国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

ANNUAL REPORT **2018**

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. WANG Xiaochun *(Managing Director)*
Mr. YANG Wenming

Non-executive Directors

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

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji
Ms. LEUNG Suet Lun

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. YU Tze Shan Hailson
Mr. YANG Shanhua
Mr. QIN Ling
Mr. LI Weidong

REMUNERATION COMMITTEE

Mr. QIN Ling *(Chairman)*
Mr. YANG Shanhua
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LI Weidong

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. WANG Xiaochun
Mr. YANG Wenming
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

STRATEGIC COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. WANG Xiaochun
Mr. YANG Wenming
Mr. YU Tze Shan Hailson
Mr. QIN Ling

REGISTERED OFFICE

Room 1601, Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Tel: (852) 2854 3393
Fax: (852) 2544 1269
Email: publicrelation@china-tcm.com.cn

STOCK CODE

The shares of China Traditional Chinese Medicine Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Merchants Bank Co., Ltd. (Foshan Branch)
Guangdong Shunde Rural Commercial Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
(Foshan Branch)

WEBSITE

http://www.china-tcm.com.cn

Five Year Financial Summary

(Expressed in RMB)

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**	2014-2018 Compound Annual Growth Rate
Results						
Revenue	2,650,454	3,709,406	6,532,867	8,337,795	**11,258,941**	43.56%
Gross profit	1,643,389	2,200,673	3,787,680	4,651,582	**6,193,573**	39.33%
Profit from operations	551,696	760,978	1,376,783	1,786,453	**2,156,025**	40.60%
Profit before taxation	489,119	689,160	1,303,804	1,567,237	**1,856,697**	39.58%
Profit attributable to the shareholders of the Company	413,090	625,596	966,927	1,170,434	**1,439,018**	36.62%
Profitability						
Gross profit margin	62.00%	59.33%	57.98%	55.79%	**55.01%**	
Operating profit margin	20.82%	20.51%	21.07%	21.43%	**19.15%**	
Net profit margin	15.53%	17.36%	16.63%	15.73%	**13.92%**	
Earnings per share						
Basic & Diluted	16.30 cents	16.97 cents	21.73 cents	26.41 cents	**29.84 cents**	16.32%
Financial position						
Total assets	5,331,852	19,208,676	21,036,784	24,885,307	**30,287,390**	
Total equity attributable to equity shareholders of the Company	3,183,756	11,133,372	11,588,327	12,436,778	**15,551,433**	
Total liabilities	2,074,730	7,068,463	8,280,922	11,070,050	**12,776,819**	
Bank balances and cash	439,416	2,101,856	2,373,356	4,787,781	**6,349,714**	
Debt asset ratio	38.91%	36.80%	39.36%	44.48%	**42.19%**	

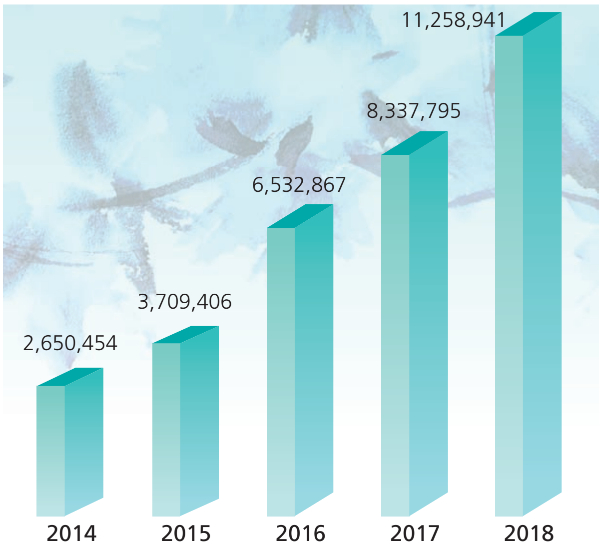
(Expressed in RMB)

REVENUE

RMB'000

Annual Growth of 2017-2018

35.03%

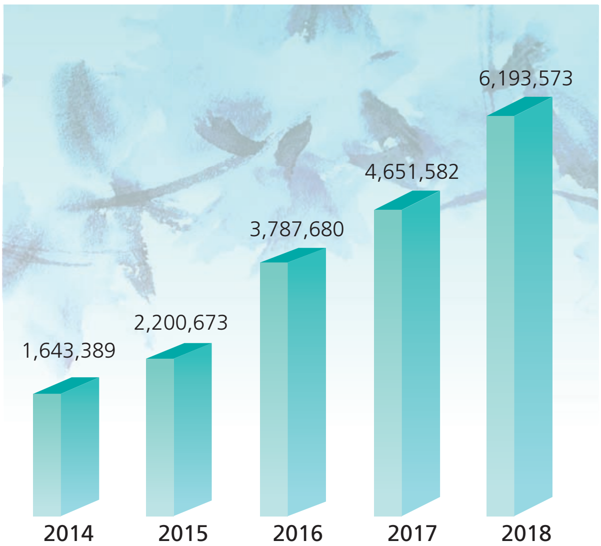


GROSS PROFIT

RMB'000

Annual Growth of 2017-2018

33.15%

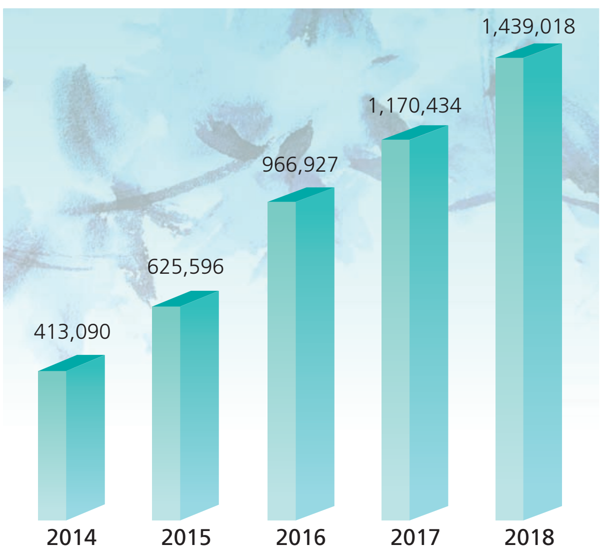


PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

RMB'000

Annual Growth of 2017-2018

22.95%

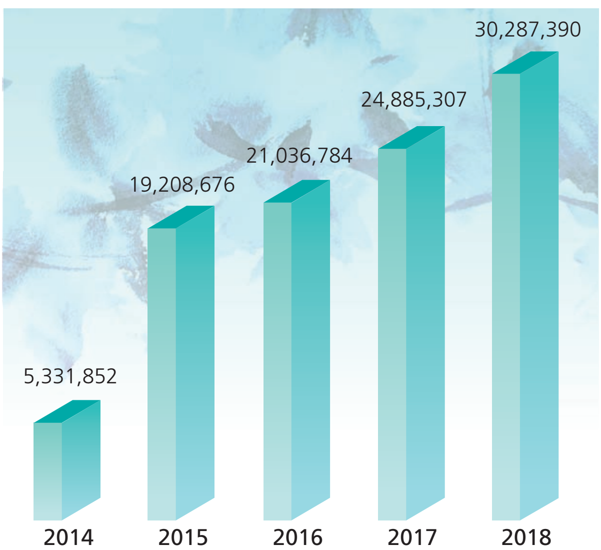


TOTAL ASSETS

RMB'000

Annual Growth of 2017-2018

21.71%



Chairman's Statement

Chairman's Statement

Dear shareholders,

The year 2018 was an extraordinary one. With strong support from our shareholders, China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") implemented a five-year strategic plan of "building a comprehensive, sustainable and cooperative traditional Chinese medicine ("TCM") industrial chain, and becoming a leading TCM healthcare complex group in the industry". A good start was achieved, adding value to the value chain and laying a solid foundation for the Group's steady development. On behalf of the Board, I would like to express my sincere gratitude to all for your sincere dedication and encouragement.

In 2018, the global environment changed in ways that were impossible to predict. A US-China trade war and various regional geopolitical risks created uncertainty in the world economy and led to significant fluctuation across the major stock markets. At the same time, it was a challenging year for the pharmaceutical industry. Despite the growing demand for healthcare in the PRC, cost control became more stringent on medical insurance reimbursements. These changes of national policies had led to dramatically shift on the industry development strategy and the competitive landscape. As benefited from favorable national policies to TCM industry and the trend of TCM modernization, the Group continued to follow its current development strategies while making adjustments to its operational strategies, boosting its production and operational efficiency, and promoting high-quality economic development. All of these measures helped the Company's results to maintain a continuous rapid growth. During the Reporting Period, the Group's revenue was RMB11,258,941,000, representing a 35.0% increase from the previous year's RMB8,337,795,000. The board (the "Board") of directors ("Directors") of the Company recognizes the shareholders' full support by recommending the distribution of a final dividend of HK5.51 cents per share (approximately RMB4.71 cents) for the year ended 31 December 2018, with a payout ratio of 35.0% for the year.

Throughout the development history of the Group, it is a process of win-win combination of advantages and mergers and acquisitions. In a number of major mergers, the Board has demonstrated an excellent ability to rapidly understand and respond to the market and execute plans efficiently, which has facilitated the development of the Group's TCM healthcare complex segment in a rapid manner. Since 2018, the Group has gradually shifted its principal direction from external mergers and acquisitions to strengthening its organic development. In response to internal and external environmental changes, and in order to exploit the resource advantages of the China National Pharmaceutical Group Corporation ("CNPGC") and strengthen the Group's four major segments (concentrated TCM granules, TCM decoction pieces, finished drugs and healthcare complex), the Company entered into cooperation with Boston Consulting Group ("BCG") in October 2018. The measure was taken with the aim of comprehensively rationalizing the Group's businesses and advantages, identifying the Group's management conditions and organization structure, devising new management model and a new decision-making mechanism, and implementing strategies for future development. The Company believes that with the help of a leading international consulting company, a strategic analysis and rationalization model, and a strategic goal decomposition calculation method for its strategic management work, its decision-making body will be able to deliver more clear and accurate quantitative results for strategic management. In this way, its business and organization structure will be solidly founded and its direction of development clearly defined, leading to a comprehensively enhanced core competitiveness of the Company in the modern TCM industry.

STRENGTHENING UPSTREAM AND DOWNSTREAM EXTENSIONS OF THE INDUSTRIAL CHAIN, SUPPORTING THE PRINCIPLE "CONSOLIDATED HORIZONTAL AND VERTICAL DEVELOPMENT"

In 2018, based on the Board's development strategy and plans for the Group's four major business segments, the Group made great efforts to strengthen upstream and downstream extensions of the entire TCM industrial chain under the principle "consolidated horizontal and vertical development".

