The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code:3933)

ANNUAL REPORT 2018

Our mission is to
make life more valuable

Contents

CORPORATE CALENDAR OF 2018

JANUARY

- The United Laboratories (Inner Mongolia) passed the high-tech enterprise certification.
- The insulin aspart project was granted with the Special Fund Subsidies for Supporting the Commercialization of Major Scientific and Technological Achievements of Guangdong Province.
- Zhuhai United Laboratories passed the OHSAS18001 (Occupational Health and Safety Management System) Certification.

FEBRUARY

- The United Laboratories was ranked the fourth largest western medicine exporter among the "China Foreign Trade List of Medicines" by China Chamber of Commerce for Import & Export of Medicines & Health Products.

MARCH

- The United Laboratories was granted the "China Foreign Trade List of Medicines – Top 50 APIs Exporters for 2017" & "China Top Ten Member Exporters of APIs" by China Chamber of Commerce for Import & Export of Medicines & Health Products.
- Zhuhai United Laboratories was shortlisted for the "Key Enterprise of Industrial Development and Innovation-driven Enterprise of Jinwan District for 2018".
- The United Laboratories was awarded the "Medical Technology Innovation Advanced Company of Zhuhai for 2017" by Zhuhai Medical Association.

APRIL

- The amoxicillin capsule (specification: 0.25g) of The United Laboratories passed the consistency of quality and efficacy evaluation for generic drugs.
- Zhuhai United Laboratories successfully passed the high-tech enterprise certification.

JUNE

- The Research and Development and Commercialization Project of the Diabetic Drug – Recombinant Human Insulin Series under the Genetic Engineering of The United Laboratories was awarded the "First Prize of the Science and Technology Progress Awards of Zhuhai".
- The United Laboratories was granted the "2018 Excellent Supplier and Cooperation Partner in International Market" by China Chamber of Commerce for Import & Export of Medicines & Health Products.

JULY

- The United Laboratories (Inner Mongolia) successfully passed the GMP on-site inspection.
- The United Laboratories (Inner Mongolia) donated drought relief funds of RMB300,000 to Bayannur City.

AUGUST

- The cefuroxime axetil tablet (specification: 0.25g) of The United Laboratories passed the consistency of quality and efficacy evaluation for generic drugs.
- Zhuhai United Laboratories was ranked at No. 24 of the "2017 Chinese Top 100 Pharmaceutical Enterprises" published by China National Pharmaceutical Industry Information Center.

SEPTEMBER

- The bulk medicine of clavulanate potassium, clavulanate potassium-microcrystalline cellulose (1:1) and clavulanate potassium-silica (1:1) of The United Laboratories (Inner Mongolia) obtained GMP certificate.
- Mr. Choy Kam Lok, former Chairman of the Board of The United Laboratories, was titled as "Pharmaceutical Industry Outstanding Man in the 40 Years of Reform and Opening-up".

OCTOBER

- A total of 15 categories (30 products) of The United Laboratories were selected in the "National Essential Drugs List (2018 edition)".
- Zhuhai United Laboratories passed the EU GMP on-site inspection on sterile bulk medicine.
- Zhuhai United Laboratories was honored as "Top 100 Industrial Enterprises in Terms of Comprehensive Strength in the Pharmaceutical Industry of China", "Excellent Bulk Medicine Export Enterprise Brand in the Pharmaceutical Industry of China" and "Chinese Chemical Pharmaceutical Industry Anti-Infection Excellent Brand" by the Chinese Chemical Pharmaceutical Industry Association.

NOVEMBER

- Liraglutide Injection of The United Laboratories was approved for clinical-trial.
- "USLIN" (recombinant human insulin finished product series) of The United Laboratories was honored as the "Most Innovative Finished Product Series of China in 2018" by the China National Pharmaceutical Industry Information Center.
- The United Laboratories (Inner Mongolia) was honored to be ranked among the "Third Batch of Green Manufacturer List" by the Ministry of Industry and Information Technology and was awarded the title of National Green Factory.

DECEMBER

- The United Laboratories was awarded as "Outstanding Pharmaceutical Enterprise for 40-Anniversary Reform and Opening-up in Guangdong", amoxicillin capsules manufactured by The United Laboratories as "Pharmaceutical Innovative Products for 40-Anniversary Reform and Opening-up in Guangdong".
- "The United Laboratories Education Scholarship" was granted at Fujian Medical University and Central South University.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent non-executive directors

Mr. Chong Peng Oon
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Ms. Fu Xiao Nan

RISK MANAGEMENT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Mr. Leung Wing Hon
Ms. Choy Siu Chit

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

Bank of Communication Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
Industrial and Commercial Bank of China Limited, Zhuhai Branch
Huaxia Bank Co., Ltd, Zhuhai Branch
Bank of China Limited, Zhuhai Branch

Hong Kong

China Development Bank, Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
China Construction Bank (Asia) Corporation Limited
Taipei Fubon Commercial Bank Co., Limited, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

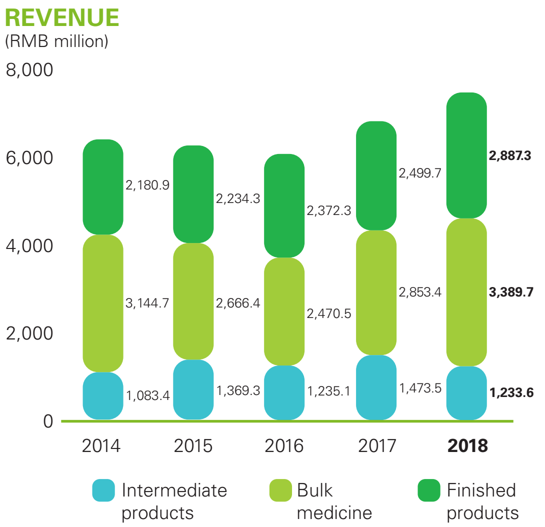
Computershare Hong Kong Investor Services Limited

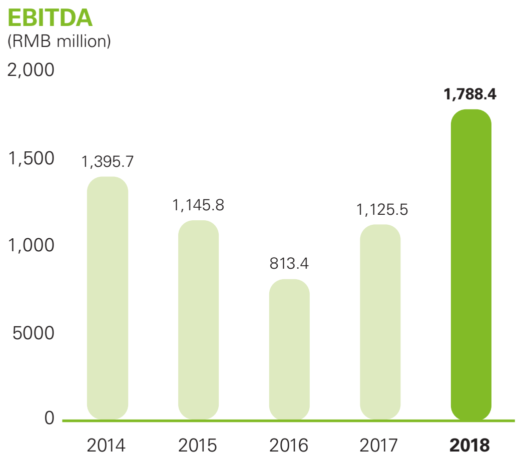
WEBSITE

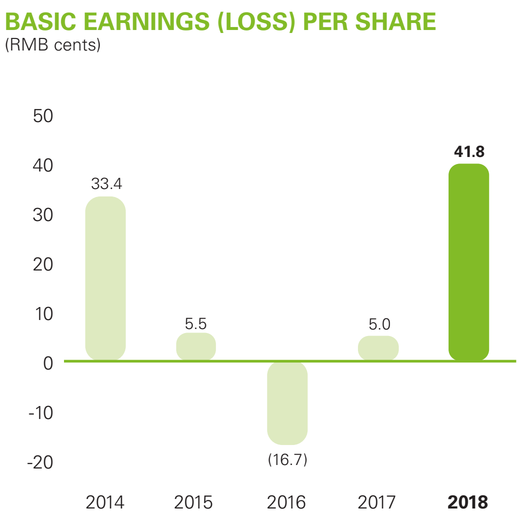
www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

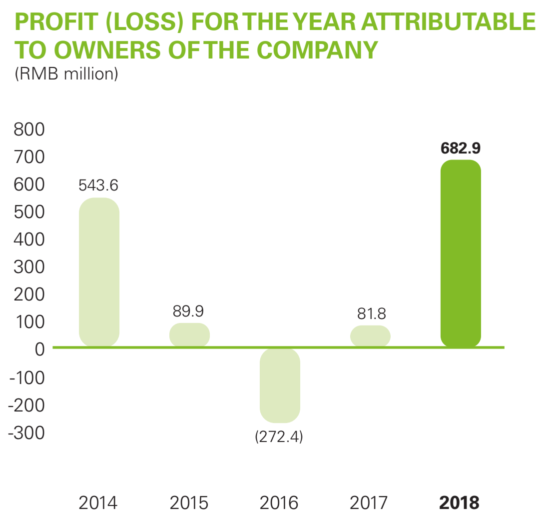
FINANCIAL HIGHLIGHTS

	2018 RMB'000	2017 RMB'000	Increase %
Revenue	**7,510,586**	6,826,645	10.0%
EBITDA	**1,788,400**	1,125,470	58.9%
Profit before taxation	**793,879**	68,951	1,051.4%
Profit for the year attributable to owners of the Company	**682,928**	81,758	735.3%
Earnings per share			
Basic	**RMB41.80 cents**	RMB5.03 cents	731.0%
Diluted	**RMB32.27 cents**	RMB5.03 cents	541.6%









聯邦®阿莫仙®

Amoxicillin Capsules (0.25g)

Passed

Consistency of Quality And Efficacy Evaluation for Generic Drugs

仿制药一致性评价

聯邦賽福欣®

Cefuroxime Axetil Tablets (0.25g)

Passed

Consistency of Quality And Efficacy Evaluation for Generic Drugs

仿制药一致性评价

CHAIRMAN'S STATEMENT

Tsoi Hoi Shan
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company" or "The United Laboratories"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Year").

In 2018, as affected by the tightening global financial environment, trade frictions and other factors, the world economy grew at a slower pace. In particular, the gross domestic product (GDP) of the PRC exceeded RMB90.0 trillion during the Year, representing a year-on-year increase of 6.6%. The PRC economy has shifted from the stage of high-speed growth to high-quality development, and continuously demonstrated a general stable and upward trend.

In 2018, the pharmaceutical industry of the PRC entered a new development phase. During the Year, the government further deepened the comprehensive reform of public hospitals, continued to focus on medical insurance, medical treatment and pharmacy in the new health care reform, and made efforts to advance the health care reform from the prospective of "medical insurance, medical treatment and pharmacy". Meanwhile, the government issued a new edition of National Essential Drugs List, established the Bureau of National Health Care（國家醫療保障局）, promoted and implemented the 4+7 centralised procurement of medicines in cities, which all indicated the State's determination to promote reform at the drug supply side, deepen the health care reform and improve the quality of domestic drugs. Upon this round of reform, we are expecting a significant rise in the concentration of the pharmaceutical industry, and leading enterprises that are in line with the general direction of medical reform policies will also embrace new growth opportunities.

CHAIRMAN'S STATEMENT

During the Year, the Group's revenue amounted to RMB7,510.6 million, representing an increase of approximately 10.0% over 2017. EBITDA was approximately RMB1,788.4 million, representing an increase of 58.9% as compared with last year. Profit attributable to owners of the Company was RMB682.9 million, representing an increase of 735.3% as compared with last year. Earnings per share amounted to RMB41.80 cents. The Board proposes a final dividend of RMB6 cents per share for the year ended 31 December 2018.

During the Year, the Group's insulin series products continued to be the major growth driver. A total of 14.9 million vials of recombinant human insulin injections were sold during the Year, up by 21.1% as compared to last year and meeting the expected sales target, and recording a sales revenue of RMB574.8 million in total. In addition, the "United Laboratories USLEN" insulin glargine injection, which was officially launched to the market in May 2017, recorded a sales revenue of RMB84.1 million during the Year. Currently, insulin glargine products of the Group have won the tender through bidding in 17 provinces, and the Group will also continue to participate in the bidding in other provinces actively.

The Group's finished products business maintained a stable growth and antibiotics products recorded a sales revenue of RMB1,855.4 million in total during the Year. In particular, during the Year, the sales revenue from the piperacillin sodium and tazobactam sodium for injection amounted to RMB482.7 million, representing an increase of 18.3% over 2017, and the sales revenue from the amoxicillin capsules amounted to RMB451.2 million, representing an increase of 11.4% over 2017. In addition, memantine hydrochloride series products, a drug to treat Alzheimer's disease, recorded a sales revenue of RMB44.4 million during the Year, representing a significant increase over 2017.

The National Essential Drugs List (2018 version) was promulgated during the Year and 30 products under 15 categories of the Group were included in the List. In particular, the insulin glargine and piperacillin sodium and tazobactam sodium, two categories newly included in the List, are expected to have a positive impact on the Group's sales of finished products.

CHAIRMAN'S STATEMENT

The Group has been committed to research and development on a continual basis. We currently have 38 new products under development, which are expected to further enrich our reserve of preparations. Currently, we have 29 patents which have been successfully registered and 13 patents which are in the process of applying for registration. As for the research and development of biological preparations, the Group will further optimise our offerings of diabetic drugs. In particular, the Group has currently applied for production of insulin aspart injection and insulin aspart 30 injection. The liraglutide injection has been approved for clinical trial in November 2018, and the Group will speed up advancing the clinical trial of such product, which is expected to effectively make up for the vacancy of domestic GLP-1 analog upon launched to the market. In addition, insulin degludec injection, insulin degludec-insulin aspart injection, insulin degludec-liraglutide injection and semaglutide have initiated pre-clinical studies. With regard to the research and development of chemical pharmaceuticals, the Group has focal coverage over series of products such as diabetic drugs, anti-HBV drugs and eye drops, and intends to expand into new drugs.

National Medical Products Administration officially issued the announcement on the consistency of quality and efficacy evaluation for generic drugs (the "Consistency Evaluation") in 2016, which marks the thorough implementation of the Consistency Evaluation in the PRC and signals the new start of the long cycle of the pharmaceutical industry of the PRC. The Group positively promoted the Consistency Evaluation for generic drugs, and thus differentiated itself in the fierce competition. In particular, the Group's amoxicillin capsule (specification: 0.25g) and cefuroxime axetil tablet (specification: 0.25g) were among the first to pass the Consistency Evaluation in April 2018 and August 2018, respectively. Benefiting from the Consistency Evaluation, the Group is expected to further expand our market shares of antibiotic products in different business segments, and further improve our product sales and market competitiveness, which lays a sound basis for the smooth development of the Group's subsequent Consistency Evaluation projects.

CHAIRMAN'S STATEMENT

Upholding the sustainable development idea of "environment priority", the Group constantly increased investments in environmental protection and enhanced environmental protection with focus placed on the national environmental protection strategy. During the Year, The United Laboratories (Inner Mongolia) Co., Ltd. (聯邦制藥(內蒙古)有限公司) successfully passed the supervision over environmental protection by the central government, and continued to promote the "Reclaimed Water Reuse" project. Such project is planned to be constructed in three tranches, and expected to comprehensively achieve the target of zero discharge of point source sewage in 2019. Benefiting from the continuous supervision over environmental protection by the central government, the prices of 6-APA and amoxicillin fluctuated stably and maintained at an ideal level during the Year. The United Laboratories (Inner Mongolia) Co., Ltd. was included in the Third Batch of Green Manufacturer List issued by the Ministry of Industry and Information Technology and won the national "Green Plant" award; Zhuhai United Laboratories Co., Ltd. (珠海聯邦制藥股份有限公司) was accredited as a "high-tech enterprise in Guangdong Province" once again, which demonstrated the recognition of the government in respect of the Group's operating results, technological innovation results and R&D strength, thereby further improving our brand image and comprehensive influence.

With regard to finance, the convertible bonds of approximately US$8,049,000 (equivalent to approximately RMB51,111,000) issued on 5 December 2016 have been converted by bondholders during the Year and 12,845,770 ordinary shares were allotted upon conversion. The Group will continue to optimise its financial structure and improve its liquidity to ensure adequate working capital.

Looking forward, the world economy faces downward pressure, and the PRC economy is expected to continue its stable growth under the micro adjustment of macro policies with a steady advancement of economic transformation. Currently, the pharmaceutical industry of the PRC is in rapid development, the medical insurance system is further improved, and the supply-side reform is continuously advanced. With a combined effect of the high-frequency policy guidance, the "Healthy China" industrial development strategy facilitation and an ageing population, the pharmaceutical industry is in urgent need for structural adjustment, so as to gradually enter a new development circle. As China further deepens its reform in the pharmaceutical industry including promotion of consistency of quality and efficacy evaluation for generic drugs, implementation of the new edition of National Essential Drugs List and pilot adoption of bulky procurement plan, we believe the pharmaceutical industry will embrace new development opportunities and achieve a long-term and healthy development in the future.

