851,663**

Financial Summary

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(note)	*(note)*	*(note)*	*(note)*	
Results					
Revenue	10,955,077	11,393,726	12,369,041	15,462,529	**21,028,871**
Cost of sales	(6,767,724)	(6,172,848)	(6,060,232)	(6,116,561)	**(7,116,080)**
Gross profit	4,187,353	5,220,878	6,308,809	9,345,968	**13,912,791**
Other income	131,156	86,561	96,961	119,681	**165,897**
Other gains or losses	(3,999)	(17,822)	(8,075)	(59,505)	**181,192**
Selling and distribution expenses	(1,788,032)	(2,266,958)	(2,788,160)	(4,374,637)	**(7,328,277)**
Administrative expenses	(544,296)	(524,071)	(556,182)	(641,656)	**(779,915)**
Research and development expenses	(307,223)	(324,505)	(403,140)	(815,258)	**(1,583,213)**
Other expenses	(591)	(7,630)	(729)	(92,950)	**(30,754)**
Operating profit	1,674,368	2,166,453	2,649,484	3,481,643	**4,537,721**
Finance costs	(54,358)	(56,335)	(41,711)	(26,631)	**(87,561)**
Share of results of					
— an associate	375	141	—	—	**—**
— a joint venture	588	10,663	27,559	10,277	**51,449**
Loss on disposal of an associate	—	(8,873)	—	—	**—**
Gain on disposal of subsidiaries	511	—	—	—	**—**
Profit before tax	1,621,484	2,112,049	2,635,332	3,465,289	**4,501,609**
Income tax expense	(337,153)	(432,423)	(522,107)	(685,245)	**(872,991)**
Profit for the year	1,284,331	1,679,626	2,113,225	2,780,044	**3,628,618**
Profit for the year attributable to:					
Owners of the Company	1,268,446	1,665,271	2,100,848	2,770,522	**3,654,978**
Non-controlling interests	15,885	14,355	12,377	9,522	**(26,360)**
	1,284,331	1,679,626	2,113,225	2,780,044	**3,628,618**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share					
Basic	21.47	28.18	35.25	45.48	**58.55**
Diluted	21.26	27.95	35.00	45.48	**N/A**

Note: Other gains or losses and research and development expenses were reclassified from other income, administrative expense and other expenses in the consolidated financial statements so as to conform with the current year presentation.

Financial Summary

	As at 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Assets and liabilities					
Total assets	12,501,230	13,539,851	14,760,186	21,542,680	**26,382,769**
Total liabilities	(4,349,702)	(4,727,244)	(4,568,864)	(6,135,284)	**(8,735,497)**
Net assets	8,151,528	8,812,607	10,191,322	15,407,396	**17,647,272**
Equity attributable to owners of the Company	8,079,154	8,738,055	10,107,626	15,322,373	**17,104,841**
Non-controlling interests	72,374	74,552	83,696	85,023	**542,431**
Total equity	8,151,528	8,812,607	10,191,322	15,407,396	**17,647,272**