For upstream business, the Group integrated local Chinese medicinal herbs resources and constructed a standardized TCM industrial chain that extends from seed breeding, plantation and initial processing to logistics and warehousing. This was achieved through developing Chinese medicinal herbs plantation bases, creating a source tracking system for the quality of local Chinese medicinal herbs, and a Chinese medicinal herb dictionary. By taking these actions, the Group established a foundation for implementing quality and cost control on bulk Chinese medicinal herbs.

For midstream business, the Company fully seized the window period before the implementation of the market open-up policy, and accelerated the production plan of TCM decoction pieces and concentrated TCM granules across the country. Through internal and external development and resource integration, the Company rapidly expanded its presence in the target regions, increased economies of scale and formed effective region-oriented strategy which is also in line with the overall goals; for finished drugs, the Company conducted more clinical research emphasizing efficacy and differentiation, and expanded the market influence via brand promotions.

For downstream business, the Group developed the internet-plus-healthcare operation model and expanded cooperation with hospitals across the country, including increasing the market share of the sharing of TCM intelligent distribution centers and intelligent pharmacies for concentrated TCM granules. At the same time, the Group accelerated the development, reproduction and promotion of TCM healthcare service industry, represented by the TCM clinics business.

In 2018, through upstream and downstream extensions of the Group's businesses, the consolidation of the whole TCM industrial chain was substantially complete.

EMBRACING OUR STRATEGIC PARTNERS AND EXPANDING OUR BUSINESS

In 2018, the Group partnered with Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"), a subsidiary of Ping An Insurance (Group) Company of China, Ltd. ("China Ping An"), to jointly explore the potential of the TCM healthcare complex business.

In 2018, the Company introduced Ping An Life Insurance and raised HK$2.677 billion via placement. Ping An Life Insurance holds 12% of the Company's share capital, making it the second largest shareholder and providing a strong backup for the Group's expansion in the PRC. The funds from the placement of new shares have endowed the Group with sufficient working capital for its development, and by leveraging China Ping An's resources in the fields of finance and health in conjunction with its advanced technologies in TCM production and research and its experience in managing Chinese medicinal herb source tracking, the Group will benefit from synergies and enhance its competitiveness.

PARTICIPATING IN ESTABLISHING NATIONAL STANDARDS, CONSOLIDATING THE LEADING POSITION IN THE INDUSTRY

The quality of Chinese medicinal herbs is crucial to the development of TCM enterprises. Standardization is still the fundamental of the development throughout the TCM supply chain. In 2018, government-sponsored R&D projects led by or involving the Group, as well as the self-sponsored R&D projects both made good progress. An R&D project for classical TCM formula has officially been launched, with agreements signed by authorities such as the National Ministry of Science and Technology, the National Ministry of Agriculture and the National Commission of Economy and Information Technology; the funding of which has been successively received by the Group.

The research on the quality standard of concentrated TCM granules achieved remarkable results. Research projects under progress at 7 R&D centers and subsidiaries also advanced smoothly. In terms of evidence-based clinical research and blockbuster cultivation programs, a number of finished drug projects entered the final stage. Clinical safety analyses and proactive safety monitoring for the core products were carried out with the aim of further studying the product characteristics for the benefit of patients. The national TCM standardization project was also in progress, establishing standards in relation to seed breeding, quality of Chinese medicinal herbs, product registration specification, TCM finished drugs, and others. As a leading company in the TCM industry, the Group will gradually became the founder of quality standard of all TCM product category.

In future, factors such as ageing population and higher morbidity of chronic diseases continuously increase the market demand for healthcare industry. At the same time, with the climbing-up medical investment, and further in-depth healthcare reform, the pharmaceutical industry is expected to grow steadily. As the largest TCM platform of CNPGC, the Group will seize opportunities to eliminate outdated systems and low-quality drugs, and to standardize applicable practice under the principle "becoming a leading TCM healthcare complex group in the industry". Let us look forward to setting a new record of performance as we create greater value for our shareholders.

Chairman
Wu Xian

Hong Kong, 15 March 2019

Management Discussion and Analysis

Management Discussion and Analysis

OVERVIEW

The Group has implemented a strategy of whole coverage of the TCM industry chain and has achieved satisfactory business development results. During the Reporting Period, the Group's revenue was approximately RMB11,258,941,000, representing an increase of 35.0% over the approximately RMB8,337,795,000 for the same period of last year. This was mainly attributable to the continuous rapid growth of the concentrated TCM granules business and fast expansion of the TCM decoction pieces business. The concentrated TCM granules business contributed approximately RMB7,150,562,000, or 63.5% of total revenue. Revenue from the finished drugs business was approximately RMB2,771,021,000, representing 24.6% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB1,274,829,000, or 11.3% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB62,529,000, representing 0.6% of total revenue.

Gross profit was RMB6,193,573,000, representing an increase of 33.1% over the approximately RMB4,651,582,000 for the same period of last year. Gross profit margin was 55.0%, representing a decrease of 0.8 percentage points as compared with 55.8% for the same period of last year. This was mainly due to the increase in the proportion of the TCM decoction pieces business, which the gross profit margin was lower than other businesses.

BUSINESS REVIEW

The Chinese government has been strategically supporting TCM development. Since the implementation of the "Law of the People's Republic of China on Traditional Chinese Medicine" on 1 July 2017, various provinces, cities and authorities have released regional strategic plans on TCM development, and TCM development has entered into a phase of substantial progress. Guided by the catalogue of classical formula, the proposed amendment to the "Regulation on the Quality of TCM Raw Materials" and a series of supporting measures, the restrictions on TCM doctors' practice became fewer; the number of TCM clinics has increased significantly; and public recognition of TCM has continually improved. The Group will continue to benefit from state policies encouraging the development of TCM and Chinese medicine practitioner, as well as TCM modernization and quality improvement trends in the foreseeable future.

In the year 2018, under the Company's core strategy "creating synergy between the TCM decoction pieces business and the concentrated TCM granules business", the Group linked up the upstream, midstream and downstream businesses and accelerated the development of the whole industrial chain, which comprehensively enhanced its core competitiveness in the TCM industry. The coordinated development between the two sectors will drive the Group to grow into a leading enterprise in the TCM industry.

I. Planning for core mid-to-upstream industrial chains

The Group made further investment into the construction of three major industrial chain projects in the mid-to-upstream, comprising plantations and warehouses, logistics and trading platforms, and GMP bases for TCM decoction pieces and concentrated TCM granules, which almost complete the strategic planning for the authentic medicinal herbs. After the accomplishment of the strategic planning, the Group is able to complete the plantation, local initial processing, production of TCM decoction pieces, production of concentrated TCM granules and other production processes at the place of origin, exploiting the scale effect of production of TCM decoction pieces and concentrated TCM granules. This will reduce production and logistics costs, expand market coverage and consolidate the Group's leading position in the TCM decoction pieces and concentrated TCM granules industry. In 2018, The Group promoted a closed-loop management model for TCM industrial chains in all jointly-constructed plantation bases across the country. It conducted training and follow-up work on management and tracking systems for the plantation and production processes of Chinese medicinal herbs, and extended the industrial chain to the upper stream to achieve a resource-sharing effect.

1. Upstream Chinese medicinal herb plantation base construction

To ensure that the Group's medicinal herbs are procured from their places of origin, and to optimize control over source traceability and stability of quality, during the Reporting Period, the Group cooperated in the construction of 65 Chinese medicinal herb plantation bases, encompassing a total of 46 Chinese medicinal herb varieties and covering approximately 35,000 acres in Shandong, Zhejiang, Yunnan, Anhui, Sichuan, Hebei, Gansu, Ningxia, Henan, Guangdong, Liaoning, Hunan, Guangxi and Shanxi provinces. At the same time, the Group also carried out resource protection and natural cultivation research for wild herb varieties, and maintained a system of strategic inventory and procurement.

2. Investment in and construction of TCM procurement, trading, warehousing and logistics centers

The Group plans the establishment of TCM procurement, trading, warehousing and logistics centers in places of TCM origin and distribution. By creating physical platforms and networks for warehousing and logistics, the Group standardized TCM storage processes and achieved a synergy of upstream and downstream TCM.

On 21 January 2019, the Group entered into a TCM Raw Materials Storage and Logistics Center Cooperation Strategic Framework Agreement with Shenzhen Pingan Real Estate Industrial Logistics Company Limited ("Pingan Industrial Logistics"), a subsidiary of Ping An Life Insurance, in Shanghai. Both parties will use of their resource advantages and advance the construction of TCM procurement, trading, warehousing and logistics centers. They will jointly seek land and industrial parks with mature operations appropriate for conducting cooperation across the country, build a storage and trading platform for TCM raw materials with intelligent storage and delivery centers close to consumers, promote the logistical concentration of upstream and downstream enterprises and the improvement of logistics standards, and explore financial cooperation in TCM supply chains to enhance economic benefits and strengthen the business's competitiveness.

After sufficient preliminary research, inspection and consideration, the Company will cooperate with Pingan Industrial Logistics in the TCM raw material storage and logistics center businesses at major production areas such as Bozhou, Anhui and Longxi, Gansu. In 2019, the Company will begin exploration at Bozhou, Anhui, and then to exploit other storage and logistics centers.

TCM procurement, trading, warehousing and logistics centers will expand the business's development and improve economic benefits to the Group. This is mainly derived from improved Group control of procurement costs, alleviating the effects of TCM raw material price fluctuations resulting from short-term climate factors and an inflow of hot money, and increased revenue from TCM trading, warehousing and logistics.

3. Upgrade of bases for decoction pieces and concentrated TCM granules businesses

In 2018, the Group made the TCM decoction pieces and concentrated TCM granules sectors together as the core businesses for coordinated development. With Jiangyin Tianjiang Pharmaceutical Co., Ltd ("Jiangyin Tianjiang") and Guangdong Yifang Pharmaceutical Co., Ltd ("Guangdong Yifang") as centers and based on its development plans for different provinces, The Group set up bases for TCM decoction pieces and concentrated TCM granules in 15 provinces and cities through merger and acquisition as well as self-constructed and capital injection into existing companies in areas adjacent to places of TCM origin to strive for rapid strategic positioning.