CHAIRMAN'S STATEMENT

The Group will continue to place its strategic focus on insulin series products and actively promote the continued growth of sales of this series of products. Meanwhile, we will focus on promoting the piperacillin sodium and tazobactam sodium for injection, the United Laboratories amoxicillin capsules, the United Laboratories ampicillin capsules, the United Laboratories USLIN and the United Laboratories USLEN as a new target product mix. Through ongoing improvement in our management system, the Group will continue to increase academic investments to achieve an all-rounded, balanced and sustainable development in terms of the market, products and teams. In the meantime, the Group will closely monitor the changes in pharmaceutical policy and market, and accelerate the project progress of the R&D and the Consistency Evaluation to gain a head start in the market. Furthermore, we will continue to improve the capacity utilisation rate of intermediate products and bulk medicines, optimise production costs, and adopt customised sales and pricing strategies for varied products to improve our profitability.

2019 is a year of both challenges and opportunities for the pharmaceutical industry of the PRC. The Group will make continuous efforts to enhance our product competitiveness, accelerate the cultivation of innovation ability and scientific research ability, and positively capitalise on the market opportunities arising from industrial transformation to maintain the Group's sustainable growth momentum, hence creating the maximum value for our shareholders, customers and stakeholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support in 2018, as well as all staff for their efforts and contributions. I hope we can join hands and create a better future together.

Tsoi Hoi Shan
Chairman

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Leung Wing Hon
Vice-Chairman

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2018, the Group's revenue was approximately RMB7,510.6 million, an increase of 10.0% as compared with last year. The profit attributable to shareholders was approximately RMB682.9 million for the year ended 31 December 2018 while the profit for the year ended 31 December 2017 was approximately RMB81.8 million, representing an increase of 735.3%. The profit for 2018 is mainly attributable to a number of factors as below:

– Increase in the sales prices of intermediate products, resulting a substantial improvement in overall profit margin;

– The fair value change of embedded derivative components of convertible bonds records a gain of approximately RMB226.4 million; and

– Substantial decrease in loss on fair value change on investment properties.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 7.3%, 17.5% and 15.5% respectively as compared with last year. Segmental result of intermediate products and bulk medicine increased by 733.9% and 1.8% respectively as compared with last year. Segmental result of finished products decreased slightly by 0.9% as compared with last year.

The fair value change of embedded derivative components of convertible bonds records a gain of approximately RMB226.4 million is mainly due to fluctuation in the share price of the Company during the year.

Fair value loss of investment properties located in Chengdu is due to increase in construction costs and reference to current market.

The Group's operations during the year are summarised as follows:

Intermediate Products and Bulk Medicine

During the year, the sales price of intermediate products increased steadily thus resulting a significant improvement in segment profit. The sales of bulk medicine also increased gradually during the year. Segment revenue of intermediate products amounts to RMB2,851.4 million representing an increase of 7.3% as compared to 2017. Segment results of intermediate products records a significant increase from profit of approximately RMB34.4 million in 2017 to profit of approximately RMB287.1 million in current year, representing an increase of 733.9%. Bulk medicine segment records a segment revenue of approximately RMB3,812.7 million, representing an increase of 17.5% as compared to 2017, and segment profit of approximately RMB105.2 million for current year.

MANAGEMENT DISCUSSION AND ANALYSIS

Executive directors from left to right: Ms. Zhu Su Yan, Ms. Choy Siu Chit,
Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Mr. Fang Yu Ping and Ms. Zou Xian Hong

Finished Products

During the year, the Group's finished products business maintained continued growth and recorded a segment revenue of approximately RMB2,887.3 million, representing an increase of 15.5%, and segment profit of approximately RMB615.4 million for current year.

The Group's insulin series products continued to be the major driving force of the Group's growth. Sales volume of recombinant human insulin injections increased by 21.1% as compared to last year, and recording a sales revenue of approximately RMB574.8 million. The "United Laboratories USLEN" insulin glargine injection launched to market in May 2017 has recorded a sales revenue of RMB84.1 million during 2018 and RMB21.9 million in 2017, representing an increase of 284.0%. Currently, the Group's insulin glargine products have won the tender through bidding in 17 provinces.

Research and Development

The Group has been long committed to research and development. The expenditure in R&D for current year amounted to approximately RMB283.2 million, representing 74.5% increase as compared with last year. The Group currently has 38 new products under development. Currently, 29 patents have been successfully registered and 13 patents are in the process of applying for registration, which is expected to further enrich our reserve of preparations. The Group has currently applied for production of insulin aspart injection and insulin aspart 30 injection. The liraglutide injection has been approved for clinical trial in November 2018, and the Group will speed up advancing the clinical trial of such product, which is expected to effectively make up for the vacancy of domestic GLP-1 analog upon launched to the market. In addition, insulin degludec injection, insulin degludec-

MANAGEMENT DISCUSSION AND ANALYSIS

insulin aspart injection, insulin degludec-liraglutide injection and semaglutide have initiated pre-clinical studies. With regard to the research and development of chemical pharmaceuticals, the Group has focal coverage over series of products such as diabetic drugs, anti-HBV drugs and eye drops, and intends to expand into new drugs.

Products Consistency Evaluation

National Medical Products Administration ("NMPA") officially issued the announcement on the consistency of quality and efficacy evaluation for generic drugs (the "Consistency Evaluation") in early 2016, which marks the thorough implementation of the Consistency Evaluation in the PRC and signals the new start of the long cycle of the pharmaceutical industry of the PRC. The Group made positive responses and continuously promoted the Consistency Evaluation for generic drugs, and thus differentiated itself in the fierce competition. As approved by NMPA, one of our major antibiotic products, the amoxicillin capsule (specification: 0.25g) was among the first to pass the Consistency Evaluation in April 2018. The cefuroxime axetil tablet (specification: 0.25g) of the Group had also passed the Consistency Evaluation in August 2018. Benefiting from a head start in the Consistency Evaluation, we are expecting to further expand our market shares of antibiotic products in different business segments. The aforementioned approvals also provided a good start for the smooth development of the Group's subsequent Consistency Evaluation projects.

Optimising Financing Structure

With regard to finance, the Group continued to optimise its financial condition. The convertible bonds of approximately US$8,049,000 (equivalent to approximately RMB51,111,000) issued on 5 December 2016 have been converted by bondholders in June 2018 and 12,845,770 ordinary shares were allotted upon conversion. As at 31 December 2018, the Group's net gearing ratio was further decreased to 33.8% as a result of improvement in earnings.

Liquidity and Financial Resources

As at 31 December 2018, the Group had pledged bank deposits and cash and bank balances amounted to approximately RMB2,134.3 million (2017: RMB2,081.5 million).

As at 31 December 2018, the Group had interest-bearing borrowings and bank overdraft of approximately RMB3,305.6 million (2017: RMB3,417.5 million), which were denominated in Hong Kong dollars, Renminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately RMB2,209.9 million are fixed rates loans while the remaining balance of approximately RMB999.0 million is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2018, current assets of the Group amounted to approximately RMB6,697.0 million (2017: RMB5,764.9 million). The Group's current ratio was approximately 1.03 as at 31 December 2018, as compared with 1.20 as at 31 December 2017. As at 31 December 2018, the Group had total assets of approximately RMB14,602.3

MANAGEMENT DISCUSSION AND ANALYSIS

million (2017: RMB14,111.8 million) and total liabilities of approximately RMB8,480.3 million (2017: RMB8,670.1 million), representing a net gearing ratio (calculated as total borrowings, bank overdraft, obligations under finance leases and convertible bonds less pledged deposit against finance leases, pledged bank deposits and cash and bank balances to total equity) of 33.8% as at 31 December 2018, as compared with 49.2% as at 31 December 2017.

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly denominated in Renminbi and Hong Kong dollars. The Group's borrowings are denominated in Hong Kong dollars, Renminbi, Euro and United States dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

Contingent Liabilities

As at 31 December 2018 and 2017, the Group had no material contingent liabilities.

Outlook for 2019

2019 is a year of both challenges and opportunities for the pharmaceutical industry of the PRC. The PRC economy is expected to continue its stable growth under the micro adjustment of macro policies with a steady advancement of economic transformation. Currently, the pharmaceutical industry of the PRC is in rapid development, the medical insurance system is further improved, and the supply-side reform is continuously advanced.

The Group will continue to place its strategic focus on insulin series products and actively promote the continued growth of sales of this series of products. Meanwhile, we will focus on promoting the piperacillin sodium and tazobactam sodium for injection, the United Laboratories amoxicillin branded capsules, the United Laboratorie Ampicillin Capsules, the United Laboratories USLIN and the United Laboratories USLEN as a new product mix.

The Group will also make continuous efforts to enhance our product competitiveness, accelerate the cultivation of innovation ability and scientific research ability. Currently, we have 38 new products under development, which are expected to further enrich our reserve of preparations; 29 patents which have been successfully registered and 13 patents which are in the process of applying for registration. As for the research and development of biological preparations, the Group will further optimise our offerings of diabetic drugs. The Group has currently applied for production of insulin aspart injection and insulin aspart 30 injection, which is expected to obtain approval the soonest within the year. The liraglutide injection has been approved for clinical trial in November 2018. With regard to the research and development of chemical pharmaceuticals, the Group has focal coverage over series of products such as antidiabetic drugs, anti-HBV drugs and eye drops, and intends to expand into new drugs.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration

As at 31 December 2018, the Group had approximately 12,200 (2017: 12,000) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2018.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

AUDIT COMMITTEE REVIEW

The Audit Committee comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed with the management of the Company the consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the final dividend, the Register of Members of the Company will be closed on Wednesday, 19 June 2019 and Thursday, 20 June 2019 on which no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 18 June 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (蔡海山先生), aged 41, is an executive director and the Chairman of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible for supervising the production process at the Hong Kong Yuen Long Plant and ensuring that it was in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is the brother of Ms. Choy Siu Chit, who is an executive director of the Company.

Mr. Leung Wing Hon (梁永康先生), aged 57, is an executive director, the Vice-Chairman, the Chief Financial Officer and the Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of International Accountants and a fellow member of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom. Mr. Leung has over 20 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Ms. Choy Siu Chit (蔡紹哲女士), aged 46, is an executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the sister of Mr. Tsoi Hoi Shan, an executive director and the Chairman of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Fang Yu Ping (方煜平先生), aged 56, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC, with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. Mr. Fang joined the Group in 1995 and was promoted to vice president of the Group in 2008. He was the general manager of China Sales Division of Finished Products from 2011 to 2018.

Ms. Zou Xian Hong (鄒鮮紅女士), aged 54, is an executive director of the Company and a vice president of the Group. Ms. Zou graduated from China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science of Central South University. Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group. She was the general manager of China Sales Division of Finished Products from 2008 to 2010.

Ms. Zhu Su Yan (朱蘇燕女士), aged 54, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from Southeast University in the PRC in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and had served as regional manager of Jiangsu Province, vice president of national hospital development department and general manager of China Sales Division of Finished Products etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Independent non-executive directors

Mr. Chong Peng Oon (張品文先生), aged 70, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee, remuneration committee and risk management committee, and a member of the nomination committee of the Company. Mr. Chong was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and was recognised as a Fellow Member of the Institute since 1981. He was in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small and medium enterprises to large listed groups in the service and other sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax advisory business for companies in Hong Kong and China. He was a former member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Prof. Song Ming（宋敏教授）, aged 57, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee, remuneration committee and Risk Management Committee of the Company. Prof. Song graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. Prof. Song is currently Dean of Economics and Management School of Wuhan University. Prof. Song is also an independent non-executive director of Great Wall Pan Asia Holdings Limited (Stock Code: 583), Guotai Junan International Holdings Limited (Stock Code: 1788) and Wuzhou International Holdings Limited (Stock Code: 1369), all are listed on the main board of the Stock Exchange of Hong Kong and an independent director of Tande Co., Ltd., a company listed on the Shanghai Stock Exchange.

Ms. Fu Xiao Nan（傅小楠女士）, aged 48, has been appointed as an independent non-executive director of the Company on 10 December 2012. She is a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Fu has around twenty years of experience in investment banking and financial services. She is a partner of Phoenix Investment Company, which is incorporated in the PRC since March 2016. She joined Huatai United Securities in May 2011 and left in March 2016. Prior to joining Huatai United Securities, Ms. Fu held senior management positions in various investment banks. Ms. Fu is a registered sponsor representative of China Securities Regulatory Commission since 2007. Ms. Fu is an independent non-executive director of V.S. International Group Limited (Stock Code: 1002), a company listed on the main board of the Stock Exchange of Hong Kong. Ms. Fu obtained a bachelor degree in Economics from Minzu University of China（中央民族大學）, a master degree in Accounting from the Central University of Finance and Economics（中央財經大學）and a degree in Executive Master in Business Administration from the Cheung Kong Graduate School of Business.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷先生), aged 52, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

Mr. Liu Bing Yang (劉炳楊先生), aged 68, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Zhang Wen Yu (張文玉先生), aged 50, is the general manager of United Laboratories (Inner Mongolia) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Inner Mongolia factory.

Mr. Zheng Shun Teng (鄭順騰先生), aged 42, is the operating general manager of the Group's intermediate and bulk medicine. Mr. Zheng graduated from China Pharmaceutical University in 2002, majoring in Pharmacy. Joining in 1997, he worked successively as the head of the orally-taken solid workshop, the assistant to manager of the production department, the manager of the procurement department, and the director of the powder injection workshop of Zhongshan factory. From July 2006 to 2013, he had been the Eastern China regional manager and senior regional manager of the Group's intermediate and bulk medicine sales department, the sales director of the Eastern China region and the Southern China region, and the sales director of the regions of India, Middle East and Africa. Mr. Zheng has been the operating general manager of the Group's intermediate and bulk medicine sales department since 2014, primarily responsible for sales and management of the Group's intermediate and bulk medicine products.

Ms. Chen Min (陳敏女士), aged 47, is the general manager of Group's China Sales Division of Finished Products. Ms. Chen graduated from Zhengzhou University majoring in business administration. She joined the Group in 1997 and had served as regional manager and vice general manager of the Henan province etc. Ms. Chen has extensive experience in the sales and marketing of pharmaceutical products. She was promoted to the Group's vice president and was responsible for the sales of the Henan province in 2012. She has been responsible for the sales of the Henan province and Beijing since 2015. Ms. Chen has been the general manager of the China Sales Division of Finished Products since 1 January 2019.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in note 44 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and segment information for the year ended 31 December 2018 is set out in note 5 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43 of this annual report.

The Board recommends the payment of final dividend of RMB6 cents per share for the year ended 31 December 2018.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 163 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

SHARE PREMIUM AND RESERVES

In accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's articles of association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately RMB4,009.1 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 46 and 47 of this annual report.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2018, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

In 2018, the aggregate purchases attributable to the Group's largest and five largest suppliers accounted for 17.6% and 47.5% respectively of the Group's total purchases for the year.

None of the directors or chief executive or any of their associates or any shareholder (which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2018 and up to the date of this report were as follows:

Executive Directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent Non-Executive Directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang (retired on 8 June 2018)
Prof. Song Ming
Ms. Fu Xiao Nan

In accordance with article 87 of the Company's articles of association, Ms. Choy Siu Chit, Ms. Zhu Su Yan and Prof. Song Ming will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Biographical details of directors of the Company are set out on pages 18 to 21 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract with the Company. Mr. Tsoi shall be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$3,840,000 per annum.

Mr. Leung Wing Hon has entered into a service contract with the Company under which the annual salary payable by the Company to Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. He will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

REPORT OF THE DIRECTORS

Ms. Choy Siu Chit has entered into a service contract in November 2016 with the Company for a period of three years. Each party may terminate the service contract by giving not less than three months notice to other party. She is also required to retire by rotation at the annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Choy Siu Chit as an executive director is HK$3,000,000 per annum and will be entitled to a monthly travelling allowance of HK$50,000. She will also be entitled to a discretionary bonus as decided by the Board.

The basic emolument of Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive directors of the Company with reference to performance of the Group. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company.

