遠大健康
CGE HEALTHCARE

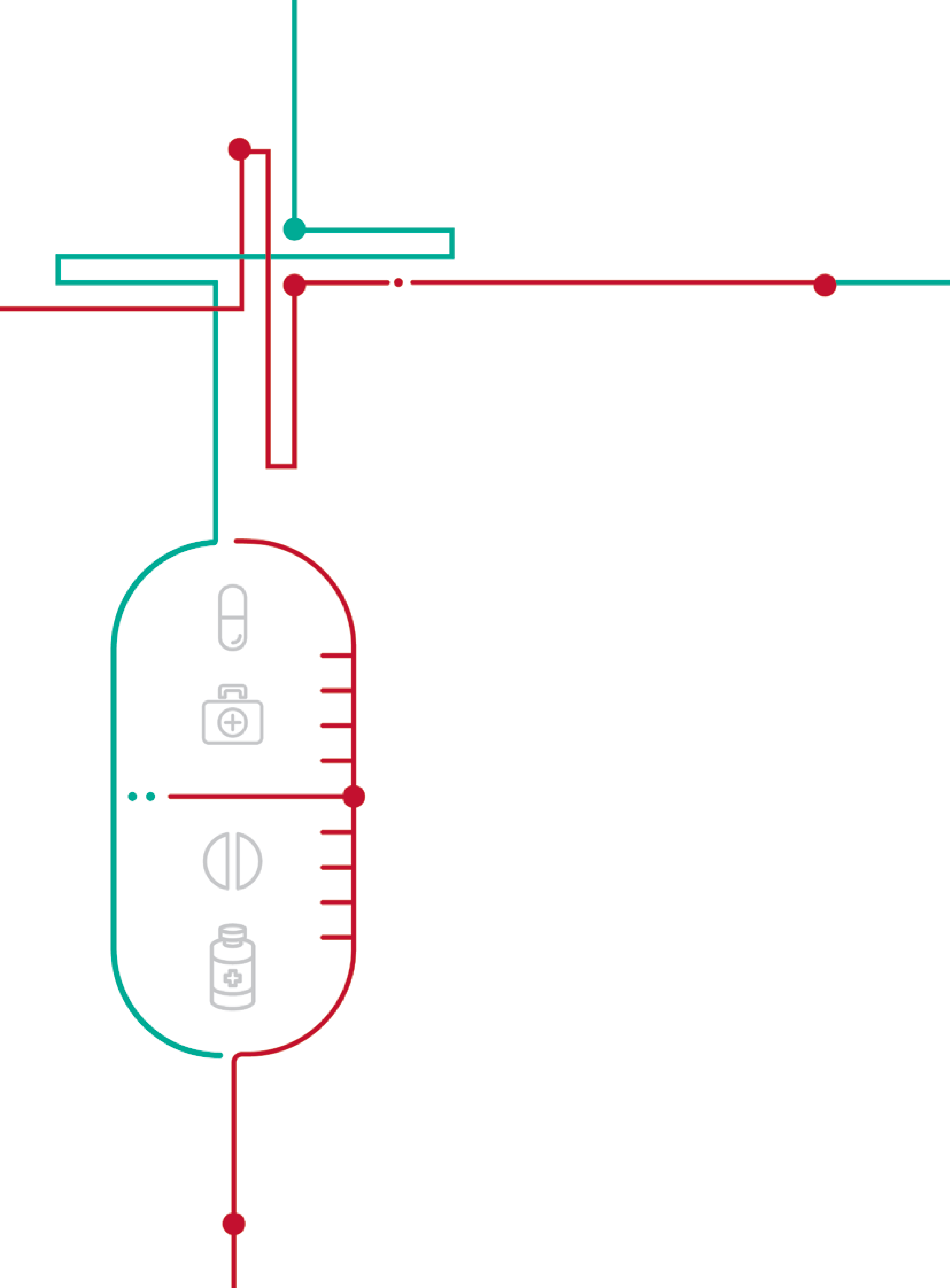
China Grand Pharmaceutical and Healthcare Holdings Limited
遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00512

OFFERING
QUALITY PRODUCTS

HONORING
CODE OF ETHICS

2018
Annual Report



Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Liu Chengwei *(Chairman)*
Mr. Hu Bo *(Deputy Chairman)*
Dr. Shao Yan *(Chief Executive Officer)*
Dr. Niu Zhanqi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie
Mr. Hu Yebi
Dr. Pei Geng

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr. Liu Chengwei
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Hu Yebi
Dr. Pei Geng

REMUNERATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Liu Chengwei
Mr. Hu Yebi

NOMINATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Dr. Shao Yan
Mr. Hu Yebi

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AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

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Conyers Dill & Pearman

As to Hong Kong Law:
Loeb & Loeb LLP

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BUSINESS REVIEW

The Group is principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products, specialized pharmaceutical raw materials and nutrition products. The core pharmaceutical and medical devices products of the Group mainly applied in the cerebro-cardiovascular emergency, Ear, Nose & Throat as well as Eye (the "ENT") treatments and selective internal radio therapy for tumor treatment.

Through interaction with the investors and capital markets for many years, the Group has released its latest business development information and has gradually been recognized by the stocks trading institutions and general investors. The Company has been successfully listed on the Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets ("Shenzhen-Hong Kong Stock Connect"), and additionally has also been enlisted in the MSCI China Small Cap Index.

The development strategy of the Group is expanding the product portfolio through internal research and development and external investment and acquisition, and also enhancing the synergy effect and operation efficiency through effective resources allocation. After years of unremitting efforts, the Group has become one of the largest suppliers in the PRC in the fields of cerebro-cardiovascular emergency and ENT sub-divisions. And in recent years the PRC pharmaceutical market is encouraging innovation and many new policies have been published. The Group has been making efforts to optimize the product matrix and developing products with high-entry barriers and technology and products with brands in order to build up the competitiveness of core products and to increase the proportion of higher gross profit margin products. The Group has also committed in the strategy of integration of raw materials, enhancement of product quality and strictly control over the cost of production and administration. As a result of the aforesaid efforts, the Group has enhanced the market share rate of sub-division of core product area and tried to avoid the risk of gross profit margin decline probably arising from the centralized medicines procurement of China pharmaceutical market, so as to maintain rapid sustainable development and increase the Group's profits. For the year ended 31 December 2018, the revenue of the Group was approximately HK$5,958.36 million, and the profit attributable to the owners of the Company was approximately HK$712.67 million, which were increased by 24.9% and 54.7% respectively as compared with the same period of 2017.

More than 90 products of the Group have been included in the National List of Essential Drugs (2018 Version) ("List of Essential Drugs") issued in the second half of 2018, including the core ENT products "Qie Nuo", the National Protected Chinese Medicines "Jin Sang San Jie capsule", "He Xue Ming Mu tablet", Gemcitabine Hydrochloride for Injection, which is used for treatment of tumor, etc. This has further proven the efficacy and safety of the Company's products, as well as the general characteristics of the essential drugs needed by the market.

In 2018, the Company completed two important acquisitions which aimed to strengthen the market leading position of the Group in the existing core treatment sectors, grasping the market opportunities to extend the treatment area such as branded pharmaceutical products and anti-tumor treatment.

In May 2018, the Group announced the acquisition of 100% equity interest of Tung Yang with the consideration of RMB1,540.0 million, in which its main assets is the 55% equity interests of Shanghai Xudong Haipu, a famous company for cerebro-cardiovascular emergency drugs in China. Xudong Haipu is mainly engaged in manufacturing and sales of pharmaceutical preparations for injection with various volumes, and its core products covering nearly a hundred different medical products in more than 10 major pharmaceutical categories such as emergency medication, cerebro-cardiovascular, respiratory products, etc., which is expected to create synergy effect with the Group's product portfolio, diversify the Group's products pipeline in core treatment sectors such as cerebro-cardiovascular emergency and respiratory tract. In addition, it can further expand the Group's market share and brand influence in these sectors, and intensify the Company's market leading position in terms of the cerebro-cardiovascular emergency products. 40% of the consideration of acquisition was paid to the vendor by the Company's issuance of 181,069,959 new ordinary shares of the Company ("Shares") at the price of HK$4.20 per share, while the remaining 60% was paid by the subscription funding from Shanghai Grand Financial Investment Co. Limited (上海遠大產融投資管理有限公司) ("Shanghai Finance") which subscribed 228,148,148 new Shares at the subscription price of HK$5.00 per share. Such acquisition had been completed in September 2018. As of the date of publication of this report, the Group has received approximately HK$1,038.1 million from the subscription by Shanghai Finance, and issued 207,624,950 new Shares to the subscriber. The remaining 20,523,198 subscription shares are expected to be distributed and issued upon receipt of the balance of subscription amount in 2019.

Management Discussion and Analysis

In June 2018, the Group entered the Scheme Implementation Deed with CDH Genetech and Sirtex to acquire 100% shares of Sirtex at a total consideration of approximately AUD$1.9 billion, in which the Group held 49% equity interests of Sirtex. Sirtex is a global life science company registered and was listed in Australia. Its main product SIR-Spheres Y-90 resin microspheres, is a selective radiotherapy for liver cancer, which uses the microsphere technology to directly transmit the radiations into the affected hepatic tissues. The Directors believe that this acquisition of Sirtex will bring significant favorable opportunities for the Group to get involved in the interventional nuclear medicine therapy for malignant tumors, and expect the Group to further develop the existing global business of Sirtex, particularly SIR-Spheres Y-90 resin microsphere product. The product will have a tremendous market potential in China, because it adopts the world's leading innovative technology, and PRC is an enormous untapped market where more than 50% of the global patients are located, and it is also lack of effective liver cancer treatment methods and new technology products. The Group has assisted Sirtex to kick-off the commercialization in the PRC so as to bring its leading therapeutic solution to Chinese patients in need. In the recent years, the Chinese pharmaceutical authority has continuously issued a number of preferential policies to support, promote and accelerate the introduction and registration of international innovative therapeutic products and acute diseases. The Group believes these policies would benefit the registration and approval processes of product of Sirtex, and accelerate the launch and commercialization procedures in the PRC. The aforesaid acquisition of Sirtex had been completed in September 2018, and subsequently obtained the approvals from related government authorities including the Foreign Investment Review Board of Australia, the Federal Trade Commission of United States and the Committee on Foreign Investment in the United States, etc.

The consideration of the Group for the aforesaid acquisition of Sirtex was mainly funded by the proceeds from rights issue of the Company. The rights issue was based on six (6) rights shares for every twenty-five (25) Shares on a non-underwritten basis, at the subscription price of HK$5.20 per rights share (the "Rights Issue"). Such Rights Issue was completed in September 2018. The qualified shareholders have totally applied for 394,146,288 Shares, with net proceeds of approximately HK$2,048.01 million. Moreover, the Company also entered into a subscription agreement with a subscriber in August 2018 to allot and issue 45,000,000 Shares at the subscription price of HK$5.20 per Share. Such subscription was completed in September 2018, with net proceeds of approximately HK$233,500,000.

Furthermore, in May 2018, the Group also announced to intend to acquire 100% equity interest of Shanghai Winguide Huangpu Pharmaceutical Co., Ltd. (上海運佳黃浦制藥有限公司) at a consideration of approximately RMB1,551.30 million. The acquisition was not completed as the pre-conditions were not fulfilled or waived, so both parties reached a consensus and signed the termination agreement on 28 December 2018.

The Group has been attaching importance to the intellectual property rights and patent protection. In 2018, the Group totally obtained 40 authorized patents, including 18 invention patents, 11 utility model patents and 11 design patents. In addition, the Group has been investing substantial resources in the independent R&D, and has now over 30 R&D projects that are on the pipeline mainly focusing on the core development segments, including the cerebro-cardiovascular, ENT drugs and medical devices and the niche market orphan drugs. Since 2014, the Group has been co-developing many orphan drugs with Chinese Academy of Medical Sciences (中國醫學科學院). In 2018, five orphan drugs under research were listed into the Notice on Publication of the First Catalogue of Orphan Diseases (關於公佈第一批罕見病目錄的通知) jointly issued by five ministries and commissions, of which our self-developed Carglumic Acid Tablet, which is used for treatment of hyperammonemia, and Vigabatrin Tablet, which is used for treatment of complex partial seizures and for infantile spasms, have both been included in the priority list for drug examination and approval. As the government is increasingly putting more attention to orphan diseases, many supporting policies such as value-added tax benefits, priority enlisting into the medical reimbursement list and acceleration of drug examination and approval have been issued, all of which will be conducive for the Group to reserving a large number of orphan drugs.

The registration and research of two leading-edge drug-eluting balloon products of Cardionovum Holding Co., Limited, an associated company of the Group, made significant progress in the first half of 2018. All the clinical work of the three indications covered by the products of RESTORE has been completed, and RESTORE CHINA presented the research report at the International Conference on Interventional Therapy TCT in 2018, where positive feedbacks have been received for the research conclusions. Currently, two indications of the product have entered into the registration stage. Meanwhile, the clinical research work of APERTO has been finished. In November 2018 the chief researcher shared the clinical results in the national continuing education class of VAC 2018 Standardization and New Progress of the Application of Artificial Vascular Arteriovenous Fistula in Hemodialysis, the chief researcher shared the clinical results and received positive feedback. The two products are expected to be launched in the PRC market in the second half of 2019. The intravascular ultrasonic optical coherence tomography and synchronous imaging system NOVASIGHT of Conavi Medical Limited, in which the Group had started investment since the second half of 2017, accepted the premarket notification 510(k) from the U.S. Food and Drug Administration ("FDA") in April 2018, which is ready to take the lead to launch commercial sales in North America market.

In February 2019, the Group entered into an exclusive license agreement with Glenmark Specialty S.A. ("Glenmark"), a Swiss innovative pharmaceutical research and development institution. The Group will be licensed to exclusively sell in the PRC, Ryaltris, a compound nasal spray being developed by Glenmark. Glenmark will be responsible for manufacturing and supplying Ryaltris, while the Group will be responsible for the clinical trial and registration of Ryaltris in the PRC, and may exclusively sell Ryaltris in China for a period of twenty years upon the marketing approval. Ryaltris is a pioneering new compound nasal spray of glucocorticoid and antihistamine drugs, which mainly contains olopatadine hydrochloride and mometasone, for treating seasonal allergic rhinitis of patients aged above 12. Glenmark has completed the phase 3 clinical trial of Ryaltris and applied to FDA for the product marketing in May 2018, and such application is under review. The PRC is one of the countries with the highest incidence of allergic rhinitis in the world. According to a survey, from 2005 to 2010, the incidence of adult allergic rhinitis in the PRC increased from approximately 11.1% to approximately 17.6%; at present, there are approximately 150 million adults with rhinitis in the PRC, over 6 million of whom are patients with moderate and severe allergic rhinitis, as calculated according to market research. The introduction of Ryaltris will strategically supplement the product offerings of the Group in ENT and represent the obtaining of a new international ENT product by the Group, thus improving the core product competitiveness of the Group.

With reference to the disclosure in the 2016 and 2017 annual report and 2018 interim report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "Tianjin Jingming"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2018, the court has concluded 21 cases, and Tianjin Jingming has appealed 49 cases against the judgement of first instance with aggregate compensation of approximately RMB20.70 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB8.91 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and Grand Pharm (China) Co., Ltd. is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court and received the final judgement from the court in February 2018. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. However, the vendors subsequently applied for rehearing of the aforesaid judgement, and the matter will be reheard according to the court's judgement in December 2018, which is currently scheduling.

As a result of the efforts of previous years, the Group has become one of the leading enterprises in the ENT sectors in the PRC, and has become a well-known enterprise with significant impact in the cerebro-cardiovascular emergency sector. We have confidence that once the products of Sirtex completed the registration in the PRC, the Group will become one of the enterprises which own innovative blockbusters products in the area of cancer treatment in the PRC, especially in the aspect of interventional internal radio therapy.

REVENUE

For the year ended 31 December 2018, the Group recorded a revenue amount of approximately HK$5,958.36 million, and was increased by approximately 24.9% as compared with the same period of 2017, and a 5-year compound average growth rate of approximately 17.5% between 2013 to 2018. The increment of the revenue is mainly due to the contributions from (i) the Group actively fine-tuned the product matrix, insist on the development of the industrial chain of pharmaceutical raw materials and preparation integration, controlled production and management costs, and the businesses newly acquired in the past two years continuously contributed more to the performance, and the gross profit margin of products was increased; (ii) the Group has been actively expanding the market share coverage rate of the core products; and (iii) there are more than 200 kinds of medicines of the Group enlisted in the "National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)" (the "National Medical Reimbursement List") published in 2017, and the Group vigorously develops specialized pharmaceutical products with exclusive or high-entry barriers, exclusive or protected pharmaceutical products and branded pharmaceutical products, etc. to minimize the risks from Purchasing Organizations Procurement, and enhance the competitiveness of products. The Group's average gross profit margin was increased to approximately 53.1% during the period, which is approximately 1.1 percent points higher than approximately 52.0% in the same period of 2017, and the annual average growth rate between 2013 to 2018 is approximately 4.0 per cent points. The reason for such increment is mainly due to the continuous restructuring of product matrix and increasing the proportion of high profit margin product.

PHARMACEUTICAL PREPARATIONS AND MEDICAL DEVICES

Pharmaceutical preparations and medical devices are the major sources of profit of the Group. The core products include ENT medicines, cerebro-cardiovascular medicines and medical devices, etc. For the year ended 31 December 2018, the revenue amount of pharmaceutical preparations and medical devices was approximately RMB3,027.64 million with the increment of approximately 34.3% as compared with approximately RMB2,253.98 million in the same period of 2017.

— ENT medicines and devices

In recent years, the Group has devoted to build the most comprehensive supply chain of ENT medicines in the PRC, covering the prescription drugs, non-prescription drugs, Chinese medicine, medical devices, consumables and healthcare products, etc., and providing an all-rounded treatments and care to medical professions and patients. The core non-prescription products, including "Ruizhu" eye drops for the treatment of dry eye, and the "Nuotong" for the relief of nasal congestion in the ENT, were awarded as the top 5 brands in the Comprehensive Ranking of Ophthalmology, Otolaryngology and Oral Classification of Chinese Non-prescription Drug Products (Chemicals) in 2018. Focusing on therapeutic ophthalmology products, the Group has multi-channel industry advantages and brand market awareness. In 2018, through the combined advantages of multi-products, the Group further increased the promotion of non-prescription brands and brand awareness from consumers to obtain further recognition of the company's brand. In the forthcoming future, the Group will continue to optimize the structure of non-prescription products, expand segment coverage not only limited to ophthalmology market but also to other specific market sectors (oral, cold, gastrointestinal health), integrating multi-channel marketing teams, utilizing existing retail and online sales and other marketing methods to cultivate the brand culture of China Grand Pharm to become the leader in the domestic consumer healthcare market. During the current year, the revenue of ENT medicines and medical devices recorded approximately RMB1,751.00 million with a growth of approximately 34.0% as compared with the same period of last year. It was benefit from the substantial growth of the two major sub-divisions of the ENT field, in which:

- Ophthalmic: During 2018, the revenue from the ophthalmic products was approximately RMB648.87 million, with an increment of approximately 16.0% as compared with the approximately RMB559.36 million in 2017. Benefited from the increased revenue from the core ophthalmic products and formulations including National Protected Chinese Medicines He Xue Ming Mu series that are protected by the National Chinese Medicine patents, the revenue of approximately RMB206.92 million has been recorded, with an increment of approximately 25.9% as compared with the same period of 2017. Moreover, the overall drug use of the public hospitals market in China grew faster than the market expectation, which has also increased the procurement amount of the Group. The core non-prescription eyedrops "Rui Zhu" has restored to the former sales level, resulting in the revenue of approximately RMB116.00 million during the year, representing an increase of approximately 62.5%.

- Respiratory and ENT: During 2018, the revenue of the respiratory and ENT products of the Group was approximately RMB1,102.13 million, which is increased by approximately 47.5% as compared with the approximately RMB747.39 million in the same period of 2017, indicating that the academic promotions and inputs in the past few years have begun to make contributions. Meanwhile, as for the key product "Qie Nuo" of Beijing Grand Jiuhe Pharmaceutical Co., Ltd., the newly-built preparations workshop has been successfully certified by GMP and officially put into operation during the year. Its overall production capacity is designed based on the market demand, and the annual production will be increased to 1 billion pills. Continuously benefited from the National Medical Reimbursement List, List of Essential Drugs and the market recognition of pediatric formulations, the revenue recorded substantial growth and reached approximately RMB706.93 million in 2018, with an increment of approximately 54.1% as compared with same period of last year. Moreover, the revenue of Jin Sang series was approximately RMB285.60 million, with an increment of approximately 29.5% as compared with same period of last year.

— **Cerebro-cardiovascular medicines and medical devices**

The Group's cerebro-cardiovascular emergency medicines mainly cover the field of platelet inhibitors, blood-pressure control, vasoactive drugs, etc., in which the platelet inhibitors injections and vasoactive drugs are in the pioneer position of the PRC market. With the benefit of strengthening the market promotion efforts, during 2018, the revenue of the Group's cerebro-cardiovascular medicines was approximately RMB844.89 million, increased by approximately 38.1% as compared with the same period of last year. Among this sector, the core product Li Shu An, Nuo Fu Kang and Rui An Ji contributed revenue amount of approximately RMB645.94 million, which was increased by approximately 48.7% as compared with the same period of last year.

BIO-TECHNOLOGY PRODUCTS AND NUTRITION PRODUCTS

The core products of the bio-technology products and nutrition products include Taurine, amino acid products, bio-pesticides, bio-feed additives and steroid products, etc. The revenue of the bio-technology products and nutrition products for 2018 was approximately RMB1,363.42 million, increased by approximately 12.9% as compared with the same period of 2017. During the year, the Group's Taurine and amino acid products of the Group continued to benefit from the increment of market demands, and rewards have also been gained from the Company's constant efforts in strengthening environmental protection, investing in safety facilities and improving operational management, which gained more recognition of the high-end market, and resulted in the steady increment in the revenue and gross profit. As for the bio-pesticides and bio-feeding related products, the Company used "green agriculture" and continuously arranged promotions in regions with potential customers, and shared the benefits of "green agriculture" with existing customers. Meanwhile, the newly-developed overseas market began to show good results, and recorded the revenue of approximately RMB150.17 million, representing an increase of approximately 27.1% as compared with the same period of 2017.