Established GMP bases	Provinces
14 decoction piece production bases	Guangdong, Anhui, Jiangsu, Fujian, Shandong, Shanghai, Zhejiang, Beijing, Gansu, Guizhou, Sichuan (2), Jilin, Hubei
9 Chinese medicinal herb extraction bases	Guangdong, Anhui, Sichuan (2), Shandong, Gansu, Hubei, Guizhou, Qinghai
5 concentrated TCM granule preparation bases	Guangdong, Jiangsu, Heilongjiang, Sichuan, Gansu

According to the Company development plan, the Group plans to further establish 6 GMP bases for TCM decoction pieces in Hubei, Hunan, Yunnan, Chongqing, Jiangxi and Shaanxi, which will generate an additional production capacity of 11,500 tonnes; 6 GMP Chinese medicinal herb extraction bases in Jiangxi, Shaanxi, Yunnan, Jilin, Hubei, Guizhou, which will generate an additional production capacity of 7,900 tonnes; and 8 GMP concentrated TCM granule preparation bases in Yunnan, Fujian, Guizhou, Shaanxi, Hunan, Hubei, Chongqing, Jiangxi, which will generate an additional production capacity of 4,000 tonnes, to achieve coverage of most core provinces and cities across the country.

To achieve flourish development of the TCM decoction pieces business, and create synergy between the concentrated TCM granules business, the Group, on the one hand, efficiently expanded into the end market with the use of the existing sales team and channels in the concentrated TCM granules sector. On the other hand, the Group developed the TCM decoction pieces sector comprehensively and promoted premium authentic TCM decoction pieces with differentiated marketing strategies that appealed to various markets.

In addition, the Group is working to obtain more provincial-level licenses for pilot production of concentrated TCM granules. Beyond its 2 existing national-level licenses, namely Jiangyin Tianjiang and Guangdong Yifang, the Group has obtained pilot production licenses in 5 provinces of Sichuan, Heilongjiang, Yunnan, Hubei and Guizhou. Besides, the Group received various support from the local governments in Shaanxi, Fujian and Chongqing. This is of great significance to the Group's strategic goals of breaking local protection barriers and expanding market coverage.

II. Expanding market influence with deep development of downstream channels

The Group fully leverages the efficiency and convenience of an internet-based trading platform to create innovative sales models, build the Group's brand and support business development. As one example, during the Reporting Period, Guangdong Yifang opened an Alibaba Factory Store, Alibaba Official Store, Yifang Cloud Mall, Yifang Seasons Enterprise Store and Yifang Seasons Jingdong Store while carrying out strategic cooperation with online hospitals such as "Micro Doctor" and "Ping An Good Doctor". Physicians provide consultation and issue prescriptions online, while regional distribution centers decoct and distribute TCM for delivery to patients. The vision of patients benefiting from high-quality TCM services without leaving home has been fully realized.

1. More introductions of smart dispensing machines

The Group anticipates that a policy for the full opening of the concentrated TCM granule market will soon be issued. Industry thresholds will be lifted and companies with product reserves and up-and downstream operations are expected to enjoy first-mover advantages. We believe that value-added services such as smart dispensing machines and resources input will provide the effective means to strengthen the Group's industry leadership. By virtue of policy dividends, the Group has steadily expanded its coverage of Class II and higher tier TCM hospitals with a focus on enhancing coverage of general hospitals. It also rapidly seized the newly-opened grass-roots markets following the change in government policy, which realized the rapid coverage of different market tiers.

In the past three years, the Group has been committed to advancing the level of intelligent prescription of concentrated TCM granules in hospitals, improving patients' medication experience and accelerating the deployment of smart dispensing machine systems in medical institutions at all levels. During the Reporting Period, the Company installed more than 5,000 dispensing machines in approximately 3,500 hospitals.

2. Continued promotion of a national "TCM intelligent distribution center" network

In 2018, the Group continued to promote the construction of intelligent TCM distribution center (the "Intelligent Distribution Center") projects while vigorously expanding the scale of its business. On the basis of "Big Data + Internet", the Group adopted authentic medicinal herbs, implemented traditional processing technologies, utilized intelligent management systems, and provided patients and hospitals with one-stop decoction and distribution services featuring instant processing from prescription receipt-to-decoction.

Under its innovative new model of intelligent distribution centers covering major hospitals in core cities and connecting to surrounding hospital alliances, the Group cooperated with major medical institutions to operate the decoction business and provide patients with TCM prescription dispensing, decoction and distribution, and other services. The Group's distribution centers serve more than 340 hospital customers in the following cities:

7 distribution centers in operation	Beijing, Shijiazhuang, Jiangyin, Shanghai, Guiyang, Foshan, Zhongshan
2 distribution centers under construction	Dongguan, Xiamen
5 distribution centers under preparation	Fuzhou, Shenzhen, Meizhou, Pingyi, Heze

3. Strengthening the academic promotion of blockbuster finished drugs

In 2018, the Company further expanded its cooperation with key national hospitals and pharmacies in the area of modern TCM finished drugs. Based on the specific conditions of hospitals at different levels, the Company established a top-down targeted brand promotion strategy covering provincial, prefecture-and county-level hospitals and pharmacies. It organized doctors at all levels for re-education on the standardized treatment of related cases to achieve further brand promotion.

The Group utilized the policy advantages pertaining to the top 10 exclusive drugs in National Essential Drug List ("EDL") and established a countrywide sales network. The Group's core competitiveness was enhanced with research results on key and strategic products, and it promoted the construction and improvement of various healthcare complexes and new business models. In 2018, the Company made great efforts to promote OTC products in response to the policy above and market demand. On the one hand, the Company promoted its brand via drug retail industry meetings. On the other hand, it further expanded its sales channels with advertisements of core products with top 100 chain pharmacies and county area chain pharmacies. In this regard, OTC products, Yao Shen Herbal Paste (腰腎膏), Chongcao Qingfei Capsules (蟲草清肺膠囊) and so on, gained strong brand images and achieved rapid growth in sales.

4. Accelerated implementation of the TCM Healthcare Complex project and continued innovation for operational models

In 2018, the Group followed the national policy on encouraging the private sector to engage in the TCM clinic business and promoting the registration of TCM practitioners educated via apprenticeship. It explored laws and standards pertaining to the location, construction, cultivation and operational management of the TCM Healthcare Complex project, accelerated the development and construction of new projects, improved its business model, diversified the product structure, focused on the population in sub-health conditions and provided solutions with TCM features.

The Company continues to explore TCM healthcare complex business. During the Reporting Period, the Group was operating 4 TCM Healthcare clinics, while 3 more were under preparation.

III. New achievements in research

As directed by various state policies regarding TCM industry, the TCM industry shall establish a standardized TCM service support system in future. The Group has accordingly taken several measures in preparation to meeting this goal: broadly, it has looked to improve technical specifications for all TCM product processes in view of establishing standards and source tracking systems for TCM products. From a "quality and origins" basis, it has furthermore targeted issues concerning technical regulations and standards for TCM plantation, TCM decoction piece processing, concentrated TCM granule production and TCM finished drugs production; improving and modifying various production regulations and standards, and strengthening the monitoring, identification and authentication of TCM products to promote "planting, producing and making good drugs" in the TCM industry.

Focusing on the core concepts of "TCM standardization" and "quality first", the Group continued to develop TCM resources with high quality and intensify its efforts in resource control. It formulated standards on the grades of medicinal material and the quality of decoction pieces and concentrated TCM granules, and also conducts research on blockbuster finished drugs to promote the improvement of general TCM industry quality standards.

1. Leading the formulation of standards for concentrated TCM granules

In 2018, the CFDA and Pharmacopoeia Committee advanced the formulation of national standards on concentrated TCM granules. The Group anticipates the first batch of standards for concentrated TCM granules to be issued in 2019. Unified national quality standards will enhance market acceptance of concentrated TCM granules and will benefit the long-term development of the concentrated TCM granules industry.

The Group's participation in formulating national standards will help it maintain industry leadership amid intensifying market competition. In 2018, the Group established two provincial professional technology platforms accordingly – "the Guangdong Concentrated TCM Granules Project Laboratory" and "the Guangdong Concentrated TCM Granules Enterprises' Key Laboratory". During the Reporting Period, based on the requirements of the Technical Requirements for Quality Control and Standards for Concentrated TCM Granules (Draft for Comment) (中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)) issued by the Pharmacopoeia Committee, the Group completed research on standard decoctions for 243 TCM varieties and submitted national quality standards for 155 varieties to the Pharmacopoeia Committee.

2. Initiating full research on TCM classical formula and compound preparation

On 1 June 2018, the Regulation on Simplifying the Registration and Approval of Ancient and Classical formula and TCM Compound Preparations was issued. It specifies that the requirement to submit pharmacodynamics study and clinical trials data may be waived and the registration and approval of granules with decoctions in classical formula shall be simplified as required in the case of applications for the introduction of classical formula and preparations. According to regulation, 73 decoctions from the first batch of 100 formulas can be made into concentrated TCM granules. The Group subsequently initiated full research into TCM compound preparations from ancient and classical prescriptions, with 8 subsidiaries planning to complete research on the substance standards of 35 classical formulas. The Group also cooperated with the Institute of the History of Medical Literature under the China Academy of Chinese Medical Sciences, the Beijing University of Chinese Medicine, the Anhui University of Chinese Medicine and other institutions on research and verification of 14 classical formulas.

3. Clinical research on blockbuster finished drugs

Since 2014, the Group has been implementing blockbuster cultivation programs and conducting clinical and pharmacoeconomics research on major TCM finished drugs as an element of its academic promotion market strategy.

These efforts have led the Group to establish an evidence system based on clinical research. As of report date, dominant indication of 6 core products including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Jingshu Granules (頸舒顆粒), Zaoren Anshen Capsules (棗仁安神膠囊) and Fengshi Gutong Capsules (風濕骨痛膠囊) have been agreed by expert consensus and included in clinical guidance, based on the market development strategy.