The amount of the annual salary increment and the bonus payable under such service contracts for executive directors is at the discretion of the Board and the remuneration committee of the Company, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the Board in relation to him or her.

Each of Mr. Chong Peng Oon, Mr. Huang Bao Guang (retired on 8 June 2018), Prof. Song Ming and Ms. Fu Xiao Nan has entered into a letter of appointment with the Company. The annual director's fee for each of the above independent non-executive directors is HK$240,000.

Save as disclosed in this annual report, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACT

No contracts concerning the management or administration of the whole or any substantial part of the business were entered into or in existence during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

None of the directors have any interests in a business which competes with the business of the Group. Furthermore, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,306,875	Personal interest	0.99%
Mr. Leung Wing Hon	22,000	Personal interest	0.00%
Ms. Choy Siu Chit	4,607,875	Personal interest	0.28%
Mr. Fang Yu Ping	142,000	Personal interest	0.01%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	100,179	Personal interest	0.01%

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long and short positions in the ordinary shares of the Company:

Name	*Notes*	Number of shares held	Percentage of Interest
Heren Far East Limited ("Heren")		1,006,250,000(L)	61.37%
	(1)	111,450,000(S)	6.80%
Heren Far East #3 Limited	*(2)*	1,006,250,000(L)	61.37%
		111,450,000(S)	6.80%
Heren Far East #4 Limited	*(2)*	1,006,250,000(L)	61.37%
		111,450,000(S)	6.80%
First Names (NTC) Trustees Asia Limited	*(3)*	1,006,250,000(L)	61.37%
		111,450,000(S)	6.80%
Credit Suisse Group AG		95,846,402(L)	5.85%
		52,005,818(S)	3.17%

L/S: Long position/short position

REPORT OF THE DIRECTORS

Notes:

(1) Heren lent a total of 111,450,000 shares to Credit Suisse Group AG, pursuant to a stock borrowing agreement entered into on 21 November 2016.

(2) Each of Heren Far East #3 Limited and Heren Far East #4 Limited is interested in more than one-third of the issued share capital of Heren, and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

(3) First Names (NTC) Trustees Asia Limited (formerly known as Nautilus Trustees Asia Limited) is the trustee of the respective trusts holding entire interest in each of Heren Far East #2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited (which together hold the entire issued share capital of Heren), and is deemed to be interested in the 1,006,250,000 shares of the Company for the purposes of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2018.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 29 to 35 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

AUDITOR

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

On behalf of the Board

Tsoi Hoi Shan
Chairman and Executive Director

Hong Kong, 28 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2018, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix 14 of the rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, except for certain deviations which are summarized below:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2018, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Independent non-executive directors, Prof. Song Ming and Ms. Fu Xiao Nan were unable to attend the annual general meeting of the Company held on 8 June 2018 due to other important engagements.

THE BOARD

The Board comprises six executive directors and four independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors & Senior Management" on pages 18 to 21. The Board has established four Board committees namely Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. The attendance rates of individual directors at board meetings, annual general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors						
Mr. Tsoi Hoi Shan	4/4	1/1	N/A	N/A	N/A	N/A
Mr. Leung Wing Hon	4/4	1/1	N/A	N/A	N/A	1/1
Ms. Choy Siu Chit	4/4	1/1	N/A	N/A	N/A	1/1
Mr. Fang Yu Ping	4/4	1/1	N/A	N/A	N/A	N/A
Ms. Zou Xian Hong	4/4	1/1	N/A	N/A	N/A	N/A
Ms. Zhu Su Yan	4/4	1/1	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Chong Peng Oon	4/4	1/1	3/3	1/1	1/1	1/1
Mr. Huang Bao Guang (note)	1/1	1/1	1/1	1/1	1/1	N/A
Prof. Song Ming	3/4	0/1	3/3	1/1	1/1	1/1
Ms. Fu Xiao Nan	3/4	0/1	2/3	1/1	1/1	N/A

Note: retired on 8 June 2018

CORPORATE GOVERNANCE REPORT

The Board is responsible for setting the Group's objectives and strategies as well as to monitor the Group's performance. The Board also approves matters like annual and interim results, major transactions, appointment of directors, dividend and accounting policies and scrutinizes internal control procedures of the Group's operations. The Board has delegated the responsibility and authority of day-to-day operations to the management team.

All directors are provided with updated information in relation to governance and control matters regularly. The directors may seek independent professional advice according to prescribed procedures in order to assist them to discharge their duties at the expenses of the Company.

Four regular board meetings were held by the Board during the year. At least 14 days notices are given to all directors for all regular board meetings. Directors can include matters to be discussed in the agenda if necessary. Agenda of regular board meetings accompanied with board papers are dispatched to all directors within a reasonable time before the date of meeting. All draft minutes of the Board are circulated to all directors within a reasonable time for comments before being confirmed.

Minutes of the Board and Board committees are kept by the secretary duly appointed at such meetings. All directors are entitled to inspect the board papers and relevant information and to access to sufficient information on a timely basis so as to enable the Board to make informed decisions on matters to be brought before meetings.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the CG Code, directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meeting.

During the year, the Company has arranged for all directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

CORPORATE GOVERNANCE REPORT

A record of training they received for the year ended 31 December 2018 was provided to the Company. The individual training record of each director for the year ended 31 December 2018 is set out below:

	Reading regulatory updates	Attending seminars/ workshops relevant to the business/directors' duties
Executive Directors		
Mr. Tsoi Hoi Shan	✓	✓
Mr. Leung Wing Hon	✓	✓
Ms. Choy Siu Chit	✓	✓
Mr. Fang Yu Ping	✓	✓
Ms. Zou Xian Hong	✓	✓
Ms. Zhu Su Yan	✓	✓
Independent Non-Executive Directors		
Mr. Chong Peng Oon	✓	✓
Mr. Huang Bao Guang	✓	✓
Prof. Song Ming	✓	✓
Ms. Fu Xiao Nan	✓	✓

CHAIRMAN

The information of Mr. Tsoi Hoi Shan, the Chairman is set out in the Biographical Details of Directors & Senior Management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has three independent non-executive directors. Among the three independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All the independent non-executive directors of the Company are appointed for a fixed term subject to retirement and re-appointment pursuant to the Company's articles of association.

Each of the independent non-executive directors has submitted a confirmation of his independence as required by Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors to be independent and that each of them satisfies the guidelines of independence set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the CG Code, but with a deviation from the code provision of the Remuneration Committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee held one meeting during the year. It undertook a review of the remuneration and benefits of the directors. The Remuneration Committee ensures that no director is involved in determining his/ her own emoluments.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the chairman of the Audit Committee.

The major duties of the Audit Committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The Audit Committee held three meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the Audit Committee are consistent with the relevant provisions set out in the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board has established a Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. Prof. Song Ming is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year to discuss re-election of directors. During selection and recommendation of candidates for directors, the Committee will consider about experience, qualification and suitability of the candidates. The Board will approve the appointments based on the same criteria. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

RISK MANAGEMENT COMMITTEE

The Company has established a Risk Management Committee in February 2016. The Risk Management Committee comprises two independent non-executive directors, namely Mr. Chong Peng Oon and Prof. Song Ming, and two executive directors, namely Mr. Leung Wing Hon and Ms. Choy Siu Chit. Mr. Chong Peng Oon is the chairman of the Risk Management Committee.

The major duties of the Risk Management Committee include overseeing and reviewing the Group's risk management and internal control systems. The Risk Management Committee held one meeting during the year to review the Group's risk management and internal control systems. The terms of reference of the Risk Management Committee are posted on the Company's website.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

To comply with code provision A.6.4 of the CG Code, the Company has adopted standard code for the code of conduct for relevant employees' securities transactions to regulate certain employees of the Group who are deemed to be in possession of unpublished price sensitive information of the Company when dealing in the securities of the Company.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2018, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

In the year under review, the Board considers the systems of internal control of the Company are sufficient and effective, hence the Company has complied with the code provisions relevant to the internal control in the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit services in 2018 amounted to approximately RMB4,575,000 and RMB1,416,000 respectively.

COMPANY SECRETARY

Mr. Leung Wing Hon is the company secretary of the Company. Mr. Leung reports to Mr. Tsoi Hoi Shan, the Chairman of the Board. Mr. Leung Wing Hon was appointed as company secretary of the Company on 25 May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of International Accountants. He undertook no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

Pursuant to article 58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Making Enquiry to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a range of communication channels between itself, its shareholders and investors, including answering questions through the annual general meeting, the publications of annual and interim reports, notices, announcements and circulars on the website of the Company at www.tul.com.cn and www.irasia.com/listco/hk/unitedlab. During the year, the Board is not aware of any significant changes in the Company's constitutional documents.

Led by Mr. Leung Wing Hon, the Company's vice-chairman, the Company is well positioned with an experienced investor relations team supporting the various investor relations initiatives. Ms. Karen Yang joined the team as the Investor Relations Officer in August 2014 and was promoted as Assistant Manager in January 2017. The new team will continue to work towards further enhancing the communication with investors through various platforms such as roadshows, meetings, plant visits, conference calls and other forms of engagement. In addition, the investor relations department will continue to implement various exercises towards building a targeted shareholders base that supports the investment proposition of the company to correctly reflect its valuation.

Effective investor relations communication is an integral part of the Company's management philosophy. In 2018, the Company will continue to maintain effective communication with investors. Through the investor relations department's efforts, the Company aspired to instill further confidence among investors and enhance their understanding of our business.

On behalf of the Board

Leung Wing Hon
Vice-Chairman and Executive Director

Hong Kong, 28 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 162, which comprise the consolidated statement of financial position as at 31 December 2018, and the 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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance ("CO").

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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of embedded derivative components of convertible bonds	
We identified the valuation of the embedded derivative components of the convertible bonds issued by the Group as a key audit matter as the valuation model is sensitive to changes in certain key inputs including volatility of share prices and dividend yield that require significant management estimates. As at 31 December 2018, the carrying value of the embedded derivative components of the convertible bonds was approximately RMB185,254,000, with a gain on fair value change of approximately RMB226,414,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income. Details relating to the Group's embedded derivative components of the convertible bonds are set out in Note 29 to the consolidated financial statements.	Our audit procedures in relation to the valuation of the embedded derivative components of the convertible bonds included: • Reading the terms of the subscription agreements that constitute embedded derivatives and reviewing the accounting treatment to assess if there were any current year's changes that needed to be taken into account in our assessment of the valuation of the convertible bonds; • Evaluating an independent professional valuer's competence, capabilities and objectivity; • Involving our internal valuation specialists to review, on a sample basis, and assess whether the valuation model used by the independent professional valuer was appropriate and whether the key assumptions used in the valuation model including volatility of share prices and dividend yield were reasonable; and • Reviewing the presentation and disclosure of the convertible bonds to comply with relevant HKFRSs.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter as the valuation model is sensitive to changes in certain key assumptions including expected selling prices, construction costs, construction period, finance costs and developers' profit, that required significant management judgment. As at 31 December 2018, the carrying value of the Group's investment properties was approximately RMB698,424,000, with a fair value loss of approximately RMB94,873,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income. Details relating to the Group's investment properties are set out in Note 17 to the consolidated financial statements.	Our audit procedures in relation to the valuation of investment properties included: • Conducting a site visit to the investment properties and its surrounding environment in order to obtain an understanding of the recent development of property market; • Discussing with local property consultant and the management to understand the recent property market; • Making inquiries with the management on the basis of assumptions for the preparation of the valuation model; • Evaluating an independent professional valuer's competence, capabilities and objectivity; • Assessing the reasonableness of the key assumptions used in the valuation model by comparing the estimates made by the management in the past year against the current year and taking into account future development plans of the investment properties;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties (Continued)	
	• Checking, on a sampling basis, the reasonableness, appropriateness and relevance of the input data used to market comparables and supporting documents; • Evaluating the sensitivity analysis performed by the management on the expected selling prices of completed units, construction costs, construction period, finance costs and developers' profit margin to evaluate the extent of impact on the fair value of the investment properties; and • Reviewing the presentation and disclosure of the investment property to comply with relevant HKFRSs.

INDEPENDENT AUDITOR'S REPORT

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 disclosure requirements of 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 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.

INDEPENDENT AUDITOR'S REPORT

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 our agreed terms of engagement, 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**7,510,586**	6,826,645
Cost of sales		**(4,458,446)**	(4,328,428)
Gross profit		**3,052,140**	2,498,217
Other income	6	**118,925**	133,962
Other gains and losses, net	7a	**(121,133)**	8,904
Selling and distribution expenses		**(1,186,051)**	(1,067,920)
Administrative expenses		**(646,830)**	(596,746)
Other expenses	7b	**(309,922)**	(252,866)
Impairment loss reversed (recognised)	9	**2,106**	(6,947)
Loss on fair value change on investment properties	17	**(94,873)**	(326,980)
Gain (loss) on fair value change of embedded derivative components of convertible bonds	29	**226,414**	(53,938)
Finance costs	8	**(246,897)**	(266,735)
Profit before taxation		**793,879**	68,951
Tax (expense) credit	10	**(110,951)**	12,807
Profit for the year attributable to owners of the Company	11	**682,928**	81,758
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		**615**	12,521
Total comprehensive income for the year attributable to owners of the Company		**683,543**	94,279
Earnings per share (RMB cents)	15		
– Basic		**41.80**	5.03
– Diluted		**32.27**	5.03

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	31 December 2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**6,494,202**	6,831,488
Properties held for development	*17a*	**255,723**	255,723
Investment properties	*17b*	**698,424**	793,297
Prepaid lease payments	*18*	**223,186**	207,649
Goodwill	*19*	**3,031**	3,031
Intangible assets	*20*	**141,337**	150,797
Deposit for land use rights		**7,262**	7,262
Deposits for acquisition of property, plant and equipment		**46,080**	36,269
Pledged deposits against finance leases	*27*	**20,028**	46,737
Financial asset at fair value through profit or loss	*21a*	**500**	–
Available-for-sale investment	*21b*	**–**	500
Deferred tax asset	*30*	**15,516**	14,167
		7,905,289	8,346,920
Current assets			
Inventories	*22*	**1,464,661**	1,173,082
Trade and bills receivables, other receivables, deposits and prepayments	*23*	**3,065,886**	2,453,675
Prepaid lease payments	*18*	**5,406**	4,954
Pledged bank deposits	*24*	**555,806**	487,738
Pledged deposits against finance leases	*27*	**26,709**	51,709
Bank balances and cash	*24*	**1,578,540**	1,593,768
		6,697,008	5,764,926
Current liabilities			
Trade and bills payables, other payables and accrued charges	*25*	**3,700,672**	3,268,323
Contract liabilities	*26*	**68,439**	–
Obligations under finance leases – due within one year	*27*	**108,572**	285,594
Tax payables		**84,338**	97,145
Borrowings – due within one year	*28*	**1,625,638**	1,138,257
Bank overdraft	*24*	**96,644**	–
Convertible bonds	*29*	**830,894**	–
		6,515,197	4,789,319
Net current assets		**181,811**	975,607
Total assets less current liabilities		**8,087,100**	9,322,527

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

		31 December	
		2018	2017
	NOTES	**RMB'000**	RMB'000
Non-current liabilities			
Deferred tax liabilities	*30*	**296,866**	362,667
Deferred income in respect of government grants	*34*	**77,453**	84,947
Obligations under finance leases – due after one year	*27*	**7,423**	115,639
Borrowings – due after one year	*28*	**1,583,316**	2,279,286
Convertible bonds	*29*	**–**	1,038,223
		1,965,058	3,880,762
		6,122,042	5,441,765
Capital and reserves			
Share capital	*31*	**15,346**	15,237
Reserves		**6,106,696**	5,426,528
Equity attributable to owners of the Company		**6,122,042**	5,441,765

The consolidated financial statements on pages 43 to 162 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Revaluation reserve RMB'000	Foreign exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	15,237	2,356,763	277,100	691,245	95,616	(9,862)	1,921,387	5,347,486
Changes in equity during the year:								
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	12,521	–	12,521
Profit for the year	–	–	–	–	–	–	81,758	81,758
Total comprehensive income for the year	–	–	–	–	–	12,521	81,758	94,279
Appropriations	–	–	–	72,159	–	–	(72,159)	–
At 31 December 2017	15,237	2,356,763	277,100	763,404	95,616	2,659	1,930,986	5,441,765
Changes in equity during the year:								
Exchange differences arising on translation of a foreign operation	**–**	**–**	**–**	**–**	**–**	**615**	**–**	**615**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**682,928**	**682,928**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**615**	**682,928**	**683,543**
Dividends recognised as distribution *(Note 14)*	**–**	**–**	**–**	**–**	**–**	**–**	**(84,443)**	**(84,443)**
Issue of shares upon conversion of convertible bonds *(Note 29)*	**109**	**81,068**	**–**	**–**	**–**	**–**	**–**	**81,177**
Appropriations	**–**	**–**	**–**	**82,813**	**–**	**–**	**(82,813)**	**–**
At 31 December 2018	**15,346**	**2,437,831**	**277,100**	**846,217**	**95,616**	**3,274**	**2,446,658**	**6,122,042**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided for before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective subsidiaries.