SPECIALIZED PHARMACEUTICAL RAW MATERIALS AND OTHER PRODUCTS

Specialized pharmaceutical raw materials and other products are the comparatively stable sector among the three core product sectors of the Group. To enhance the market competitiveness and improve the economic efficiency, the Group has always been investing in the improvement of the product technology and the product quality, reformation in the production technique to enhance the efficiency, and adjusting the product matrix. The revenue amount in 2018 was slightly decreased by approximately 5.9% to approximately RMB636.54 million as compared with the same period of last year. The Group has attached great importance to the environmental protection requirements in relevant policies which become more restricted, and has constantly increased the investment in such aspect and enhanced the awareness of environmental protection and safety, which have therefore steadily raised the global acceptability and reinforced the products competitiveness in terms of the global market share.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution costs and administrative expenses for the year were approximately HK$1,759.87 million and HK$563.58 million respectively, while they were approximately HK$1,325.29 million and HK$541.26 million respectively in the same period of last year. The increment of the distribution costs was mainly due to the Group invested in the exploration of new markets and promotion of products during the past year, and resulted the revenue amount increased over HK$1,000 million. Following the primary completion of restructuring of the Group in the last few years, it started to generate returns and thus resulted an insignificant increment of administrative expenses while the Group is continuously expanding its business scale.

FINANCE COSTS

For the year ended 31 December 2018, the finance costs of the Group were approximately HK$203.30 million while they were approximately HK$174.43 million during the same period of 2017. The Group is working on the changing of bank loans portfolio and considering different fund raising method in order to cope with the development of the Group and reduction of the related costs.

OUTLOOK AND FUTURE PROSPECTS

The Global Use of Medicine in 2019 and Outlook to 2023, a global medical market forecast report published by IQVIA Holdings Inc., a world-famous medical marketing consultancy, points out that the global outlook for medicine use and spending affects the prospects of life sciences companies, insurers and the health of populations. In 2018, the global pharmaceutical market reached US$1.2 trillion, of which approximately US$137 billion was attributable to China. The global pharmaceutical market will exceed US$1.5 trillion by 2023 growing at a 3–6% compound annual growth rate over the next five years, of which pharmaceutical markets in developing countries are expected to grow at a 5–8% compound annual growth rate.

According to the pharmaceutical market development course and experience of developed countries, especially with opportunities and challenges from the expiry of exclusive rights to patented drug products, the future development of the global pharmaceutical market will focus on the matter of balanced development between innovative products entering the market and branded drugs in the market. The entry of new products into the market, the application and prices of branded drugs, especially the development of biosimilar drugs and otherwise, have a significant influence on pharmaceutical markets of developed and developing countries.

China's economic development is an important basis and a barometer for the development of the pharmaceutical market. National economic development shifts from "growth rate increase" to "quality improvement", promoting the transformation and upgrade of the economic industry, improvement in the people's prosperity and scientific and technological progress. From the perspective of development of China's pharmaceutical market, in recent years, the policies and measures on national pharmaceutical market reform, including separation of prescribing and dispensing, two-invoice system and drug consistency evaluation, have been continuously published, not for product innovation and advancement, but for the purpose of reducing pharmaceutical product prices and medical insurance burden, based on ensuring the pharmaceutical product quality and bioavailability. The establishment of National Healthcare Security Administration and successive implementation of measures including "centralized procurement in 4+7 cities" and adjuvant drug catalogue present challenges and reform opportunities for China's pharmaceutical market and enterprises.

In China, a pharmaceutical market encouraging technological innovation but dominated by generic drugs, the core competitiveness of a pharmaceutical enterprise will lie on how fast a product can be launched, the product quality and production cost. The production, marketing and R&D are three major production factors for the development of a pharmaceutical enterprise, while the patients-oriented supply chain is the bond and key for supporting and promoting the coordinated development of the three major factors. The Group has always paid great attention to the management of the pharmaceutical supply chain. In terms of production and manufacturing, it has adhered to the integration principles of procurement of raw materials and auxiliary materials, and manufacturing of pharmaceutical raw materials and preparations, thus improving the product quality, controlling the product costs and enhancing the market competitiveness of the products of the Company. In terms of marketing, it focuses on professional academic promotion and gradually forms a special model and strategy of the Company to sell products with high-entry barriers and branded products, thus significantly increasing the gross margins of the Company's products. In terms of R&D, it has actively adhered to the strategy of combination of independent R&D, investment and acquisition, and introduction of products, so as to continuously provide series products in core fields to meet market demands. Such efforts enable the Group to maintain high growth for years, with greater recognition and popularity of its enterprises and product brands in the market.

The core strategy of the Group's future overall development is to consolidate the barrier for existing products and realize the transformation to an innovation-oriented pharmaceutical enterprise as soon as possible, with focus on patients and market orientation, based on research and development. Looking forward to the next few years, the Group will make greater efforts in terms of research and development of new products as well as enterprise management. Firstly, "focus on patients" means providing patients with high-quality products and satisfying market demands. In terms of development and marketing of products, with regard to existing products, the Group will coordinate and mobilize internal important resources to strongly support and develop pharmaceutical and medical devices and branded pharmaceutical products with technical and market barriers, based on paying attention to and developing integrated production and manufacturing of products, and will provide a greater number of curative, cost-effective and high-quality blockbusters in the market. Secondarily, "based on research and development" means attaching great importance to the future development of products towards high-end value chain, which relates to the survival of a pharmaceutical enterprise. The Group will invest more financial and human resources in digesting and introducing international innovative drugs and medical devices, develop a greater number of important products in fields of technical innovation, severe diseases, rare diseases and otherwise, through fully using China's national preferential policies which encourage technical innovation, and reserve diversified blockbusters with a good application prospect, and improve the competitiveness of the Company's products, so as to lay a solid foundation for the future development of the Company. Thirdly, "market orientation" means adoption of management and marketing models which are adapted to the market environment, according to changes in the market and competitive landscape. The Group will make efforts to improve the management model, especially the soft management model (organizational structural and sales model adjustment) and overseas investment enterprise management model, and improve the management and marketing efficiency, so that facing market challenges, enterprises are able to achieve steady and efficient development and have stronger risk control ability, market competitiveness and the overseas management ability.

Throng years of efforts, the Group has accumulated a number of competitive product groups with certain technical and market barriers, in ENT, ophthalmology, cerebro-cardiovascular emergency and otherwise, and has built good enterprise and product brands, which has laid a solid foundation for continuous and steady growth of the Company in the future. On this basis, the Group has gradually reserved a number of internationally state-of-the art and innovative series products through independent development, outward investment, mergers and acquisitions and otherwise. With the successive completion of development and registration of such products, especially based on the implementation of the plan of the Group's international-level pharmaceutical research and development center and achievements in global commercialization of the products developed by it, the Group will launch a greater number of innovative medicines and high-end medical devices up to international standards, so that it is able to maintain existing advantages of medicines with high-entry barriers and branded medicines, and further develop itself into a large pharmaceutical enterprise group with advantages of international technical innovation.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2018, the Group had current assets of HK$3,429.05 million (31 December 2017: HK$2,947.43 million) and current liabilities of HK$4,966.85 million (31 December 2017: HK$4,006.77 million). The current ratio was 0.69 at 31 December 2018 as compared with 0.74 at 31 December 2017.

The Group's cash and bank balances as at 31 December 2018 amounted to HK$912.24 million (31 December 2017: HK$640.84 million), of which approximately 1.9% were denominated in Hong Kong, United States Dollars and Euro, and 98.1% in Renminbi.

As at 31 December 2018, the Group had outstanding bank loans of approximately HK$2,134.35 million (31 December 2017: HK$2,422.56 million) were granted by banks in the PRC. All bank loans were denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 2.92% to 6.66% (31 December 2017: 2.65% to 7.20%) per annum, in which approximately HK$1,087.00 million bank loans were charged at fixed interest rates. Certain bank loans were pledged by assets of the Group with a net book value of HK$250.16 million (31 December 2017: HK$305.53 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was significantly reduced to approximately 29.7% as at 31 December 2018 as compared with approximately 108.4% as at 31 December 2017.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2018, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. To the best of knowledge and belief, the Directors consider that the following are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risks

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices, like foreign exchange rates and interest rates. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Exchange Rates Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2018, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

For interest-sensitive investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through variety of means.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

Economic Environment

Most of the Group's facilities, operations and its revenue are located in and derived from Hong Kong and the PRC. The Group's results of operations and financial condition therefore depend on the economies of Hong Kong and the PRC. The economy of Hong Kong is significantly affected by the developments in the Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative economic developments, and other regional economies may also deteriorate.

The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

Environmental Policies

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize its environmental impact by reducing water consumption and encouraging recycle of office supplies and other materials.

Compliance with Relevant Laws and Regulations

Save as disclosed above, during the year ended 31 December 2018, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

(ii) Suppliers

The Group has developed long-standing relationships with a number of suppliers and take a great care to ensure that they share its commitment to quality and ethics. The Group carefully selects its suppliers and requires them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

The Group is committed to offer quality products to its customers and keep them updated of its latest business developments.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed about 8,006 staff and workers in Hong Kong and the PRC (31 December 2017: about 7,803). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

MATERIAL ACQUISITIONS AND DISPOSALS

In May 2018, the Company and GL Saino Investment Limited entered into an agreement for the acquisition of 100% equity interests in Tung Yang at the consideration of RMB1.54 billion. Its major asset is owning 55% equity interests of a famous cerebro-cardiovascular enterprise Xudong Haipu, The above mentioned acquisition was completed in September 2018.

In June 2018, the Group entered the Scheme Implementation Deed with CDH Genetech and Sirtex to acquire 100% shares of Sirtex at a total consideration of approximately AUD$1.9 billion, in which the Group held 49% equity interests of Sirtex. The above mentioned acquisition was completed in September 2018.

Issuance of new shares and use of proceeds

On 9 October 2017, the Company entered into a subscription agreement with Mr. Huang Xiaohua for the subscription of 47,750,000 Shares with an aggregate nominal value of approximately HK$477,500. The subscription price and the net price (after deduction of all necessary related expenses) was HK$2.24 per Share. The closing price of the Share at the date of entering the agreement (i.e. 9 October 2017, being the last trading day for the Shares before entering the agreement) was HK$2.71 per Share. The said subscription shares were allotted and issued on 15 January 2018. The net proceeds from the subscription were approximately HK$107.0 million (equivalent to the net issue price of approximately HK$2.24 per Share) and already applied as to approximately HK$90.0 million for repayment of bank loans, approximately HK$9.9 million for repayment of interest of convertible bonds, approximately HK$1.7 million for salary and wages, approximately HK$0.8 million for office rent, approximately HK$3.2 million for audit fees and other professional expenses, and approximately HK$1.4 million for other recurring operating expenses.

On 23 June 2014, the Company entered into a subscription agreement with RedStone Capital Management (Cayman) Limited for the subscription of a convertible bond in an aggregate amount of HK$30.0 million. The convertible bond can be converted into Shares at the initial conversion price of HK$1.35 per Share. The net proceeds from the subscription of such convertible bond was approximately HK$29.7 million. The closing price of the Share at the date of entering the agreement (i.e. 23 June 2014, being the last trading day for the Shares before entering the agreement) was HK$1.50 each Share. On 26 February 2018, the Company received a conversion notice from the holder of the convertible bond. The convertible bond was then fully converted and 22,222,222 Shares with an aggregate nominal value of approximately HK$222,222 were allotted and issued to the holder of the convertible bond on 8 March 2018. The issuance of such convertible bond was initially intended to finance an acquisition of a company, but subsequently the transaction was terminated and thus the unused proceeds were already applied as the general working capital of the Group.

On 24 May 2018, the Company and GL Saino Investment Limited entered into an agreement for the acquisition of 100% equity interests in Tung Yang at the consideration of RMB1,540.0 million, among which 40% of the consideration (i.e. approximately RMB616.0 million, represents approximately HK$760.0 million) will be settled by the allotment and issue of consideration shares. On 24 August 2018, as the condition precedents of the acquisition agreement were fulfilled, 181,069,959 consideration shares with an aggregate nominal value of approximately HK$1,810,700 were allotted and issued in according to the consideration shares special mandate.

On 24 May 2018, the Company entered into a subscription agreement with the Shanghai Finance, pursuant to which the Shanghai Finance conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue, 228,148,148 subscription shares at the subscription price of HK$5.00 per subscription share (the closing price of the Share at the date of entering the agreement (i.e. 24 May 2018, being the last trading day for the Shares before entering the agreement) was HK$6.34 per Share) for a cash consideration of approximately HK$1,141 million for the settlement of consideration for the acquisition of equity interests in Tung Yang. For the year ended 31 December 2018, the Group has received part of the subscription money amounted to approximately HK$1,038.1 million, and in aggregate 207,624,950 subscription shares with an aggregate nominal value of approximately HK$2,076,250 have been allotted and issued, representing approximately 91.0% of all the subscription shares to be allotted and issued under the subscription agreement. It is expected that the completion of the allotment and issuance of the remaining 20,523,198 subscription shares shall occur within 2019 upon receiving the remaining balance of the subscription money. The net proceeds received from the said subscription amounted to approximately HK$1,037.82 million (equivalent to the net issue price of approximately HK$5.00 per Share), in which approximately HK$890.68 million was applied as the partial consideration for the acquisition of equity interests in Tung Yang, and the remaining money amounted to approximately HK$147.14 million is reserved for the settlement of the remaining consideration for the said acquisition in 2019.

On 4 July 2018, the Company proposed a rights issue on the basis of six (6) rights shares for every twenty-five (25) Shares held by the qualifying shareholders. The subscription price of each rights share is HK$5.20 (the closing price of the Share at the date of making the proposal of rights issue (i.e. 4 July 2018, being the last trading day for the Shares before making the proposal of rights issue) was HK$5.36 per Share), and the proceeds were intended for the settlement of consideration for the acquisition of Sirtex. The rights issue became unconditional on 29 August 2018, and rights shares commenced dealing on the Stock Exchange on 6 September 2018. Qualifying shareholders applied for 394,146,288 Shares in aggregate with an aggregate nominal value of approximately HK$3,941,463, and the net proceeds amounted to approximately HK$2,048.01 million (equivalent to the net issue price of approximately HK$5.20 per Share). The net proceeds received from the rights issue were fully applied as the partial consideration for the acquisition of Sirtex.

Furthermore, on 30 August 2018 the Company entered into a subscription agreement with Oasis Investment II Master Fund Ltd for the allotment and issue of 45,000,000 Shares with an aggregate nominal value of approximately HK$450,000 at the subscription price of HK$5.20 per share (the closing price of the Share at the date of entering the agreement (i.e. 30 August 2018, being the last trading day for the Shares before entering the agreement) was HK$5.21 per Share), and the proceeds were intended for the settlement of consideration for the acquisition of Sirtex. The said subscription was completed on 12 September 2018, and the net proceeds amounted to approximately HK$233.50 million (equivalent to the net issue price of approximately HK$5.19 per Share) were fully applied as the partial consideration for the acquisition of Sirtex.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those set out in the "Events after the Reporting Period" in this report, the Group had authorised but not provided for capital expenditure commitments of approximately HK$13.47 million in respect of acquisition of non-current assets as at 31 December 2018.

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, no subsequent events occurred after 31 December 2018, which may have a significant effect, on the assets and liabilities or future operations of the Group.

CONTINGENT LIABILITIES

As at 31 December 2018, the Directors were not aware of any material contingent liabilities.

APPRECIATION

On behalf of the board of Directors (the "Board"), I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Liu Chengwei
Chairman

Hong Kong, 26 March 2019

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Liu Chengwei, aged 45, was appointed as an executive Director in July 2008. Mr. Liu is the Chairman of the Company and is a director of Grand Pharm (China) Company Limited ("Grand Pharm (China)) and Xi'an Beilin, which both are subsidiaries of the Company. Mr. Liu has over 20 years of financial and management experience in the PRC. Mr. Liu is currently a director of the China Grand Enterprises Incorporation ("China Grand") (a substantial shareholder of the Company) and a supervisor of Huadong Medicine Company Limited, ("Huadong Medicine"), which is listed on the Shenzhen Stock Exchange (stock code: 000963). Huadong Medicine is owned as to approximately 41.77% by China Grand as at the date of this report, and is therefore a connected person (as defined in the Listing Rules) of the Company. Mr. Liu worked for General Electric Company for 5 years before joining China Grand in 2001. Mr. Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr. Hu Bo, aged 34, was appointed as an executive Director in July 2008. Mr. Hu has over 10 years of experience in network project management and property management. Mr. Hu is currently the senior business director of a real estate company in the PRC. Mr. Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr. Hu is a nephew of Mr. Hu Kaijun, who controls and ultimately and beneficially owns the China Grand.

Dr. Shao Yan, aged 56, was appointed as an executive Director in October 2008. Dr. Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr. Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr. Shao has over 20 years of experience in corporate management and venture capital investment. Dr. Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr. Niu Zhanqi, aged 52, was appointed as an executive Director in November 2016. Dr. Niu has more than 10 years' experience in pharmaceutical research and development. He is currently the president of the Pharmaceutical Management Headquarters of China Grand. He also is a director of Huadong Medicine since June 2016. Dr. Niu holds a bachelor's degree in science from Nankai University and a doctoral degree (PhD) in pharmaceutics from Shenyang Pharmaceutical University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie, aged 56, was appointed as an independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Hu Yebi, aged 55, was appointed as an independent non-executive Director in December 2018. Mr. Hu received his Master of Business Administration from Netherlands International Institute for Management in the Netherlands and a Postgraduate Diploma in Management Engineering from Beijing Institute of Technology in Beijing, the PRC. Mr. Hu has more than twenty years of experience in securities and financial services, mergers and acquisitions and corporate finance. Mr. Hu is the founder and chairman of Vision Finance Group Limited. Mr. Hu is currently a non-executive director of Beijing Sports and Entertainment Industry Group Limited (stock code: 1803) and was an executive director of Tai United Holdings Limited (stock code: 718), Hua Lien International (Holding) Company Limited (stock code: 969), Beijing Enterprises Medical and Health Industry Limited (stock code: 2389) and Beijing Properties (Holdings) Limited (stock code: 925), but already resigned in October 2016, July 2017, October 2018 and November 2018 respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Dr. Pei Geng, aged 59, was appointed as an independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

SENIOR MANAGEMENT

Mr. Foo Tin Chung, Victor, aged 50, joined the Company in September 2011 as a company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is an independent non-executive director of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. which withdrawal listing on the Stock Exchange since June 2017. Mr. Foo was an independent non-executive director of, Ngai Shun Holdings Limited (stock code: 1246) and Sino Haijing Holdings Limited (stock code: 1106), and a company secretary of Huisheng International Holdings Limited (stock code: 1340), but already resigned on July 2015, June 2016 and September 2017 respectively. All these companies are listed on the Stock Exchange.

Mr. Xie Guofan, aged 68, joined the principal subsidiary Grand Pharm (China) since 1970 and was appointed as its director since 1994. Mr. Xie is responsible for overseeing entire operations and management of Grand Pharm (China), and has over 30 years of experience in corporate management and pharmaceutical manufacturing. Mr. Xie holds a practicing pharmacist license in the PRC.

Mr. Shi Xiaofeng, aged 52, joined the principal subsidiary Grand Pharm (China) since 2003 and was appointed as its director and general manager. Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA certificate at China Europe International Business School.

Mr. Zhang Bangguo, aged 51, joined the principal subsidiary Grand Pharm (China) since 1989 and used to work for it as a senior management, was currently appointed as director of Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"), has over 20 years of experience in pharmaceutical industry and sales and marketing. Mr. Zhang is responsible for overseeing the entire operation and management of Zhejiang Xianle. Mr. Zhang holds a MBA degree at Huazhong University of Science & Technology and holds a practicing pharmacist license in the PRC.

Mr. Feng Yonghua, aged 51, joined Zhejiang Xianle since 2002 and currently was appointed as its general manager. Mr. Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr. Feng holds a practicing pharmacist license in the PRC.

Corporate Governance Report

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange during the year ended 31 December 2018, save for the deviations below which have been rectified during the year 2018:

NON-COMPLIANCE WITH RULES 3.10(1), 3.21 AND 3.25 OF THE LISTING RULES

Pursuant to Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. Pursuant to Rule 3.25, the remuneration committee should comprise a majority of independent non-executive directors. Mr. Lo Kai, Lawrence, an independent non-executive Director, a member of the audit committee, nomination committee and remuneration committee of the Company, passed away on 11 May 2018 due to illness. Thus the number of independent non-executive Directors fell below the minimum number of three as required under Rule 3.10(1) of the Listing Rules, and the number of members of the audit committee of the Company fell below the minimum number prescribed under Rule 3.21 of the Listing Rules. The remuneration committee also has only half members comprised by independent non-executive Director which is below the requirement under Rule 3.25. On 31 December 2018, Mr. Hu Yebi was appointed as the independent non-executive director of the Company, and also as a member of the audit committee, remuneration committee and nomination committee. Following the appointment of Mr. Hu Yebi as independent non-executive director and a member of each of the audit committee, remuneration committee and nomination committee of the Company, the Company has re-complied with the requirements under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules.

This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as follows:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive Directors — Mr. Liu Chengwei, Mr. Hu Bo, Dr. Shao Yan and Dr. Niu Zhanqi and 3 independent non-executive Directors — Ms. So Tosi Wan, Winnie, Mr. Hu Yebi and Dr. Pei Geng. Mr. Liu Chengwei is the Chairman and Dr. Shao Yan is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Liu, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Dr. Shao, as the Chief Executive Officer, focuses on the day- to-day management of the Group's business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive Directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent and meet the independent guidelines set out in the Listing Rules.

All Directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company's Bye-Laws.

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure the he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The audit committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the audit committee consists of three independent non-executive Directors namely, Ms. So Tosi Wan, Winnie (Chairwoman), Mr. Hu Yebi and Dr. Pei Geng. Ms. So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The audit committee held two meetings during the year ended 31 December 2018 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference. Currently, the remuneration committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Mr. Liu Chengwei and an independent non-executive Director Mr. Hu Yebi as members.

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and reviewing specific remuneration package of all Directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The remuneration committee met once during the year to review the remuneration policy for all Directors and senior management.

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2018 are set out in note 15 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has established a nomination committee with written terms of reference. Currently, the nomination committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Dr. Shao Yan and an independent non-executive Director Mr. Hu Yebi as members.

The nomination committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The nomination committee held a meeting in 2018 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

ATTENDANCE RECORD AT MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2018 are set out as below:

	Meetings Attended/Held					
Directors	**Special General Meeting**	**Annual General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Liu Chengwei	2/2	1/1	17/17	N/A	1/1	N/A
Mr. Hu Bo	2/2	1/1	17/17	N/A	N/A	N/A
Dr. Shao Yan	2/2	1/1	17/17	N/A	N/A	1/1
Dr. Niu Zhanqi	2/2	1/1	17/17	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	2/2	1/1	17/17	2/2	1/1	1/1
Mr. Lo Kai, Lawrence (passed away on 11 May 2018)	0/0	0/0	2/2	1/1	1/1	1/1
Mr. Hu Yebi (appointed on 31 December 2018)	0/0	0/0	0/0	0/0	0/0	0/0
Dr. Pei Geng	2/2	1/1	17/17	2/2	N/A	N/A

AUDITORS' REMUNERATION

During the year, the auditors performed the work of statutory audit for the year of 2018 and were also involved in non-audit assignment of acting as the reporting accountants of a Company's transaction as disclosed in the announcement dated 24 May 2018 and the right issue as disclosed in the announcement dated 4 July 2018.

The audit committee was satisfied that the non-audit services provided by the auditors did not affect its independence.

Audit fees and fees for non-audit services for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$2,880,000 and HK$400,000 respectively.

FINANCIAL REPORTING

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently. Save as the conditions as disclosed on pages 59 to 60 of this report, the Directors are not aware of any other material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Company has an internal audit team which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board. The Board also ensures that the review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

During the year ended 31 December 2018, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review in the year ended 31 December 2018 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

(1) A list of risks was created after the scope of risks was determined and risks were identified.

(2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.

(3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

(6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

(1) The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

(2) Confidentiality agreements or confidentiality clauses are in place when the Group enters into significant negotiations.

(3) The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

- to develop and review the Company's policies and practices on corporate governance;

- to review and monitor the training and continuous professional development of Directors and senior management;

- to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

- to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2018 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend general meetings of the Company which allows the Directors to meet and communicate with them.

SHAREHOLDERS' RIGHTS

Shareholders 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 a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Unit 3302, The Centre,
99 Queen's Road Central, Hong Kong
Email: victor.foo@chinagrandpharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye- laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

Environment, Social and Governance Report

This report is prepared by the Company in accordance with the Environment, Social and Governance Reporting Guidelines as set out in Appendix 27 of the Listing Rules. This report covers entities with substantial effect to the financial and actual operational process, mainly being the companies and production plants located in Wuhan City, Hubei Province, the PRC. Save as otherwise indicated, the data and contents in this report are all in relation to the period from 1 January 2018 to 31 December 2018.

ENVIRONMENTAL POLICY AND PERFORMANCE

Abiding by the rules and regulations as stipulated in Law of Environmental Protection of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, the Group upheld the concept of ensuring effective governance of pollutants and compliance with the standards of pollutant emission and preventing the occurrence of environmental pollution accidents, and adhered to the corporate environmental protection principles of placing environmental friendliness as the first priority, taking precaution as the main measure, adopting comprehensive rectification and management, and implementing energy-saving and emission reduction in the production process, in order to ensure the Group's production complying with laws and regulations and practically assume our corporate social responsibility. The Group is committed to becoming a pharmaceutical enterprise receiving respect from doctors and patients in the PRC. During the year, the Group continued to conduct risk management on the environment, health and safety ("EHS") of its subsidiaries, implement self-inspection and rectification on the operation status of environmental protection facilities, with a view to ensuring compliance with laws and regulations and promoting sustainable development of the Group.

(1) Emission

In response to new standards and requirements on safety and environmental protection, the Group has increased its investment in safety and environmental protection, and constantly improved, modified and upgraded its safety and environmental protection equipment, in order to ensure compliance with the standards of pollutant emission. Each members of the Group has established comprehensive environmental management department, and followed the environmental protection requirements to perform environmental protection works. EHS trainings were organized to improve the professional skills of management and develop a complete environmental protection system.

The Group attaches great importance to the investment in the environmental protection facilities, and invested more than RMB30 million throughout the year to upgrade or modify its environmental protection facilities with the aim to reduce the discharge of terminal pollutants and lower the effect to the environment. Certain environmental protection projects were commenced and/or completed in 2018 as listed below:

Name of the member of the Group	Project Description
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water")	During the year, Fuchi Water invested approximately RMB10 million to launch the upgrading and reconstruction of wastewater treatment plant. According to the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918–2002), its discharge index was upgraded from the current grade 1B to grade 1A. After its completion, the effluent from the sewage treatment station of the park complied with relevant standards in a stable manner, ensuring its normal production operation. The annual emissions of carbon dioxide and ammonia nitrogen were reduced by approximately 12 tons and 3.6 tons, respectively.

Name of the member of the Group	Project Description
Wuhan Wuyao Pharmaceutical Co., Ltd. ("Wuhan Wuyao")	Wuhan Wuyao invested more than RMB2 million to conduct overhaul and diversion of the sewage station as well as other prevention and control measures, with the aim to ensuring normal operation of the sewage station, eliminating potential safety hazards during operation and improving on-site environmental conditions.
Hubei Grand Fuchi Chemical and Pharmaceutical Company Limited ("Fuchi Chemical")	Fuchi Chemical invested more than RMB15 million to build a biochemical wastewater treatment station, rectify intertidal zones along the river, backfill potholes, construct flood control walls along the river, carry out road greening, repair and widening, and dismantle a 1,200-square-meter old factory building to build green belt. In addition, Fuchi Chemical also closed its main discharge outlet to recycle the wastewater used to wash waste residues, with annual volume of wastewater used to wash waste residues decreasing by approximately 3 million tons.
Beijing Grand Jiuhe Pharmaceutical Co., Ltd. ("Jiuhe")	In its reconstruction project, Johamu upgraded sewage diversion system as well as exhaust gas and wastewater treatment facilities, in order to reduce pollutants in exhaust gas and recycle treated wastewater.

(2) Use of Resources and Impact on the Environment and Resources

The resources mainly used by the Group in the production process include water, electricity and coal, etc. In accordance with principles and policies, regulations and standards of the national, local and industry competent authorities on energy conservation, such as Law of the People's Republic of China on Energy Conservation and Regulations on the Safety Administration of Dangerous Chemicals, the Group has formulated an internal management guideline to effectively and reasonably allocate and raise the utilization of energy and resources, reduce waste of available energy and resources, and lower our operating cost at the same time. Specific measures implemented in 2018 include:

— Fuchi Chemical recycled and reused cooling water to reduce usage of tap water and sewage discharge by approximately 2.7 million tons;

— Four coal-fired boilers and thermal oil furnaces under 10 T/h were closed to reduce usage of equipment with low resource utilization as well as pollutant emissions;

— Hubei Grand Bio-technology Co., Ltd. conducted energy saving reconstruction and technological upgrading through replacing tap water with cooling water, saving 6,000 tons of water per month; and

— Wuhan Wuyao adjusted its industrial structure to expand production capacity of low-pollution products, reducing water consumption by approximately 110,000 tons.

The summary below are the key performance indicators of 2018 for twelve main members of the Group (which contribute over 70% revenue of the Group):

	Item	Unit	Approximate Quantity
Resource usage	**Energy Consumption**		
	Electricity	(kWh per annum)	138,403,000
	Coal	(tons per annum)	41,000
	Natural Gas	(square meters per annum)	4,006,000
	Water	(tons per annum)	2,852,000
	Steam (purchased from other suppliers)	(tons per annum)	51,000
	Packing Materials	(tons per annum)	273
Emissions	**Gas Emissions**		
	Particulates	(tons per annum)	48
	Nitrogen Oxides	(tons per annum)	202
	Sulphur Dioxide	(tons per annum)	252
	Sewage		
	Total Sewage	(tons per annum)	2,188,000
	Chemical Oxygen Demand	(tons per annum)	309
	Ammonia Nitrogen	(tons per annum)	41
	Heavy Metal in Sewage	(tons per annum)	0
	Wastes		
	Hazardous Wastes	(tons per annum)	892
	Non-hazardous Wastes	(tons per annum)	860

Note: only listed the statistics of emissions which are applicable to the Group.

EMPLOYMENT AND LABOUR PRACTICES

Sustainable development of talents serves as an important guarantee for the Group's to accomplish its strategic objectives. The Group works hard to create a fair and harmonious working environment to build up an enterprise with competitiveness and growing power. As such, the foundation of talents has been laid for the corporate sustainable development.

(1) Employee Rights

The Group has stringently implemented relevant laws and regulations such as the Labor Law of the People's Republic of China, and Labor Contract Law of the People's Republic of China, and formulated the human resources management system to proactively safeguard the legal rights of employees.

The Group promotes a cultural atmosphere of synergistic cooperation, advocates equality between people, and adheres to the principle of fairness and justice. We are against any form of discrimination. We have adopted the same starting salary for employees of different gender, complied with the same minimum wage standard, forbid any sexual discrimination during the employment and promotion processes, and applied equal pay for equal work. The wages of the Group's almost all existing employees are higher than the minimum wage standard of their location, and are in compliance with the local labor rules and policies. The Group will, in accordance with requirements of the national law at the time of recruiting employees, stringently examine the identities and ages of applicants, and will never employ child labors and forced labor. The Group is not aware of any differentiation in salary packages in relation to gender, age and nationality during recruitment and examination, selection, employment and deployment of applicants.

For employee welfares, the Group abides by the local labor rules, pays for statutory benefits for all formal staff, and offers leaves as required by the law; it provides holidays and benefits in accordance with requirements of the national and local law for all such female employees during the "three periods" (periods of pregnancy, maternity and lactation), and allows them to return to the workforce except for those who voluntarily render resignation. Male employees are also entitled to paternity leave for each confinement of their spouse. Furthermore, the Group has entertainment facilities such as library, badminton courts and table-tennis courts. We also organize different activities for enrich the after-work lives of our employees.

(2) Employee Safety

The designs of manufacturing plants and equipment are following the Measures for Supervision and Management of Drug Production and other related laws and regulations in order to provide safe working environment with proper equipment, and implements measures for safe working behaviors to safeguard occupational health and safety of employees. The Group has set up a safety and environmental protection center with qualified safety administrators for daily management on environmental, health and safety, such as security and fire management. For the safety design of production plants, the Group will use closed electrical equipment in the facilities where produce steams, corrosive gas and dust. In the facilities with explosive gas or dust, the Group will use explosion-proof electrical equipment. In the facilities with flammable and explosive or toxic gas, the Group implemented flammable or toxic gas leakage alarms with emergency stop settings.

In 2018, the Group carried out essential safety reconstruction and upgrading in terms of major hazard sources and major risk positions, and invested over RMB10 million to upgrade some production equipment, such as automatic feeding of ethylene oxide as well as replacing old liquid ammonia tanks and synthesis towers. In addition to daily inspection, special inspections and comprehensive potential risks identification work were also carried out in terms of hazardous sources (such as hazardous chemicals storage areas and boiler rooms), critical parts (including power distribution rooms, laboratories and warehouses), equipment and facilities (including special equipment, electrical equipment, accident emergency pools, pipeline valves, cofferdams in tank areas, exhaust gas treatment system and sewage stations) and logistics public areas (such as charging areas for electric vehicle, canteens and dormitory buildings). During the year, the Group investigated and completed various rectifications on various safety hazards, and formulated 17 rectification and prevention measures to eliminate vulnerabilities in safety management, thus providing a strong guarantee for on-site essential safety.

(3) Employee Training

In recent years, with PRC's frequent issuance of medical policies and strict market control, fierce market competition as well as requirements for mergers and acquisitions and going global, the Group, on the one hand, enhanced its professionalism and normalization to consolidate foundation, and on the other hand, was committed to cultivating high-level leading talents, high-quality management personnel and highly capable professionals. With required knowledge and skills of grassroots employees as its training focus as well as upgrading skills as its training goal, Grand Pharmaceutical Vocational and Technical School will provide multiple trainings on production, quality, equipment, safety and environment, finance, and HR based on various functional requirements. In addition, in order to inherit experience of excellent employees, the Group implemented post experience internalization projects to encourage employees to spread experience. During the year, 36 courses involving 11 functions were developed to avoid loss of experience on key positions and cultivate core professionals. Grand Pharmaceutical Camp (GPC) continued to foster leading talents with international thinking and transformation capabilities.

COMMUNITY

The Group, whilst creating value for shareholders and wealth for customers, has proactively engaged in public service sector. We are concerned about minority groups and difficult public livelihood, and have fully assumed our social responsibility by giving full impetus to the progress and harmonious development of the community, enterprises and regional economies. During the year, the Group has rectified intertidal zones near Fuchi Industrial Park along the Yangtze River, rectified intertidal zones along the Yangtze River, backfilled potholes, constructed flood control walls along the river, and carried out road greening, repair and widening work. The Group invested over RMB500,000 to establish medical mutual assistance for more than 2,000 retired employees, thus providing guarantee for retired employees.

OPERATION PRACTICE

(1) Supply Chain Management

The majority of the Group's suppliers are located in the PRC. The Group has formulated a series of procurement management system and procurement control procedure, and has strictly selected suppliers and monitored the procurement process in accordance with the Drug Administration Law of the People's Republic of China and Good Manufacturing Practice. In selecting suppliers, a due diligence check will be performed and may visit the production plants if necessary. The samples provided are required to pass the testing and trial production before such suppliers could become the Group's qualified suppliers. Procurement staffs have also conducted regular visits to suppliers to maintain close liaison and good cooperation relations with them. Meanwhile, the quality notices made by suppliers have been regularly monitored to ensure all of the raw materials used by the Group are in compliance with the standard requirements and ready for use.

(2) Product Liability

The production and sale of the Group's drugs are conducted in accordance with relevant rules as required in the Drug Administration Law of the People's Republic of China, Regulations for Implementation of the Drug Administration Law of the People's Republic of China, Good Manufacturing Practice and Norm on Production and Quality Control of Traditional Chinese Medicine. Most of the drugs produced have been certified by GMP.

Drug quality correlates with the life safety of patients, and even the lifespan of the enterprise. The Group has fully conducted activities for improvement of quality control by urging for high standard and high quality of products, reducing product errors during production, so as to lower the risk in terms of product quality during production. A system for product return and exchange analysis has been formulated in combination with relevant requirements such as Good Supplying Practice, as well as refrigeration, cold storage and logistics management of drugs, automatic temperature and humidity monitoring system, as set out in the appendices of the above. Furthermore, modern information technology is used in the collection of adverse reactions, consultations and complaints of drugs, and the information will be analyzed for the continuous improvement of drug quality in order to provide confidence to patients for using products of the Group.

(3) Anti-corruption

The Group, committed to pursuing operation in good faith, constantly enhances internal control and monitoring mechanism within the enterprise, and stringently observes the rule on fair competition. Employees are required to strictly comply with provisions in relation to prohibition of commercial bribery acts under the Law Against Unfair Competition of the People's Republic of China, Criminal Law and Companies Ordinances, and all of the relevant management rules on integrity and self-discipline as stipulated by the Company. The Group is firmly against accepting commercial bribery, committing bribery and receiving gifts arising from other improper commercial acts, and establishes a management system and measures on capital management to prevent money laundering. The Company will promptly denounce and report to the relevant department for suspected personnel.

Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 23 and 19 to the consolidated financial statements respectively.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the section "Management Discussion and Analysis" on pages 3 to 9 of this annual report.

Description of principal risks and uncertainties that may be faced by the Group can be found in the section "Management Discussion and Analysis — Principal Risks and Uncertainties" on pages 11 to 12 of this annual report.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the section "Management Discussion and Analysis — Financial Resources and Liquidity" on pages 10 to 11 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which may have a significant impact on the Group are set out in the section "Management Discussion and Analysis — Environmental Policies" and "Management Discussion and Analysis — Compliance with Relevant Laws and Regulations" separately on page 12 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out on pages 47 to 151.

DIVIDEND POLICY

The Company has adopted a dividend policy, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for future growth of the Group.

The Board shall consider the following factors before recommending or declaring dividends:

i. The Company's actual and expected financial performance;

ii. Retained earnings and distributable reserves of the Company and each of the members of the Group;

iii. The Group's working capital, capital expenditure requirements and future expansion plans;

iv. The Group's liquidity position;

v. General economic conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

vi. Other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Bermuda and the Company's Bye-laws. The Board will review the dividend policy from time to time and there can be no assurance that dividend will be paid in any particular amount for any given period.

DIVIDEND

The Board recommends the payment of final dividend of approximately HK$269,600,000 at HK$0.086 per Share for the year ended 31 December 2018 (2017: Nil). No interim dividend was declared during the year (2017: Nil)

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 42 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 41 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2018 are set out in notes 23 and 19 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Particulars of bank borrowings of the Group during the year are set out in note 33 to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Liu Chengwei
Mr. Hu Bo
Dr. Shao Yan
Dr. Niu Zhanqi

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie
Mr. Lo Kai, Lawrence (passed away on 11 May 2018)
Mr. Hu Yebi (appointed on 31 December 2018)
Dr. Pei Geng

Pursuant to bye-law 87(1) and 86(2), Dr. Shao Yan, Dr. Niu Zhanqi, Ms. So Tosi Wan, Winnie and Mr. Hu Yebi will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation. Each of the independent non-executive Directors has been appointed pursuant to a letter of appointment for a term of one year, which is renewable automatically for successive terms of one year after the expiry of the term of appointment, unless terminated by not less than three months' notice in writing served by either party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTEREST

Save that Mr. Liu Chengwei, the chairman and an executive director, who is a director of China Grand and a supervisor of Huadong Medicine and Dr. Niu Zhanqi, an executive director, who is the president of Pharmaceutical Management Headquarters of China Grand and a director of Huadong Medicine, and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the Directors are aware of, no Directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2018, the related party transactions entered by the Group are all disclosed note 43 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 43 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

(1) On 25 April 2016, Grand Pharm (China) has entered into an agreement (the "Grand Pharm Purchase Agreement") with Baoding Jiufu Biochemical Co., Ltd (the "Baoding Jiufu"). Pursuant to the Grand Pharm Purchase Agreement, Grand Pharm (China) or its related companies shall purchase of agricultural antimicrobial from Baoding Jiufu or its related companies and the maximum annual amount of products to be purchased by the Group from Baoding Jiufu for each of the periods commencing from the date where the terms of the Grand Pharm Purchase Agreement become effective until 31 December 2016 and for the two years ending 31 December 2018 are RMB44.0 million, RMB50.0 million and RMB50.0 million respectively (the "Baoding Jiufu Purchase Caps"). In 2018, the transaction amount under Grand Pharm Purchase Agreement is RMB 953,000.

(2) On 30 October 2017, Grand Pharm (China) has entered into an agreement (the "Huadong Medicine Supply Agreement") with Huadong Medicine. Pursuant to the Huadong Medicine Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the Huadong Medicine Supply Agreement become effective until 31 December 2019 and for the two years ending 31 December 2017 are RMB50.0 million, RMB123.0 million and RMB162.0 million respectively (the "Huadong Medicine Supply Caps"). In 2018, the transaction amount under Huadong Medicine Supply Agreement is approximately RMB85,012,000.

(3) On 30 October 2017, Grand Pharm (China) has entered into an agreement (the "China Grand Supply Agreement") with China Grand. Pursuant to the China Grand Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to China Grand or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the China Grand Supply Agreement become effective until 31 December 2019 and for the two years ending 31 December 2017 are RMB13.0 million, RMB17.0 million and RMB23.0 million respectively (the "China Grand Supply Caps"). In 2018, the transaction amount under China Grand Supply Agreement is approximately RMB8,909,000.

As Huadong Medicine and Baoding Jiufu are regarded as connected persons of the Company since they are associates of the China Grand (which is a substantial shareholder of the Company), and the subject matters of each of the Grand Pharm Purchase Agreement, Huadong Medicine Supply Agreement and China Grand Supply Agreement (collectively known as "Continuing Connected Transaction Agreements") are similar in nature, pursuant to Rule 14A.81 of the Listing Rules the transactions between the Group and each of these companies would be aggregated. As the aggregated amount of the Baoding Jiufu Purchase Caps, the Huadong Medicine Supply Caps and the China Grand Supply Caps will exceed HK$10,000,000 per annum, the transactions contemplated under the Continuing Connected Transaction Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed and confirmed that these transactions were entered into:

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

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Continuing Connected Transaction Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

(i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

(ii) obtained the relevant agreements governing each of the continuing connected transactions from management;

(iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 25 April 2016 and 30 October 2017 made by the Company in respect of each of the continuing connected transactions.

SHARE OPTION SCHEME

During the year ended 31 December 2018, the Company did not adopt any share option scheme and no outstanding share options.

No share options were granted or exercised under any share option scheme during the year ended 31 December 2018 and 2017 and there were no outstanding share options as at 31 December 2018 and 2017.