Products	Large scale and multi-centered clinical research projects	Progress
Xianling Gubao Capsules (仙靈骨葆膠囊)	Post-market safety evaluation on Xianling Gubao Capsules (10,000 participants)	Initiated in 2017 and expected to be completed in 2022
	Research on Xianling Gubao Capsules for preventing bone mass loss caused by aromatase inhibitor for treating post-menopause breast cancer	Initiated in September 2018 and expected to be completed in 2020
Yu Ping Feng Granules (玉屏風顆粒)	Randomized, double-blinded, placebo parallel controlled and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treating stable phase COPD	Completed and related article was published in the International COPD Journal in October 2018
	Randomized, double-blinded, 3-arm and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treating repeated respiratory tract infection in children (小兒反復呼吸道感染)	Initiated in 2014 and completed in January 2018
Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊)	Multi-centered, randomized, double-blinded and placebo parallel controlled clinical research on Moisturizing and Anti-Itching Capsules for treating chronic eczema	Completed
	Post-market safety clinical registration research of Moisturizing and Anti-Itching Capsules (3,000 participants)	Initiated in March 2017 and expected to be completed by the end of 2020
Jingshu Granules (頸舒顆粒)	Multi-centered, randomized, double-blinded and placebo-controlled clinical research on the effectiveness, safety and economic effects of Jingshu Granules for treating nerve root type cervical spondylosis (神經根型頸椎病)	Completed, fundamental research published
Zaoren Anshen Capsules (棗仁安神膠囊)	Randomized, double-blinded, double-stimulation and multi-centered parallel controlled clinical research on the efficacy and safety of Zaoren Anshen Capsules for treating insomnia combined with Zolpidem Tartrate	Initiated in 2015 and recruitment completed; expected to be completed in June 2019
Fengshi Gutong Capsules (風濕骨痛膠囊)	Randomized, double-blinded, double-stimulation and multi-centered clinical research on Fengshi Gutong Capsules treating ankylosing spondylitis	Initiated in March 2015 and expected to be completed in December 2019

In 2018, the Group additionally re-determined 4 varieties required for bioequivalence evaluation, including Nifedipine Sustained-release Tablets (I) (硝苯地平緩釋片(I)), Paracetamol Tablets (對乙酰氨基酚片), Norfloxacin Capsules (諾氟沙星膠囊) and Nifedipine Sustained-release Tablets (III) (硝苯地平緩釋片(III)). All work has progressed smoothly and as scheduled.

Varieties	**Progress**
Nifedipine Sustained-release Tablets (I) (硝苯地平緩釋片(I))	Pre-experiment completed and BE experiment in progress
Paracetamol Tablets (對乙酰氨基酚片)	Submission of materials on drug registration completion and acceptance number obtained
Norfloxacin Capsules (諾氟沙星膠囊)	Preliminary process exploration work in progress
Nifedipine Sustained-release Tablets (III) (硝苯地平緩釋片(III))	Preliminary process exploration work in progress

Sinopharm Zhonglian Pharmaceutical Group Co., Ltd. ("Zhonglian Pharmaceutical"), a newly acquired TCM finished drugs enterprise, has also launched secondary development research on Trionycis Bolus (鱉甲煎丸), including research on treatment of liver fibrosis, cirrhosis, mammary gland hyperplasia, processing methods, the vinegar processed turtle shell (醋鱉甲) and turtle shell glue (鱉甲膠) production process, pelleting and other processes. It carried out research on the Chinese herbal medicine Jinye Baidu Granules (金葉敗毒顆粒) and prescription process, and research on quality standard improvements for Guiqi Oral Liquid (歸芪口服液). It is noteworthy that the exclusive products Trionycis Bolus (鱉甲煎丸) and Jinye Baidu Granules (金葉敗毒顆粒) have been added to the EDL and are among the Company's 10 exclusive EDL drugs.

4. Establishing a TCM and TCM decoction piece source tracking system

TCM sources is the foundation of the TCM industry and its quality determines the quality of TCM decoction pieces. TCM decoction pieces are raw materials composed of concentrated TCM granules and TCM finished drugs, as well as products at the sales terminal. As a result, the quality of TCM decoction pieces is vitally important to the TCM industry. On 31 August 2018, the China Food and Drug Administration ("CFDA") issued the Plan on Focusing Improvement of the Quality of TCM Decoction Pieces, which proposes severe punishments for illegal and illicit activities concerning TCM decoction pieces. It will be implemented from September 2018 to September 2019, upon which TCM decoction pieces will have officially entered a new era of strict regulation of quality.

In 2018, the Group worked to improve the function of its TCM decoction piece sales system with the establishment of a TCM decoction piece variety dictionary and the provision of a reliable systematic database for TCM plantation and research. During the Reporting Period, the Group had completed the basic information dictionary on the decoction pieces of 5 subsidiaries, including Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Guizhou Tongjitang"), Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Foshan Feng Liao Xing"), Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") and Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou").

The Group further extended quality control for TCM decoction pieces to their sources. In cooperation with rural cooperatives at traditional places of origin or large enterprises with GAP certification, it established standardized plantation bases and conducted standard TCM plantation and production using traditional plantation and processing technologies in places of origin. During the Reporting Period, the Group finished establishing a source tracking system for TCM blockbusters in places of origin as well as the inspection of major plantation areas.

INVESTMENT PROJECTS

The Group fully seized the window period before the implementation of the market open-up policy, and focused on accelerating the production of TCM decoction pieces and concentrated TCM granules, which fostered the development of upstream and downstream businesses across the country as well. In 2018, the Group has conducted the strategic planning for concentrated TCM granules and TCM decoction pieces sectors in Beijing, Sichuan, Heilongjiang, Jiangsu, Fujian, Jilin and Anhui to further seize strategic resources of the industrial chain.

On the one hand, through mergers and acquisitions and win-win combination of advantages from regional enterprises, the Group broke local protection restrictions. During the Reporting Period, the Group acquired enterprises with (or that will obtain) provincial-level pilot license for concentrated TCM granule production. These include: a 51% equity interest in Fujian Chengtian Jinling Pharmaceutical Co. Ltd.; a 51% equity interest in Sichuan Sinopharm Pharmaceutical Co., Ltd.; a 51% equity interest in Heilongjiang Shuanglanxing Pharmaceutical Co., Ltd.; a 51% equity interest in Zhonglian Pharmaceutical. The Group acquired TCM decoction pieces enterprises, including a 100% equity interest in Sichuan Jiangyou, a 100% equity interest in Beijing Huamiao, a 51% equity interest in Jiangsu Jiangkang Pharmaceutical Co., Ltd. and a 51% equity interest in Bozhou Hongda TCM Decoction Pieces Technology Co., Ltd.. The Group acquired a 100% equity interest in Heilongjiang Sinopharm Medicinal Materials Co., Limited, an enterprise that distributes medicinal herbs. The Group acquired a 100% equity interest in property possessed companies, Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Beijing Huatai") and Foshan Jinlv Shoes Co., Ltd. Total investment in merger and acquisition projects was approximately RMB1,094,740,000.

On the other hand, through new construction and technological improvement and expansion, the Group accelerated the development of industrial park projects with the aim of achieving synergy and economies of scale. The newly-established Shandong industrial park (including Shandong Feng Liao Xing Material & Slice Co., Ltd. and Shandong Yifang Pharmaceutical Company Limited) and Zhejiang industrial park (namely Zhejiang Yifang Pharmaceutical Company Limited) have obtained production permits and GMP certification and have entered into the manufacture phase. Other industrial park projects in Yunnan, Chongqing, Guangxi, Jiangxi, Hunan, Shaanxi, Jilin and Shandong (Phase II) have commenced construction. The investment in new construction or technological improvement and expansion projects was approximately RMB473,377,000.

In the meantime, to dedicate itself to the integration of TCM industrial chains and to strengthen the leading position of the core business in the industry, the Group disposed of the remaining 20% equity interest in Sinopharm Guizhou Blood Products Co., Ltd. at the consideration of RMB90,600,000 in October 2018.

Except as disclosed above, the Group had no major acquisitions and disposals for the year ended 31 December 2018.

ANALYSIS OF BUSINESS SEGMENTS

During the Reporting Period, the Group's revenue was approximately RMB11,258,941,000, representing an increase of 35.0% from approximately RMB8,337,795,000 in the last year. The increase was mainly attributable to the rapid growth of the concentrated TCM granules business and fast expansion of the decoction pieces business. An analysis of the four business segments is as follows:

1. Concentrated TCM granules

Key financial indicators for concentrated TCM granules business

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**7,150,562**	5,499,679	30.0%
Cost of sales	**2,889,017**	2,310,722	25.0%
Gross profit	**4,261,545**	3,188,957	33.6%
Gross profit margin	**59.6%**	58.0%	1.6ppt
Operating profit	**1,630,597**	1,334,901	22.2%
Profit for the year	**1,242,130**	1,034,732	20.0%
Net profit margin	**17.4%**	18.8%	-1.4ppt

During the Reporting Period, Jiangyin Tianjiang and its subsidiaries ("Tianjiang Pharmaceutical") recorded rapid sales growth and achieved a revenue of RMB7,150,562,000, representing a 30.0% increase over the same period last year (which accounted for 63.5% of total revenue).

The rapid growth in revenue was mainly due to: (1) the obvious advantages in quality controllability and convenience of concentrated TCM granules, as well as effective academic promotion, gradual improvement in market recognition, thus about 16% of the sales growth was attributed to customers already covered; (2) the Company's continuous expansion into new hospitals through deployment of the dispensing machine system to penetrate new markets, and the new customers contributed approximately 14% increase in sales.

The gross profit margin increased by 1.6 percentage points to 59.6% as compared to 58.0% in the last year, mainly due to price adjustment and the steady overall procurement prices of Chinese medicinal herbs. During the Reporting Period, operating profit and profit for the period from the concentrated TCM granule business were approximately RMB1,630,597,000 and RMB1,242,130,000 respectively, representing increases of 22.2% and 20.0% compared with the same period last year.

The net profit margin decreased by 1.4 percentage points to 17.4% as compared to 18.8% in the last year, mainly because: (1) the Company increased its marketing input to seize on fast-emerging market opportunities and to expand into new market, making the sales expenses increase by 43.5%; the growing number of primary health care institutions in the past two years, which only purchased a small amount of products while with high frequency, increased the logistic cost; the increase in deployment of dispensing machines (increase of approximately 1,300 dispensing machines in 2018), depreciation charges and maintenance costs led to an increase in sales expenses as a percentage of turnover by 3.0 percentage points to 32.2%; (2) the newly-established industrial park was still at the preparation stage, the establishment expenses of which are approximately RMB56,000,000; (3) the Group continued to increase input in the research and development of national quality standards for concentrated TCM granules, making the research and development expenses as a percentage of turnover increase by 0.9 percentage point; and (4) undertake some new annual interest responsibility from the corporate bonds issued in June 2017 with nominal values of RMB2.0 billion led to an increase in finance costs as a percentage of turnover by 0.3 percentage points.

Revenue analysis by region

(RMB million)

Region	**2018**	**Proportion**	2017	Proportion	Growth amount	Growth rate
East China	**2,287.11**	**32.0%**	1,884.39	34.3%	402.72	21.4%
South China	**1,518.79**	**21.2%**	1,077.58	19.6%	441.21	40.9%
North China	**927.30**	**13.0%**	649.96	11.8%	277.34	42.7%
Central China	**847.27**	**11.8%**	718.29	13.1%	128.98	18.0%
Northwest China	**539.27**	**7.5%**	386.34	7.0%	152.93	39.6%
Northeast China	**398.07**	**5.6%**	367.53	6.7%	30.54	8.3%
Southwest China	**551.48**	**7.7%**	342.27	6.2%	209.21	61.1%
Overseas and others	**81.27**	**1.2%**	73.32	1.3%	7.95	10.8%
Total	**7,150.56**	**100.0%**	5,499.68	100.0%	1,650.88	30.0%

During the Reporting Period, sales in East China, South China, North China and Central China accounted for 78.0% of total sales as compared with 78.8% for the same period last year. South China, North China, Northwest China and Southwest China achieved a year-on-year increase of over 35.0%, while Southwest China was the most prominent area of sales growth with a year-on-year increase of 61.1%.