Included in special reserve is an amount of RMB203,263,000 which represents the portion of registered capital of the two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of RMB73,837,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquisition of additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before taxation	**793,879**	68,951
Adjustments for:		
(Reversal) write-down of inventories, net	**(7,797)**	19,584
Write-off of long-aged deposits and prepayments	**–**	28,445
Impairment loss, net of reversal	**(2,106)**	6,947
Amortisation of intangible assets	**12,284**	9,676
Amortisation of prepaid lease payments	**6,585**	5,618
Depreciation of property, plant and equipment	**728,755**	774,490
Impairment losses on intangible assets	**17,960**	–
Loss on fair value change on investment properties	**94,873**	326,980
Finance costs	**246,897**	266,735
Release of government grants	**(15,784)**	(50,188)
Bank interest income	**(22,636)**	(26,355)
Net loss on disposal of property, plant and equipment	**29,529**	4,808
(Gain) loss on fair value change of embedded derivative components of convertible bonds	**(226,414)**	53,938
Unrealised exchange loss (gain)	**109,184**	(84,821)
Operating cash flows before movements in working capital	**1,765,209**	1,404,808
Increase in inventories	**(283,782)**	(228,877)
Increase in trade and bills receivables, other receivables, deposits and prepayments	**(644,226)**	(694,387)
Change in derivative financial instruments	**–**	(80,557)
Increase in trade and bills payables, other payables and accrued charges	**585,561**	561,188
Decrease in contract liabilities	**(18,615)**	–
Cash generated from operations	**1,404,147**	962,175
Income taxes paid	**(190,908)**	(192,230)
Net cash from operating activities	**1,213,239**	769,945

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Investing activities		
Prepaid lease payments made	**(22,574)**	–
Payments for purchase of property, plant and equipment	**(477,570)**	(447,842)
Payment for deposits of acquisition of property, plant and equipment	**(34,051)**	(10,274)
Proceeds on disposal of property, plant and equipment	**31,971**	5,470
Placement of pledged bank deposits	**(1,586,327)**	(1,180,874)
Withdrawal of pledged bank deposits	**1,518,259**	1,661,846
Receipts of government grants	**13,328**	48,939
Interest received	**22,636**	26,355
Additions to intangible assets	**(20,784)**	(16,285)
Net cash (used in) from investing activities	**(555,112)**	87,335
Financing activities		
Interest paid	**(203,573)**	(223,781)
Dividend paid	**(84,443)**	–
Proceeds from finance leases	**–**	200,000
Repayments of obligations under finance leases	**(285,238)**	(429,203)
Placement of pledged deposits against finance leases	**–**	(23,446)
Release of pledged deposits against finance leases	**51,709**	75,745
New borrowings raised	**955,697**	2,645,981
Repayment of borrowings	**(1,204,913)**	(3,289,695)
Net cash used in financing activities	**(770,761)**	(1,044,399)
Net decrease in cash and cash equivalents	**(112,634)**	(187,119)
Effect of foreign exchange rate changes	**762**	(1,994)
Cash and cash equivalents at beginning of the year	**1,593,768**	1,782,881
Cash and cash equivalents at end of the year	**1,481,896**	1,593,768
Represented by:		
Bank balances and cash	**1,578,540**	1,593,768
Bank overdraft	**(96,644)**	–
	1,481,896	1,593,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

The United Laboratories International Holdings Limited (the "Company") is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company is Heren Far East Limited, incorporated in the British Virgin Islands and is ultimately controlled by The Choy's Family Trust. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 44.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company and most of its subsidiaries (the "Group"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

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 and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("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 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 amendments to HKFRSs and the interpretation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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* 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 retained 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. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

The Group recognises revenue from 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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* (Continued)

Summary of effects arising from initial application of HKFRS 15

There is no impact on timing and amounts of revenue recognised under HKFRS 15 and HKAS 18.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts previously reported at 31 December 2017** RMB'000	**Reclassification** RMB'000	**Carrying amounts under HKFRS 15 at 1 January 2018*** RMB'000
Current liabilities				
Trade and bills payables, other payables and accrued charges	(a)	(3,268,323)	87,054	(3,181,269)
Contract liabilities	(a)	–	(87,054)	(87,054)

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note:

(a) As at 1 January 2018, advances from customers of RMB87,054,000 in respect of sales of pharmaceutical products contracts previously included in trade and other payables were reclassified to contract liabilities under HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 (Continued)*

Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	**As reported** RMB'000	**Adjustment** RMB'000	**Amounts without application of HKFRS 15** RMB'000
Current liabilities				
Trade and bills payables, other payables and accrued charges	*(a)*	(3,700,672)	(68,439)	(3,769,111)
Contract liabilities	*(a)*	(68,439)	68,439	–

Note:

(a) As at 31 December 2018, advance from customers of RMB68,439,000 would have been included in trade and bills payables, other payables and accrued charges under HKAS 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 (Continued)*

Summary of effects arising from initial application of HKFRS 15 (Continued)

Impact on the consolidated statement of cash flows

	As reported	Adjustment	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Operating activities			
Increase in trade and bills payables, other payables and accrued charges	585,561	(18,615)	566,946
Decrease in contract liabilities	(18,615)	18,615	–

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.

2.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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* *(Continued)*

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, if any, are recognised in the opening retained 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

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	**Available-for-sale ("AFS") investment** RMB'000	**Financial asset at fair value through profit or loss ("FVTPL")** RMB'000
Closing balance at 31 December 2017 – HKAS 39		500	–
Effect arising from initial application of HKFRS 9:			
Reclassification from AFS investment	*(a)*	(500)	500
Opening balance at 1 January 2018		–	500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 (Continued)*

Summary of effects arising from initial application of HKFRS 9 (Continued)

(a) AFS investment

From AFS investment to financial asset at FVTPL

At the date of initial application of HKFRS 9, the Group's equity investment of RMB500,000 were reclassified from AFS investment to financial asset at FVTPL. No fair value change relating to those equity investment previously carried at cost less impairment was adjusted to financial asset at FVTPL and retained profits as at 1 January 2018 as the amount involved is considered to be insignificant.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. The ECL on these assets are assessed collectively using a provision matrix based on its historical observed default rates which is adjusted for forward-looking estimates.

ECL for other financial assets at amortised cost, including other receivables (not credit-impaired), bills receivables, pledged bank deposits, pledged deposits against finance leases 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 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 credit loss allowance has been recognised against retained profits as the amounts involved are insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 (Continued)*

Summary of effects arising from initial application of HKFRS 9 (Continued)

(b) Impairment under ECL model *(Continued)*

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.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017	**HKFRS 15**	**HKFRS 9**	**1 January 2018**
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)			(Restated)
Non-current Assets				
AFS investment	500	–	(500)	–
Financial asset at FVTPL	–	–	500	500
Current Liabilities				
Trade and bills payables, other payables and accrued charges	(3,268,323)	87,054	–	(3,181,269)
Contract liabilities	–	(87,054)	–	(87,054)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 and an interpretation that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
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[3]
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 1 January 2021.
[3] Effective for annual periods beginning on or after a date to be determined.
[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 and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and the interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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*

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* 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.

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 lands for owned use and those classified as investment properties 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 cash flows by the Group, while upfront prepaid lease payments will continue to be presented as investing cash flows. Upfront prepaid lease payment will continue to be presented as investing or operating cash flow 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 lands 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)*

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of RMB476,000 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 considered no material impact on it because the management considered these leases qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB47,000 as rights and obligations 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.

Upon application of HKFRS 16, the Group will apply the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of HKFRS 9. In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group would 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 would elect the modified retrospective approach for the application of HKFRS 16 as lessee and would recognise the cumulative effect of initial application to opening retained profits, if any, without restating comparative information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)*

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

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 of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of reporting period, as explained in the accounting policies set out 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*, leasing transactions that are within the scope of HKAS 17 *Leases*, 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*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) 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.

A cash-generating unit (or groups of cash-generating units) 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 cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of a pro rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the groups of cash-generating units, 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 cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the groups of cash-generating units) retained.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the expected value method which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates, other similar allowances and sales related taxes.

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 the goods are delivered and titles have passed.

Interest income is accrued on a time apportionment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) 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 accumulated impairment losses, if any.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, 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.

Construction in progress includes property, plant and equipment in the course of construction for production or other own use purposes. Construction in progress is 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. Construction in progress is classified to the appropriate category 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the leased term, assets are depreciated over the shorter of the lease term and their useful lives.

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 net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

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 term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Sale and leaseback resulting in a finance lease

For a sale and leaseback transaction resulted in a finance lease, the present value of minimum lease payments is credited to a liability account representing the initial net obligation under finance lease. Transferred asset is continuously recognised at its previous carrying amount as if the sale and leaseback transaction had not occurred. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

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 as a finance or an operating lease 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 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 term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model or as properties held for development. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs 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 life 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.

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 charged to profit or loss in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure *(Continued)*

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

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and 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 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 amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units 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 cash-generating unit) for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) *(Continued)*

If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generated unit) 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 measureable), 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 cash-generating unit) 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. Cost, which comprises all costs of purchase and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to the present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Properties held for development

Properties held for development are stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights or the fair value of investment properties upon the date of transfer and other directly attributable costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

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 other comprehensive income ("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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

(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) Financial asset 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 asset at FVTPL is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, pledged bank deposits, pledged deposits against finance leases 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 debtors, 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. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

(i) Significant increase in credit risk *(Continued)*

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;
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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)

(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, when the amounts are over one year 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 *(Continued)*

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, other receivables, pledged bank deposits, pledged deposits against finance leases and bank balances are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; 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 and other receivables, where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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: AFS financial asset 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, pledged bank deposits, pledged deposits against finance leases and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated its investment in unlisted equity security as an AFS financial asset. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. 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 the reporting period (see accounting policy on impairment of financial assets below).

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

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 all other financial assets, objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 – 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 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 other receivables, 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 debt is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Classification as financial liabilities 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 the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds contains liability component, conversion option and early redemption option derivative components

Convertible bonds issued by the Group that contain the liability, conversion option and early redemption option components (which are not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments and that gives the Company a choice over how it is settled is a conversion option derivative. Early redemption option that results in redemption other than by an amount which approximates the amortised cost of the liability on each exercise date is a redemption option derivative. At the date of issue, the liability, conversion option and early redemption option derivatives are recognised at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible bonds contains liability component, conversion option and early redemption option derivative components *(Continued)*

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option derivatives in proportion to their relative fair values. Transaction costs relating to the conversion option and redemption option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 differences between the carrying amount 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, and deferred tax assets are generally recognised 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 goodwill or from the initial recognition (other than in a business combination) of other 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 differences arise from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 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 the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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 are recognised in profit or loss.

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 exchanges 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 that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 foreign operation are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange reserve.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme or state-managed retirement benefit schemes are charged 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period 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 judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company 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.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

As a result, the Group recognised deferred taxes relating to Land Appreciation Tax ("LAT") and Enterprise Income Tax ("EIT") on changes in fair value of such investment properties as disclosed in Note 30.

Key sources of estimation uncertainty

The followings 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Key sources of estimation uncertainty *(Continued)*

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on debtors' aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates 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.

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 39 and Note 23, respectively.

Valuation of investment properties situated in the PRC

As described in Note 17, investment properties situated in the PRC are stated at fair value by reference to valuations performed by an independent professional valuer. The valuation model is sensitive to changes in certain key assumptions including expected selling prices, construction costs, construction period, finance costs and developers' profit, that require significant management judgement. Any changes in the market conditions will affect the fair value measurement of the investment properties of the Group.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to experience of the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimates due to changes in the commercial and technological environment, such differences will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. The carrying amount of property, plant and equipment is disclosed in Note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Key sources of estimation uncertainty *(Continued)*

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and 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 in order to determine the extent of the impairment loss, if any. If the recoverable amount of an intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. During the year ended 31 December 2018, an impairment loss of RMB17,960,000 on intangible asset has been recognised.

The carrying amount of property, plant and equipment and intangible assets are set out in Notes 16 and 20, respectively.

Estimated write-down of inventories to net realisable value

The Group writes down inventories based on assessments of the net realisable value of existing inventories. Write-down to inventories is made where events or changes in circumstances indicate that the net realisable value of certain items are lower than the costs of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. During the year ended 31 December 2018, reversal of write-down of inventories of RMB7,797,000 (2017: write-down of inventories of RMB19,584,000) has been recognised. The carrying amount of inventories is disclosed in Note 22.

Valuation of the embedded derivatives in convertible bonds

The fair value for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the personnel that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. The valuation model is sensitive to changes in certain key inputs including volatility of share prices and dividend yield that require significant management estimates. Any changes in the estimates and assumptions will affect the fair values of the embedded derivatives in convertible bonds. The carrying amount of embedded derivatives is disclosed in Note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION

The Group is currently organised into three revenue streams, including Intermediate products; Bulk medicine; and Finished products.

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018					
	Intermediate products	**Bulk medicine**	**Finished products**	**Total**	**Elimination**	**Consolidated**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Types of products						
6-APA	885,876	–	–	885,876	–	885,876
Antibiotics products	–	3,377,887	1,855,358	5,233,245	–	5,233,245
Insulin Products	–	–	658,937	658,937	–	658,937
Others	347,749	11,823	372,956	732,528	–	732,528
Revenue from contracts with customers	1,233,625	3,389,710	2,887,251	7,510,586	–	7,510,586
Inter-segment sales	1,617,804	423,009	–	2,040,813	(2,040,813)	–
Segment revenue	2,851,429	3,812,719	2,887,251	9,551,399	(2,040,813)	7,510,586

All of the Group's revenue is recognised at a point in time during the year ended 31 December 2018.

(ii) Performance obligations for contracts with customers

The Group recognises revenue from the sale of pharmaceutical products, revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to and received by the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

A. For the year ended 31 December 2018 *(Continued)*

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Contracts for sale of pharmaceutical products are typically non-cancellable. The contracts for sales of products have expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	2017 RMB'000
Sales of pharmaceutical products	6,826,645

Segment information

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. executive directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

The three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results:

Year ended 31 December 2018

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,233,625	3,389,710	2,887,251	7,510,586	–	7,510,586
Inter-segment sales	1,617,804	423,009	–	2,040,813	(2,040,813)	–
Segment revenue	2,851,429	3,812,719	2,887,251	9,551,399	(2,040,813)	7,510,586
RESULT						
Segment profit	287,120	105,193	615,374			1,007,687
Unallocated other income						107,539
Unallocated corporate expenses						(84,858)
Other gains and losses, net						(121,133)
Gain on fair value change of embedded derivative components of convertible bonds						226,414
Loss on fair value change on investment properties						(94,873)
Finance costs						(246,897)
Profit before taxation						793,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results: *(Continued)*

Year ended 31 December 2017

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,473,511	2,853,437	2,499,697	6,826,645	–	6,826,645
Inter-segment sales	1,183,311	391,812	–	1,575,123	(1,575,123)	–
Segment revenue	2,656,822	3,245,249	2,499,697	8,401,768	(1,575,123)	6,826,645
RESULT						
Segment profit	34,433	103,293	620,727			758,453
Unallocated other income						110,615
Unallocated corporate expenses						(161,368)
Other gains and losses, net						8,904
Loss on fair value change of embedded derivative components of convertible bonds						(53,938)
Loss on fair value change on investment properties						(326,980)
Finance costs						(266,735)
Profit before taxation						68,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results: *(Continued)*

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Performance is measured based on segment results that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

Other than the segment revenue and segment results analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment revenue is charged at prevailing market rates.