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

As at 31 December 2018, the Directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

LONG POSITIONS IN THE SHARES OF THE COMPANY:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	10,939,600	0.35%

Note: Dr. Shao Yan, a Director, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares of which 5,000,000 Shares were entrusted to be held for certain employees of the Group (who do not include any Directors or connected persons of the Company). By virtue of the SFO, Dr. Shao Yan shall be deemed to be interested in such 10,939,600 shares.

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

PERMITTED INDEMNITY PROVISION

The articles of associations of the Company provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate insurance cover or other relevant arrangement in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long and short positions in the shares of the Company:

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Outwit Investments Limited ("Outwit")	1	1,779,649,149 (L)	Beneficial owner	56.77 (L)
Grand (Hongkong) International Investments Holdings Limited ("Grand Investment")	1	1,779,649,149 (L)	Interest of controlled corporation	56.77 (L)
China Grand Enterprises Incorporation ("China Grand")	1	1,779,649,149 (L)	Interest of controlled corporation	56.77 (L)
Shanghai China Grand Asset Finance Investment Management Co., Limited ("Shanghai Finance")	2	286,039,153 (L)	Beneficial owner/ Interest of controlled corporation	9.12 (L)
Mr. Hu Kaijun ("Mr. Hu")	1&2&3	2,106,708,302 (L)	Interest of controlled corporation	67.20 (L)
Ms. Chau Tung	1&2&3	2,106,708,302 (L)	Beneficial owner/ Interest in spouse	67.20 (L)

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
CDH Giant Health I Limited (“CDH Giant”)	4	356,648,142 (L) 108,408,000 (S)	Beneficial owner	11.38 (L) 3.46 (S)
CDH Fund V, L.P. (“CDH Fund”)	4	356,648,142 (L) 108,408,000 (S)	Interest of controlled corporation	11.38 (L) 3.46 (S)
CDH V Holdings Company Limited (“CDH V”)	4	356,648,142 (L) 108,408,000 (S)	Interest of controlled corporation	11.38 (L) 3.46 (S)
China Diamond Holdings V Limited (“China Diamond V”)	4	356,648,142 (L) 108,408,000 (S)	Interest of controlled corporation	11.38 (L) 3.46 (S)
China Diamond Holdings Company Limited (“China Diamond”)	4	356,648,142 (L) 108,408,000 (S)	Interest of controlled corporation	11.38 (L) 3.46 (S)
Assicurazioni Generali S.p.A (“Assicurazioni”)	6	280,363,959 (L)	Interest of controlled corporation	8.94 (L)
Mr. Li Zhenfu	7	280,363,959 (L)	Interest of controlled corporation	8.94 (L)
Lion River I N.V.	5&6	280,363,959 (L)	Interest of controlled corporation	8.94 (L)
GL Capital Management GP L.P. (“GL Management (L.P.)”)	5	181,069,959 (L)	Interest of controlled corporation	5.78 (L)
GL Capital Management GP Limited (“GL Management (Limited)”)	5	181,069,959 (L)	Interest of controlled corporation	5.78 (L)
GL China Opportunities Fund L.P. (“GL Opportunities”)	5	181,069,959 (L)	Interest of controlled corporation	5.78 (L)
GL Partners Capital Management Ltd. (“GL Partners”)	7	225,639,959 (L)	Interest of controlled corporation	7.20 (L)
GL SAINO Investment Limited (“GL Saino”)	5	181,069,959 (L)	Beneficial owner	5.78 (L)

(L) denotes long position
(S) denotes short position

Note:

1. Outwit is the beneficial owner of 1,626,671,149 Shares, and is the grantor of two put options pursuant to which the option holders have the right to sell 108,408,000 and 44,570,000 Shares respectively to Outwit. Grand Investment, being wholly-owned by China Grand, held 99.85% equity interests of Outwit, and Ms. Chau Tung, spouse of Mr. Hu, held the remaining 0.15% equity interests. Grand Investment and China Grand are therefore deemed to be interested in 1,779,649,149 Shares pursuant to the SFO.

2. Beijing Yuanda Huachuang Investment Co., Ltd. (北京遠大華創投資有限公司), a company wholly owned by Mr Hu, owned 70% of the equity interests of Shanghai Finance. Shanghai Finance is the beneficial owner of 234,618,950 Shares and an aggregate of 20,523,198 Shares will be allotted and issued to Shanghai Finance upon completion of the subscription agreements dated 24 May 2018. East Ocean, a wholly owned subsidiary of Shanghai Finance, also holds 30,897,005 Shares. Shanghai Finance is therefore deemed to be interested in 286,039,153 Shares pursuant to the SFO.

3. China Grand is controlled and ultimately and beneficially owned by Mr. Hu. Ms. Chau Tung, spouse of Mr. Hu, is also the beneficial owner of 41,020,000 Shares. Mr. Hu and Ms. Chau Tung are therefore deemed to be interested in 2,106,708,302 Shares pursuant to the SFO.

4. CDH Giant is the beneficial owner of 356,648,142 Shares and also the beneficial owner of a put option granted by Outwit pursuant to which the CDH Giant has the right to sell 108,408,000 Shares to Outwit. CDH Giant is wholly-owned by CDH Fund, and pursuant to the SFO CDH Fund is therefore deemed to be interested in the 356,648,142 Shares and also held a short position of 108,408,000 Shares as stated above. CDH Fund is controlled by CDH V, which in turn held as to 80% by China Diamond V. China Diamond V is in held as to 100% by China Diamond.

5. GL Healthcare Investment LP ("GL Healthcare") is the beneficial owner of 44,570,000 Shares. GL Healthcare is a limited partnership incorporated in Canada. The general partner of GL Healthcare is GL Capital Management GP II B.C. 2 Ltd., which is wholly-owned by GL Management (Limited). GL Management (Limited) is in turn held as to 49% by Lion River I N.V. Pursuant to the SFO these companies are therefore deemed to be interested in the 44,570,000 Shares.

   GL China Long Equity Opportunities Fund SPV LP ("GL Long Equity (SPV)") is the beneficial owner of 54,724,000 Shares. GL Long Equity (SPV) is a limited partnership incorporated in Canada. Lion River I N.V. owns 94.47% interests in GL China Long Equity Opportunities Fund LP., which in turn owns 80.13% interests in GL Long Equity (SPV). Pursuant to the SFO these companies are therefore deemed to be interested in the 54,724,000 Shares.

   Pursuant to an acquisition agreement dated 24 May 2018 entered into between, among others, GL Saino as vendor and the Company as purchaser in relation to the acquisition of 100% of the issued shares of Taiwan Tung Yang International Company Limited, part of the consideration will be settled by the allotment and issue of 181,069,959 Shares to GL Saino. GL Saino is wholly-owned by GL Opportunities. The general partner of GL Opportunities is GL Management (L.P.) and is in turn wholly-owned by GL Management (Limited). GL Management (Limited) is held as to 49% by Lion River I N.V. Pursuant to the SFO these companies are therefore deemed to be interested in the 181,069,959 Shares.

6. As stated above, Lion River I N.V. is deemed to be interested in an aggregate of 280,363,959 Shares. Lion River I N.V. is wholly-owned by Assicurazioni. Pursuant to the SFO Assicurazioni is therefore deemed to be interested in the 280,363,959 Shares.

7. Mr. Li Zhenfu owns 70% interests in GL Partners, which in turn owns 51% interests in GL Management (Limited). As stated above, GL Management (Limited) is indirectly interested in 225,639,959 Shares, and pursuant to the SFO. Mr. Li Zhenfu is therefore deemed to be interested in the 225,639,959 Shares. Mr. Li Zhenfu also wholly-owns GL China Opportunities Carry GP Limited, which in turn wholly-owns GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd. GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd. is the general partner of GL Long Equity (SPV), which is the beneficial owner of 54,724,000 Shares. Pursuant to the SFO Mr. Li Zhenfu is therefore also deemed to be interested in the 54,724,000 Shares and in aggregate, 280,363,959 Shares.

Save as disclosed above, as at 31 December 2018, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the five largest customers of the Group accounted for less than 30% of the Group's total revenue while the five largest suppliers accounted for less than 30% the Group's total purchases.

The information in respect of the Group's revenue and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2018 is as follows:

	Percentage of the Group's total	
	revenue	**purchases**
The largest customer	1.3%	N/A
The five largest customers in aggregate	5.2%	N/A
The largest supplier	N/A	5.1%
The five largest suppliers in aggregate	N/A	11.7%

So far as the Board are aware, neither the Directors, their close associates nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2018 and as at the latest practicable date prior to the issue of this annual report.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

Report of the Directors

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 18 to 23.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 have been audited by HLB Hodgson Impey Cheng Limited which shall retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Board of Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 26 March 2019

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 151, 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, the consolidated statement of changes in equity and the 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 (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditors' 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 3 to the consolidated financial statements, which indicates that as at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK$1,537,796,000. As stated in note 3, these events or conditions, along with other matters as set forth in note 3, indicate that a material uncertainty exist that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the "Material uncertainty related to going concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	How our audit addressed the key audit matter
Impairment assessment of pharmaceutical business Refer to notes 22 and 24 to the consolidated financial statements	
The Group has goodwill and intangible assets of approximately HK$487,848,000 and HK$815,998,000 respectively relating to the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialised pharmaceutical raw materials and other products, in the People's Republic of China as at 31 December 2018. Management performed impairment assessment of pharmaceutical business and concluded that no impairment is necessary to provide. This conclusion was based on value-in-use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management's estimates.	Our procedures in relation to management's impairment assessment included: • Evaluation of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the pharmaceutical business and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accounting and relevance of the input data used. We found the key assumptions were supported by the available evidence.

KEY AUDIT MATTERS *(Continued)*

Key audit matters | **How our audit addressed the key audit matter**

Impairment assessment of trade and other receivables
Refer to note 29 to the consolidated financial statements

As at 31 December 2018, the Group had gross trade and other receivables of approximately HK$1,086,998,000 (2017: HK$1,083,533,000) and provision for impairment of approximately HK$80,695,000 (2017: HK$78,968,000).

In general, the credit terms granted by the Group to the customers ranged between 30 to 180 days (2017: 30 to 180 days). Management applied judgement in assessing the expected credit losses ("ECL"). Trade and other receivables relating to customers with known financial difficulties or significant doubt on collection of trade receivables are assessed individually for provision for impairment allowance. ECL are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its business and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the trade receivables. The ECL rates are determined 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. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.

Our procedures in relation to management's impairment assessment of the trade and other receivables as at 31 December 2018 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;

- Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts;

- Inquiring of management for the status of each of the material trade and other receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and

- Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter
Interest in associates Refer to note 19 to the consolidated financial statements The Group has 49% interest in Grand Pharma Sphere Private Limited ("Grand Pharma Sphere") and 55% interest in Shanghai Xudong Haipu Pharmaceutical Company Limited ("Xudong Haipu") are accounted for under equity method. The Group's share of the loss Grand Pharma Sphere was approximately HK$20,230,000 and share the profit of Xudong Haipu was HK$93,293,000 for the year ended 31 December 2018. As at 31 December 2018, the Group share the net assets of Grand Pharma Sphere and Xudong Haipu were approximately HK$2,890,119,000 and HK$737,840,000 respectively. Management determines at the end of each reporting period the existence of any objective evidence through which the Group's interest in an associate may be impaired. The assessment of indicators of impairment and where such indicators exist and the determination of the recoverable amounts requires significant judgement.	Our procedures in relation to the i) the audit work performed by associate's auditors; and ii) management's impairment assessment of interest in associates included: i) The audit work performed by associate's auditors: Sirtex Medical Limited is a wholly owned subsidiary of Grand Pharma Sphere and is audited by non-HLB auditors ("the Sirtex Auditors"). We have met with the Sirtex Auditors and discussed their audit approach; result of their work and have reviewed their working papers. ii) Management's impairment assessment of interest in associates included: • Evaluation of the Group's independent valuers' assessments as to whether any indication of impairment exist by reference to the available information in the relevant market and industries; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge; and • Checking, on a sample basis, the accuracy and relevance of information included in the impairment assessment of interest in associates. We found the key assumption were supported by the available evidence

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 auditors' report thereon ("Other Information").

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 THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 of Bermuda, 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITORS' 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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 auditors' 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 director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 26 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	7	**5,958,355**	4,770,850
Cost of sales		**(2,796,841)**	(2,291,353)
Gross profit		**3,161,514**	2,479,497
Other revenue and income	8	**196,119**	135,346
Distribution costs		**(1,759,869)**	(1,325,289)
Administrative expenses		**(563,577)**	(541,256)
Other operating expenses	9	**(16,171)**	(13,141)
Share of results of associates	19	**69,179**	(1,791)
Finance costs	10	**(203,296)**	(174,427)
Profit before tax		**883,899**	558,939
Income tax expense	11	**(147,460)**	(73,181)
Profit for the year	12	**736,439**	485,758
Other comprehensive income/(loss), net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value gain on investment in equity instruments at fair value through other comprehensive income		**862**	–
Share of other comprehensive income of associates		**2,598**	497
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(153,816)**	151,750
Other comprehensive (loss)/income for the year, net of income tax		**(150,356)**	152,247
Total comprehensive income for the year, net of income tax		**586,083**	638,005
Profit for the year attributable to:			
– Owners of the Company		**712,667**	460,811
– Non-controlling interests		**23,772**	24,947
		736,439	485,758
Total comprehensive income attributable to:			
– Owners of the Company		**561,693**	567,040
– Non-controlling interests		**24,390**	70,965
		586,083	638,005
Earnings per share			(Restated)
Basic (HK cents)	14	**27.74**	20.54
Diluted (HK cents)	14	**26.50**	19.63

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,876,443**	2,891,785
Investment properties	17	**74,228**	64,773
Prepaid lease payments	18	**267,953**	287,803
Interests in associates	19	**5,309,989**	273,522
Available-for-sale financial assets	20	**–**	100,898
Equity instruments at fair value through other comprehensive income	31	**96,526**	–
Deposits for acquisition of non-current assets	21	**39,491**	41,653
Goodwill	22	**487,848**	511,539
Intangible assets	24	**815,998**	875,718
Deferred tax assets	25	**14,290**	1,243
Prepayments	26	**84,841**	66,426
		10,067,607	5,115,360
Current assets			
Financial assets at fair value through profit or loss	27	**45,605**	18,011
Inventories	28	**770,329**	762,933
Trade and other receivables	29	**1,609,311**	1,485,925
Amounts due from related companies	35	**10,832**	5,400
Prepaid lease payments	18	**7,216**	8,771
Pledged bank deposits	30	**73,515**	25,549
Cash and cash equivalents	30	**912,244**	640,842
		3,429,052	2,947,431
Current liabilities			
Trade and other payables	32	**2,342,539**	1,665,838
Contract liabilities	32	**156,432**	–
Bank and other borrowings	33	**1,967,352**	2,165,957
Convertible bonds	36	**284,725**	–
Obligations under finance leases	34	**54,097**	56,090
Amounts due to related companies	35	**10,529**	18,173
Amount due to immediate holding company	39	**17,603**	23,368
Income tax payable		**133,571**	77,339
		4,966,848	4,006,765
Net current liabilities		**(1,537,796)**	(1,059,334)
Total assets less current liabilities		**8,529,811**	4,056,026

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Bank and other borrowings	33	**187,486**	278,212
Convertible bonds	36	**–**	293,958
Bond payables	37	**113,562**	119,474
Deferred tax liabilities	38	**179,012**	195,582
Deferred income	40	**595,894**	632,253
Obligations under finance leases	34	**19,230**	76,946
		1,095,184	1,596,425
Net assets		**7,434,627**	2,459,601
Capital and reserves attributable to owners of the Company			
Share capital	41	**31,348**	22,370
Reserves		**7,159,611**	2,211,516
Equity attributable to owners of the Company		**7,190,959**	2,233,886
Non-controlling interests		**243,668**	225,715
Total equity		**7,434,627**	2,459,601

The consolidated financial statements on pages 47 to 151 were approved and authorised for issue by the board of directors of the Company on 26 March 2019 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Attributable to owners of the Company												
	Notes	Share capital HK$'000	Share premium HK$'000	Contribution Surplus reserve HK$'000	Statutory reserve HK$'000 (Note a)	Safety fund reserve HK$'000 (Note b)	Translation reserve HK$'000	Other reserve HK$'000 (Note c)	Convertible bonds reserve HK$'000 (Note d)	FVTOCI reserve HK$'000	Retained profits HK$'000	Total equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017		22,370	660,537	121,273	136,238	22,328	(96,885)	(57,089)	72,577	–	821,085	1,702,434	273,653	1,976,087
Profit for the year		–	–	–	–	–	–	–	–	–	460,811	460,811	24,947	485,758
Other comprehensive income for the year, net of income tax:														
Exchange difference on translation of foreign operations		–	–	–	–	–	106,229	–	–	–	–	106,229	46,018	152,247
Total comprehensive income for the year		–	–	–	–	–	106,229	–	–	–	460,811	567,040	70,965	638,005
Acquisition of additional interest in subsidiaries		–	–	–	–	–	–	(44,441)	–	–	–	(44,441)	(120,629)	(165,070)
Partial disposal of interest in a subsidiary		–	–	–	–	–	–	8,853	–	–	–	8,853	5,832	14,685
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(4,106)	(4,106)
Transfer		–	–	–	64,723	3,331	–	–	–	–	(68,054)	–	–	–
At 31 December 2017		22,370	660,537	121,273	200,961	25,659	9,344	(92,677)	72,577	–	1,213,842	2,233,886	225,715	2,459,601
Impact of adopting HKFRS 9		–	–	–	–	–	–	–	–	–	865	865	570	1,435
As at 1 January 2018 (restated)		22,370	660,537	121,273	200,961	25,659	9,344	(92,677)	72,577	–	1,214,707	2,234,751	226,285	2,461,036
Profit for the year		–	–	–	–	–	–	–	–	–	712,667	712,667	23,772	736,439
Other comprehensive loss for the year, net of income tax:														
Change in fair value of FATOCI		–	–	–	–	–	–	–	–	862	–	862	–	862
Share of other comprehensive income of associates		–	–	–	–	–	2,597	–	–	–	–	2,597	1	2,598
Exchange difference on translation of foreign operations		–	–	–	–	–	(153,863)	–	–	–	–	(153,863)	47	(153,816)
Total comprehensive income for the year		–	–	–	–	–	(151,266)	–	–	862	712,667	562,263	23,820	586,083
Convertible bond converted into shares during the year		222	33,908	–	–	–	–	–	(6,598)	–	–	27,532	–	27,532
Rights issue		3,941	2,045,619	–	–	–	–	–	–	–	–	2,049,560	–	2,049,560
Placing and subscription		4,815	2,314,023	–	–	–	–	–	–	–	–	2,318,838	–	2,318,838
Issuance costs relating to rights issues and placing		–	(1,985)	–	–	–	–	–	–	–	–	(1,985)	–	(1,985)
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(6,437)	(6,437)
Transfer		–	–	–	72,204	3,166	–	–	–	–	(75,370)	–	–	–
At 31 December 2018		31,348	5,052,102	121,273	273,165	28,825	(141,922)	(92,677)	65,979	862	1,852,004	7,190,959	243,668	7,434,627

Notes:

a. Each of the Company's the PRC subsidiary's Articles of association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to document (Cai Qi [2006] No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired.

d. The amount represented the equity component of the convertible bonds issued in prior years.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before tax		**883,899**	558,939
Adjustments for:			
Amortisation of intangible assets	24	**16,171**	13,141
Amortisation of prepaid lease payments	18	**7,096**	8,571
Depreciation of property, plant and equipment	16	**220,144**	230,122
Finance costs	10	**203,296**	174,427
Loss on disposal of property, plant and equipment	12	**3,377**	3,858
Write-off of property, plant and equipment	16	**39**	2,813
Reversal of impairment loss on inventories	28	**(1,946)**	(827)
Impairment loss on inventories		**–**	112
Impairment loss on trade and other receivables	12	**11,110**	35,213
Interest income	8	**(11,917)**	(3,515)
Reversal of impairment loss on trade and other receivables	8	**(10,498)**	(19,776)
Written off on trade and other receivables	29	**–**	(838)
Reversal of expected credit loss	8	**(2,440)**	–
Share of results of associates	19	**(69,179)**	1,791
Gain on sales and lease back transaction, net	8	**(28,717)**	(23,346)
Net gain in fair value of investment properties	17	**(13,342)**	(15,226)
Gains on disposal of associates		**–**	(22)
Investment income	8	**(2,952)**	(112)
Operating cash flows before movements in working capital		**1,204,141**	965,325
Decrease in inventories		**(46,982)**	(77,982)
Increase in trade and other receivables		**(216,717)**	(131,048)
Increase in trade and other payables		**574,826**	38,742
Increase in amounts due from related companies		**(5,712)**	(5,184)
Decrease in amounts due to related companies		**(6,976)**	(4,855)
Net cash generated from operations		**1,502,580**	784,998
Income tax paid		**(94,277)**	(65,274)
Net cash generated from operating activities		**1,408,303**	719,724
Investing activities			
Purchase of property, plant and equipment	16	**(372,858)**	(294,369)
Purchase of intangible asset	24	**(1,304)**	(34,610)
Acquisition of prepaid lease payment	18	**(3,164)**	–
(Increase)/decrease in pledged bank deposits		**(49,292)**	17,791
Increase in non-current prepayments		**(21,862)**	(10,728)
Proceeds from disposal of property, plant and equipment		**150**	1,806
Interest income received		**11,917**	3,515
Investment income		**2,952**	112
Net cash inflow from deregistration of an associate		**–**	2,302
Net cash inflow from disposal of an associate		**–**	346
Net cash inflow from partial disposal of a subsidiary		**–**	14,685
Net cash outflow from acquisition of additional interest in subsidiaries		**–**	(7,162)
Net cash outflow from acquisition of associates		**(3,621,568)**	–
Net cash used in investing activities		**(4,055,029)**	(306,312)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Financing activities			
Proceed from issue of equity, net		**3,426,660**	–
Proceed from sales and lease back transaction		**–**	23,056
Purchase of financial assets at fair value through profit or loss		**(47,476)**	(5,764)
Proceed of financial assets at fair value through profit or loss		**17,777**	–
Repayments of bank and other borrowings		**(2,165,686)**	(1,801,587)
Repayments of obligations under finance leases		**(54,972)**	(50,150)
Interest paid		**(178,424)**	(149,885)
Proceed from new bank and other borrowings		**1,976,448**	1,702,206
Repayment to immediate holding company		**(6,020)**	(313)
Dividend paid to non-controlling interest		**(6,437)**	(4,106)
Net cash generated from/(used in) financing activities		**2,961,870**	(286,543)
Net increase in cash and cash equivalents		**315,144**	126,869
Cash and cash equivalents at the beginning of year		**640,842**	484,418
Effect of foreign exchange rate changes		**(43,742)**	29,555
Cash and cash equivalents at the end of year			
Cash and cash equivalents		**912,244**	640,842

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialised pharmaceutical raw materials and other products, in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent company of the Company and China Grand Enterprises Incorporation is the ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as functional currency of the Company, and the functional currency of the most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

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

Application of new and revised HKFRSs – effective on 1 January 2018

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1 January 2018. A summary of the new and revised HKFRSs applied by the Group is set out as follows:

HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
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

Except as described below, the application of the New and Amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the Consolidated Financial Statements.