Notes:

East China (including Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong);
South China (including Guangdong, Guangxi and Hainan);
North China (including Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia);
Central China (including Henan, Hubei and Hunan);
Northwest China (including Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang);
Northeast China (including Heilongjiang, Jilin and Liaoning); and
Southwest China (including Sichuan, Guizhou, Yunnan, Chongqing and Tibet).

2. Finished drugs

Key financial indicators for the finished drugs business

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**2,771,021**	2,381,202	16.4%
Cost of sales	**1,068,144**	1,018,717	4.9%
Gross profit	**1,702,877**	1,362,485	25.0%
Gross profit margin	**61.5%**	57.2%	4.3ppt
Operating profit	**454,128**	419,318	8.3%
Profit for the year	**257,214**	243,339	5.7%
Net profit margin	**9.3%**	10.2%	-0.9ppt

Revenue analysis by product type

(RMB million)

	Twelve months ended 31 December				
Type of product	**2018**	**Proportion**	2017	Proportion	Change
Core hospital channel products	**1,391.42**	**50.2%**	1,272.04	53.4%	9.4%
Core OTC channel products	**714.06**	**25.8%**	555.52	23.3%	28.5%
Other products	**665.54**	**24.0%**	553.64	23.3%	20.2%
Total	**2,771.02**	**100.0%**	2,381.20	100.0%	16.4%

Notes:

Core hospital channel products: 8 products including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Fengshi Gutong Capsules (風濕骨痛膠囊), Zaoren Anshen Capsules (棗仁安神膠囊), Qili Capsules (七厘膠囊), and Waimaining Capsules (威麥寧膠囊).

Core OTC channel products: 11 products including Bi Yan Kang Tablets (鼻炎康片), Feng Liao Xing Dieda Medicinal Wine (馮了性風濕跌打藥酒), Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Sheng Tong Ping (聖通平), Vitamin C Yinqiao Tablets (維C銀翹片), Shedan Chuanbei Powder (蛇膽川貝散), Shedan Chenpi Powder (蛇膽陳皮散), Tongluo Guzhining Paste (通絡骨質寧膏), Angong Niuhuang Bolus (安宮牛黃丸) and Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊).

During the Reporting Period, the hospital channel products and OTC channel products of the TCM finished drugs segment continued to grow steadily. This is mainly attributed to: (1) core products in the hospital channels benefited from previous evidence-based clinical research, activation of the academic promotion effect, and Xianling Gubao Capsules (仙靈骨葆膠囊) and Yupingfeng Granules (玉屏風顆粒) as top selling products, maintaining their leading market position; (2) no significant changes to the tendering and procurement environment; (3) the core products in the OTC channels continued to gear up, and advantages of the retail channels being gradually shown.

Gross profit margin increased by 4.3 percentage points, mainly due to the stable price of hospital channel products, the increase in prices of some hospital channel products under the influence of "two invoice system" and the increase in prices of some OTC products.

The net profit margin decreased by 0.9 percentage points, mainly due to the adjustment of the original sales model of the TCM finished drugs business, which increased the sales expenses. In October 2018, the Zhonglian Pharmaceutical financial statements were consolidated, and the selling expenses margins of Zhonglian Pharmaceutical were higher than that of the original finished drugs business, leading to an increase in overall selling expenses margins by 4.2 percentage points. The increase in R&D expenses, managements and depreciation, and the operation of new production plants made the administrative expenses and research and development fees as a percentage of turnover increase by 1.3 percentage points.

3. TCM decoction pieces

The Group has stepped up the decoction pieces business's strategic position as the concentrated TCM granules business's in order to further improve its development plan for whole industry chain coverage and strengthen its control of upstream TCM raw materials. Through the business model that covers the major hospitals in key cities with the Intelligent Distribution Center so as to expand its influence and connect to the surrounding alliance of healthcare institutions, the decoction pieces business grew rapidly during the Reporting Period. At the same time, the acquisition of four companies, including Beijing Huamiao, which was completed in 2018, had smoothly consolidated within a year, and their operating efficiency has improved.

Key financial indicators for the TCM decoction pieces business

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**1,274,829**	398,742	219.7%
Cost of sales	**1,066,843**	320,758	232.6%
Gross profit	**207,986**	77,984	166.7%
Gross profit margin	**16.3%**	19.6%	-3.3ppt
Operating profit	**73,591**	31,368	134.6%
Profit for the year	**71,026**	33,081	114.7%
Net profit margin	**5.6%**	8.3%	-2.7ppt

During the Reporting Period, revenue from the TCM decoction pieces business amounted to approximately RMB1,274,829,000, representing an approximately 219.7% increase over RMB398,742,000 for the same period last year, and accounting for 11.3% of total revenue. The rapid sales revenue growth of the decoction pieces business was mainly due to: (1) the consolidation of financial statements of four companies including Beijing Huamiao, etc.; (2) a favourable national policy environment to promote the development of TCM; and (3) rapid development of the intelligent distribution center business.

The decrease in gross profit margin and net profit margin was mainly because the newly-acquired decoction pieces enterprises had lower gross profit margins than the existing business and the increase in the operating costs of the newly-formed TCM decoction pieces enterprises, respectively.

4. TCM healthcare complex

Key financial indicators for the TCM healthcare complex

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**62,529**	58,172	7.5%
Cost of sales	**41,364**	36,016	14.8%
Gross profit	**21,165**	22,156	-4.5%
Gross profit margin	**33.8%**	38.1%	-4.3ppt
Operating profit	**-2,291**	865	-364.9%
Profit for the year	**-3,342**	279	-1,297.8%
Net profit margin	**-5.3%**	0.5%	-5.8ppt

During the Reporting Period, the TCM healthcare complex sector had 7 TCM clinics. The revenue amounted to approximately RMB62,529,000, representing an increase of 7.5% as compared to RMB58,172,000 for the same period last year, and accounting for 0.6% of total revenue. Of the 7 TCM clinics, 4 has begun operation, and the other 3 were at the preparation stage and were expected to open in 2019. The slight increase in revenue was mainly due to (1) the notable increase in the revenue of Foshan Fengxiaoxing TCM clinic by 66.1%; (2) the renovation cost for the branch of Guizhou Tongjitang TCM clinic and the large amount of start-up expenses for the development of a business with relatively high gross profit, which led to a decrease in revenue by 16.8%. The drop in net profit margin was attributable to the new project carried out by Guizhou Tongjitang TCM clinic, which was still in development stage; the Chongqing TCM clinic and Nanhai TCM clinic, which are in the opening stage; and the establishment expenses from the three TCM clinics under preparation. Three stable operating clinics had a 12% net profit margin.

PROSPECTS

In 2019, the Group will continue to implement its strategic plan of "building a leading comprehensive TCM healthcare industrial group" by developing more breadth and depth consolidating the TCM industry chain.

In keeping with strategic plans and targets for 2019, we will continue to pay close attention to changes of national policy concerning the industry, and will implement cost control and transformation upgrades appropriate to national requirements. The Group will achieve intensive and standardized development, and will strive to build on its advantages in technology and channel. Through these efforts, the Group will maintain its leadership amid new pharmaceutical industry conditions.

The Group's core work in 2019 includes: accelerating the expansion into currently uncovered provinces; accelerating the acquisition of enterprises with GSP licenses by various industrial parks and decoction pieces enterprises which preparing for the national rollout of "TCM intelligent distribution centers". It will continue to carry out research on quality standards for concentrated TCM granules. After the public release of standards reviewed by the state, the Group will complete the unification, verification and review, process adjustment and other work corresponding with the new standards while continuing research on quality standards for the remaining varieties. Meanwhile, the Company will continue its wide-ranging cooperation with Ping An Life Insurance. Complementing each other's advantages, we will conduct cooperative work on internet-based healthcare services using the network platform resources of Ping An Good Doctor, and explore new room for expansion in the highly competitive decoction pieces market. Additionally, the Group will complete construction of its warehousing and logistics platform in cooperation with Pingan Industrial Logistics.

In 2019, the Group will continue to build and consolidate its leading advantages in the pharmaceutical resources industry, the TCM process and TCM terminal services, and continue its self-improvement and enhancement efforts. It will further enhance its market control and operational efficiency and increase its capacity for market dominance to achieve the strategic targets in the five-year plan.

FINANCIAL REVIEW

Other income

During the Reporting Period, the Group's other income was approximately RMB144,392,000, representing an increase of 20.8% as compared to the approximately RMB119,544,000 in the last year. The increase can be largely assigned to the Group's short-term fixed deposit on stock fund, which led to an increase in interest income of approximately RMB10,685,000 as compared to last year, and an increase in government grants of approximately RMB32,702,000 obtained by the Group as compared to last year. Approximately RMB22,970,000, which accounted for last year's other income, was the compensation from ex-shareholder of Tianjiang Pharmaceutical.

	2018	2017	Change
	RMB'000	RMB'000	
Interest income	**43,246**	32,561	32.8%
Government grants	**95,553**	62,851	52.0%
Rental income	**5,593**	1,162	381.3%
Others	**–**	22,970	-100.0%
Total	**144,392**	119,544	20.8%

Other gains and losses and impairment losses, net of reversal

During the Reporting Period, the Group's other gains were approximately RMB43,440,000 (2017: Other losses of approximately RMB8,608,000). The reasons for changes in other gains and other losses during the Reporting Period were as follows: changes in exchange rate, such that the actual gain recognized from the amount settled in respect of the forward foreign exchange contract during the last year was approximately RMB16,751,000 less than gain from changes in the fair value recognized in the past years (2018: nil); due to the collection of the trade receivables, the reversals of trade receivables of the Reporting Period amounted to RMB92,449,000.

Selling and distribution costs

During the Reporting Period, the Group's selling and distribution costs amounted to approximately RMB3,417,195,000, representing an increase of 40.2% as compared to approximately RMB2,437,167,000 in the last year. Selling and distribution costs as a percentage of revenue were 30.4%, representing an increase of 1.2 percentage points as compared to 29.2% in the last year. This was mainly due to: (1) the increase in marketing input of the concentrated TCM granules business for developing new markets, which increased the number of medicine dispensing machines, the depreciation and maintenance fee, the proportion of direct sales and logistic cost; (2) marketing staff and marketing expenses increased after implementation of the "two-invoice system" for the finished drug business and consequently adjusted the Company's sales model; (3) the combining of sales expenses for the newly acquired TCM decoction piece enterprises.