Reportable segment results represent the profit earned by each segment without allocation of certain other income, corporate expenses, other gains and losses, gain (loss) on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information

Amounts included in the measurement of segment profit or loss:

For the year ended 31 December 2018

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Unallocated expenses RMB'000	Consolidated RMB'000
Amortisation of prepaid lease payments	4,264	1,047	1,274	–	6,585
Amortisation of intangible assets	1,840	–	10,444	–	12,284
Depreciation of property, plant and equipment	578,753	97,889	48,212	3,901	728,755
Impairment loss recognised on intangible assets	–	–	–	17,960	17,960
Net loss on disposal of property, plant and equipment	–	–	–	29,529	29,529
Impairment loss (recognised) reversed on trade and other receivables	(1,036)	(2,846)	(2,424)	8,412	2,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information *(Continued)*

For the year ended 31 December 2017

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Unallocated expenses RMB'000	Consolidated RMB'000
Amortisation of prepaid lease payments	4,264	1,047	307	–	5,618
Amortisation of intangible assets	–	–	9,676	–	9,676
Depreciation of property, plant and equipment	605,551	126,496	40,350	2,093	774,490
Net loss on disposal of property, plant and equipment	–	–	–	4,808	4,808
Write-off of long-aged deposits and prepayments	–	–	–	28,445	28,445
Impairment loss (recognised) reversed on trade and other receivables	(2,123)	(4,110)	(3,601)	2,887	(6,947)

(c) Geographical information

The revenue by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Revenue from external customers	
	2018	2017
	RMB'000	RMB'000
PRC (country of domicile)	**5,541,842**	4,754,285
Europe	**570,821**	484,135
India	**532,060**	783,367
Hong Kong	**33,601**	21,654
Middle East	**48,234**	35,406
South America	**151,704**	209,084
Other Asian regions	**421,675**	385,997
Other regions	**210,649**	152,717
	7,510,586	6,826,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information *(Continued)*

The information about its non-current assets is presented based on the geographical location of the assets, as below:

	Non-current assets	
	2018	2017
	RMB'000	RMB'000
PRC (country of domicile)	**7,782,315**	8,192,894
Hong Kong	**86,930**	92,622
	7,869,245	8,285,516

Non-current assets exclude pledged deposits against finance leases, financial asset at FVTPL, AFS investment and deferred tax asset.

(d) Information about major customers

There is no customer who contributes more than 10% of the total sales of the Group.

6. OTHER INCOME

	2018	2017
	RMB'000	RMB'000
Bank interest income	**22,636**	26,355
Sales of scrap materials	**7,282**	7,176
Other subsidy income *(Note 34)*	**69,556**	89,068
Sundry income	**19,451**	11,363
	118,925	133,962

Note: Subsidy income includes government grants from the PRC government which are specifically for (i) capital expenditure incurred for plant and machinery, which are recognised as income over the useful life of related assets; (ii) incentives and other subsidies for research and development activities, which are recognised upon meeting the specific conditions; and (iii) incentives which have no specific conditions attached to the grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. OTHER GAINS AND LOSSES/OTHER EXPENSES

	2018 RMB'000	2017 RMB'000
(a) Other gains and losses, net		
Impairment loss recognised on intangible assets	**17,960**	–
Loss on derivative financial instruments *(Note a)*	**3,813**	24,646
Net loss on disposal of property, plant and equipment	**29,529**	4,808
Net foreign exchange loss (gain)	**70,005**	(38,352)
Others	**(174)**	(6)
	121,133	(8,904)
(b) Other expenses		
Research and development costs	**283,224**	162,298
Temporary production suspension costs	**11,263**	43,781
Write-off of long-aged deposits and prepayments	**–**	28,445
Demolition expense *(Note b)*	**–**	7,760
Tax penalty	**7,700**	6,575
Others	**7,735**	4,007
	309,922	252,866

Notes:

(a) For the year ended 31 December 2018, the Group had entered into several foreign currency forward contracts with banks and financial institutions to reduce its exposure to foreign currency risks. These derivatives were not accounted for under hedge accounting. There were no outstanding foreign currency forward contracts held by the Group as at 31 December 2018 and 2017.

(b) The demolition expense represents the cost for destruction and removal of the property, plant and equipment in site of Chengdu after entering into an agreement with the local government of Pengzhou in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. FINANCE COSTS

	2018	2017
	RMB'000	RMB'000
Interest on borrowings	**160,480**	156,313
Interest on convertible bonds *(Note 29)*	**88,648**	84,490
Interest on finance leases	**19,748**	40,553
	268,876	281,356
Less: amounts capitalised in property, plant and equipment	**(21,979)**	(14,621)
	246,897	266,735

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.81% (2017: 5.33%) per annum to expenditure on qualifying assets.

9. IMPAIRMENT LOSS REVERSED (RECOGNISED)

	2018	2017
	RMB'000	RMB'000
Impairment loss reversed (recognised):		
– trade receivables	**(6,306)**	(9,834)
– other receivables	**8,412**	2,887
	2,106	(6,947)

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. TAX EXPENSE (CREDIT)

	2018	2017
	RMB'000	RMB'000
The tax charge (credit) comprises:		
Current tax		
PRC EIT	**130,601**	147,734
PRC withholding tax on distributed profits of PRC subsidiaries	**47,500**	54,913
	178,101	202,647
Deferred tax credit *(Note 30)*	**(67,150)**	(215,454)
	110,951	(12,807)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime are applicable to the Company for its annual reporting periods beginning on or after 1 January 2018. No Hong Kong Profits Tax has been recognised as its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

PRC EIT is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC EIT law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007, respectively, the tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC EIT law), the subsidiaries are entitled to a reduced rate of 15% and such qualification is subject to renewal for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. TAX EXPENSE (CREDIT) *(Continued)*

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by a PRC entity to a non-PRC tax resident shall be subject to the PRC EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. The withholding tax rate applicable to the Group is 5%. As at 31 December 2018 and 31 December 2017, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

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

	2018 **RMB'000**	2017 RMB'000
Profit before taxation	**793,879**	68,951
Tax at the PRC EIT rate of 25% (2017: 25%)	**198,470**	17,238
Tax effect of expenses not deductible for tax purpose	**59,205**	162,839
Tax effect of income not taxable for tax purpose	**(60,414)**	(31,110)
Tax effect of super deduction of research and development expenses *(Note)*	**(28,014)**	(14,402)
Tax effect of LAT and other associated tax arising on fair value change of investment properties	**(28,549)**	(119,773)
Tax effect of tax losses not recognised	**35,200**	42,160
Utilisation of tax losses previously not recognised	**(49,572)**	(23,176)
Tax effect of deductible temporary difference not recognised	**(1,423)**	(851)
PRC withholding tax on distributable profits of the PRC subsidiaries	**32,108**	39,881
Effect of tax concessionary rates granted to the PRC subsidiaries	**(57,530)**	(86,518)
Others	**11,470**	905
Income tax expense (credit) for the year	**110,951**	(12,807)

Note: Pursuant to Caishui [2018] circular No. 99 (2017: Caishui [2015] circular No. 119), the Group is able to enjoy super deduction of 175% (2017: 150%) on qualifying research and development expenditures for the year ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**4,575**	4,571
Depreciation		
Depreciation of property, plant and equipment	**728,755**	774,490
Less: amount included in research and development expenditures	**(30,125)**	(25,206)
Less: amount included in temporary production suspension costs in other expenses	**(2,866)**	(25,444)
Less: amount capitalised in inventories held at the end of the reporting period	**(65,978)**	(62,751)
	629,786	661,089
Amortisation		
– intangible assets (included in cost of sales)	**12,284**	9,676
– prepaid lease payments	**6,585**	5,618
	18,869	15,294
Minimum lease payments in respect of rented premises	**429**	1,665
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**956,203**	892,141
Retirement benefit costs	**99,957**	90,922
	1,056,160	983,063
Less: amount included in research and development expenditures	**(54,733)**	(34,450)
Less: amount included in temporary production suspension costs in other expenses	**(1,327)**	(3,515)
	1,000,100	945,098
(Reversal) write-down of inventories, net (included in cost of sales) (Note)	**(7,797)**	19,584
Cost of inventories recognised as expenses	**4,458,446**	4,328,428

Note: Reversal of write down of inventories amounting to RMB7,797,000 is recognised in profit or loss as certain products that were previously written down are sold during 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

2018

(a) Executive directors

	Tsoi Hoi Shan RMB'000	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	3,257	3,155	3,053	1,527	1,527	1,527	14,046
Bonus *(Note)*	–	–	–	720	720	720	2,160
Contributions to retirement benefit schemes	15	15	15	34	14	34	127
Sub-total	3,272	3,170	3,068	2,281	2,261	2,281	16,333

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Huang Bao Guang RMB'000 *Note (a)*	Song Ming RMB'000	Fu Xiao Nan RMB'000	Total RMB'000
Fees	204	90	204	204	702

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	17,035

Note:

(a): Huang Bao Guang retired as an independent non-executive director on 8 June 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

2017

(a) Executive directors

	Tsoi Hoi Shan RMB'000	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	3,333	3,229	3,125	1,563	1,563	1,563	14,376
Bonus *(Note)*	–	–	–	720	720	720	2,160
Contributions to retirement benefit schemes	16	16	16	32	14	32	126
Sub-total	3,349	3,245	3,141	2,315	2,297	2,315	16,662

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Huang Bao Guang RMB'000	Song Ming RMB'000	Fu Xiao Nan RMB'000	Total RMB'000
Fees	208	208	208	208	832

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	17,494

Note: The bonus is recommended by the remuneration committee of the Group and is approved by the board of directors, having regard to the individual's contribution to the Group.

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. FIVE HIGHEST PAID EMPLOYEES

For the years ended 31 December 2018 and 2017, all the five highest paid individuals of the Group are directors of the Company, details of which are included in Note 12.

14. DIVIDENDS

	2018 **RMB'000**	2017 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year 2017 final dividend RMB5 cents (2017: 2016 final dividend of nil) per share	**84,443**	–

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of RMB6 cents (2017: RMB5 cents) per ordinary share, in an aggregate amount of RMB98,383,000 (2017: RMB84,443,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

15. 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:

Earnings

	2018 **RMB'000**	2017 RMB'000
Earnings for the purposes of basic earnings per share being profit for the year attributable to owners of the Company	**682,928**	81,758
Effect of dilutive potential ordinary shares:		
Effect on convertible bonds	**(91,031)**	–
Earnings for the purposes of diluted earnings per share being profit for the year attributable to owners of the Company	**591,897**	81,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. EARNINGS PER SHARE *(Continued)*

Number of shares

	2018 '000	2017 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,633,778**	1,626,875
Effect of dilutive potential ordinary shares:		
Effect on convertible bonds	**200,570**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,834,348**	1,626,875

The computation of diluted earnings per share for the year ended 31 December 2017 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2017	4,266,646	7,476,888	136,484	46,799	163,809	12,090,626
Additions	21,960	85,483	5,837	1,669	150,373	265,322
Disposals/write off	(7,802)	(95,119)	(13,575)	(128)	–	(116,624)
Reclassification	50,619	162,163	1,050	–	(213,832)	–
At 31 December 2017	**4,331,423**	**7,629,415**	**129,796**	**48,340**	**100,350**	**12,239,324**
Additions	**132,307**	**71,897**	**5,312**	**4,420**	**239,033**	**452,969**
Disposals/write off	**(74,767)**	**(69,449)**	**(11,149)**	**(8,526)**	**–**	**(163,891)**
Reclassification	**94,273**	**216,208**	**4,149**	**–**	**(314,630)**	**–**
At 31 December 2018	**4,483,236**	**7,848,071**	**128,108**	**44,234**	**24,753**	**12,528,402**
DEPRECIATION						
At 1 January 2017	783,023	3,280,696	107,771	44,709	–	4,216,199
Charge for the year	152,334	608,323	11,044	2,789	–	774,490
Eliminated on disposals/write off	(6,507)	(81,024)	(12,048)	(121)	–	(99,700)
At 31 December 2017	**928,850**	**3,807,995**	**106,767**	**47,377**	**–**	**4,890,989**
Charge for the year	**159,316**	**554,988**	**11,581**	**2,870**	**–**	**728,755**
Eliminated on disposals/write off	**(38,439)**	**(41,603)**	**(8,951)**	**(6,962)**	**–**	**(95,955)**
At 31 December 2018	**1,049,727**	**4,321,380**	**109,397**	**43,285**	**–**	**5,523,789**
IMPAIRMENT						
At 1 January 2017	**222,271**	**300,260**	**364**	**598**	**–**	**523,493**
Eliminated on disposals/write off	**–**	**(6,282)**	**(364)**	**–**	**–**	**(6,646)**
At 31 December 2017	**222,271**	**293,978**	**–**	**598**	**–**	**516,847**
Eliminated on disposals/write off	**–**	**(6,436)**	**–**	**–**	**–**	**(6,436)**
At 31 December 2018	**222,271**	**287,542**	**–**	**598**	**–**	**510,411**
CARRYING AMOUNTS						
At 31 December 2018	**3,211,238**	**3,239,149**	**18,711**	**351**	**24,753**	**6,494,202**
At 31 December 2017	3,180,302	3,527,442	23,029	365	100,350	6,831,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the lease term
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 25%
Motor vehicles	20% – 25%

The carrying amount of land and buildings shown above comprises properties situated on:

	2018 **RMB'000**	2017 RMB'000
Leasehold land and buildings in Hong Kong	**73,074**	75,592
Buildings located on the leasehold land in the PRC	**3,138,164**	3,104,710
	3,211,238	3,180,302

Note: At 31 December 2018, the Group was in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of RMB1,649,724,000 (2017: RMB1,496,362,000).

At 31 December 2018, the carrying value of plant and machinery included an amount of RMB275,701,000 (2017: RMB800,198,000) in respect of assets held under finance leases.

17. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT

a) Properties held for development

	RMB'000
At 1 January 2017, 31 December 2017, and 31 December 2018	255,723

During the year ended 31 December 2014, the Group made a full land premium payment of RMB484,050,000 to respective authority and obtained all land use right certificates, of a land located in Chengdu, Pengzhou ("Chengdu Lands"). The land use right certificate indicated that the period for which the lands could be used for commercial and residential purposes would expire on 27 December 2053 and 2083, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

a) Properties held for development *(Continued)*

Pursuant to the Group's development plan of the Chengdu Lands as at 31 December 2014, certain lands will be developed into residential properties for sale. Accordingly, the amount of approximately RMB255,723,000 based on the proportion of lands to be developed as properties for sale had been reclassified from "Investment properties" to "Properties held for development" representing the deemed costs equivalent to the fair value measured at 31 December 2014 immediately prior to its reclassification.

b) Investment properties

	RMB'000
At 1 January 2017	1,120,277
Fair value change	(326,980)
At 31 December 2017	793,297
Fair value change	(94,873)
At 31 December 2018	698,424

In 2014, the Group applied to local authority in Pengzhou for extension of the commencement date of property development which was approved by respective government authority in February 2015, with an extended period to no later than 31 December 2017 (the "Extension Document").

Pursuant to Article 26 of Chapter II of the Urban Real Estate Administration Law of the PRC (the "UREAL") and the Extension Document, when the development has not started in one year from the date required to start the development as prescribed by the Extension Document, an idle land fee not more than 20 percent of the lease fees for land use ("Idle Land Fee") may be imposed, i.e. if the real estate development work was not commenced on or before 31 December 2018. Furthermore, the land will be taken back by the government without compensation if the real estate development work is not commenced on or before 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

b) Investment properties *(Continued)*

In September 2017, the Group entered into an agreement with the local government of Pengzhou to facilitate the development of the Chengdu Lands for five years (the "Cooperative Agreement"). Pursuant to the Cooperative Agreement, the Group will contribute approximately 40 acre of the lands and existing structures erected on the lands (including office buildings and 102 workshops) to Pengzhou local government, whilst the Pengzhou local government will fund the construction of an administrative centre which is regarded as the first phase development of the Chengdu Lands (the "First Phase Development"). The Group will also be responsible to construct the administrative centre. Such administrative centre will be entirely owned by Pengzhou local government after five years from September 2017. To compensate the 40 acre lands contributed by the Group, the local government of Pengzhou has agreed to adjust the plot ratio of the remaining area of the lands to the original gross floor area. Meanwhile, a supplementary agreement has been entered into between the Pengzhou local government and the Group on 26 March 2018 (the "Supplementary Agreement") that the First Phase Development would commence upon the submission of the construction plan and the related documents. Also, the construction should be completed within 1 year from the date of signing the Supplementary Agreement i.e. 25 March 2019.