The above new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Application of new and revised HKFRSs – effective on 1 January 2018 *(Continued)*

Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated statement of financial position (extract)	**31 December 2017** HK$'000	**HKFRS 9** HK$'000	**HKFRS 15** HK$'000	**1 January 2018** HK$'000
Non-current assets				
Available-for-sale financial assets	100,898	(100,898)	–	–
Equity instruments at fair value through other comprehensive income	–	100,898	–	100,898
Deferred tax assets	1,243	11,331	–	11,331
Current assets				
Trade and other receivables	1,485,925	(9,896)	–	1,476,029
Current liabilities				
Trade and other payables	1,665,838	–	(94,981)	1,570,857
Contract liabilities	–	–	94,981	94,981
Net current liabilities	(1,059,334)	1,435	–	(1,057,899)
Net assets	2,459,601	1,435	–	2,461,036
Capital and reserves				
Reserves	2,211,516	865	–	2,212,381
Non-controlling interests	225,715	570	–	226,285
Total equity	2,459,601	1,435	–	2,461,036

HKFRS 9 Financial instruments

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

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1st January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1st January 2018. The difference between carrying amounts at 31st December 2017 and the carrying amounts at 1st January 2018 are recognised in the opening retained earnings 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Application of new and revised HKFRSs – effective on 1 January 2018 *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

Summary of effects arising from initial application of HKFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been affected by HKFRS 9.

(i) Classification and measurement

	HKAS 39 carrying amounts at 31st December 2017 HK$'000	**Reclassification** HK$'000	**HKFRS 9 carrying amounts at 1st January 2018** HK$'000
Financial assets at FVTOCI			
Unlisted equity securities (note)	–	100,898	100,898
Financial assets classified as AFS financial assets under HKAS 39			
Unlisted equity securities (note)	100,898	(100,898)	–

Notes:

Available-for-sale ("AFS") investments

From AFS equity investments to fair value through other comprehensive income ("FVTOCI") The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$100,898,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which HK$100,898,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of HK$862,000 during the year relating to those investments previously carried at fair value was recognised in FVTOCI reserve.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Application of new and revised HKFRSs – effective on 1 January 2018 *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

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

(ii) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including other receivables, pledged deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition,which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

	Trade and other receivables HK$'000	**Deferred tax assets** HK$'000	**Total** HK$'000
At 31 December 2017 – HKAS 39	1,485,925	1,243	1,487,168
Amounts re-measured through			
– opening retained earnings	(9,466)	10,331	865
– non-controlling interests	(430)	1,000	570
At 1 January 2018 – HKFRS 9	1,476,029	12,574	1,488,603

The table below summarises the impact on the Group's reserves due to reclassification and remeasurement of financial instruments at the date of initial application:

	HKAS 39 carrying amount at 31 December 2017 HK$'000	**Reclassification** HK$'000	**Remeasurement** HK$'000	**HKFRS 9 carrying amount at 1 January 2018** HK$'000
Reserve				
Retained profits	1,213,842	865	–	1,214,707
Non-controlling interests	225,715	570	–	226,285
	1,439,557	1,435	–	1,440,992

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Application of new and revised HKFRSs – effective on 1 January 2018 *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (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 the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared with HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue mainly from manufacturing and sales of pharmaceutical preparations and medical devices and other related products which arise from contracts with customers. Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in note3 to the 2018 audited consolidated financial statement.

Summary of effects arising from initial application of HKFRS 15 There's no impact of transition to HKFRS 15 on retained earnings at 1 January 2018. 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.

	HKAS 18 carrying amounts at 31 December 2017	**Reclassification**	**HKFRS 15 carrying amounts at 1 January 2018**
	HK$'000	HK$'000	HK$'000
Contract liabilities	–	94,981	94,981
Trade and other payables	1,665,838	(94,981)	1,570,857

Notes:

As at 1 January 2018, receipts in advance from customers of HK$94,981,000 related to sales of finished goods previously included in trade and other payables were reclassified to current portion of contract liabilities.

Significant financing component

For contracts where the period between the payment by the customer and transfer of the promised property or service exceeds one year, the transaction price should be adjusted for the effects of a financing component, if significant. The Group has assessed that the financing component effect was insignificant.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs that have been issued but are not yet effective

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

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

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

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 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.

Furthermore, extensive disclosures are required by HKFRS 16.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 16 Leases *(Continued)*

At 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$7,030,000 as disclosed in note 45 to the financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

Except disclosed above, the directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, 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 assets.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$1,537,796,000 (2017:HK$1,059,334,000) as at 31 December 2018. The directors of the Company have taken the following factors to consider the future liquidity which include, but not limited to, the followings:

(i) Attainment of profitable and positive cash flow operations

The directors of the Company have reviewed the forecast and considered the Group will have positive net cash inflow in the coming 12 months.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ii) Necessary facilities

The Group is in the process of negotiating with its bankers for the renewal and additional of bank facilities, and the restructuring of bank loan combination with an aim to transform the short-term bank loans to long-term bank loans, in order to meet the Group's working capital and financial requirements in the next 12 months.

(iii) Financial support and amount due to immediate holding company

Outwit has agreed to provide the financial support for not less than 12 months from the year ended 31 December 2018.

(iv) Alternative sources of external funding

The Company can issue certain amount of new shares in according to the outstanding general mandate as approved by the shareholders of the Company in the last Annual General Meeting, and in the upcoming Annual General Meeting, the Board will seeking the shareholders' approval in regarding a general and unconditional mandate to allot, issue and deal with the new shares up to a maximum of 20% of the issued share capital of the Company as at the date of passing of the relevant resolution.

In the opinion of the directors of the Company, in light of the various measures or arrangements implemented after the end of reporting period together with the expected results of the other measures, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 (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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

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.

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

Change in the values of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit and loss when the Group obtains control over the acquiree.

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. 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 the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is or a portion thereof, is classified as held for sales, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 28 and HKFRS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sales. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the carrying amount of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

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

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

Revenue recognition

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sale of goods

Revenue from sales of goods are recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the products are delivered to customers and title is passed.

In comparative period, revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially 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 in 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). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments 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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on the transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable form or payable to a foreign operation for which settlement is nether planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation reserve.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and 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 as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss 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.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Taxation

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

Current tax

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because of 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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such 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 difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probably 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (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 and 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 objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

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

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. 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.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gain and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Investment properties under construction are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

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 profit or loss in the period which the property is derecognised.

If an investment property become a stock of properties because its use has changed as evidenced by the commencement of development with view to sale, any difference the carrying amount and the fair value of the property at the date of transfer is recognised in profit or loss. Subsequent to the changes, the property is stated at lower of deemed cost, equivalent to the fair value at the date of transfer, and net realisable value.

The Group transfers a property from stock of properties to investment properties when there is a change in use to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. For a transfer from stock of properties to investment properties, any difference between the fair value of the property at the date of change in use and its previous carrying amount is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Research and development expenditure

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

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

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provision

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefit

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected until credit method, with actuarial valuations being carried out at the end if each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes of the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur, Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expenses or income; and
- remeasurement.

The Group presents all components of defined benefit costs in profit or loss in the line item cost of sales, distribution costs and administrative expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Short-term and other long-term employee benefits

A liability is recognised for benefit accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value if the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Convertible bonds

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bond is converted or redeemed.

If the convertible bond is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the convertible bond is redeemed, the convertible bonds reserve is released directly to retained profits.

When the convertible bond is extinguished before maturity through an early redemption or repurchase where the original conversion privileges are unchanged, the consideration paid and any transaction costs for the redemption or repurchase are allocated to the liability component and equity component using the same allocation basis as when the convertible bond was originally issued. Once the allocation of consideration and transaction costs is made, any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to equity component is recognised in equity.

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 1st January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) 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 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.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9) (Continued)

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.

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.

Financial assets at FVTPL

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

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

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposit paid, other receivables, loan receivables, time deposits, loan to director and cash and bank balances). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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 period. Assessment are 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 period as well as the forecast of future conditions.

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.

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

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.

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.

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 1 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);

- 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 receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

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)

Financial assets at FVTPL *(Continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in the consolidated income statements excludes any dividend or interest earned on the financial assets and is included in the other revenue line item. Fair value is determined in the manner described in note 5 to the financial statements.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables or financial assets at FVTPL.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits paid, other receivables, loan receivables, time deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired 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 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; or
- disappearance of an active market for that financial asset because of financial difficulties.

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 30–180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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, 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 the consolidated income statements. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the 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.

In respect of AFS debt security, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as financial liabilities or equity

Financial liabilities and equity instruments issued by a group entity 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities (including bank borrowings, promissory note, obligations under finance leases, trade payables, deposits received, accruals and other payables (excluding receipt in advance) and amounts due to non-controlling interests) are subsequently measured at amortised cost, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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.

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 the profit or loss.

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

Close family members of an individual are those family members who may be expected to influence, or be influence by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

4. CRITICAL ACCOUNTING JUDGEMENT 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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has 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 statement.

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

Critical judgements in applying accounting policies *(Continued)*

Valuation of inventories

Valuation of inventories is stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product by product basis at the end of each reporting period and assess the need for write down of inventories.

Key source of estimation uncertainty

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

Valuation of investment properties

Investment properties are included in the statement of financial position at their fair value, which is assessed annually by independent qualified valuers, after taking into consideration all readily available information and current market environment.

The methodology and assumptions adopted in the property valuations are mentioned in note 17.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2018 was HK$487,848,000 (2017: HK$511,539,000). Details of the recoverable amount calculation are disclosed in note 22.

Impairment of intangible assets

The Group performs annual tests on whether there has impairment of intangible assets in accordance with the accounting policy. The recoverable amounts of fair value are determined based on income approach calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, post-tax discount rates, and other assumptions underlying the calculation.

The carrying amount of intangible assets as at 31 December 2018 was HK$815,998,000 (2017: HK$875,718,000). Detailed information is disclosed in note 24.

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

Key source of estimation uncertainty *(Continued)*

Provision of ECL for trade and other receivables

The Group uses three-stage model to calculate ECL for the trade and other receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The three-stage model 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. In addition, trade and other receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables are disclosed in notes 29.

Income tax and deferred tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of property, plant and equipment, prepaid lease payments and intangible assets

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment, prepaid lease payments and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The patents, trademarks and capitalised development costs are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

The intangible asset will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

During the year ended 31 December 2018, the Group did not change the estimated useful lives of property, plant and equipment, prepaid lease payments and intangible assets.

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

Key source of estimation uncertainty *(Continued)*

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 5, 17, 27, 31 and 36 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Going concern

As disclosed in note 3, the directors have prepared the financial statements on a going concern basis as they are of the opinion that the Group has adequate sources of liquidity to fund the Group's working capital and to meet its debt obligations as they become due based on the cash flow forecast prepared by the directors. Any adverse result on the actual future cash flow would affect the Group's ability to continue as a going concern.

Impairment test for interests in associates

The Group completed its annual impairment test for interests in associates by comparing the recoverable amount of interests in associates to its carrying amount as at 31 December 2018. The Group has engaged the Valuer to carry out a valuation of the interests in associates as at 31 December 2018 based on the value in use calculations. This valuation uses cash flow projections based on the financial estimates covering a five-year period, and discount rates ranged from 12.81% to 18.34%. The cash flows beyond the five-year period are extrapolated using a steady 3% growth rate for the pharmaceutical industries in which are operated by associates.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
AFS financial assets	–	100,898
Equity Instruments at FVTOCI	96,526	–
Financial asset at FVTPL	45,605	18,011
Financial asset at amortised cost (including cash and cash equivalents)		
– Trade and other receivables	1,320,431	1,307,732
– Amounts due from related companies	10,832	5,400
– Pledged bank deposits	73,515	25,549
– Cash and cash equivalents	912,244	640,842
	2,459,153	2,098,432
Financial liabilities		
At amortised costs		
– Trade and other payables	2,193,772	1,561,610
– Bank and other borrowings	2,154,838	2,444,169
– Bond payables	113,562	119,474
– Convertible bonds	284,725	293,958
– Obligations under financial leases	73,327	133,036
– Amount due to immediate holding company	17,603	23,368
– Amounts due to related companies	10,529	18,173
	4,848,356	4,593,788

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial asset at FVTPL, equity instruments at FVTOCI, trade and other receivables, amounts due from related companies, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings, bond payables, convertible bonds, obligations under financial leases, amount due to immediate holding company and amounts due to related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

i. *Currency risk*

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, cash and cash equivalents, trade and other payables, bank and other borrowings are denominated in foreign currencies of United State dollars ("USD"). Such USD denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD.

The Group currently does not have any USD hedging policy but the management monitors USD exchange exposure and will consider hedging significant USD exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2017: 10%) in exchange rate of USD against RMB while all other variables are held constant. 10% (2017: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2017: 10%) change in foreign currency rates.

	2018 **HK$'000**	2017 HK$'000
Increase/(decrease) in profit for the year		
– if USD weakens against of RMB	**(15,311)**	(13,986)
– if USD strengthens against of RMB	**15,311**	13,986

A change of 10% (2017: 10%) in exchange rate of USD against RMB does not affect other components of equity except the translation reserve.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2018 **HK$'000**	2017 HK$'000
USD		
– Trade and other receivables	**154,819**	153,743
– Cash and cash equivalents	**13,336**	79,165
– Trade and other payables	**(15,043)**	(17,873)
– Bank and other borrowings	**–**	(75,179)

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

ii. Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates and variable-rate borrowings (see note 33). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2017: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2017: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$1,563,000 (2017: increase/decrease by approximately HK$10,623,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank and other borrowings.

iii. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

At 31 December 2018

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	2,193,772	2,193,772	–	–	–	2,193,772
Bank and other borrowings	4.77%	2,257,133	2,034,847	96,395	125,891	–	2,154,838
Bond payables	5.49%	133,378	6,506	6,524	120,348	–	113,562
Convertible bonds	9.29%	307,151	307,151	–	–	–	284,725
Obligations under finance lease	11.92%	80,345	59,882	20,463	–	–	73,327
Amount due to immediate holding company	5.00%	18,043	18,043	–	–	–	17,603
Amounts due to related companies	–	10,529	10,529	–	–	–	10,529
		5,000,351	4,630,730	123,382	246,239	–	4,848,356

At 31 December 2017

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,561,610	1,561,610	–	–	–	1,561,610
Bank and other borrowings	4.80%	2,542,207	2,224,917	114,495	202,795	–	2,444,169
Bond payables	5.49%	145,898	6,032	6,592	133,274	–	119,474
Convertible bonds	9.29%	347,766	9,900	337,866	–	–	293,958
Obligations under finance lease	14.19%	152,876	68,858	63,159	20,859	–	133,036
Amount due to holding company	5.00%	23,952	23,952	–	–	–	23,368
Amounts due to immediate related companies	–	18,173	18,173	–	–	–	18,173
		4,792,482	3,913,442	522,112	356,928	–	4,593,788

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

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk

The credit risk of the Group mainly arises from bank balances and deposits, trade receivables and other receivable. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2018.

The credit risk for amount due from associates are considered to be low, therefore no expected credit loss provision was made during the year ended 31 December 2018.

ECLs are recognised in three stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At the end of each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

As at 31 December 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of pharmaceutical products and are transacted in credit. The Group's trade receivables arise from sales of pharmaceutical products to the customers. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 9.13% and 3.43% (2017: 8.25% and 3.03%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade and other receivables at an amount equal to 12-month ECLs and lifetime ECLs, which are calculated using three-stage model. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(1) Provision of trade receivables

The tables below show credit quality and maximum exposure to credit risk based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9).

31 December 2018	**12-months ECLs Stage 1 HK$'000**	**Lifetime ECLs Stage 2 HK$'000**	**Lifetime ECLs Stage 3 HK'000**	**Total HK$'000**
Trade receivables and other receivables				
– Industry average	**1,293**	**–**	**–**	**1,293**
– CCC- to CC	**–**	**3,100**	**–**	**3,100**
– D	**–**	**–**	**76,302**	**76,302**
	1,293	**3,100**	**76,302**	**80,695**

1 January 2018	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK'000	Total HK$'000
Trade receivables and other receivables				
– Industry average	1,337	–	–	1,337
– CCC- to CC	–	3,200	–	3,200
– D	–	–	84,327	84,327
	1,337	3,200	84,327	88,864

The credit rating of industry average represented the debtors that have not incurred due payments. If the invoice dates of the outstanding debt were from 3 months to 1 year, the credit rating will be represented from CCC- to CC. In case the debts have been outstanding over 1 year, the credit rating will be marked as D.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(1) Provision of trade receivables (continued)

The provision of trade receivables as at 31 December 2017 reconciles to the opening provision on 1 January 2018 and to the closing provision as at 31 December 2018 was as follows:

	HK$'000
As at 31 December 2017	49,951
Adjustment – initial application of IFRS 9	11,746
As at 1 January 2018	61,697
Provision for the year	4,128
Exchange realignment	(5,021)
As at 31 December 2018	60,804

(2) Provision of other receivables

Other receivables

The provision of other receivables as at 31 December 2017 reconciles to the opening provision on 1 January 2018 and to the closing provision as at 31 December 2018 was as follows:

	HK$'000
As at 31 December 2017	29,017
Adjustment – initial application of IFRS 9	(1,850)
As at 1 January 2018	27,167
Reversal of provision for the year	(5,995)
Exchange realignment	(1,281)
As at 31 December 2018	19,891

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

– the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider the fair values of trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to immediate holding company approximate to its carrying amount as the impact of discounting is not significant.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value 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. as prices) or indirectly (i.e. derived from prices).

– 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).

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. ***Fair value*** *(Continued)*

Asset measured at fair value

	2018 Level 1 HK$'000	**2018 Level 2 HK$'000**	**2018 Level 3 HK$'000**	**2018 Total HK$'000**
Investment properties located in PRC (note 17)	**–**	**–**	**74,228**	**74,228**

	2017 Level 1 HK$'000	2017 Level 2 HK$'000	2017 Level 3 HK$'000	2017 Total HK$'000
Investment properties located in PRC (note 17)	–	–	64,773	64,773

	2018 Level 1 HK$'000	**2018 Level 2 HK$'000**	**2018 Level 3 HK$'000**	**2018 Total HK$'000**
Financial asset at FVTPL (note 27)	**45,605**	**–**	**–**	**45,605**

	2017 Level 1 HK$'000	2017 Level 2 HK$'000	2017 Level 3 HK$'000	2017 Total HK$'000
Financial asset at FVTPL (note 27)	18,011	–	–	18,011

	2018 Level 1 HK$'000	**2018 Level 2 HK$'000**	**2018 Level 3 HK$'000**	**2018 Total HK$'000**
Equity instruments at FVTOCI (note 31) (note b)	**–**	**–**	**96,526**	**96,526**

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. *Fair value* *(Continued)*

Fair value of financial liabilities that are not measured at fair value (but fair value disclosure are required):

	2018			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Convertible bond (note a)	**–**	**–**	**286,046**	**286,046**

	2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Convertible bonds (note a)	–	–	298,305	298,305

Notes:

(a) As at 31 December 2018 and 2017, the fair value of convertible bonds of approximately HK$286,046,000 and HK$298,305,000. The fair value of liabilities component of convertible bonds was valued by an independent valuer. The convertible bonds was calculated by discounting the future cash flow at market rate and including some unobservable inputs. See note 36 for the details information of convertible bonds.

Below is a summary of the valuation technique used and the key inputs to the valuation of convertible bonds:

	Valuation technique	**Significant unobservable inputs**	**2018**	2017
Convertible bonds	Discounted cash flow method	Risk free rate	**0.9%**	1.3%
		Volatility	**48.58%**	33.97%
		Discount rate	**9.37%**	8.86% to 9.05%

There were no transfers between all levels in both years.

(b) As at 31 December 2018, the fair value of equity instruments of approximately HK$96,526,000 were valued by an independent valuer. The calculation was based on investment costs and including some unobservable inputs.

Below is a summary of the valuation technique used and the key inputs to the valuation of equity instruments:

	Valuation technique	**Significant unobservable inputs**	**2018**	2017
Equity instruments	Market comparative	Adjusted P/B ratio	**1.50**	–
		Liquidity discount rate	**25.6%**	–

6. CAPITAL RISK MANAGEMENT

The Group reviews its capital structure to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank and other borrowings, amounts due to related companies and amount due to immediate holding company, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at the end of the reporting period was as follows:

	2018 HK$'000	2017 HK$'000
Debts (note 1)	**2,654,584**	3,032,178
Cash and cash equivalents	**(985,759)**	(666,391)
Net debt	**1,668,825**	2,365,787
Equity (note 2)	**7,190,959**	2,233,886
Net debt to equity ratio	**23%**	106%

Notes:

1) Debts comprises bank and other borrowings, convertible bonds, bond payables, obligations under financial leases amounts due to related companies and amount due to immediate holding company respectively.