	2018	2017	Change
	RMB'000	RMB'000	
Advertising, promotion and travel expenses	**1,830,850**	1,281,717	42.8%
Salary expenses of sales and marketing staff	**511,289**	380,461	34.4%
Distribution costs	**169,191**	116,498	45.2%
Other selling and distribution costs	**905,865**	658,491	37.6%
Total	**3,417,195**	2,437,167	40.2%

Administrative expenses

During the Reporting Period, the Group's administrative expenses amounted to approximately RMB552,294,000, representing an increase of 58.0% as compared to approximately RMB349,449,000 in the last year. The increase in administrative expenses was mainly due to: (1) the Group adding approximately 29 subsidiaries as compared to the same period last year. Most of these subsidiaries were preparing production bases for concentrated TCM granules and TCM decoration pieces; (2) combining the enterprise costs of newly acquired TCM decoration pieces; (3) the increase in the salary expenses, asset depreciation and amortization of existing business following the growth in business volume, the use of new factories and increased staff.

	2018	2017	Change
	RMB'000	RMB'000	
Salary	**258,435**	189,518	36.4%
Depreciation and amortisation	**65,377**	37,854	72.7%
Office rental and other expenses	**228,482**	122,077	87.2%
Total	**552,294**	349,449	58.0%

Research and development expenses

During the Reporting Period, the Group's research and development expenses amounted to approximately RMB346,539,000, representing an increase of 71.4% as compared to approximately RMB202,160,000 in the last year. The increase in research and development expenses was mainly due to the concentrated TCM granules business's expanded research and development expenses for the formulation of a concentrated TCM granules industry standard.

Profit from operations

During the Reporting Period, profit from operations was approximately RMB2,156,025,000, representing an increase of 20.7% as compared to approximately RMB1,786,453,000 in the last year. The operating profit margin (defined as profit from operations divided by revenue) was 19.1%, representing a decrease of 2.3 percentage points from 21.4% in the last year. The decrease in operating profit margin was due to the gross profit margin of the newly-consolidated company this year being lower than the Group's original business. Further, the profitability of production bases for concentrated TCM granules and TCM decoration pieces has not yet been realized. Finally, the Group increased its input in sales and distribution costs to expand the market share.

Finance costs

During the Reporting Period, the Group's finance costs were approximately RMB292,300,000, representing an increase of 32.2% as compared to approximately RMB221,068,000 in the last year. The increase in finance costs as compared to last year was mainly due to the corporate bonds issued in June 2017 with nominal values of approximately RMB2.0 billion. Bank and other loans held by the Group as at 31 December 2018 amounted to approximately RMB1,643,443,000, and corporate bonds of approximately RMB4,490,065,000 were also held. As compared to 31 December 2017, bank and other loans held by the Group amounted to approximately RMB671,697,000, and corporate bonds of approximately RMB4,481,958,000 were held. During the Reporting Period, the Group's effective interest rate was 4.35% (2017: 4.06%). The Group will continue to monitor changes in market interest rates and adjust its borrowing and fundraising mechanism as is appropriate. The Group will refinance its existing loans or secure new bank loans when opportunities for price negotiation arise.

Income from investment in associate

During the Reporting Period, the Group shared losses from associate of approximately RMB7,028,000, while there was shared gains of approximately RMB1,852,000 in the last year.

Earnings per share

During the Reporting Period, basic earnings per share were RMB29.84 cents, representing an increase by 13.0% as compared to RMB26.41 cents in the last year. During the Reporting Period, the Group issued 604,296,222 new shares to Ping An Life Insurance. The number of shares increased from 4,431,505,630 shares in the last year to 5,035,801,852 shares, and the weighted average number of shares increased to 4,822,229,000. The increase in basic earnings per share was attributable to growth in profit attributable to equity holders of the Company during the Reporting Period, the increase was 22.9%, or approximately RMB1,439,018,000 (2017: RMB1,170,434,000).

Liquidity and financial resources

As at 31 December 2018, the Group's current assets amounted to approximately RMB14,485,694,000 (31 December 2017: RMB11,384,050,000), which included cash, cash equivalents and deposits with banks of approximately RMB6,438,522,000 (31 December 2017: RMB4,787,781,000), from which the pledged bank deposits amounted to approximately RMB88,808,000 for bills payable security (31 December 2017: nil). Trade and other receivables amounted to approximately RMB3,467,084,000 (31 December 2017: RMB3,024,076,000). Current liabilities amounted to approximately RMB8,632,754,000 (31 December 2017: RMB4,694,887,000). Net current assets aggregated to approximately RMB5,852,940,000 (31 December 2017: RMB6,689,163,000). The Group's current ratio was 1.7 (31 December 2017: 2.4). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity shareholders of the Company) decreased to 39.4% from 41.4% as at 31 December 2017. The gearing ratio decrease was mainly due to the issuance of new shares to Ping An Life Insurance during the year, and a share capital increase of approximately RMB2,172,539,000.

Bank and other loans and pledge of assets

As at 31 December 2018, the Group's balance of bank and other loans was approximately RMB1,643,443,000 (31 December 2017: RMB671,697,000), of which approximately RMB408,074,000 (31 December 2017: RMB243,824,000) was secured by Group assets with a book value of approximately RMB135,789,000 (31 December 2017: RMB141,409,000). The balance of the Group's bank and other loans includes approximately RMB1,411,569,000 and RMB231,874,000, which are required to be paid within one year and over one year, respectively (31 December 2017: approximately RMB638,697,000 and RMB33,000,000 respectively).

Capital source

The Group meets its working capital needs mainly through its operating activities and external financing activities. During the Reporting Period, the Group's net cash inflow generated from operating activities was approximately RMB1,190,491,000, representing a decrease of 3.7% as compared to approximately RMB1,235,594,000 in the last year. Net cash outflow from investing activities was approximately RMB1,546,046,000, while the net cash inflow was approximately RMB392,959,000 in 2017. The change from net cash inflow to net cash outflow was mainly due to the increase in capital expenditure by 101.2% to approximately RMB1,262,737,000 during the year and the investment inflow from the maturity of fixed deposits of RMB1,050,000,000 in the last year (2018: nil). Net cash inflow from financing activities was approximately RMB1,772,242,000, representing an increase of 125.6% as compared to approximately RMB785,592,000 in 2017, which was mainly due to the issuance of new shares to Ping An Life Insurance during the year, with the proceeds of approximately RMB2,172,539,000 and new bank loan of approximately RMB398,905,000, while the cash inflow from the issue of corporate bonds was approximately RMB2,000,000,000 last year. The Group had sufficient working capital and stable financial position as it has an unutilized bank loan facility of approximately RMB2,238,209,000.

Capital expenditure

For the Reporting Period, the cash paid by the Group for the purchase of equipment, construction of plants, purchase of land use rights and intangible assets amounted to approximately RMB1,262,737,000, representing an expenditure increase of 101.2% as compared to approximately RMB627,543,000 in the last year. The increase in capital expenditure was due to the promotion of development plans for TCM decoction pieces and concentrated TCM granules industries and the establishment of TCM decoction pieces and concentrated TCM granules production bases in various provinces and cities during the Reporting Period.

Financing capacity

As at 31 December 2018, capital commitments which the Group has entered but which are outstanding and not provided for in the financial statements were approximately RMB1,324,662,000 (31 December 2017: approximately RMB1,426,326,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, and investment payment. The Group believes that, with the available cash balances, stable cash inflow from operating activities, undrawn bank facilities already granted by the bank, and the fact that it has been recognized and supported by major financial institutions, the Group will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2018 (31 December 2017: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, of which foreign exchange risk is considered insignificant. As at 31 December 2018, the Group's Hong Kong Dollar bank borrowings of HK$470 million. As at 31 December 2018, the Group had also not entered into any foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As at 31 December 2018, the Group had a total of 14,169 employees, including directors of the Company (31 December 2017: 10,706), of which 5,097 were sales staff, 6,054 were manufacturing staff, and 3,018 were engaged in R&D, administration and senior management. Remuneration packages mainly comprised of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the Reporting Period amounted to approximately RMB1,297,029,000 (2017: RMB894,780,000). During the Reporting Period, the total remuneration amount increased, mainly due to: (1) in 2018, the Company newly acquired several subsidiaries, and the number of employees increased significantly;(2) the average remuneration has not been adjusted significantly; (3) the social security payment baseline gradually increased cause a higher cost of recruitment.

FINAL DIVIDEND

The Board recommended a final dividend of HK5.51 cents (approximately RMB4.71 cents) per share for the year ended 31 December 2018 (2017: HK4.96 cents (approximately RMB3.97 cents) per share). The final dividend for the year 2018 is subject to the approval by the shareholders at the forthcoming annual general meeting and is expected to be payable on 28 June 2019 to the shareholders on the register of members of the Company on 13 June 2019.

Report of the Directors

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

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2018, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Consolidated Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the financial position of the Company and the Group as at that date are set out in the financial statements on pages 83 to 204 of this report.

An interim dividend of HK6.04 cents (approximately RMB5.28 cents) per share for the six months ended 30 June 2018 was paid on 15 October 2018 (six months ended 30 June 2017: HK4.75 cents (approximately RMB4.05 cents) per share).

The Board recommended a final dividend of HK5.51 cents (approximately RMB4.71 cents) per share for the year ended 31 December 2018 (2017: HK4.96 cents (approximately RMB3.97 cents) per share). The total distribution for year ended 31 December 2018 is HK11.55 cents (approximately RMB9.99 cents) per share (2017: HK9.71 cents (approximately RMB8.02 cents) per share).

DIVIDEND POLICY

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

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

– the Group's actual and anticipated operating results, liquidity and financial condition;

– capital commitment requirement;

– market environment and challenges;

– future development and investment opportunities; and

– any other factors that the Board deems appropriate.

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

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB1,439,018,000 (2017: RMB1,170,434,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

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

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 17 and 18 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 47 and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

EQUITY-LINKED AGREEMENTS

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in notes 34 and 35 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are set out in note 46 to the financial statements.