In December 2018, the Group has obtained the building permit from the relevant local authority in Pengzhou. Due to unforeseen reasons, the Group has not commenced the construction of the administrative center in 2018. Based on the meeting minutes between the Group and the local government of Pengzhou on 8 March 2019, the Group is relieved from the responsibility for the delay of completion of the administrative centre. It is further agreed that the construction of the administrative centre should be completed within 1 year after the construction permit has been obtained.

The directors of the Company have obtained a legal opinion in respect of the Cooperative Agreement, the Supplementary Agreement and the meeting minutes between the Group and the local government of Pengzhou on 8 March 2019. As advised by the legal counsel of the Group, there will be no Idle Land Fee imposed to the Group though the First Phase Development did not commence in 2018 and the land will not be taken back by the government without compensation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

c) Fair value measurement of investment properties

As at 31 December 2018, a fair value loss of the Chengdu Lands determined by the directors of the Company by reference to a valuation performed by Ravia Global Appraisal Advisory Limited ("Ravia") was approximately RMB94,873,000 (2017: RMB326,980,000). Ravia, a member of the Hong Kong Institute of Surveyors, is an independent qualified professional valuer which is not connected with the Group and has appropriate qualifications. The carrying amounts of investment properties represent land held for development for investment purposes.

In determining the fair value of the investment properties, the management of the Group determines the appropriate valuation techniques and inputs for fair value measurements. The Group engages and works closely with Ravia to perform the valuation and establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company on a regular basis to explain the cause of fluctuations in the fair value of the investment properties.

There was no comparable recent sale transaction of land with similar size available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the estimated development costs to be incurred to arrive at the residual value.

The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance costs, construction cost and developer's profit margin, which would expose the Group to fair value measurement risks.

The expected selling price per square meter upon completion of construction and the construction costs have been revisited by the directors of the Company taking into account the market conditions and construction complexity as at the valuation date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

c) Fair value measurement of investment properties *(Continued)*

During the year ended 31 December 2018, the management revisited the average construction cost, adjusted the input to the model from an average construction cost of RMB4,155 per square meter for the year ended 31 December 2017 to RMB4,488 per square meter for the year ended 31 December 2018, which have been partially offset against the increase in expected average selling price from RMB7,647 per square meter for the year ended 31 December 2017 to RMB7,782 per square meter for the year ended 31 December 2018, resulting in a decrease of RMB94,873,000 (2017: RMB326,980,000) in fair value of the investment properties.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Leasehold land in Chengdu, the PRC	Level 3	Residual Method	– Expected selling price of completed units: at an average of RMB7,782 per square meter (2017: RMB7,647 per square meter)	– A slight increase in the expected selling price of properties in similar locality would result in a significant increase in fair value, and vice versa.
			– Average construction period: 3 – 7 years (2017: 3 – 7 years)	– An increase in the construction period would result in a decrease in the fair value, and vice versa.
			– Finance costs: 4.75 – 4.90% per annum (2017: 4.75 – 4.90% per annum)	– An increase in the finance costs would result in a decrease in the fair value, and vice versa.
			– Average construction cost: RMB4,488 per square meter (2017: RMB4,155 per square meter)	– An increase in the average construction costs would result in a decrease in the fair value, and vice versa.
			– Developer's profit margin: 40% (2017: 40%)	– An increase in the developer's profit margin would result in a decrease in the fair value, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC	**228,592**	212,603
Analysed for reporting purposes as:		
Non-current asset	**223,186**	207,649
Current asset	**5,406**	4,954
	228,592	212,603

19. GOODWILL

	RMB'000
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	**3,031**

Goodwill has been allocated to two individual cash-generating units (CGUs), including one subsidiary which operates in the bulk medicine segment and one subsidiary which operates in the finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2018 RMB'000	2017 RMB'000
Bulk medicine	**774**	774
Finished products	**2,257**	2,257
	3,031	3,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. INTANGIBLE ASSETS

	Development cost	Know-how	Total
	RMB'000	RMB'000	RMB'000
	(Notes i & iii)	*(Note ii)*	
COST			
At 1 January 2017	128,486	47,100	175,586
Additions	16,285	–	16,285
At 31 December 2017	144,771	47,100	191,871
Additions	20,784	–	20,784
At 31 December 2018 *(Note)*	**165,555**	**47,100**	**212,655**
AMORTISATION			
At 1 January 2017	22,070	9,328	31,398
Charge for the year	6,762	2,914	9,676
At 31 December 2017	28,832	12,242	41,074
Charge for the year	9,370	2,914	12,284
At 31 December 2018	**38,202**	**15,156**	**53,358**
IMPAIRMENT			
At 1 January 2017 and 31 December 2017	–	–	–
Provided for the year	–	17,960	17,960
At 31 December 2018	**–**	**17,960**	**17,960**
CARRYING AMOUNTS			
At 31 December 2018	**127,353**	**13,984**	**141,337**
At 31 December 2017	115,939	34,858	150,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. INTANGIBLE ASSETS *(Continued)*

Notes: As at 31 December 2018, cost of intangible assets comprise of:

i. An amount of RMB20,237,000 (2017: RMB20,237,000), representing development costs incurred in obtaining licences for manufacturing finished products granted by the relevant PRC authorities. The licenses granted allow the Group to apply for the relevant technical know-how to manufacture finished products for five years from the date of granting relevant licenses. The costs of these intangible assets are therefore amortised over the useful lives of five years and were fully amortised in prior years.

ii. An amount of RMB47,100,000 (2017: RMB47,100,000), representing externally acquired technical know-how ("Know-how") in identifying processes for manufacturing finished products and protocols for fermentation/purification methodology. During the year ended 31 December 2015, two of the Know-how at a total cost of RMB29,140,000 had commenced amortisation starting from the date when they were put into production process. It is amortised over 10 years which is the expected period for which they will bring future economic benefits to the Group. Due to suspension of a product development, a full impairment loss of RMB17,960,000 has been recognised on one of the know-how of the relevant product development during the year ended 31 December 2018.

iii. A total amount of RMB145,318,000 (2017: RMB124,534,000), representing the capitalised development costs incurred in clinical trial process stage and in obtaining licenses for manufacturing finished products including insulin glargine and insulin. During the year ended 31 December 2017, the capitalised development cost of insulin glargine of RMB69,408,000, has started to amortise from the date when it was put into production process. It is amortised over 10 years which is the expected period for which it will bring future economic benefits to the Group. During the year ended 31 December 2018, the development cost of Clavulanate Potassium of RMB9,200,000 has started to amortise from the date when it was put into production process. It is amortised over 5 years which is the expected period for which it will bring future economic benefits to the Group. There has been no amortisation for the remaining development cost of another insulin as the related products are in clinical trial process stage. In accordance with HKAS 36 "Impairment of Assets", the Group performed its annual impairment test for intangible asset not yet available to use by comparing its carrying amount with its recoverable amount. The calculation applied discounted cash flow methodology, of which the cash flow projections are based on financial budget approved by management. The management of the Group determined no impairment loss is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE INVESTMENT

(a) Financial asset at fair value through profit or loss

	2018
	RMB'000
Equity securities of unlisted investments, classified as non-current assets	**500**

The above unlisted equity investments represent the Group's equity interest in a private entity established in the PRC, which are measured at FVTPL and are not subject to impairment assessment at the end of the reporting period.

(b) Available-for-sale investment

	2017
	RMB'000
Equity securities of unlisted investments, classified as non-current assets	500

As at 31 December 2017, the unlisted equity investments were measured at cost less impairment at the end of the reporting period.

22. INVENTORIES

	2018	2017
	RMB'000	RMB'000
Raw materials	**496,984**	361,254
Work in progress	**163,258**	101,260
Finished goods	**804,419**	710,568
	1,464,661	1,173,082

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Trade receivables	**1,134,749**	1,066,835
Bills receivables	**1,854,888**	1,255,237
Value added tax receivables	**27,141**	56,245
Other receivables, deposits and prepayments	**81,037**	126,558
Less: allowances for credit losses		
– trade	**(25,518)**	(19,212)
– non-trade	**(6,411)**	(31,988)
	3,065,886	2,453,675

As at 31 December 2018 and 1 January 2018, carrying amount of trade receivables from contracts with customers amounted to RMB1,134,749,000 and RMB1,066,835,000 respectively.

The Group normally allows a credit period of 60 days on average (2017: 60 days on average) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The following is an analysis of trade and bills receivables by age, net of allowance for credit losses, presented based on the invoice date, at the end of the reporting period which approximate the respective revenue recognition dates:

	2018	2017
	RMB'000	RMB'000
Trade receivables		
0 to 30 days	**392,207**	628,482
31 to 60 days	**460,665**	300,223
61 to 90 days	**176,782**	71,975
91 to 120 days	**46,778**	21,440
121 to 180 days	**32,799**	14,479
Over 180 days	**–**	11,024
	1,109,231	1,047,623

	2018	2017
	RMB'000	RMB'000
Bills receivables		
0 to 30 days	**427,028**	329,005
31 to 60 days	**316,823**	245,459
61 to 90 days	**325,024**	202,961
91 to 120 days	**302,806**	199,464
121 to 180 days	**460,105**	267,709
Over 180 days	**23,102**	10,639
	1,854,888	1,255,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

As at 31 December 2018, total bills received amounting to RMB1,854,888,000 (2017: RMB1,255,237,000) and certain bills were further discounted or endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed below. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB256,359,000 which are past due as at the reporting date. Out of the past due balances, RMB7,845,000 has been past due 90 days or more and no default is considered as the balances were related to customers with sound repayment history and no recent history of default. The Group does not hold any collateral over these balances.

As at 31 December 2017, 95% of the trade and bills receivables balances that are neither past due nor impaired have either been subsequently settled or there have not been a significant change in credit quality and the amounts are still recoverable based on historical experience.

As at 31 December 2017, included in the Group's trade and bills receivable are debtors with a carrying amount of RMB116,254,000 which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and subsequently, these receivables have been substantially settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of trade and bills receivables which are past due but not impaired

	2017 RMB'000
Overdue by:	
61 – 90 days	69,311
91 – 120 days	21,440
121 – 180 days	14,479
Over 180 days	11,024
	116,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Movement in the allowance for credit losses

	2017 RMB'000
Balance at beginning of the year	49,260
Impairment losses recognised on receivables, net	6,947
Amounts written off as uncollectible	(5,007)
Balance at end of the year	51,200

Movement in the allowance for doubtful debts

At 31 December 2017, trade and other receivables balance totalling RMB51,200,000 were individually determined to be impaired, which related to customers that were in financial difficulties or the management considered the recoverability is highly unlikely based on historical payment pattern. The management assessed that the full amount of these trade and other receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables as at 31 December 2018 are set out in Note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Transfer of financial assets

The following were the Group's financial assets as at 31 December 2018 and 2017 that were transferred to banks or suppliers by discounting or endorsing those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as a secured borrowing (see Note 28) for discounted bills receivables or it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade payables (see Note 25) for endorsed bills receivables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2018

	Bills receivables discounted to banks with full recourse RMB'000	**Bills receivables endorsed to suppliers with full recourse RMB'000**	**Total RMB'000**
Carrying amount of transferred assets	**373,657**	**522,566**	**896,223**
Carrying amount of associated liabilities	**(373,657)**	**(522,566)**	**(896,223)**

As at 31 December 2017

	Bills receivables discounted to banks with full recourse RMB'000	Bills receivables endorsed to suppliers with full recourse RMB'000	Total RMB'000
Carrying amount of transferred assets	25,317	177,573	202,890
Carrying amount of associated liabilities	(25,317)	(177,573)	(202,890)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH/BANK OVERDRAFTS

Pledged deposits amounting to RMB555,806,000 (2017: RMB487,738,000) have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see Note 37). The range of effective interest rates of the pledged deposits at 31 December 2018 was 0.25% to 2.52% (2017: 0.35% to 2.75%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The range of effective interest rates of the bank balances at 31 December 2018 was 0.001% to 0.35% (2017: 0.001% to 0.35%) per annum.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2018	2017
	RMB'000	RMB'000
Pledged bank deposits and bank balances		
– HK$	**82,472**	58,482
– USD	**335,026**	121,041
– Euro	**5,609**	278,153

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

Bank overdrafts carry interest at market rates is 4.785% (31 December 2017: nil) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

25. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days of trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	2018	2017
	RMB'000	RMB'000
Trade payables		
0 to 90 days	**839,253**	852,136
91 to 180 days	**440,247**	251,858
Over 180 days	**27,637**	41,737
	1,307,137	1,145,731
Bills payables		
0 to 90 days	**563,778**	305,609
91 to 180 days	**410,836**	389,541
	974,614	695,150
Other payables and accruals	**1,041,738**	984,477
Deferred income in respect of government grants *(Note 34)*	**128,302**	130,758
Payables in respect of the acquisition of property, plant and equipment	**326,334**	397,154
	3,778,125	3,353,270
Less: Amount due within one year shown under current liabilities	**(3,700,672)**	(3,268,323)
Amount shown under non-current liabilities	**77,453**	84,947

Included in the trade payables, other payables and payables in respect of the acquisition of property, plant and equipment above are RMB26,185,000, RMB413,425,000 and RMB82,956,000 (2017: RMB105,433,000, RMB46,981,000 and RMB25,159,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of the reporting period (see Note 23).

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26. CONTRACT LIABILITIES

	31.12.2018 **RMB'000**	1.1.2018* RMB'000
Receipts in advances from customers – finished goods	**68,439**	87,054

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised for the year ended 31 December 2018 relates to the contract liabilities at the beginning of the year.

	Receipts in advance from customers **RMB'000**
Revenue recognised during the year	**87,054**

When the Group receives an amount from certain new customers before products are delivered to and received by the customer, this will give rise to a contract liability at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received. The balance is mainly contributed from new customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**111,609**	305,564	**108,572**	285,594
In more than one year but not more than two years	**7,496**	111,609	**7,423**	108,216
In more than two years but not more than five years	**–**	7,496	**–**	7,423
	119,105	424,669	**115,995**	401,233
Less: future finance charges	**(2,575)**	(15,221)	**N/A**	N/A
Less: arrangement fee charges	**(535)**	(8,215)	**N/A**	N/A
Present value of lease obligations	**115,995**	401,233	**115,995**	401,233
Less: amount due for settlement within one year (shown under current liabilities)			**(108,572)**	(285,594)
Amount due for settlement after one year			**7,423**	115,639

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For the year ended 31 December 2018

27. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.95% to 4.50% (2017: 3.95% to 6.66%) per annum. These leases have no terms of renewal or purchase options and escalation clauses.

Deposits of RMB46,737,000 (2017: RMB98,446,000), which is interest free, were pledged to respective lessors against finance leases. The deposits will be released upon expiry of respective leases.

Pledged deposits against finance lease of RMB26,709,000 (2017: RMB51,709,000) will be released in the coming year upon the expiry of respective leases in 2019 and are therefore classified as current assets while the remaining balance of RMB20,028,000 (2017: RMB46,737,000) is included in non-current assets as the deposits will be released after one year from the end of the reporting period.

During the year ended 31 December 2018, the Group did not enter into any finance lease arrangements, while during the year ended 31 December 2017, the Group entered into lease arrangements of property, plant and equipment with a carrying value amounting to RMB239,952,000, with financial institutions for a consideration of RMB200,000,000. The titles of the property, plant and equipment have been transferred to the financial institutions upon signing of the lease agreements. However, the Group is liable for the maintenance and insurance of the property, plant and equipment. At the end of the lease term for each arrangement, the titles of the related property, plant and equipment will be transferred back to the Group without incurring additional costs. Accordingly, the Group continues to bear all risks and rewards of these property, plant and equipment and such leases are classified as finance lease.