2) Equity includes all capital and reserves attributable to owners of the Company.

7. REVENUE AND SEGMENT INFORMATION

For the year ended 31 December 2018, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products, nutrition products, specialised pharmaceutical raw materials and other products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's revenue represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**4,889,374**	3,539,700	**6,744,831**	4,747,330
America	**226,343**	349,804	**–**	–
Europe	**444,047**	426,293	**–**	–
Asia other than the PRC	**361,308**	419,399	**–**	–
Others	**37,283**	35,654	**–**	–
Total	**5,958,355**	4,770,850	**6,744,831**	4,747,330

Note: Non-current assets excluded available-for-sale financial assets, deferred tax assets and a part of interests in associates.

Information about major customers

For the years ended 31 December 2018 and 2017, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

REVENUE

Disaggregation of revenue from contracts with customers

	2018 HK$'000	2017 HK$'000
Type of goods and services		
Manufacture and sales of pharmaceutical preparations and medical devices	**3,588,143**	2,598,374
Sales of bio-technology products and nutrition products	**1,615,832**	1,392,632
Sales of specialised pharmaceutical raw materials and other products	**754,380**	779,844
Total revenue recognised at point in time	**5,958,355**	4,770,850

	2018 HK$'000	2017 HK$'000
Revenue disclosed in segment information		
External customers	**5,958,355**	4,770,850
Timing of revenue recognition		
At point in time	**5,958,355**	4,770,850
Over time	**–**	–
	5,958,355	4,770,850

All of the Group's revenue is generated in the PRC based on where goods are sold. All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contacts is not disclosed.

8. OTHER REVENUE AND INCOME

	2018 HK$'000	2017 HK$'000
Government grants	**35,498**	35,053
Interest income	**11,917**	3,515
Sales of raw materials, scrap and other materials, net	**13,892**	6,024
Gain on sales and lease back transaction, net	**28,717**	23,346
Investment income	**2,952**	112
Rental income	**485**	531
Net gain in fair value of investment properties	**13,342**	15,226
Reversal of impairment loss on trade and other receivables	**10,498**	19,776
Being provision income of legal claim	**–**	27,064
Gain on disposal of associates	**–**	22
Reversal of expected credit loss on trade and other receivables	**2,440**	–
Government compensation on office relocation	**66,915**	–
Sundry incomes	**9,463**	4,677
	196,119	135,346

9. OTHER OPERATING EXPENSES

	2018 HK$'000	2017 HK$'000
Amortisation of intangible assets (note 24)	**16,171**	13,141

10. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank and other borrowings:		
– wholly repayable within five years	**157,653**	124,244
– not wholly repayable within five years	**–**	–
Interest on bond payables (note 37)	**6,805**	6,603
Interest on convertible bonds (note 36)	**26,977**	27,405
Interest on amount due to immediate holding company	**255**	434
Interest on finance lease	**11,606**	15,741
	203,296	174,427

11. INCOME TAX EXPENSE

	2018	2017
	HK$'000	HK$'000
Current tax:		
The PRC Enterprise Income Tax	**154,034**	79,487
Deferred tax (note 38)	**(6,574)**	(6,306)
	147,460	73,181

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax at the rate of neither 8.25% nor 16.5% (2017: 16.5%). Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

The charge for the year is reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	HK$'000	HK$'000
Profit before tax	**883,899**	558,939
Tax at the domestic income tax rate of 25% (2017: 25%)	**220,975**	139,735
Tax effect of share of results of associates	**(17,295)**	448
Tax effect of expenses not deductible for tax purpose	**27,482**	9,098
Tax effect of income not taxable for tax purpose	**(6,352)**	(20,798)
Tax effect of deductible temporary differences not recognised	**1,960**	907
Effect of tax exemptions granted to the PRC subsidiaries	**(13,075)**	(22,998)
Income tax on concessionary rate	**(106,171)**	(55,038)
Tax effect of tax losses not recognised	**39,936**	21,827
Tax charge for the year	**147,460**	73,181

The applicable tax rate of 25% (2017: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

12. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	**784,140**	751,200
– Retirement benefits schemes contributions (note 46)	**55,089**	51,255
	839,229	802,455
Depreciation of property, plant and equipment (note 16)	**220,144**	230,122
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses) (note 18)	**7,096**	8,571
Amortisation of intangible assets (included in other operating expenses) (note 24)	**16,171**	13,141
Total depreciation and amortisation	**243,411**	251,834
Impairment losses on financial assets		
– trade and other receivables	**11,110**	35,213
– reversal of impairment loss on trade and other receivables (included in other revenue and income) (note 8)	**(10,498)**	(19,776)
Impairment losses of financial assets, net	**612**	15,437
Auditors' remuneration		
– audit services	**2,880**	2,350
– non-audit services	**400**	–
Cost of inventories recognised as an expense	**2,796,841**	2,291,353
Operating lease rentals in respect of land and buildings	**9,205**	4,748
Gain on sales and lease back transaction, net	**(28,717)**	(23,346)
Write-off of property, plant and equipment	**39**	2,813
Research and development expenditure	**137,490**	84,713
Impairment loss on inventories	**–**	112
Being provision expenses of legal claim	**–**	27,064
Loss on disposal of property, plant and equipment	**3,377**	3,858
Net foreign exchange (gain)/loss	**(9,861)**	13,252

13. DIVIDEND

The Board recommends the payment of final dividend of approximately HK$269,600,000 at HK$0.086 per Share for the year ended 31 December 2018 (2017: Nil).

14. EARNINGS PER SHARE

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

	2018 **HK$'000**	2017 HK$'000 (restated)
Earnings		
Earnings for the purpose of basic earnings per share calculation	**712,667**	460,811
Effect of dilutive potential ordinary shares:		
– Interest on convertible bond (net of tax)	**26,977**	27,405
Earnings for the purpose of diluted earnings per share calculation	**739,644**	488,216

	2018 **'000**	2017 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**2,568,876**	2,243,144
Effect of dilutive potential ordinary shares:		
– Convertible bonds	**222,222**	244,444
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**2,791,098**	2,487,588

The Company's outstanding convertible bonds were included in the calculation of diluted earnings per share because the effect of the Company's outstanding convertible bonds were diluted.

The number of shares for the year ended 31 December 2017 were restated due to the right issue on 5 September 2018. Further details are set out in note 41.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2018 HK$'000	2017 HK$'000
Fees:		
Executive directors	175	150
Independent non-executive directors	270	300
	445	450
Other emoluments:		
Salaries and allowances	2,581	1,950
Retirement benefits scheme contributions	18	18
	3,044	2,418

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 for both years ended 31 December 2018 and 2017.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments paid or payable to each of the seven (2017: seven) directors for the year ended 31 December 2018 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	75	–	–	75
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	2,581	18	2,599
Dr. Niu Zhanqi	50	–	–	50
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence (passed away on 11 May 2018)	30	–	–	30
Mr. Hu Yebi (appointed on 31 December 2018)	–	–	–	–
Dr. Pei Geng	60	–	–	60
Total	445	2,581	18	3,044

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2017 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	1,950	18	1,968
Dr. Niu Zhanqi	50	–	–	50
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence	60	–	–	60
Dr. Pei Geng	60	–	–	60
Total	450	1,950	18	2,418

During both years ended 31 December 2018 and 2017, no directors of the Company agreed to waive or waived any emoluments.

During both years ended 31 December 2018 and 2017, the executive director of the Company, Dr. Shao Yan, was the chief executive officer of the Company.

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2017: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2017: four) individuals are as follows:

	2018 **HK$'000**	2017 HK$'000
Employees		
Salaries and allowances	**7,035**	4,289
Retirement benefits schemes contributions	**105**	63
	7,140	4,352

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals *(Continued)*

These emoluments were within the following bands:

	2018 No. of employees	2017 No. of employees
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$1,500,000	2	2
HK$1,500,001 to HK$2,000,000	1	1
Over HK$2,000,000	1	–
	4	4

During both years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management of the Group are within the following band.

	2018 No. of employees	2017 No. of employees
Nil to HK$1,000,000	1	4
HK$1,000,001 to HK$1,500,000	3	1
Over HK$1,500,000	1	–
	5	5

During both years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2017	1,321,019	1,682	1,406,854	27,348	72,720	412	355,571	3,185,606
Additions	5,893	–	75,033	1,737	3,878	–	223,770	310,311
Disposals	(1,376)	–	(27,104)	(637)	(1,349)	–	–	(30,466)
Write-off	(171)	–	(13,397)	(745)	(3,604)	–	–	(17,917)
Transfer	47,001	–	64,799	1,306	822	–	(113,928)	–
Exchange realignment	96,573	120	104,705	2,024	5,148	–	29,987	238,557
At 31 December 2017 and at 1 January 2018	1,468,939	1,802	1,610,890	31,033	77,615	412	495,400	3,686,091
Additions	67,129	–	83,222	1,589	2,263	–	218,655	372,858
Disposals	(11,448)	–	(22,129)	(3,275)	(9,086)	–	–	(45,938)
Write-off	–	–	(5)	(12)	(43)	–	–	(60)
Transfer	11,226	–	46,757	–	52	–	(58,035)	–
Exchange realignment	(78,856)	(94)	(87,836)	(1,542)	(3,730)	–	(32,036)	(204,094)
At 31 December 2018	1,456,990	1,708	1,630,899	27,793	67,071	412	623,984	3,808,857
Accumulated depreciation and impairment								
At 1 January 2017	166,232	–	326,724	9,265	39,367	412	–	542,000
Depreciation provided for the year	66,469	–	147,968	4,318	11,367	–	–	230,122
Eliminated on disposals	(675)	–	(8,322)	(217)	(703)	–	–	(9,917)
Eliminated on write-off	(44)	–	(10,765)	(726)	(3,569)	–	–	(15,104)
Exchange realignment	14,617	–	28,715	804	3,069	–	–	47,205
At 31 December 2017 and at 1 January 2018	246,599	–	484,320	13,444	49,531	412	–	794,306
Depreciation provided for the year	66,217	–	143,131	3,967	6,829	–	–	220,144
Eliminated on disposals	(7,615)	–	(14,400)	(2,897)	(8,581)	–	–	(33,493)
Eliminated on write-off	–	–	(3)	(11)	(7)	–	–	(21)
Exchange realignment	(15,105)	–	(30,206)	(739)	(2,472)	–	–	(48,522)
At 31 December 2018	290,096	–	582,842	13,764	45,300	412	–	932,414
Net carrying amounts								
At 31 December 2018	**1,166,894**	**1,708**	**1,048,057**	**14,029**	**21,771**	**–**	**623,984**	**2,876,443**
At 31 December 2017	1,222,340	1,802	1,126,570	17,589	28,084	–	495,400	2,891,785

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

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

Buildings	2.5% – 5%
Plant and machinery	5% – 10%
Equipment	12% – 25%
Motor vehicles	10% – 25%
Others	12.5% – 20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant PRC's authorities.

Buildings are held in the PRC under medium-term leases.

As at 31 December 2018, an allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 44.

17. INVESTMENT PROPERTIES

	2018 **HK$'000**	2017 HK$'000
Completed investment properties	**74,228**	64,773

	2018 **HK$'000**	2017 HK$'000
At 1 January	**64,773**	45,650
Fair value gain recognised in profit or loss (note 8)	**13,342**	15,226
Exchange realignment	**(3,887)**	3,897
At 31 December	**74,228**	64,773

(a) Valuation of investment properties

The investment properties amounted of approximately HK$74,228,000 (2017: HK$64,773,000) of the Group were stated at fair value as at 31 December 2018. The fair value were arrived at based on the valuations carried out by an independent firm of qualified professional valuer, Wuhan Huasheng Zhenghao Assets Appraisal Co., Ltd. (this is the English translation of Chinese name or words which included for identification purposes only).

The valuer has valued the properties on the basis of comparable market transactions as available. Discussions of valuation processes and results are held between the Group and valuers at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2018, the fair values of the properties have been determined by the valuer. At each financial year end, the Group (i) verifies all major inputs to the independent valuation report; (ii) holds discussions with the independent valuer.

17. INVESTMENT PROPERTIES *(Continued)*

(a) Valuation of investment properties *(Continued)*

Market approach method is adopted based on the principle of substitution, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value and capital values.

The valuation assumptions, unless otherwise stated, the valuer assumed that:

(a) The assets within the scope of the assessment are owned by the appraised unit and there is no ownership dispute;

(b) The assessment information provided by the entrusting party and the appraised unit is true, lawful and complete; and

(c) The assessment data collected by the assessors in the capacity range is authentic and credible.

There has been no change from the valuation technique used during the year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The valuation of investment properties is determined by various major inputs:

i. As at 31 December 2018:

The major key inputs applied in valuing the investment properties were market unit sales per each square meter. The range of unit market price were from RMB1,315.18 to RMB1,545.24.

Another unobservable input was volume rate of the land use right. The ranges of plot ratio of investment properties were from 1.00 to 3.00. An increase in volume rate would result in increase in the fair value of investment properties.

ii. As at 31 December 2017:

The major key inputs applied in valuing the investment properties were market unit sales per each square meter. The range of unit market price were from RMB724.83 to RMB844.02.

Another unobservable input was volume rate of the land use right. The ranges of plot ratio of investment properties were from 1.00 to 3.50. An increase in volume rate would result in increase in the fair value of investment properties.

The fair value of the investment properties of approximately HK$74,228,000 (2017: HK$64,773,000) as at 31 December 2018. The investment properties were classified as level 3 of fair value hierarchy. There were no transfers into or out of level 3 during the year.

18. PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
At the beginning of year	**296,574**	285,119
Additions	**3,164**	–
Written off	**(2,332)**	–
Amortisation for the year	**(7,096)**	(8,571)
Exchange realignment	**(15,141)**	20,026
At the end of year	**275,169**	296,574
Analysed for reporting purposes as:		
Current assets	**7,216**	8,771
Non-current assets	**267,953**	287,803
	275,169	296,574

Leasehold lands are held in the PRC under medium leases.

As at 31 December 2018 and 2017, certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 44.

19. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Cost of unlisted investments (note)	**5,153,458**	241,505
Share of post-acquisition loss and other comprehensive loss	**61,380**	(4,548)
Share of net assets of associates	**5,214,838**	236,957
Amounts due from associates	**95,151**	36,565
	5,309,989	273,522

Amounts due from associates are unsecured, interest-free and not repayable/recoverable within next twelve months.

19. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

Yangxin Fuxin Chemical Company Limited (the "Yangxin Fuxin")

	2018 HK$'000	2017 HK$'000
Total assets	13,393	18,308
Total liabilities	(3,829)	(936)
Net assets	9,564	17,372
Group's share of net assets of the associate	4,686	8,512
Revenue	19,025	16,660
Profit for the year	1,107	1,343
Share of results of an associate for the year	542	658

Cardionovum Holding Company Limited (the "Cardionovum Holding")

	2018 HK$'000	2017 HK$'000
Total assets	804,642	726,433
Total liabilities	(123,894)	(37,647)
Net assets of the associate	680,748	688,786
Less: Non-controlling interests	(8,706)	(3,383)
Net assets attributable to owners of associate	672,042	685,403
Group's share of net assets of the associate	223,991	228,445
Revenue	53,266	60,412
Loss for the year	(13,280)	(7,348)
Share of results of an associate for the year	(4,426)	(2,449)

19. INTERESTS IN ASSOCIATES *(Continued)*

East Ocean Medical (Hong Kong) Company Limited (the "East Ocean")

	2018 HK$'000	2017 HK$'000
Total assets	**59,693**	39,593
Total liabilities	**(2,671)**	(16,609)
Net assets	**57,022**	22,984
Group's share of net assets of the associate	**–**	–
Revenue	**–**	–
Loss for the year	**(1,063)**	(416)
Share of results of an associate for the year	**–**	–

Shanghai Xudong Haipu Pharmaceutical Company Limited (the "Xudong Haipu")

	2018 HK$'000
Total assets	**1,757,318**
Total liabilities	**(379,500)**
Net assets of the associate	**1,377,818**
Less: Non-controlling interests	**(36,272)**
Net assets attributable to owners of associate	**1,341,546**
Group's share of net assets of the associate	**737,840**
Revenue	**236,819**
Profit for the year	**169,624**
Share of results of an associate for the year	**93,293**

19. INTERESTS IN ASSOCIATES *(Continued)*

Grand Pharma Sphere Private Limited (the "Grand Pharma Sphere")

	2018 HK$'000
Total assets	11,602,593
Total liabilities	(5,704,391)
Net assets	5,898,202
Group's share of net assets of the associate	2,890,119
Revenue	351,760
Loss for the year	(41,285)
Share of results of an associate for the year	(20,230)

Note: The goodwill generated during acquisition of Xudong Haipu and Grand Pharma Sphere were amounted approximately to HK$416,857,000 and HK$1,933,569,000 respectively.

Details of the principal associates as at 31 December 2018 and 2017 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2018	2017	Particulars of issued/paid-up capital	Principal activities
Yangxin Fuxin (note (a))	PRC/PRC	Limited liability company	40.32% (indirect)	40.32% (indirect)	Contributed capital RMB2,000,000	Production and sales of fine chemicals and chemical medicine
Cardionovum Holding (note (b))	Hong Kong/ Hong Kong	Limited liability company	33.33 (indirect)	33.33% (direct)	Contributed capital USD93,000,000	Development, production and distribution of advanced cardiovascular interventional medical devices and the provision of related services
East Ocean (note (c))	PRC/PRC	Limited liability company	0.07% (direct)	0.07% (direct)	Issued capital HK$117,000,000/ contributed capital HK$58,500,001	Investment holding
Xudong Haipu (note (d))	PRC/PRC	Limited liability company	55.00% (indirect)	–	Contributed capital RMB60,000,000	Production and sales of pharmaceutical preparations for injections
Grand Pharma Sphere (note (e))	Singapore/ Singapore	Limited liability company	49.00% (indirect)	–	Contributed capital USD100	Investment holding

19. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.

As at 31 December 2013, the Group held approximately 40.22% equity interest in Yangxin Fuxin and are accounted for the investment as an associate. During the year ended 31 December 2014, the Group had further acquired approximately 0.24% equity interest in Grand Pharm (China) on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the Group's equity interest in Yangxin Fuxin was increased from 40.22% to 40.32%.

(b) Cardionovum Holding was an associate of Grand Wise International Trading Limited, a wholly-owned subsidiary of the Company, and Cardionovum Holding was establish with individual third party. The Company had subscribed for approximately 33.33% of the enlarged issued share capital of the Cardionovum Holding pursuant to an agreement signed on 21 April 2015, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over Cardionovum Holding because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(c) East Ocean was an associate of the Company and East Ocean was establish with a connected person of the Company. The Company had held for 1 out of 1500 issued share capital of the East Ocean as at 31 December 2017. Pursuant to an agreement signed between the Company and the owners of East Ocean in relate to the establishment of East Ocean, the Company will inject not more than 49.9% equity interest of capital into East Ocean within five years, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over East Ocean because it has the power to appoint one out of the three directors of that company under the shareholders agreement.

(d) Xudong Haipu was an associate of Taiwan Tung Yang International Company Limited ("Tung Yang").

On 24 May 2018, the Company entered into the acquisition agreement, the Company had acquired 100% of the Tung Yang shares at aggregate consideration HK$2,004,227,000 which are settled by cash and shares. Upon completion of the acquisition, Tung Yang is directly wholly-owned subsidiary of the Company. Shanghai Xudong Haipu Pharmaceutical Co., Ltd ("Xudong Haipu") and its subsidiaries are classified as associates of the Company after Completion. This is because material decisions of Xudong Haipu (including but not limited to the approval of its annual budget, manufacturing plan and profit distribution policy) are subject to the resolutions of the board of directors of Xudong Haipu which must be passed by at least two-third of its directors in attendance under the articles of association of Xudong Haipu. As the Tung Yang entitled to appoint only four out of the seven directors of Xudong Haipu, the Tung Yang does not have control over the operations and financial management of Xudong Haipu.

The completion of the acquisition took place on 5 September 2018. Details of the acquisition of the Tung Yang are disclosed in the announcement of the Company dated 24 May 2018, 31 July 2018 and 24 August 2018.

Even the Company was holding 55% of shares of Xudong Haipu, since the resolutions requires at least 5 out of 7 directors' approval to pass, where the Company only entitled to appoint 4 directors on the board meeting, the Company does not have control over the associate.

(e) Grand Pharma Sphere was an associate of Grand Decade Developments Limited ("Grand Decade") and it was the immediate holder of Grand Pharma Sphere Pty. (Australia BidCo) Limited ("BidCo").

On 14 June 2018, the Company entered into the binding scheme implementation deed pursuant to which CDH Genetech Limited ("CDH Genetech") and the Company had acquired 100% of the Sirtex Medical Limited ("Sirtex") shares. The Company and CDH Genetech had established BidCo to acquire the Sirtex shares and paid aggregate consideration HK$2,907,725,000. Upon completion of the acquisition, the Company and CDH Genetech owned 49% and 51% of the issued shares capital of the BidCo respectively. The completion of the acquisition took place on 20 September 2018. Details of the acquisition of the BidCo are disclosed in the announcement of the Company dated 14 June 2018, 26 July 2018, 20 September 2018 and 12 March 2019.

The above table lists associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK$'000
Unlisted securities:	
– Unlisted equity securities, at cost	100,898

The above unlisted equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

	2018 HK$'000	2017 HK$'000
Purchase of land use right (note (a))	**39,491**	41,653

Note:

(a) During the year ended 31 December 2016, Beijing Grand Jiuhe Pharmaceutical Limited ("Jiuhe") entered into an agreement with the independent third party to acquire a land use right and paid amount to approximately RMB34,690,000 (equivalent to approximately HK$38,874,000) within a specified period as stipulated in the agreement. As at 31 December 2018 and 2017, the Group was in the progress of obtaining the land use right certificate.