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

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

DIRECTORS

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

Executive Directors

Mr. WU Xian	*Chairman*
Mr. WANG Xiaochun	*Managing Director*
Mr. YANG Wenming	*(appointed on 24 December 2018)*
Mr. ZHAO Dongji	*(resigned on 24 December 2018)*
Ms. HUANG He	*(resigned on 24 December 2018)*

Non-executive Directors

Mr. YANG Shanhua	*(appointed on 28 March 2018)*
Ms. LI Ru	*(appointed on 18 February 2019)*
Mr. YANG Binghua	*(appointed on 24 December 2018)*
Mr. WANG Kan	*(appointed on 24 December 2018)*
Mr. KUI Kaipin	*(appointed on 30 May 2018)*
Mr. LIU Cunzhou	*(resigned on 24 December 2018)*
Ms. TANG Hua	*(resigned on 24 December 2018)*
Mr. DONG Zenghe	*(resigned on 28 March 2018)*
Ms. RONG Yan	*(appointed on 24 December 2018 and resigned on 18 February 2019)*

Independent Non-executive Directors

Mr. XIE Rong	
Mr. YU Tze Shan Hailson	
Mr. QIN Ling	*(appointed on 18 February 2019)*
Mr. LI Weidong	*(appointed on 18 February 2019)*
Mr. ZHOU Bajun	*(resigned on 28 January 2019)*
Mr. LO Wing Yat	*(resigned on 25 January 2019)*

During the reporting period and up to the date of this report, the reasons for resignation of the resigned directors are as follows:

– Mr. DONG Zenghe resigned on 28 March 2018 due to changes of his work arrangements;

– Mr. ZHAO Dongji and Ms. HUANG He resigned on 24 December 2018 due to adjustment of job duties and position;

– Mr. LIU Cunzhou and Ms. TANG Hua resigned on 24 December 2018 as more time was devoted to other businesses they engaged in;

– Mr. LO Wing Yat resigned on 25 January 2019 due to the expiry of his appointment letter. Mr. LO has decided not to renew the tenure of office because he wants to schedule his works in various aspects more efficiently;

– Mr. ZHOU Bajun resigned on 28 January 2019. The Directors have received a notice of resignation from Mr. ZHOU on 27 January 2019. As the Company hopes to introduce professionals with a solid background in pharmaceutical industry as independent directors, Mr. ZHOU has been informally informed that the Company would not renew his appointment after the end of his term on 4 February 2019; and

– Ms. RONG Yan resigned on 18 February 2019 due to change of her work arrangement within the China National Pharmaceutical Group Corporation.

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

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

In accordance with Article 92 of the Company's Articles of Association, Mr. YANG Wenming, Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan, Mr. KUI Kaipin, Mr. QIN Ling and Mr. LI Weidong shall hold office only until the next general meeting of the Company and, shall then be eligible of re-election.

In accordance with Article 101 of the Company's Articles of Association, Mr. WU Xian, Mr. WANG Xiaochun, Mr. YANG Shanhua and Mr. XIE Rong shall retire by rotation at the AGM and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The appointment letter of Mr. ZHOU Bajun as an independent non-executive director of the Company will expire on 4 February 2019. In view of the Company's future business development needs, we will endeavor to introduce professionals with a solid background in pharmaceutical industry as independent directors to provide more extensive industry suggestions. Therefore, we have decided not to renew the appointment of Mr. ZHOU after the end of his current term. Mr. ZHOU has been informally informed that the Company would not renew its appointment after the end of his term on 4 February 2019. On 27 January 2019, the directors were notified by Mr. ZHOU that he would resign as an independent non-executive director, with effect from 28 January 2019. Please refer to the two announcements of the Company dated 28 January 2019 for details.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report, including the particulars required under paragraph 12 of Appendix 16 to the Listing Rules (if and as applicable and appropriate), are set out on pages 71 to 76 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013. In 2014, Mr. WU Xian entered into an employment agreement with the Company with effect from 22 June 2014 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month's prior notice.

Mr. WANG Xiaochun renewed an appointment letter with the Company for a term of two years commencing from 23 October 2015. Due to re-designation of Mr. Wang as the Managing Director with effect from 31 March 2017, Mr. WANG entered into a supplemental appointment letter with the Company for an initial term of two years commencing from 3 April 2017.

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

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. YANG Shanhua entered into an appointment letter with the Company for a term of two years commencing from 28 March 2018.

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

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

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

Mr. KUI Kaipin entered into an appointment letter with the Company for a term of two years commencing from 30 May 2018.

Ms. RONG Yan entered into an appointment letter with the Company for a term of three years commencing from 24 December 2018. However, Ms. RONG Yan resigned on 18 February 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of two years commencing from 25 November 2017.

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

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

MANAGEMENT CONTRACTS

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

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB6,080,000.

DIRECTORS OF SUBSIDIARIES

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

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration committee of the Company (the "Remuneration Committee") and the emoluments of the non-executive Director and independent non-executive Directors are recommended by the Remuneration Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2018, the fee for the eligible non-executive and independent non-executive Directors were fixed at HK$250,000 per annum.

PERMITTED INDEMNITY PROVISION

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

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

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company after the date of 2018 interim report is as follows:

- Mr. YANG Wenming was appointed as an executive Director with effect from 24 December 2018.
- Mr. YANG Binghua was appointed as a non-executive Director with effect from 24 December 2018.
- Mr. WANG Kan was appointed as a non-executive Director with effect from 24 December 2018.
- Mr. LI Ru was appointed as a non-executive Director with effect from 18 February 2019.
- Mr. XIE Rong was appointed as an independent non-executive director of Shanghai Bairun Investment Holding Group Co.,Ltd., a company listed on the Shenzhen Stock Exchange, and Baoshan Iron & Steel Co.,Ltd., a company listed on the Shanghai Stock Exchange with effect from June 2015 and June 2018, respectively.
- Mr. QIN Lin was appointed as an independent non-executive Director with effect from 18 February 2019.
- Mr. LI Weidong was appointed as an independent non-executive Director with effect from 18 February 2019.
- Mr. ZHAO Dongji resigned as an executive Director with effect from 24 December 2018. Mr. ZHAO received an emolument of RMB1,400,000 in 2018.
- Ms. HUANG He resigned as an executive Director with effect from 24 December 2018. Ms. HUANG received an emolument of RMB1,890,000 in 2018.
- Mr. LIU Cunzhou resigned as a non-executive Director with effect from 24 December 2018.
- Ms. TANG Hua resigned as a non-executive Director with effect from 24 December 2018.
- Mr. ZHOU Bajun resigned as an independent non-executive Director with effect from 28 January 2019.
- Mr. LO Wing Yat resigned as an independent non-executive Director with effect from 25 January 2019.
- Ms. RONG Yan was appointed as a non-executive Director on 24 December 2018 and resigned as a non-executive Director on 18 February 2019.
- Mr. WANG Xiaochun, an executive Director, did not receive annual directors' fees, but received an emolument of RMB2,100,000 in 2018.

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

ALLOTMENT AND ISSUE OF NEW SHARES

Subscription of new shares by Ping An Life Insurance under Specific Mandate

On 16 March 2018, the Company and Ping An Asset Management (Hong Kong) Company Limited (the investment manager appointed by Ping An Life Insurance (the "Subscriber")) entered into a memorandum of understanding setting out the intention of the Subscriber to subscribe for a certain number of new shares. On 19 March 2018, the Company and the Subscriber entered into the subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for, 604,296,222 shares ("Subscription Shares") at the total subscription price of HK$2,677,032,265, equivalent to the issue price of HK$4.43 (the "Issue Price") per Subscription Share. Subscription Shares represented approximately 13.64% of the total number of issued shares of the Company on 19 March 2018. The total subscription price is payable in cash by the Subscriber to the Company at completion. The net proceeds from the subscription is approximately HK$2,674 million so the net issue price is approximately HK$4.42535 per Subscription Share. The Subscriber is subsidiary of Ping An Insurance (Group) Company of China, Ltd. ("Ping An"). For details, please refer to the announcement of the Company dated 19 March 2018.

The Issue Price of HK$4.43 per Subscription Share represented a discount of approximately 19.89% to the closing price of HK$5.53 per Share as quoted on the Stock Exchange on 15 March 2018, being the last trading day on which the Shares were traded on the Stock Exchange prior to the date of the subscription agreement (the "Last Trading Day"). On the other hand, it represented a discount of approximately 9.03% to the average of the closing prices per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK$4.87.

The Company used/will use the net proceeds of the Subscription of HK$2,674 million for the following purposes:

Usage		Allocation amount RMB million	Amount utilised as at 30 June 2018 RMB million	Remaining balance as at 30 June 2018 RMB million	Amount utilised as at 31 December 2018 RMB million	Remaining balance as at 31 December 2018 RMB million	Expected timeline of utilisation
The nationwide expansion of coverage of its TCM decoction pieces and concentrated TCM granules businesses	For the establishment of six TCM industrial parks and TCM intelligent distribution centres in different region	454.94	36.50	418.44	418.44	0.00	2018
	For the expansion of production capacity for TCM decoction pieces and concentrated TCM granules	641.80	0.00	641.80	641.80	0.00	2018
	For the acquisitions of suitable targets engaged in TCM decoction pieces and concentrated TCM granules businesses	121.86	0.00	121.86	121.86	0.00	2018
Research and establishment of quality standards in concentrated TCM granules		81.24	3.27	77.97	68.03	9.94	2019
Research and development in classical TCM prescription		81.24	0.00	81.24	4.01	77.23	2019
Repayment of bank loans		365.58	360.00	5.58	5.58	0.00	2018
The Group's general working capital	For the settlement of outstanding trade payables	243.72	213.27	30.45	30.45	0.00	2018
	For the purchase of raw materials	81.24	0.00	81.24	81.24	0.00	2018
	For the payment of other expenses	100.74	90.93	9.81	9.81	0.00	2018
Total		2,172.36	703.97	1,468.39	1,381.22	87.17	

The Hong Kong dollar has been converted into RMB at the exchange rate of HK$1 to RMB0.8124 on 10 May 2018.

The use of the net proceeds from the Subscription meets with the usage as stated in the circular of the Company dated 10 April 2018.

The Group is a leading TCM enterprise in the PRC and is principally engaged in the manufacture and sale of TCM and pharmaceutical products with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces. In order to enhance competitiveness and maintain rapid growth, it is the strategy of the Group to expand the geographical coverage of its TCM business to the whole country and consolidate the entire TCM industry chain.

Ping An and its subsidiaries ("Ping An Group") possesses excellent brand awareness, strong financial strength, diversified sale channels and network resources across the nation. It has made a number of successful investments in the pharmaceutical and healthcare industries in recent years, covering areas such as biomedical engineering and pharmaceutical and healthcare services, and therefore has an in-depth understanding in the pharmaceutical and healthcare industries.