As at 31 December 2018, property, plant and equipment with carrying value amounting to RMB275,701,000 (2017: RMB800,198,000) is under finance lease arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans	**1,687,109**	2,109,291
Discounted bills with recourse *(Note 23)*	**373,657**	25,317
Bonds	**1,148,188**	1,282,935
	3,208,954	3,417,543
Analysed as:		
Secured	**1,465,735**	1,639,347
Unsecured	**1,743,219**	1,778,196
	3,208,954	3,417,543
The carrying amount of the above borrowings are repayable:		
– Within one year	**1,586,793**	1,039,199
– Within a period of more than one year, but not exceeding two years	**490,042**	752,252
– Within a period of more than two years but not more than five years	**1,093,274**	1,527,034
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable*:		
– Within one year	**38,845**	60,395
– Within a period of more than one year but not exceeding two years	**–**	38,663
	3,208,954	3,417,543
Less: Amount due within one year shown under current liabilities	**(1,625,638)**	(1,138,257)
Amount shown under non-current liabilities	**1,583,316**	2,279,286

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are analysed as follows:

Interest rate

	2018 **RMB'000**	2017 RMB'000
Fixed rate	**2,209,928**	1,837,918
Hong Kong Interbank Offered Rate ("HIBOR") plus 1.85% to 3.00% (2017: HIBOR plus 1.85% to 3.00%)	**830,611**	846,982
PRC Loan Prime Rate ("LPR") plus 1.79% (2017: N/A)	**3,000**	–
N/A (2017: London Interbank Offered Rate ("LIBOR") plus 3.60%)	**–**	64,753
EURO LIBOR plus 0.70% to 1.75% (2017: EURO LIBOR plus 0.65% to 1.75%)	**165,415**	667,890
	3,208,954	3,417,543

The range of effective interest rates of the floating rate borrowings at 31 December 2018 is 0.70% to 5.49% (2017: 0.65% to 5.39%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2018 is 1.85% to 6.81% (2017: 1.00% to 6.81%) per annum.

In 2015 and 2016, the Group established a bond issue programme for issuance of bonds from time to time, with a term of three years. As at 31 December 2018, the outstanding balance of the fixed rate bonds amounting to RMB54,915,000 (2017: RMB191,679,000) were unsecured, carried a fixed coupon rate of 6% per annum and were repayable in instalments semi-annually in arrears on 31 May and 30 November. The bonds issued at par, carry interest at an effective interest rate of 6.81% per annum and the maturity dates are in February, July, September, October, November and December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. BORROWINGS *(Continued)*

Interest rate *(Continued)*

In March 2017, the Group issued fixed rate bonds of RMB1,100,000,000 carrying a fixed coupon rate of 5.5% per annum with a maturity of three years (extendable to five years) (the "Corporate Bonds"). As at 31 December 2018, the carrying amount of fixed rate bonds is RMB1,093,274,000 (2017: RMB1,091,256,000). The Company has the right to adjust the interest rate after the expiration of 3 years of maturity period, and the interest adjustment notice will be issued on the 30th trading day prior to the 3rd years' interest payment date. The bondholders have the option to extend two more years after the issuance of the interest adjustment notice. The management considered that the overall effect on the fair value of the option and adjusted right from the Group is immaterial. The Corporate Bonds are issued at par, carries at an effective interest rate of 5.72% per annum. The Corporate Bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, listed and traded on The Shanghai Stock Exchange.

Other than borrowings of nil (2017: RMB64,753,000), RMB953,807,000 (2017: RMB1,038,661,000) and RMB165,415,000 (2017: RMB942,556,000) are denominated in USD, HK$ and EUR, respectively, the remaining borrowings are all in RMB.

29. CONVERTIBLE BONDS

On 5 December 2016, the Company issued USD denominated HKD settled 4.5% unsecured convertible bonds (the "Convertible Bonds") at par with the aggregate principal amount of USD130,000,000 with initial conversion price of HK$5.35 (subject to adjustments) per share at a fixed exchange rate of HK$7.7563 to USD1.00. An adjustment has been made to the conversion price from HK$5.35 to HK$4.86 on a one-time basis on 13 December 2016 pursuant to the terms and conditions as prescribed in the subscription agreement dated 21 November 2016. The Convertible Bonds are listed on the Stock Exchange.

The Convertible Bonds bear interest from (and including) the issue date at the rate of 4.5% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrears on 5 June and 5 December of each year, commencing with the first interest payment date falling on 5 June 2017. The Convertible Bonds will mature on 5 December 2021 and shall be redeemed by the Company at par, together with accrued interest thereon, on 5 December 2021.

Conversion at the option of the bondholder may occur at any time between 15 January 2017 and 27 November 2021. The Company will, at the option of the bondholder, redeem all or some of the Convertible Bonds on 5 December 2019 at their principal amount, with accrued but unpaid interest excluding the date fixed for redemption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. CONVERTIBLE BONDS *(Continued)*

The Company may at any time after 5 December 2019 and prior to 5 December 2021, the date of maturity, redeem the Convertible Bonds in whole, but not in part, at their principal amount, together with interest accrued but unpaid up to the day before the date fixed for redemption, provided that the closing price of the shares of the Company, translated into US dollars at the prevailing rate applicable to the relevant trading day, for 30 consecutive trading days prior to the date upon which notice of such redemption is published is at least 130% of the conversion price then in effect, translated into US dollars at the fixed exchange rate of HK$7.7563 to USD1.00.

The Company may at any time redeem the outstanding Convertible Bonds in whole, but not in part, at their principal amount together with interest accrued but unpaid up to the day before the date fixed for redemption if, immediately prior to the date of notice, at least 90% of principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Convertible Bonds contain liability component, conversion option and early redemption option derivatives. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option and the Company's and the bond holder's early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

At the date of issue, the debt component was recognised at fair value, calculated based on the present value of the redemption amount at maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component is 14.6% (2017: 14.6%).

The derivatives components of the Convertible Bonds are measured at fair values at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

In June 2018, the Convertible Bonds with fixed principal amount of USD8,049,000 (equivalent to approximately RMB51,111,000) were converted into total 12,845,770 ordinary shares of HK$0.01 each at a conversion price of HK$4.86 per conversion share (Note 31).

As at 31 December 2018, the Convertible Bonds in an aggregate principal amount of USD121,951,000 (equivalent to approximately RMB839,511,000) remained outstanding with a maturity date of 5 December 2021, subject to bondholders' redemption right exercisable on 5 December 2019, and is classified as a current liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer. The movement of the Convertible Bonds for the year ended 31 December 2018 and 2017 are set out as below:

	Debt component RMB'000	**Derivative components RMB'000**	**Total amount RMB'000**
At 1 January 2017	590,045	414,775	1,004,820
Interest charged	84,490	–	84,490
Interest paid	(38,940)	–	(38,940)
Exchange gain	(38,091)	(27,994)	(66,085)
Loss arising on changes of fair value	–	53,938	53,938
At 31 December 2017	597,504	440,719	1,038,223
Interest charged	88,648	–	88,648
Interest paid	(35,121)	–	(35,121)
Conversion into ordinary shares	(37,526)	(43,651)	(81,177)
Exchange loss	32,135	14,600	46,735
Gain arising on changes of fair value	–	(226,414)	(226,414)
At 31 December 2018	**645,640**	**185,254**	**830,894**

Binomial model is used for valuation of the derivative components of the Convertible Bonds. Details of the inputs and assumptions of the model are as follows:

	31 December 2018	31 December 2017
Share price of the Company	**HK$4.16**	HK$6.35
Exercise price	**HK$4.86**	HK$4.86
Remaining life	**2.93 years**	3.93 years
Risk-free rate	**1.758%**	1.516%
Expected volatility	**47.36%**	48.48%
Expected dividend yield	**6.13%**	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. CONVERTIBLE BONDS *(Continued)*

Risk-free rate was determined by using the average of 3-year yield and 5-year yield of HK$ Hong Kong Sovereign bonds on each of the end of the reporting period.

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company over periods that are commensurate with the time to maturity at the respective valuation date.

Expected dividend yield was determined by the sustainability of the Company's dividend policy.

30. DEFERRED TAXATION

The followings are the deferred tax assets (liabilities) recognised and movements thereon for the current and prior years:

	Fair value change on investment properties RMB'000	Accelerated (tax) accounting depreciation RMB'000	Unrealised profit on inventories RMB'000	Withholding tax on undistributed profits of the PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2017	(476,700)	5,628	6,998	(99,880)	(563,954)
Credit (charge) to profit or loss for the year	201,279	(8,026)	7,169	15,032	215,454
At 31 December 2017	(275,421)	(2,398)	14,167	(84,848)	(348,500)
Credit (charge) to profit or loss for the year	52,267	(1,858)	1,349	15,392	67,150
At 31 December 2018	**(223,154)**	**(4,256)**	**15,516**	**(69,456)**	**(281,350)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

30. DEFERRED TAXATION *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets	**15,516**	14,167
Deferred tax liabilities	**(296,866)**	(362,667)
	(281,350)	(348,500)

The Group's unrecognised deductible temporary differences are as follows:

	2018 **RMB'000**	2017 RMB'000
Tax loss carry forwards	**1,098,744**	1,156,231
Other deductible temporary differences	**717,733**	723,424

During the year ended 31 December 2018, a tax loss of nil (2017: RMB38,614,000) expired by respective local tax authorities. Included in unrecognised tax losses are losses of RMB594,174,000 (2017: RMB768,724,000) that will expire within five years. Other losses may be carried forward indefinitely. No deferred tax asset in respect of tax losses has been recognised because the amount of future taxable profit that will be available to realise such assets is uncertain.

The unused tax losses will be expired as follow:

	2018 **RMB'000**	2017 RMB'000
2018	**–**	21,146
2019	**–**	31,089
2020	**–**	88,134
2021	**470,370**	528,053
2022	**100,302**	100,302
2023	**23,502**	–
	594,174	768,724

Other deductible temporary differences primarily comprise of various impairment losses on receivables, property, plant and equipment and unrealised profit on unsold inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 1 January 2018	1,626,875,000	16,269
Issue of ordinary share upon conversion of Convertible Bonds (Note 29)	12,845,770	128
At 31 December 2018	1,639,720,770	16,397

	RMB'000
Shown in the consolidated financial statements as:	
At 31 December 2018	15,346
At 31 December 2017	15,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 25 May 2007 and will expire at the close of business on the day immediately preceding the tenth anniversary thereof. Under the scheme, the board of directors of the Company may, at their discretion, grant options to employees, including executive or non-executive directors of the Company or any of its subsidiaries business or joint venture partner, contractor, agent or representation, investor, vendor, supplier, etc. to subscribe for shares in the Company at a price not less than the highest of (i) HK$2.75; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the relevant option.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes shall not exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

No option has been granted or agreed to be granted under the Scheme since the Scheme was set up.

33. EMPLOYEE RETIREMENT BENEFITS

The Group participates in Mandatory Provident Fund Schemes ("MPF Schemes") for all employees in Hong Kong. The MPF Schemes are registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Schemes, the employer and its employees are each required to make contributions to the MPF Schemes at 5% of the employee's basic salary with the maximum contribution of HK$1,500 per month. The obligation of the Group with respect of MPF Schemes is to make the required contributions under the MPF Schemes. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of RMB414,000 (2017: RMB453,000) are charged to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of RMB99,543,000 (2017: RMB90,469,000) are charged to profit or loss.

34. GOVERNMENT GRANTS

Incentive subsidies of RMB53,772,000 (2017: RMB38,880,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

Certain subsidies relate to the development of pharmaceutical products or improvement of production efficiency amounting of RMB50,849,000 (2017: RMB45,811,000) as at 31 December 2018 are included as payables. The amounts are recognised as income when the Group has fulfilled the relevant conditions attaching to the grants, including but not limited to obtaining the medical licenses of the pharmaceutical products or the starting of commercial sales of the pharmaceutical products. During the year, the Group has recognised the government grant of approximately RMB8,290,000 (2017: RMB37,630,000) as income in profit or loss.

For the year ended 31 December 2018, no government subsidies were granted to the Group (2017: RMB15,647,000) to subsidise the acquisition of property, plant and equipment. The amount brought forward from prior year had been treated as deferred income and was transferred to income over the useful lives of the relevant assets. As at 31 December 2018, an amount of RMB77,453,000 (2017: RMB84,947,000) were included in non-current liabilities. During the year ended 31 December 2018, RMB7,494,000 (2017: RMB12,558,000) was released to the profit or loss.

The aggregate subsidy income recognised to the profit or loss during the year ended 31 December 2018 amounted to RMB69,556,000 (2017: RMB89,068,000) (Note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. OPERATING LEASES

The Group as lessee

	2018 RMB'000	2017 RMB'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**476**	429

Operating lease payments represent rentals payable by the Group for a staff quarter and shuttle buses.

Lease are negotiated for terms within one year and rentals are fixed throughout the lease term.

36. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**633,246**	332,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. PLEDGE OF ASSETS

Other than deposits made to financing leasing companies disclosed in Note 27 of the consolidated financial statements and the property, plant and equipment under finance leases disclosed in Note 16 to the consolidated financial statements, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	**576,407**	638,008
Land use rights	**44,491**	24,142
Bills receivables	**373,657**	25,317
Pledged bank deposits	**555,806**	487,738

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of funding of cash flows from operating activities and the flexibility through the use of the finance from banks. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of debt, which includes the obligations under finance leases (Note 27), borrowings (Note 28) and convertible bonds (Note 29), and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's capital structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial asset at mandatorily measured FVTPL	**500**	–
Financial assets at amortised cost	**5,187,238**	–
Loans and receivables	**–**	4,482,812
AFS investment	**–**	500
Financial liabilities		
Financial liabilities at amortised cost	**6,827,424**	6,414,432
Derivative financial instruments	**185,254**	440,719

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, pledged deposits against finance leases, bank balances and cash, AFS investment, financial asset at FVTPL, trade and bills payables, convertible bonds and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The risk arising from the Group's financial instruments are mainly market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The directors review policies for managing each of these risks, details of which are summarised below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Foreign currency risk

The Group has foreign currency sales and purchases, and also convertible bonds, certain bank balances and bank borrowings denominated in USD, Euro and HK$ other than the functional currency of respective group entities, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to eliminate the currency exposures.

The carrying amounts of the Group's net monetary assets and monetary liabilities denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities, at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**587,056**	368,778	**841,012**	1,052,797
Euro	**6,800**	282,011	**165,870**	942,556
HK$	**82,869**	58,498	**966,070**	1,039,866

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against USD, Euro and HK$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for both years where RMB strengthens 5% against USD, Euro and HK$. For a 5% weakening of RMB against USD, Euro and HK$, there would be an equal but opposite impact on the profit for both years.

	2018	2017
	RMB'000	RMB'000
USD	**12,927**	29,989
Euro	**6,645**	27,594
HK$	**39,179**	41,097

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during both years.

Fair value and cash flow interest rate risks

The Group has significant borrowings which bear interest-rate risk. Floating rate borrowings, bank deposits and bank balances expose the Group to cash flow interest-rate risk. Borrowings, obligations under finance leases and convertible bonds issued at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk. The directors of the Company consider the Group's exposure to fair value interest rate risk on bank deposits is not significant as most deposits bear variable interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risks (Continued)

Interest rate sensitivity analysis

No sensitivity analysis was prepared for pledged bank deposits and bank balances as the financial impact arising on changes in interest rates was minimal due to limited changes in interest rate. The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the end of the reporting period, if interest rates of HIBOR, LIBOR and LPR had been increased/decreased by 50 basis points, respectively and all other variable remained constant, the Group's post-tax profit for the year ended 31 December 2018 would increase/decrease by RMB3,184,000, RMB634,000 and RMB10,000, respectively (2017: increase/decrease by RMB3,350,000, RMB2,898,000 and nil, respectively).

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Other price risk

The conversion option and early redemption option derivatives of the Company's convertible bonds carried at fair value exposed the Group to equity price risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Other price risk (Continued)

Equity price risk sensitivity analysis

If the share price of the Company input to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% (2017: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2018 would decrease/increase by approximately RMB30,513,000/RMB23,456,000 (2017: RMB83,616,000/RMB78,618,000).