22. GOODWILL

	HK$'000
At 1 January 2017	481,075
Exchange realignment	30,464
At 31 December 2017 and 1 January 2018	511,539
Exchange realignment	(23,691)
At 31 December 2018	**487,848**

22. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

– Zhejiang Jianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")

– Wuhan Kernel Bio-tech Co., Ltd. ("Wuhan Kernel")

– Hubei Wellness Pharmaceutical Co., Ltd ("Hubei Wellness")

– Beijing Rui Yao Technology Limited ("Beijing Rui Yao")

– Jiuhe

– Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming")

– Xi'an Beilin

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2018 **HK$'000**	2017 HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**15,944**	16,816
Hubei Wellness	**23,003**	24,262
Beijing Rui Yao	**24,566**	25,911
Jiuhe	**183,092**	193,112
Tianjin Jingming	**62,030**	65,424
Xi'an Beilin	**124,269**	131,070
	487,848	511,539

22. GOODWILL *(Continued)*

Notes:

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% (2017: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 0% growth rate per annum (2017: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 18% (2017: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 0% growth rate per annum (2017: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 18% (2017: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 0% growth rate per annum (2017: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% (2017: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 0% growth rate per annum (2017: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

22. GOODWILL *(Continued)*

Notes: *(Continued)*

Jiuhe

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2017: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 0% growth rate per annum (2017: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Tianjin Jingming

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% (2017: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 0% growth rate per annum (2017: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Xi'an Beilin

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2017: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 0% growth rate per annum (2017: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 3% of market share per year. The values assigned to the assumption reflect past experience and are consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

23. PARTICULAR OF SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2018 and 2017 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2018	2017		
Grand Pharm (China) (notes (iv), (vi), (vii) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.18% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (notes (ii), (viii) and (xvi))	PRC/PRC	Limited liability company	**60.80% (indirect)**	60.80% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (note (viii) and (xx))	PRC/PRC	Limited liability company	**89.60% (indirect)**	89.60% (indirect)	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	**67.00% (direct)**	67.00% (direct)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (notes (iii), (viii), (xvi) and (xvii))	PRC/PRC	Limited liability company	**91.56% (indirect)**	91.56% (indirect)	Contributed capital RMB79,200,000	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.90% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC
Beijing Rui Yao (notes (x) & (xii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB23,901,750	Investment holding
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajin") (notes (viii), (x) & (xii))	PRC/PRC	Limited liability company	**71.88% (indirect)**	71.88% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the PRC

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2018	2017	Particulars of issued/paid-up capital	Principal activities
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB1,000,000	Treatment of sewage in the PRC
Jiuhe (note (xiii))	PRC/PRC	Limited liability company	**96.84% (indirect)**	96.84% (indirect)	Contributed capital RMB20,000,000	Manufacture and sales of capsules, pharmaceutical intermediates, tablets, granules and soft capsules in the PRC
Tianjin Jingming (note (xiv))	PRC/PRC	Limited liability company	**73.18% (indirect)**	73.18% (indirect)	Contributed capital RMB1,000,000	Research and development, manufacture and sales of ophthalmic medical devices and disposal surgical product
Zhu Hai Cardionovum Medical Device Co. Ltd. ("Zhu Hai Cardionovum") (note (xv))	PRC/PRC	Limited liability company	**77.89% (indirect)**	77.89% (indirect)	Contributed capital USD1,000,000	Development, manufacture and sales of ophthalmic medical devices
Xi'an Beilin (note (xvii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB27,800,000	Manufacture and sales of Chinese medicine and health food product
Grand Decade (note (xxii))	BVI/BVI	Limited liability company	**100% (direct)**	—	Contributed capital HKD78,000	Investment holding
Tung Yang (note (xxiii))	Hong Kong/ Hong Kong	Limited liability company	**100% (direct)**	—	Contributed capital USD2,944,611	Investment holding

Notes:

(a) Detail of subsidiaries

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010.

During the year ended 2010, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(v) Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 22 November 2012. The effective equity interest in Hubei Wellness held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB136.40 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.06 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.

(viii) Pursuant to share transfer agreement dated on 10 October 2014, Grand Pharm (China) had increased the paid-up capital to RMB470,000,000. The Group had paid RMB285,000,000 during the year ended 2014. After the payment of additional paid-up capital, the Group further acquired approximately 0.24% equity interest in Grand Pharm (China) at the consideration of RMB1.134million (representing approximately RMB4.725 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the equity interest held by the Group in Grand Pharm (China) was approximately 99.84%. As a result of the acquisition detail on notes (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 98.94% to 99.18%; Wuhan Grand Hoyo was increased from 62.15% to 62.30%; Hubei Fuchi was increased from 82.09% to 82.29%; Hubei Grand EBE was increased from 99.60% to 99.84%, Wuhan Kemel was increased from 80.70% to 80.90%. Hubei Wellness was increased from 99.60% to 99.84%; Huangshi Feiyun was increased from 59.76% to 59.90% and Beijing Huajin was increased from 50.80% to 50.92%.

(ix) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Huangshi Feiyun. The effective equity interest in Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(x) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao acquisition, Grand Pharm (China) will own approximately 70.56% equity interest in Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(xi) The Group established and owned 99.84% equity interest in Fuchi Water. The effective equity interest in Fuchi Water held by the Group is 99.84% on 30 September 2014.

(xii) Pursuant to an agreement dated 11 December 2014, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 29.16% equity interest in Beijing Rui Yao on 1 January 2015. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao additional acquisition, the Group will own approximately 99.84% equity interest in Rui Yao and approximately 71.88% equity interest in Beijing Huajin indirectly through Rui Yao.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xiii) Pursuant to an agreement dated 17 July 2015, Grand Pharm (China) entered into an agreement with Ningbo CDH Jinxiu Investment Management Company Limited (the "Ningbo CDH") to acquire 67.00% equity interest in Jiuhe on 31 July 2015 and upon completion of Jiuhe acquisition, the Group will own approximately 66.89% equity interest in Jiuhe.

During the year ended 2015, a further 30.00% equity interest in Jiuhe was acquired by Grand Pharm (China). As a result, the effective equity interest in Jiuhe held by the Group was increased from 66.89% to 96.84%.

(xiv) Pursuant to an agreement dated 22 December 2014, Grand Pharm (China) entered into an agreement with Wu Liang and Fan Li Jin to acquire 73.30% equity interest in Tianjin Jingming on 1 January 2015. The effective equity interest in Tianjin Jingming held by the Group is 73.18% on 1 January 2015.

(xv) The Group established and owned 77.89% equity interest in Zhu Hai Cardionovum. The effective equity interest in Zhu Hai Cardionovum held by the Group is 77.89% on 9 October 2015.

(xvi) During the year ended 31 December 2016, the Group increase effective equity interest by 13.44% in Huang Gang Fuchi Pharmaceutical Co., Ltd. from the non-controlling interests at consideration of three subsidiaries shares of 2.59% in Wuhan Grand Hoyo; 2.11% in Wuhan Kemel and 3.47% in Hubei Grand Bio-technology Limited.

(xvii) During the year ended 31 December 2016, the Group acquired additional 1.55% and 16.05% equity interest in Wuhan Kernel from the non-controlling interests of Wuhan Kernel at a cash consideration of RMB3,000,000 and RMB20,180,000 (approximately HK$3,362,000 and HK$22,614,000). The Group recognised an decrease in non-controlling interests and decrease in other reserve of approximately HK$28,165,000 and HK$2,059,000 respectively.

(xviii) Pursuant to an agreement dated 29 June 2016, Grand Pharm (China) entered into an agreement with independent third parties to acquire 77.21% equity interest in Xi'an Beilin on 13 July 2016. Xi'an Beilin also owing 100%, 100% and 79% equity interest in Shenxi Xin Beilin Medical Company Limited (the "Shenxi Xin Beilin"), Xi'an Hanyuan Shiye Company Limited (the "Xi'an Hanyuan Shiye") and Xi'an Beilin Biological Technology Company Limited (the "Xi'an Beilin Biological") without any encumbrances and potential disputes, and upon completion of Xi'an Beilin acquisition, the Group will own approximately 77.09% equity interest in Xi'an Beilin and approximately 77.09%, 77.09% and 60.91% equity interest in Shenxi Xin Beilin, Xi'an Hanyuan Shiye and Xi'an Beilin Biological indirectly through Xi'an Beilin. During the year ended 31 December 2016, the Group derecognised Xi'an Beilin Biological Technology.

During the year ended 31 December 2017, Grand Pharm (China) acquire additional 22.79% equity interest in Xi'an Beilin from the non-controlling interests of Xi'an Beilin at a cash consideration of RMB131,512,000 (approximately HK$151,606,000), and upon completion of the further acquisition, the Group will own approximately 99.84% equity interest in Xi'an Beilin and approximately 99.84% and 99.84% equity interest in Shenxi Xin Beilin and Xi'an Huanyuan Shiye indirectly through Xi'an Beilin. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$113,123,000 and HK$38,484,000 respectively.

(xix) During the year ended 31 December 2017, Wuhan Kernel had increased the contributed capital to RMB79,200,000. After the payment of additional of contributed capital, Grand Pharm (China) disposed 4.9% equity interest in Wuhan Kernel to independent third party at a cash consideration of RMB12,740,000 (approximately HK$14,687,000). Upon the completion of the partial disposal, the Group will own approximately 91.56% equity interest in Wuhan Kernel indirectly. The Group recognised an increase in non-controlling interests and increase in other reserve of approximately HK$5,832,000 and HK$8,853,000 respectively.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xx) During the year ended 31 December 2017, Grand Pharm (China) acquire additional approximately 7.32% equity interest in Hubei Fuchi from the non-controlling interests of Hubei Fuchi at a cash consideration of approximately RMB11,679,000 (approximately HK$13,463,000), and upon completion of the further acquisition, the Group will own approximately 89.60% equity interest in Hubei Fuchi. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$7,506,000 and HK$5,957,000 respectively. As a result of the acquisition, the Group's equity interest in Wuhan Grand Hoyo was increased from 59.71% to 60.80%; and Hubei Fuchi was increased from 82.29% to 89.60%.

(xxi) The above table lists the subsidiaries of the Group, which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors result in particulars of excessive lengths.

(xxii) During the year ended 31 December 2018, the Company establish Grand Decade for the purpose of acquiring associate, Grand Pharma Sphere.

(xxiii) During the year ended 31 December 2018, the Company acquire 100% equity interest in Tung Yang at aggregate consideration HK$2,004,227,000. Upon completion, Xudong Haipu becomes an associate of the Company.

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of Company	Place of incorporation/ registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profits allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
				HK$'000	HK$'000	**HK$'000**	HK$'000
Wuhan Grand Hoyo	PRC/PRC	**39.20%**	39.20%	**21,385**	11,074	**104,968**	89,045

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

(i) Wuhan Grand Hoyo and its subsidiaries

	2018 **HK$'000**	2017 HK$'000
Current assets	**243,184**	200,734
Non-current assets	**56,054**	58,566
Current liabilities	**30,236**	30,719
Non-current liabilities	**1,296**	1,484
Equity attributable to owners of the Company	**162,739**	138,052
Non-controlling interests	**104,968**	89,045
Revenue	**510,647**	481,898
Other revenue and income	**3,332**	4,591
Expenses	**(459,439)**	(458,246)
Profit for the year	**54,540**	28,243
Profit attributable to owners of the Company	**33,155**	17,169
Profit attributable to non-controlling interests	**21,385**	11,074
Total comprehensive income for the year	**40,609**	42,606
Total comprehensive income attributable to owners of the Company	**24,686**	25,900
Total comprehensive income attributable to non-controlling interests	**15,923**	16,706
Dividend paid to non-controlling interest	**–**	–
Net cash inflow from operating activities	**1,151**	18,300
Net cash outflow from investing activities	**(4,138)**	(8,138)
Net cash inflow from financing activities	**727**	(992)
Effect of foreign exchange rate charges	**(2,285)**	2,797
Net cash (outflow)/inflow	**(4,545)**	11,967

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

24. INTANGIBLE ASSETS

	Pharmaceutical technology HK$'000	Patent, trademark and capitalised development cost HK$'000	Acquired patent rights HK$'000	Total HK$'000
Cost				
At 1 January 2017	7,082	749,039	77,045	833,166
Addition	–	–	34,610	34,610
Exchange realignment	506	53,549	6,947	61,002
At 31 December 2017 and 1 January 2018	7,588	802,588	118,602	928,778
Addition	–	–	1,304	1,304
Exchange realignment	(393)	(41,644)	(6,206)	(48,243)
At 31 December 2018	7,195	760,944	113,700	881,839
Accumulated amortisation and impairment loss				
At 1 January 2017	561	–	36,187	36,748
Provided for the year (note 9)	364	–	12,777	13,141
Exchange realignment	54	–	3,117	3,171
At 31 December 2017 and 1 January 2018	979	–	52,081	53,060
Provided for the year (note 9)	375	–	15,796	16,171
Exchange realignment	(65)	–	(3,325)	(3,390)
At 31 December 2018	1,289	–	64,552	65,841
Net carrying amounts				
At 31 December 2018	**5,906**	**760,944**	**49,148**	**815,998**
At 31 December 2017	6,609	802,588	66,521	875,718

The economic useful life of recognised intangible assets are as follows:

Intangible assets	Economic useful life
Pharmaceutical technology	20 years
Acquired patent rights	5 years – 7 years
Patents, trademarks and capitalised development cost	indefinite useful lives

The patents and trademarks will expire in the coming two to five years and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the patents and trademarks and consider that the possibility of failing in renewal is remote and the patents and trademarks will generate net cash flows for the Group for an indefinite period. Therefore, the patents and trademarks are treated as having an indefinite useful life.

For the purposes of impairment testing, goodwill, patents and trademarks above have been allocated to the acquired cash generating units, details of impairment assessment was set out in note 22. During the year ended 31 December 2018, the management of the Group determines that there is no impairment need of any of its CGUs containing goodwill, patents and trademarks.

25. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	ECL provision HK$'000	Impairment loss on trade and other receivables HK$'000	Total HK$'000
At 1 January 2017	–	1,160	1,160
Exchange realignment	–	83	83
At 31 December 2017	–	1,243	1,243
Impact on adopting HKFRS 9	11,331	–	11,331
At 1 January 2018 (restated)	11,331	1,243	12,574
Charge to profit or loss	1,780	–	1,780
Exchange realignment	–	(64)	(64)
At 31 December 2018	**13,111**	**1,179**	**14,290**

As at 31 December 2018, the Group has unused tax losses of approximately HK$60,931,000 (2017: HK$52,655,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$60,931,000 (2017: HK$52,655,000) due to the unpredictability of future profit streams.

26. PREPAYMENTS

The amount represented prepayment of RMB74,526,000 (equivalent to approximately HK$84,841,000) (2017: RMB55,322,000(equivalent to approximately HK$66,426,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

27. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Investment at fair value	**45,605**	18,011

As at 31 December 2018 and 2017, the Group's investment in wealth management products were designed at financial assets at fair value through profit or loss of which fair values are determined by reference to the quoted market bid prices available on the relevant PRC market.

The financial asset at fair value through profit or loss was classified as level 1 of fair value hierarchy.

28. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**193,234**	208,538
Work-in-progress	**282,541**	256,394
Finished goods	**294,554**	298,001
	770,329	762,933

29. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables, net	**928,865**	908,157
Bills receivables	**313,659**	302,633
Prepayments	**258,028**	143,107
Deposits paid	**469**	534
Other tax receivables	**30,852**	35,086
Other receivables, net	**77,438**	96,408
	1,609,311	1,485,925

The Group generally allows a credit period of 30 – 180 days (2017: 30 – 180 days) to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	2018 HK$'000	2017 HK$'000
Trade receivables	**989,669**	958,108
Less: Allowance for credit loss/accumulated impairment loss	**(60,804)**	(49,951)
Total trade receivables	**928,865**	908,157

The ageing analysis of the trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Within 90 days	**831,589**	739,645
91 – 180 days	**73,678**	136,256
181 – 365 days	**23,598**	32,256
	928,865	908,157

29. TRADE AND OTHER RECEIVABLES *(Continued)*

	2018 HK$'000	2017 HK$'000
Other receivables	**97,329**	125,425
Less: Allowance for credit loss/accumulated impairment loss	**(19,891)**	(29,017)
Total other receivables	**77,438**	96,408

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balances directly.

The Group does not hold any collated or other credit enhancement over its trade and other receivables balances. Trade and other receivables are non-interest bearing.

The Directors considered that the residual amounts of trade and other receivables are fully recoverable and no provision for impairment.

(a) The movement in the impairment loss of trade receivables is as follows:

	2017 HK$'000
Balance at the beginning of the year	35,749
Impairment losses recognised	25,889
Amounts written off during the year	(838)
Impairment losses reversed	(16,061)
Exchange realignment	5,212
Balance at the end of the year	49,951

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, current market conditions and subsequent repayment condition after reporting report. Consequently, specific impairment loss was recognised.

29. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) The movement in the impairment loss of other receivables is as follows:

	2017 HK$'000
Balance at the beginning of the year	21,630
Impairment losses recognised on other receivables	9,324
Impairment losses reversed	(3,715)
Exchange realignment	1,778
Balance at the end of the year	29,017

(c) Ageing of trade receivables which are past due but not impaired:

Included in the Group's trade receivables balances are balances with aggregate carrying amount of HK$98,025,000 which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 99 days.

	2017 HK$'000
Within 90 days	87,828
91 – 180 days	10,197
	98,025

Details of ECL assessment are set out in note 5.

30. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2018 **HK$'000**	2017 HK$'000
Cash in banks	**912,236**	640,824
Cash on hand	**8**	18
	912,244	640,842

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	2018 **HK$'000**	2017 HK$'000
HKD	**1,911**	144
USD	**14,072**	79,018
Euro dollars (the "EURO")	**1,468**	190
RMB	**894,793**	561,472
	912,244	640,824

As at 31 December 2018, bank deposits of approximately HK$73,515,000 (2017: HK$25,549,000) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2018, the annual effective interest rate on pledged bank deposits is 1.09% (2017: 1.04%).

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

31. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK$'000
Unlisted securities:	
– Unlisted equity securities (Note)	96,526

Note: Upon application of HKFRS 9 on 1 January 2018, the unlisted equity securities are reclassified from AFS financial assets. At 1 January 2018 and 31 December 2018, the fair value of the unlisted equity security was arrived on the basis of a valuation carried out by an independent professional.

32. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	2018 HK$'000	2017 HK$'000
Trade payables	394,506	442,138
Bills payables	661,370	186,209
Accruals and other payables (Note a)	1,137,896	819,105
Deposit received	–	1,003
Other tax payables	148,767	122,402
Receipts in advance (Note b)	–	94,981
Total	2,342,539	1,665,838
Contract liabilities (Note b)	156,432	–

Note:

a. Included in accruals and other payables, during year ended 31 December 2018, there is an amount of approximately HK$350,632,000 which was payable for acquisition of associate company.

During year ended 31 December 2017, there was cash consideration amounted HK$157,908,000 payable for acquisition of additional equity interest in Xi'an Beilin. Further details are set out in note 49.

b. Contract liabilities in relation to sales of finished goods were previously included in deposits receipts in advance (approximately HK$94,981,000 as at 1 January 2018).

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

	2018 HK$'000	2017 HK$'000
Within 90 days	267,262	254,863
Over 90 days	127,244	187,275
	394,506	442,138

32. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES *(Continued)*

The average credit period on purchases of goods is 90 days.

The bills payables are mature within 180 days from the end of the reporting period.

33. BANK AND OTHER BORROWINGS

	2018	2017
	HK$'000	HK$'000
Bank borrowings (secured)	**2,134,347**	2,422,556
Other borrowing (unsecured)	**20,491**	21,613
	2,154,838	2,444,169
Carrying amount repayable:		
On demand or within one year	**1,967,352**	2,165,957
More than one year but not exceeding two years	**83,456**	99,774
More than two years but not more than five years	**104,030**	178,438
More than five years	**–**	–
	2,154,838	2,444,169

As at 31 December 2018 and 2017, certain bank loans are guaranteed by China Grand Enterprises Incorporation, a related company with common controlling shareholder of the Company, and secured by the plant and machinery, buildings, prepaid lease payments and pledged bank deposits of the Group in the PRC as detailed in note 44 and independent third parties.

As at 31 December 2018, all other bank loans and other borrowings of the Group are denominated in RMB. As at 31 December 2017, except for the bank loans of HK$75,179,000, all other bank loans and other borrowings of the Group are denominated in RMB.

As at 31 December 2018 and 2017, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of HK$1,087,004,000 (2017: HK$904,356,000) that were charged at fixed interest rate of 2.92% to 6.66% (2017: 4.57% to 7.20%) per annum, all other bank loans bear variable interest rates from 3.70% to 5.66% (2017: 2.65% to 6.65%) per annum.

The Group has borrowed unsecured other borrowings of HK$20,491,000 (2017: HK$21,613,000) from Huangshi Zhongbang City Housing Investment Co., Ltd, independent third party, during the years ended 31 December 2018 and 2017.

34. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 December 2015, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 5 years. Interest rates underlying all obligations under finance leases are (i) 1.033 times of; or (ii) 0.2% higher than the 1–5 years basic borrowing rate as promulgated by the People's Bank of China, whichever is higher. At the end of the lease term of the Finance Lease Contract, Grand Pharm (China) will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 (equivalent to approximately HK$112). No arrangement have been entered into for contingent rental payments.

During the year ended 31 December 2016, the Group leased certain of its manufacturing equipment under finance lease from the business combination. The lease term is 3 years. Interest charges underlying all obligations under finance leases are fixed repayment on RMB474,907 and RMB474,598 (equivalent to approximately HK$532,183 and HK$531,836) and adjustment based on 0.1% higher or lower than the 1–5 years basic borrowing rate as promulgated by the People's Bank of China when it is amended during the lease term. At the end of the lease term of the finance lease contracts, Xi'an Beilin will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 and RMB100 (equivalent to approximately HK$112 and HK$112). No arrangement have been entered into for contingent rental payments.

During the year ended 31 December 2017, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 3 years. Interest rates underlying all obligations under finance leases are (i) 1.033 times of; or (ii) 0.2% higher than the 1–5 years basic borrowing rate as promulgated by the People's Bank of China, whichever is higher. At the end of the lease term of the Finance Lease Contract, Zhejiang Xianle will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 (equivalent to approximately HK$120). No arrangement have been entered into for contingent rental payments.

As at 31 December 2018 and 2017, the Group's finance lease liabilities were repayable as follows:

	2018 HK$'000	2017 HK$'000
Amounts payable under finance leases:		
Within one year	**59,882**	68,858
In the second to fifth year	**20,462**	84,018
	80,344	152,876
Future finance charges on finance lease	**(7,017)**	(19,840)
Present value of finance lease liabilities	**73,327**	133,036

The present value of finance lease liabilities is as follows:

	2018 HK$'000	2017 HK$'000
Current portion	**54,097**	56,090
Non-current portion	**19,230**	76,946
	73,327	133,036

The carrying amounts of the finance lease liabilities approximate their fair values. As at 31 December 2018 and 2017, the Group has lease property, plant and equipment under finance leases with net book value of HK$177,235,000 (2017: HK$209,365,000).

35. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

Members of the shareholder of the Group have controlling interests over the related companies.

The amounts due from/(to) related companies are unsecured, interest-free and recoverable/repayable on demand.

36. CONVERTIBLE BONDS

As at 31 December 2018, the carrying amount of convertible bonds amount of approximately HK$284,725,000 ("Convertible bonds"). Each bond entitles the holder to convert to Company's ordinary share at a conversion price of HK$1.35 and will be matured on 17 October 2019.

The Company issued the Convertible bonds for the principal amount of HK$330 million to mainly finance the acquisition of 上海衛康光學眼鏡有限公司 (unofficially translated as "Shanghai Weicon Optics Co., Ltd.") (the "Acquisition") and general working capital. The Company does not have the intention to apply for the listing of the Convertible Bonds, therefore, an active market does not exist.

However, the Acquisition has been terminated on 28 May 2015, the net proceeds from the issue of the convertible bonds will no longer be used to finance the Acquisition. As a result, the Directors intend to use such unused proceeds (i) for financing potential mergers and acquisitions when opportunities arise in the future; and (ii) as the general working capital of the Group.

The Convertible bonds may be converted into shares of the Company at any time on or after issue date up to the close of business on the maturity date.

Unless previously redeemed, converted, purchased and cancelled, the Company will redeem each Convertible bonds at its principal amount with accrued and unpaid interest thereon on the maturity date.

The Convertible bonds bear interest from and including the issue date at 3% per annum in arrears on 31 December in each year. The interest payable amount is calculated by 3% to outstanding principal amount of such Convertible bonds.

The Convertible bonds contain two components: liability and equity elements. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component on initial recognition is 9.29% per annum. The valuation of Convertible bonds was performed by an independent qualified professional valuer of the Company.

As at 31 December 2018, the Convertible bond with the principal amount of HK$300,000,000 (2017: HK$330,000,000) was outstanding and the maximum number of shares to be converted is 222,222,222 shares (2017: 244,444,444 shares). There were 22,222,222 shares converted during the year.

The carrying amounts of the Convertible bonds approximate to its fair value as at 31 December 2018 and 2017.

36. CONVERTIBLE BONDS *(Continued)*

The Convertible bonds information are presented as follows:

	Convertible bonds HK$'000
Principal amounts:	
– as at 31 December 2017	330,000
– as at 31 December 2018	300,000
Interest:	in HK$ settlement 3% p.a. payable per annum
Issue date:	17 October 2014
Maturity date:	17 October 2019
Conversion price per share:	HK$1.35

Below is a summary of the valuation techniques used and the key inputs to the valuation of convertible bonds at issue date:

– Valuation techniques	Discounted cash flow method
– Significant unobservable inputs	
Risk free rate	1.45%
Volatility	54.05%
Discount rate	9.15% to 10.38%

The convertible bonds recognised in the consolidated statement of financial position were calculated as follows:

	Convertible bonds HK$'000
At 1 January 2017	276,453
Imputed interest charge (note 10)	27,405
Less: interest paid	(9,900)
At 31 December 2017 and 1 January 2018	293,958
Imputed interest charge (note 10)	26,977
Less: interest paid	(9,165)
Less: converted	(27,045)
At 31 December 2018	**284,725**

37. BOND PAYABLES

	2018 HK$'000	2017 HK$'000
Listed corporate bond	**113,562**	119,474

On 1 December 2016, the Group issued a listed corporate bond at a principal amount of RMB100,000,000 (equivalent to approximately HK$112,061,000) which is unsecured, bears a fixed interest rate of 5.49% per annum in first three years and is fully redeemable by the Group after 5 years from the issue date at its principal amount of RMB100,000,000 (equivalent to approximately HK$112,061,000).

The bond payables have been approved by the China Securities Regulatory Commission as part of the proposed corporate bond offerings to qualified investors in Shenzhen Stock Exchange. The Group has an option to adjust the coupon rate, and bond holders have an option to resell to the issuer, at the end of the third interest-bearing year.

The effective interest rate of the unlisted corporate bond is approximately 5.67%.

The movement of the unlisted corporate bond is set out as below:

	HK$'000
Unlisted corporate bond issued at 1 January 2017	111,237
Imputed interest charged	6,603
Less: Coupon interest payable	(6,329)
Exchange realignment	7,963
At 31 December 2017 and 1 January 2018	119,474
Imputed interest charged	6,805
Less: Coupon interest payable	(6,506)
Exchange realignment	(6,211)
At 31 December 2018	**113,562**

38. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Intangible assets HK$'000	Property, plant and equipment and prepaid lease payments HK$'000	Investment properties HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2017	135,435	36,645	9,391	7,611	189,082
Credited to profit or loss (note 11)	(1,999)	(1,744)	(114)	(2,449)	(6,306)
Exchange realignment	9,598	2,541	667	–	12,806
At 31 December 2017 and 1 January 2018	143,034	37,442	9,944	5,162	195,582
Credited to profit or loss (note 11)	(2,056)	(1,797)	–	(2,501)	(6,354)
Credited to equity	–	–	–	(488)	(488)
Exchange realignment	(7,340)	(1,872)	(516)	–	(9,728)
At 31 December 2018	**133,638**	**33,773**	**9,428**	**2,173**	**179,012**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$222,153,000 (2017: HK$161,000,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

39. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

As at 31 December 2018 and 2017, the amount is unsecured, interest bearing at 5% per annum and repayable on demand.

40. DEFERRED INCOME

The movement of deferred income is set out below:

	HK$'000
At 1 January 2017	585,500
Exchange realignment	46,753
At 31 December 2017 and 1 January 2018	632,253
Exchange realignment	(36,359)
At 31 December 2018	**595,894**

Note 1

On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(a) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(b) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

40. DEFERRED INCOME *(Continued)*

Note 1 *(Continued)*

(c) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. During the year ended 31 December 2014, RMB58,500,000 (equivalent to approximately HK$73,629,000) was received by Grand Pharm (China).

(d) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China). During the year ended 31 December 2014, RMB171,000,000 (equivalent to approximately HK$215,219,000) was received by Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the years ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the years ended 31 December 2012, the Group did not receive any Compensation. During the years ended 31 December 2013 and 2014, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) and RMB229,500,000 (equivalent to approximately HK$288,848,000) respectively.

As at 31 December 2018 and 2017, the Group did not achieve all consideration and obtain the approval from the PRC Government.

41. SHARE CAPITAL

	Number of shares at		Share capital at	
	31 December 2018 '000	31 December 2017 '000	**31 December 2018 HK$'000**	31 December 2017 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At 1 January 2018 and 2017	**2,237,012**	2,237,012	**22,370**	22,370
Exercise of convertible bond (note (a))	**22,222**	–	**222**	–
Right issue (note (b))	**394,146**	–	**3,941**	–
Issued under subscription (note (c))	**481,445**	–	**4,815**	–
At 31 December 2018	**3,134,825**	2,237,012	**31,348**	22,370

Notes:

(a) On 8 March 2018, the Company issued of ordinary shares to the convertible bonds holders of 22,222,222 shares of par value HK$0.01 as result of the conversion of bond with principal amount of HK$30,000,000.

(b) On 5 September 2018, the Company placed to the qualifying shareholders of 394,146,288 shares of par value HK$0.01 each at a placing price of HK$5.20 for a total consideration, before expenses, of HK$2,049,560,000. The proceeds used for paying the Company's funding contribution in relation to the Sirtex Acquisition.

(c) On 15 January 2018, the Company placed to Mr. Huang Xiaohua of 47,750,000 shares of par value HK0.01 each at placing price of HK$2.24 for total consideration, before expenses, of HK$106,960,000. The proceeds of the subscription was used to replenish the Company's cash used for acquisition.

On 24 August 2018, the Company issued the consideration shares to GL Saino Investment Limited of 181,069,959 of par value HK$0.01 each at issue price of HK$4.20, for total consideration, before expenses of HK$760,494,000. The proceeds of the issue of shares was used as cash payment in relation of acquisition of Taiwan Tung Yang International Company Limited.

On 31 August 2018, 7, September 2018 and 3 October 2018, the Company placed to Shanghai China Grand Asset Finance Investment Management Co., Limited of 36,020,000, 34,100,000 and 137,504,950 of par value HK$0.01 each at placing price HK$5.00 respectively for total consideration, before expense, of HK$1,038,124,750. The proceeds used for paying the acquisition of Taiwan Tung Yang International Company Limited and the Company's general working capital.

On 12 September 2018, the Company placed to Oasis Investment II Master Fund Ltd of 45,000,000 of par value HK$0.01 each at issue price of HK$5.20, for total consideration, before expenses of HK$234,000,000. The proceeds mainly be used as the cash payment in relation to the Sirtex Acquisition.

42. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Interest in an associate	**2,969,205**	244,281
Interests in subsidiaries	**3,247,678**	735,835
	6,216,883	980,116
Current assets		
Other receivables	**1,248**	1,220
Cash and cash equivalents	**14,760**	3,926
	16,008	5,146
Current liability		
Other payables	**363,784**	402
	363,784	402
Net current (liabilities)/assets	**(347,776)**	4,744
Total assets less current liabilities	**5,869,107**	984,860
Non-current liabilities		
Amount due to immediate holding company	**17,603**	23,368
Deferred tax liabilities	**2,172**	5,167
Convertible bonds	**284,725**	293,958
	304,500	322,493
Net assets	**5,564,607**	662,367
Capital and reserves attributable to owners of the Company		
Share capital	**31,348**	22,370
Reserves	**5,533,259**	639,997
Total equity	**5,564,607**	662,367

The financial statement was approved and authorised for issue by the board of directors of the Company on 26 March 2019 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

42. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

Movements of the Company's reserve

	Share premium HK$'000	Contributed surplus HK$'000	Convertible Bonds reserve HK$'000	Accumulated losses/ Retailed earnings HK$'000	Total HK$'000
At 1 January 2017	660,537	121,273	72,577	(165,059)	689,328
Loss and total comprehensive loss for the year	–	–	–	(49,331)	(49,331)
Total comprehensive loss for the year	–	–	–	(49,331)	(49,331)
At 31 December 2017 and 1 January 2018	660,537	121,273	72,577	(214,390)	639,997
Profit and total comprehensive profit for the year	–	–	–	508,295	508,295
Total comprehensive profit for the year	–	–	–	508,295	508,295
Exercise of convertible bond	33,908	–	–	–	33,908
Right issue	2,045,619	–	–	–	2,045,619
Issued under subscription	2,314,023	–	–	–	2,314,023
Issuance costs	(1,985)	–	–	–	(1,985)
Equity components of convertible bond	–	–	(6,598)	–	(6,598)
At 31 December 2018	**5,052,102**	**121,273**	**65,979**	**293,905**	**5,533,259**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

43. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associate as disclosed in note 19, related companies as disclosed in note 35 and immediate holding company as disclosed in note 39 and Subscription 2 as disclosed in note 41(b), during the years ended 31 December 2018 and 2017, the Group entered into following transactions with its related parties:

	2018 HK$'000	2017 HK$'000
Interest charged to the Group by immediate holding company (note (i), note 10)	**255**	434
Sales of goods to Yangxin Fuxin (note (ii))	**2,723**	2,139
Purchases of goods from Yangxin Fuxin (note (ii))	**16,513**	105
Sales of goods to the companies with common controlling shareholder:		
華東醫藥股份有限公司 (unofficially translated as "Huadong Medicine Co. Ltd" (note (iii))	**100,751**	42,022
中國遠大集團有限責任公司 (unofficially translated as "China Grand Enterprises Incorporation" (note (iii))	**10,558**	919
Purchase of goods from the Companies with common controlling shareholder:		
江蘇遠大信誼藥業有限公司 (unofficially translated as "Jiangsu Grand Xin Yi Pharmaceutical Co. Ltd" (note (iii))	**–**	942
保定九孚生化有限公司 (unofficially translated as "Baoding Jiufu Biochemical Company Limited" (note (iii))	**1,130**	–

Notes:

(i) Interest was charged on an amount due to the immediate holding company as disclosed in note 39.

(ii) Transactions were conducted with terms mutually agreed with the contracting parties.

(iii) The transactions constitute continuously connected transactions under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2018 and 2017 are set out in note 33.

43. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2018 HK$'000	2017 HK$'000
Short-term benefits	**9,304**	6,540
Post-employment benefits	**63**	60
	9,367	6,600

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

44. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2018 HK$'000	2017 HK$'000
Prepaid lease payments (note 18)	**5,833**	5,733
Buildings (note 16)	**116,934**	128,381
Plant and machinery (note 16)	**127,395**	145,862
Pledged bank deposits (note 30)	**73,515**	25,549
	323,677	305,525

45. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**3,866**	2,688
In the second to fifth year inclusive	**3,164**	2,063
	7,030	4,751

45. COMMITMENTS *(Continued)*

(a) Operating lease commitment *(Continued)*

The Group as lessee *(Continued)*

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to three years and rentals are fixed for an average of one to three years.

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$485,000 (2017: HK$531,000). The Group had future minimum lease receipts from tenants under non-cancellable operating lease which fall due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**451**	351
In the second to fifth year inclusive	**362**	28
	813	379

(b) Capital commitment

	2018 **HK$'000**	2017 HK$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	**13,474**	33,603

46. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2017: HK$1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2017: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately HK$55,089,000 (2017: HK$51,255,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cashflows will be classified in the Group's consolidated statement of cash flows from financing activities.

	Amount due to immediate holding company HK$'000	Bond payable HK$'000	Convertible bonds HK$'000	Obligations under finance leases HK$'000	Bank and other borrowings HK$'000	Total HK$'000
At 1 January 2017	23,247	111,237	276,453	157,413	2,377,699	2,946,049
Accrued interest	434	6,603	27,405	15,741	124,244	174,427
Financing cash outflows paid	(313)	–	–	(50,150)	(1,801,587)	(1,852,050)
Interest paid	–	–	(9,900)	(15,741)	(124,244)	(149,885)
Interest payable	–	(6,329)	–	–	–	(6,329)
Financing cash inflows	–	–	–	23,056	1,702,206	1,725,262
Non-cash changes	–	–	–	(7,115)	–	(7,115)
Exchange realignment	–	7,963	–	9,832	165,851	183,646
At 31 December 2017 and 1 January 2018	23,368	119,474	293,958	133,036	2,444,169	3,014,005
Accrued interest	255	6,805	26,977	11,606	157,653	203,296
Financing cash outflows paid	(6,020)	–	–	(54,972)	(2,165,686)	(2,226,678)
Interest paid	–	–	(9,165)	(11,606)	(157,653)	(178,424)
Interest payable	–	(6,506)	–	–	–	(6,506)
Financing cash inflows	–	–	–	–	1,976,448	1,976,448
Non-cash changes	–	–	(27,045)	–	–	(27,045)
Exchange realignment	–	(6,211)	–	(4,737)	(100,093)	(111,041)
At 31 December 2018	**17,603**	**113,562**	**284,725**	**73,327**	**2,154,838**	**2,644,055**

48. LITIGATION

With reference to the disclosure in the 2016 and 2017 annual report and 2018 interim report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "Tianjin Jingming"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2018, the court has concluded 21 cases, and Tianjin Jingming has appealed 49 cases against the judgement of first instance with aggregate compensation of approximately RMB20.70 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB8.91 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and GrandPharma (China) Co., Ltd. is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

48. LITIGATION *(Continued)*

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court and received the final judgement from the court in February 2018. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. However, the vendors subsequently applied for rehearing of the aforesaid judgement, and the matter will be reheard according to the court's judgement in December 2018, which is currently scheduling.

In June 2016, the Group has successfully applied to the court to freeze RMB20,000,000 (equivalent to approximately HK$22,414,000) assets of the original shareholders of Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company since January 2015 in order to secure the Group's pending responsibilities regarding certain litigations related to an incident as stated in a press release issued by the China Food and Drug Administration (the "CFDA") on 14 April 2016, which is about a product quality incident related to some Ophthalmic Perfluoro propane Gases produced by Tianjin Jingming. According to the terms of the sales and purchase agreement in relation to the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for such product incident. The Group is claiming them for their responsibilities and also indemnified those related losses suffered by the Group.

(a) Writ issued in PRC by China Pharm (China) and original shareholders of Tianjin Jingming

Although such product incident is still under investigation, being taking up the social responsibilities and fulfilling related requirements, the Group had recalled all products of the related batches and also temporary suspended the production and sales of such related products. According to the terms of the Tianjin Jingming acquisition agreement, Tianjin Jingming had already fully settled the penalty of approximately RMB5,190,000 (equivalent to approximately HK$5,816,000) imposed by the CFDA. As at the date of this report, Tianjin Jingming is undertaking certain claim actions for approximately RMB21,000,000 (equivalent to approximately HK$23,535,000) given to the above incident. Given that (i) referring to the opinions from the professional organised by the CFDA, it is unable to identify the impurity that caused the product incident with the existing technology and it will need further investigation and research to find out the cause thereof; (ii) Ophthalmic Perfluoro propane Gases is not the core product of the Group, the Board considers that the suspension of the production of such product and the recall of the relevant batches by Tianjin Jingming do not have any material impact on the Group's operations or financial position; and (iii) according to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of the Tianjin Jingming should responsible for the compensation of such product incident. Hence, the Directors are of the view that the said incident and related litigations do not have material impact to the Group. For the detail information, please refer to the Group's interim report date on 20 September 2016.

On 22 August 2016, original shareholders of Tianjin Jingming filed its objection to the Rulings of Enforcement to the Wuhan Intermediate People's Court.

On 5 September 2016, the Group received the Wuhan Intermediate People's Court's dismissal to its objection.

48. LITIGATION *(Continued)*

(b) Writs issued in PRC by Tianjin Jingming and certain plaintiffs

In April and September 2016, the Group received writs issued by certain plaintiffs against Tianjin Jingming (as defendant) and demand for payment with claiming of plaintiffs legal charges.

On 17 January 2017, Tianjin Jingming received judgments dated 17 January 2017 issued by Beijing Haidian District People's Court. The court made orders to request Tianjin Jingming to provide the compensation payment with the relevant legal charges of approximately RMB3,952,000 (equivalent to approximately HK$4,619,000).

As at the date of this report, the court has concluded 46 cases, and Tianjin Jingming has appealed 20 cases with aggregate compensation of approximately RMB19.3 million. For the remaining cases, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB4.3 million in according to the court order, and the remaining compensation of approximately RMB4.1 million will be paid in 2018. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and GrandPharma (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

(c) Writs issued in PRC by Grand Pharm (China)

Except the above litigation related to the product incident of Tianjin Jingming, according to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the"Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court and received the final judgement from the court in February 2018 It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming.

Save as disclosed above, as at 31 December 2018, so far as the Directors were aware, the Group was not engaged in any litigation or claims of material importance, and no litigation or claims of material importance are pending or threatened against the Group.

49. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, the Group acquired an associate, Xudong Haipu, with cash consideration unpaid amounted to approximately HK$ 350,632,000 (note 32) and share consideration of approximately HK$ 939,753,000.

49. MAJOR NON-CASH TRANSACTIONS *(Continued)*

During the year ended 31 December 2017, Grand Pharm (China) acquire additional 22.79% of Xian Beilin from the non-controlling interests of Xian Beilin at a cash consideration of RMB131,512,000. As at 31 December 2017, the cash consideration was unpaid and the amount of approximately HK$157,908,000 was included in the Group's accruals and other payables balances (note 32).

During the year ended 31 December 2017, the Group and the owners of Xian Qiannian deregistered Xian Qiannian. As a result, the Group derecognised Xian Qiannian as an associate of the Group during the year.

The Group entered in the above non-cash investing activities which are not reflected in the consolidated statement of cash flows.

The effects of the above equity translations are presented in non-controlling interests and other reserve.

50. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after the end of the reporting period.

51. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

52. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2019.

Financial Summary

For the year ended 31 December 2018

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**5,958,355**	4,770,850	3,696,164	3,245,546	3,122,116
Profit before tax	**883,899**	558,939	313,964	240,563	202,921
Income tax expense	**(147,460)**	(73,181)	(44,602)	(40,156)	(27,198)
Profit for the year	**736,439**	485,758	269,362	200,407	175,723

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**13,496,659**	8,062,791	7,141,947	6,633,385	4,990,681
Total liabilities	**(6,062,032)**	(5,603,190)	(5,165,860)	(5,229,046)	(3,682,314)
Net assets	**7,434,627**	2,459,601	1,976,087	1,404,339	1,308,367