If the expected volatility of share price of the Company input to the valuation model for assessing the fair value of such derivatives had been 10% (2017: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2018 would decrease/increase by approximately RMB27,152,000/RMB26,955,000 (2017: RMB40,543,000/RMB38,915,000).

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and statement of financial position.

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 assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix.

The credit risk on bank balances, pledged bank deposits and bills receivables are limited because the counterparties are banks mostly with high credit ratings of AA+ assigned by international credit-rating agencies. Banks rated AA+ possess superior intrinsic financial strength. Typically, they will be institutions with highly valuable and defensible business franchises, strong financial fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diversified industries and geographical areas.

To manage the risk arising from other receivables and pledged deposits against finance leases, the Group only transacts with reputable parties that have no default history and have a strong capacity to meet its contractual cash flow obligations in the near term. The credit risk on pledged deposits against finance leases are limited because the counterparties are financial institutions with high external credit ratings of AA+. The management has concluded that the expected credit losses for pledged deposits against finance leases are not significant.

In addition, the management assessed the expected credit losses of other receivables based on historical default loss and forward looking information. During the year ended 31 December 2018, the Group provided RMB6,411,000 impairment allowance for other receivables by applying the average loss rate of 15%, which is based on the historical default rate.

The following table shows the movement in ECL that has been recognised for other receivables.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39 and 1 January 2018 and HKFRS 9	–	31,988	31,988
Changes due to other receivables recognised as at 1 January:			
Impairment losses reversed	–	(14,823)	(14,823)
Write-offs	–	(17,165)	(17,165)
Newly originated other receivables	6,411	–	6,411
As at 31 December 2018	6,411	–	6,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Changes in the loss allowance for other receivables are mainly due to:

	31/12/2018	
	Decrease in lifetime ECL	
	Not credit-impaired RMB'000	Credit-impaired RMB'000
Settlement in full of other receivables with a gross carrying amount of RMB14,823,000	–	(14,823)
Full write-offs of other receivables with a gross carrying amount of RMB17,165,000	–	(17,165)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

As part of the Group's credit risk management, the Group applied provision matrix based on grouping common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The customers are categorised into different internal credit ratings with higher, normal and lower risks, by assessing their business scale, market competitiveness, repayment ability and business reputation. The default rate of the internal credit ratings are based on historical default record of each category. The rate is then adjusted by forward looking macro-economic factors, which incorporate the country risks of debtors, and the adjusting rate incremental in each aging group and risk level proposed by the Group. The following expected credit loss rates are about the exposure to credit risk for trade receivables which are assessed based on provision matrix taking into account the weighted average rate of various categories' debtors as at 31 December 2018 within lifetime ECL (not credit impaired).

Gross carrying amount

	Average loss rate	Gross carrying amount RMB'000	Allowance amount RMB'000
Current (not past due)	0.21%	860,492	1,807
1-30 days past due	0.69%	173,956	1,200
31-60 days past due	0.84%	46,468	390
61-120 days past due	22.83%	40,111	9,157
More than 120 days past due	94.48%	13,722	12,964
		1,134,749	25,518

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors 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 debtors is updated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Gross carrying amount (Continued)

During the year ended 31 December 2018, the Group provided RMB25,518,000 impairment allowance for trade receivables, based on the provision matrix.

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) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39 and 2018 and HKFRS 9	–	19,212	19,212
Changes due to trade receivables recognised as at 1 January:			
Impairment losses reversed	–	(19,212)	(19,212)
Newly originated trade receivables	25,518	–	25,518
As at 31 December 2018	25,518	–	25,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Gross carrying amount (Continued)

Changes in the loss allowance for trade receivables are mainly due to:

	31 December 2018	
	Increase/(decrease) in lifetime ECL	
	Not credit-impaired RMB'000	Credit-impaire RMB'000
Newly originated trade receivable balance in 2018 with gross amount of RMB1,134,749,000	25,518	–
Settlement in full of trade debtors with a gross carrying amount of RMB19,212,000	–	(19,212)

The Group writes off a 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 receivables are over three years past due, whichever occurs earlier. During the year ended 31 December 2018, nil and RMB17,165,000 of the trade and other receivables that have been written off, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. 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 Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at the date of these consolidated financial statements, the Group has available unutilised banking facilities of RMB2,946,468,000 (2017: RMB6,944,947,000). The Directors are of the view that the banking facilities could be renewed based on historical experience that the Group has not encountered any difficulties to obtain banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates as at the reporting date) of 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.

	Weighted average interest rate %	On demand or less than 1 month RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018							
Trade, bills and other payables	–	654,275	1,907,720	410,835	–	2,972,830	2,972,830
Obligations under finance leases	4.10	42,187	–	69,422	7,496	119,105	115,995
Borrowings							
– floating-rate	3.41	41,605	1,690	519,012	449,670	1,011,977	999,026
– fixed-rate	4.72	201,616	162,782	781,265	1,329,508	2,475,171	2,209,928
Convertible bonds	14.60	–	–	708,536	–	708,536	830,894
		939,683	2,072,192	2,489,070	1,786,674	7,287,619	7,128,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate %	On demand or less than 1 month RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2017							
Trade, bills and other payables	–	21,422	2,336,229	41,734	–	2,399,385	2,399,385
Obligations under finance leases	4.22	42,143	47,962	215,458	119,106	424,669	401,233
Borrowings							
– floating-rate	2.14	107,868	334,040	271,241	950,742	1,663,891	1,579,625
– fixed-rate	5.10	39,466	53,168	469,582	1,612,999	2,175,215	1,837,918
Convertible bonds	14.60	–	–	39,482	995,819	1,035,301	1,038,223
		210,899	2,771,399	1,037,497	3,678,666	7,698,461	7,256,384

The table below summarises the maturity analysis of term loans of RMB38,845,000 (2017: RMB99,058,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates or variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors of the Company believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Bank loans with a repayment on demand clause based on scheduled repayments					
	Less than 1 month RMB'000	**1 – 3 months RMB'000**	**3 months to 1 year RMB'000**	**1 – 5 years RMB'000**	**Total undiscounted cash outflows RMB'000**	**Carrying amount RMB'000**
31 December 2018	**–**	**9,385**	**31,266**	**–**	**40,651**	**38,845**
31 December 2017	–	16,567	49,701	41,600	107,868	99,058

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities 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 techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. at prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

	Fair value as at 31 December 2018 RMB'000	Fair value as at 31 December 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets Financial asset at fair value through profit or loss – unquoted equity investment	**RMB500**	N/A	Level 3	Method of comparables is used to evaluate the market value of the unquoted equity investments by using price to book ratio of listed entities in similar industries	– discount for lack of marketability of 30% (2017: Nil), determined by reference to recent market research	– A significant increase in the discount for lack of marketability would result in a significant decrease in the fair value
Financial liabilities Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**RMB185,254**	RMB440,719	Level 3	Binomial Pricing Model Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives component is the difference between the value of the Convertible Bonds and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – volatility of 42.42% (2017: 48.48%) is applied in the Convertible Bonds by reference to the Company's historical volatility	– A significant increase in the dividend yield would result in a significant decrease in the fair value – A slight increase in the volatility in share price would result in a significant increase in the change in fair value

The unrealised fair value loss of embedded derivatives components of the Convertible Bonds is RMB226,414,000 (2017: gain RMB53,938,000) during the year ended 2018.

The reconciliations of recurring fair value measurement of above liabilities at Level 3 fair value measurements are set out in Note 29. There is no transfer between the different levels of the fair value hierarchy for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(Continued)

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

	31.12.2018			31.12.2017		
	Carrying amount RMB'000	**Fair value RMB'000**	**Fair value hierarchy RMB'000**	Carrying amount RMB'000	Fair value RMB'000	Fair value hierarchy RMB'000
Financial liabilities						
Corporate Bonds (included in borrowings)						
– fixed rate	**1,093,274,000**	**1,100,000,000**	**Level 1**	1,091,256,000	1,100,000,000	Level 1

There is no transfer between the different levels of the fair value hierarchy for both years.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. For the embedded derivative component of the Convertible Bonds and unlisted equity investment, the third party qualified valuers were engaged by the Group to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually 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 and liabilities are disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group' 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.

	Interest payables included in other payables RMB'000 *(Note 25)*	Borrowings RMB'000 *(Note 28)*	Convertible bonds RMB'000 *(Note 29)*	Obligations under finance leases RMB'000 *(Note 27)*	Dividend payable RMB'000 *(Note 14)*	Total RMB'000
At 1 January 2018	51,499	3,417,543	1,038,223	401,233	–	4,908,498
Financing cash flows	(130,405)	(249,216)	(35,120)	(304,986)	(84,443)	(804,170)
Derecognition of bills receivables	–	(24,587)	–	–	–	(24,587)
Conversion of convertible bond	–	–	(81,177)	–	–	(81,177)
Fair value adjustments	–	–	(226,414)	–	–	(226,414)
Finance cost	148,705	11,775	88,648	19,748	–	268,876
Dividend declared	–	–	–	–	84,443	84,443
Exchange loss	3,648	53,439	46,734	–	–	103,821
At 31 December 2018	73,447	3,208,954	830,894	115,995	–	4,229,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

	Interest payables RMB'000	Borrowings RMB'000 *(Note 28)*	Convertible bonds RMB'000 *(Note 29)*	Obligations under finance leases RMB'000 *(Note 27)*	Total RMB'000
At 1 January 2017	46,235	4,243,643	1,004,820	630,436	5,925,134
Financing cash flows	(140,346)	(643,714)	(38,940)	(269,756)	(1,092,756)
Derecognition of bills receivables	–	(166,142)	–	–	(166,142)
Fair value adjustments	–	–	53,938	–	53,938
Foreign exchange translation	–	(9,274)	–	–	(9,274)
Finance cost	144,288	12,025	84,490	40,553	281,356
Exchange gain	1,322	(18,995)	(66,085)	–	(83,758)
At 31 December 2017	51,499	3,417,543	1,038,223	401,233	4,908,498

42. MAJOR NON-CASH TRANSACTIONS

During the year, short term borrowings drawn on discounted bills with recourse with an aggregate amount of RMB24,587,000 (2017: RMB166,142,000) have been derecognised when the related discounted bills receivables were matured and being paid.

43. RELATED PARTY DISCLOSURES

Compensation to key management personnel representing directors' remuneration has been disclosed in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

44. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (Note a) 2018	2017	Principal activities and place of operation
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
Bowden Trading Limited	Samoa	USD1,000	**100%**	100%	Trademark holding In Hong Kong
The United Laboratories Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holding and manufacturing and sale of pharmaceutical products in Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products in Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding in Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦制藥(成都)有限公司 *(Note b)*	The PRC	RMB400,000,000	**100%**	100%	Investment holding in the PRC
珠海聯邦康知樂實業有限公司 *(Note c)*	The PRC	RMB250,000,000	**100%**	100%	Investment holding in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

44. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2018	2017	Principal activities and place of operation
珠海聯邦制藥股份有限公司 *(Notes d and f)*	The PRC	RMB1,678,396,000	**100%**	100%	Manufacturing and sale of pharmaceutical products in the PRC
珠海樂邦制藥有限公司 *(Note b)*	The PRC	RMB12,825,000	**100%**	100%	Investment holdings in the PRC
珠海市萬邦藥業有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC
珠海聯邦制藥銷售有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC
廣東開平金億膠囊有限公司 *(Note b)*	The PRC	RMB31,250,000	**100%**	100%	Manufacturing and sale of soft capsules casings in the PRC
中山金億食品有限公司 *(Note b)*	The PRC	RMB8,014,500	**100%**	100%	Investment holding in the PRC
珠海市金德福企業策劃有限公司 *(Note c)*	The PRC	RMB15,000,000	**100%**	100%	Investment holding in the PRC
聯邦制藥(內蒙古)有限公司 *(Note b)*	The PRC	RMB2,744,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
內蒙古光大聯豐生物科技有限公司 *(Note c)*	The PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertiliser in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

44. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2018	2017	Principal activities and place of operation
內蒙古聯邦動保藥品有限公司 *(Note c)*	The PRC	RMB35,200,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
聯邦制藥(中國)有限公司 *(Note b)*	The PRC	RMB160,080,000	**100%**	100%	Investment holding in the PRC
Zhuhai United Laboratories (India) Private Limited *(Note g)*	India	RUPEE100,000	**N/A**	100%	Inactive
珠海聯邦金龍營銷策劃有限公司	The PRC	2018: RMB23,500,000 2017: RMB12,700,000	**100%**	100%	Providing management services in the PRC
聯邦製藥(中山)有限公司 *(Note e)*	The PRC	RMB50,000,000	**100%**	N/A	Manufacturing and sale of pharmaceutical products and food production in the PRC

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited, all subsidiaries are indirectly held by the Company.

(b) A wholly foreign-owned enterprise established in the PRC.

(c) A company established in the PRC with limited liability.

(d) A joint stock limited liability company established in the PRC.

(e) A company established in the PRC during the year ended 31 December 2018.

(f) 珠海聯邦制藥股份有限公司 issued unsecured corporate bonds which are listed on the Shanghai Stock Exchange as at 31 December 2018 and 2017. Details are set out in Note 28.

(g) The company has been deregistered during the year ended 31 December 2018.

As at 31 December 2018 and 2017, none of the subsidiaries had issued any debt securities except for 珠海聯邦制藥股份有限公司 which has issued RMB1,100,000,000 of bonds, in which the Group has no interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company

	2018 RMB'000	2017 RMB'000
Non-current assets		
Interests in subsidiaries	**4,559,649**	5,016,707
Property, plant and equipment	**940**	–
	4,560,589	5,016,707
Current assets		
Other receivables and prepayments	**464**	1,118
Loan to a subsidiary	**144,879**	232,110
Amounts due from subsidiaries	**1,091,797**	1,223,951
Pledged bank deposits	**–**	7,580
Bank balances and cash	**136,861**	339,493
	1,374,001	1,804,252
Current liabilities		
Other payables and accrued charges	**3,627**	4,162
Borrowings – due within one year	**646,119**	975,259
Convertible bonds	**830,894**	–
	1,480,640	979,421
Net current (liabilities) assets	**(106,639)**	824,831
Total assets less current liabilities	**4,453,950**	5,841,538
Non-current liabilities		
Borrowings – due after one year	**429,487**	963,502
Convertible bonds	**–**	1,038,223
	429,487	2,001,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(a) Statement of financial position of the Company *(Continued)*

	2018 RMB'000	2017 RMB'000
Net assets	**4,024,463**	3,839,813
Capital and reserves		
Share capital	**15,346**	15,237
Reserves	**4,009,117**	3,824,576
	4,024,463	3,839,813

(b) Reserves

	Share premium RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	2,356,763	1,144,680	3,501,443
Profit and total comprehensive income for the year	–	323,133	323,133
At 31 December 2017	2,356,763	1,467,813	3,824,576
Profit and total comprehensive income for the year	–	187,916	187,916
Dividend recognised as distribution *(Note 14)*	–	(84,443)	(84,443)
Issue of shares upon conversion of convertible bonds *(Note 29)*	81,068	–	81,068
At 31 December 2018	**2,437,831**	**1,571,286**	**4,009,117**

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2014	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	6,408,999	6,270,015	6,077,944	6,826,645	**7,510,586**
Profit (loss) before taxation	529,608	191,837	(137,472)	68,951	**793,879**
Tax (expense) credit	13,992	(101,910)	(134,891)	12,807	**(110,951)**
Profit (loss) for the year attributable to owners of the Company	543,600	89,927	(272,363)	81,758	**682,928**

ASSETS AND LIABILITIES

	As at 31 December				
	2014	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	14,830,814	14,610,410	14,966,056	14,111,846	**14,602,297**
Total liabilities	(9,367,411)	(8,984,672)	(9,618,570)	(8,670,081)	**(8,480,255)**
Equity attributable to owners of the Company	5,463,403	5,625,738	5,347,486	5,441,765	**6,122,042**

SUMMARY OF INVESTMENT PROPERTIES

Address	Tenure	Existing use
South Portion of No.8 Mu Dan Main Road, Pengzhou City, Chengdu City, Sichuan Province, The PRC	The land use rights of the property have been granted for respective terms of 70 years for residential use and 40 years for commercial use	To be re-developed