The Group intends to, through the Subscription, introduce Ping An Group as a long-term strategic partner, which will help to bring together the Group's expertise in the TCM medicinal herbs, decoction pieces, concentrated TCM granules and finished drugs businesses, and Ping An Group's customer base, sales network, and technology, platform and resources advantages in the pharmaceutical and healthcare sector for developing the TCM business. In particular, it is the Group's intention to explore and promote strategic cooperation in TCM-related businesses with Ping An Group through a joint venture being established by Ping An Group and Tsumura & Co. (a Japanese leading Kampo medicine manufacturer) as the primary strategic partner, which is expected to bring the global advanced research and development and production technology in the TCM industry to the Group, create synergies and further enhance the value of the Company.

The Company agrees that, as long as the total number of Shares held by the Subscriber and its associates collectively is equal to or exceeds 5% of the total number of Shares in issue and outstanding, the Subscriber shall be entitled to nominate one candidate with such appropriate qualification and experience to serve as a member of the Board to be appointed as a non-executive Director. For the avoidance of doubt, the Nomination Right is not one-off and shall remain enforceable for so long as the aggregate shareholding of the Subscriber and its associates in the Company is equal to or exceeds 5% of the total number of Shares in issue. On 30 May 2018, Mr. KUI Kaipin was appointed as a non-executive director by the Board.

All transactions contemplated under the subscription shares, subscription agreement and allot and issue the Subscription Shares under specific mandate were approved by the shareholders of the Company at the extraordinary general meeting held on 30 April 2018. Details of the subscription, please to the announcement and circular of the Company dated 19 March 2018 and 10 April 2018 respectively. The Subscription Shares were completed on 10 May 2018 and represent approximately 12.00% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares. Please refer to the announcement of the Company for completion of subscription dated 10 May 2018.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
WANG Xiaochun	Interest of controlled corporation	380,001,042 (long position) *(Note 1)*	7.55%

Note:

1. The 380,001,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2018, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2018, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
Sinopharm Hongkong	Beneficial owner	1,614,313,642 (long position) *(Note 1)*	32.06%
CNPGC	Interest of controlled corporations	1,614,313,642 (long position) *(Note 1)*	32.06%
Ping An Life Insurance	Beneficial owner	604,296,222 (long position) *(Note 2)*	12.00%
Ping An	Interest of controlled corporations	604,296,222 (long position) *(Note 2)*	12.00%
Hanmax	Beneficial owner	380,001,042 (long position)	7.55%

Notes:

1. The 1,614,313,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.

2. The 604,296,222 shares are held by Ping An Life Insurance which is a subsidiary of Ping An. Ping An is deemed to be interested in Ping An Life Insurance's interest in the Company under SFO.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2018.

CONNECTED TRANSACTIONS

Acquisition of four pharmaceutical companies

On 20 October 2017, Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. (國藥集團馮了性（佛山）藥材飲片有限公司) (a wholly-owned subsidiary of the Company) (the "Purchaser') and China National Traditional Chinese Medicine Corporation (the "Vendor") entered into the following agreements:

(i) The Huamiao Agreement in relation to the Beijing Huamiao Acquisition

Pursuant to the Huamiao Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Beijing Huamiao free from encumbrances and together with all rights attaching thereto from the date of Beijing Huamiao Completion. The consideration was approximately RMB216,600,000 (equivalent to approximately HK$255,600,000) and was determined after arm's length negotiations between the Purchaser and the Vendor taking into account the profitable track record of Beijing Huamiao, the complementary nature of Beijing Huamiao's business with those of the Group and the synergy expected to be created by consolidating the TCM decoction pieces business of Beijing Huamiao with those of the Group. Beijing Huamiao is principally engaged in the manufacture and sale of TCM decoction pieces in Beijing, the PRC.

The completion of the Huamiao Agreement was on 5 January 2018, and the industrial and commercial registration was completed on 8 February 2018.

(ii) The Huatai Agreement in relation to the Beijing Huatai Acquisition

Pursuant to the Huatai Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Beijing Huatai free from encumbrances and together with all rights attaching thereto from the date of Beijing Huatai Completion. Apart from the lease of certain properties which are being leased to Beijing Huamiao, Huayi (an indirect wholly-owned subsidiary of the Company) and Beijing Huatai respectively, Beijing Huatai does not have other business operation. The consideration was approximately RMB139.6 million (equivalent to approximately HK$164.7 million). At the same time, the Purchaser had agreed to guarantee the settlement of the amount owed by Beijing Huatai to the Vendor of approximately RMB163.6 million (equivalent to approximately HK193.0 million) after the Beijing Huatai Completion.

The completion of the Huatai Agreement was on 5 January 2018, and the industrial and commercial registration was completed on 31 January 2018.

(iii) The HLJ Sinopharm Agreement in relation to the Heilongjiang Sinopharm Medicinal Materials Co., Limited ("HLJ Sinopharm") Acquisition

Pursuant to the HLJ Sinopharm Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of HLJ Sinopharm free from encumbrances and together with all rights attaching thereto from the date of the HLJ Sinopharm Completion. The consideration was approximately RMB61,400,000 (equivalent to approximately HK$72,500,000). HLJ Sinopharm is principally engaged in the distribution of TCM products and chemical drugs to pharmaceutical companies in several regions and hospitals in Heilongjiang Province, the PRC. It also holds certain retail properties in Harbin, the PRC which are being leased to independent third parties. In addition, it owns two plantation bases of medicinal herbs in Heilongjiang Province, the PRC.

The completion of the HLJ Sinopharm Agreement was on 5 January 2018, and the industrial and commercial registration was completed on 12 January 2018.

(iv) The Jiangyou Agreement in relation to the Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Jiangyou") Acquisition

Pursuant to the Jiangyou Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Jiangyou free from encumbrances and together with all rights attaching thereto from the date of the Jiangyou Completion. The consideration was approximately RMB81,700,000 (equivalent to approximately HK$96,400,000). Jiangyou is principally engaged in the manufacture and sale of TCM decoction pieces in Sichuan Province, the PRC. Jiangyou had invested approximately RMB50 million in the establishment of a new production plant in Sichuan which completed in late 2016. The production plant is equipped with a production capacity of 4,000 tonnes of TCM decoction pieces of toxic Chinese medicinal herbs.

The completion of the Jiangyou Agreement was completed on 5 January 2018, and the industrial and commercial registration was completed on 24 January 2018.

Through the acquisition of Beijing Huamiao and HLJ Sinopharm, the Company can leverage on their mature hospital sales networks to bring synergetic effects and economies of scale into with the existing sales channels of the Group in order to expand the Company's market share of its concentrated TCM granule business in Beijing and the northeast region.

The acquisition of Beijing Huamiao and Jiangyou was in line with the Group's mission to strengthen this segment and would immediately enhance the Group's production capacity, market share and distribution channel in Beijing and Sichuan Province respectively. Together with its existing production bases in Guangdong, Shanghai, Guiyang and Gansu, the Group would have nationwide geographical coverage of TCM decoction pieces business in the key regions in the PRC (such as the eastern, northern, southern, southwestern and northwestern regions) after the acquisitions and benefit from integration of resources in terms of management, procurement, production and financial aspects.

These three enterprises have their own characteristics. Beijing Huamiao is the largest manufacturing and processing company for TCM decoction pieces in Beijing which owns more than 800 kinds of TCM decoction pieces. As an authorised manufacturer in respect of 28 kinds of toxic TCM materials designated by Beijing Food and Drug Administration, it also holds the production and processing permit for the processed products of some of the endangered and protected wild animals. Huamiao's modernized decoction and storage centre built in Beijing greatly facilitates the expansion of the Company's decoction business. Jiangyou possesses the largest production base for toxic decoction pieces in the PRC. Leveraging on its special Aconite decoction pieces business, the Company will develop the best Aconite brand in China within the sub-category of toxic decoction pieces after the acquisition. HLJ Sinopharm is the only enterprise in Heilongjiang Province that holds the qualification of poppy shell operation. In the meantime, its possession of retail pharmacies and direct sales qualification is of strategic significance to the Company's business expansion towards retailing of pharmaceutical products in the future. Making use of HLJ Sinopharm's rich TCM resources, distribution channels and retail platforms, it is able to position itself as a northeast TCM resources centre, warehousing and sales centre as well as logistics centre, covering the three northeast provinces and the Northern China region to promote the Company's concentrated TCM granules, finished drugs and decoction pieces businesses in those regions.

Beijing Huatai owns an industrial complex in Beijing, which comprises two production plants currently being leased to Beijing Huamiao and Huayi respectively for their production use. The Huatai Acquisition merely represents an asset reorganisation to enhance management efficiency and realign the ownership and user of the assets.

On 20 October 2017, the Company was owned as to approximately 36.43% by Sinopharm Hongkong, which was the controlling shareholder of the Company and a wholly-owned subsidiary of the Vendor. Accordingly, the Vendor was a connected person of the Company and the Acquisitions constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

From time to time, Beijing Huamiao, HLJ Sinopharm and Jiangyou purchase TCM materials from the CNPGC Group and sell various pharmaceutical products to the CNPGC Group. Upon completion of the Beijing Huamiao Acquisition, the HLJ Sinopharm Acquisition and the Jiangyou Acquisition, such three enterprises had become the indirect subsidiaries of the Company and such transactions became continuing connected transactions for the Company under Chapter 14A of the Listing Rules and fall within the transactions contemplated under the master purchase agreement and the master supply agreement as disclosed in the circular of the Company dated 19 December 2016 in relation to the continuing connected transactions. Transaction amount of each of such transactions will account for the usage of the annual caps. The Company will continue to monitor the usage of the annual caps and comply with the Listing Rules as and when necessary.

The acquisition agreements of the above four pharmaceutical factories were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 22 December 2017. For details of such connected transactions, please refer to the announcement and the circular of the Company dated 20 October 2017 and 24 November 2017 respectively.

Acquisition of Zhonglian Pharmaceutical

On 20 July 2018, Jiangyin Tianjiang (the "Purchaser"), China National Traditional Chinese Medicine Co., Ltd. (formerly named as China National Traditional & Herbal Medicine Co., Ltd. (the "Vendor")), Shanghai Shyndec Pharmaceutical Co., Ltd. ("Shyndec"),武漢光谷產業投資有限公司(Wuhan Guanggu Industry Investment Co., Limited*) ("Guanggu") and Zhonglian Pharmaceutical (the "Target") entered into the equity transfer and capital increase agreement (the "Agreement") pursuant to which (i) the Purchaser has agreed to acquire approximately 0.71% of the equity interest in the Target from the Vendor at the consideration of approximately RMB1.8 million (equivalent to approximately HK$2.1 million) as at the date of the Agreement; and (ii) the Purchaser has agreed to make capital contribution of approximately RMB260.0 million (equivalent to approximately HK$301.6 million) into the Target. Immediately after completion, the Purchaser will hold 51% of the equity interest in the Target. The Target will become an indirect non-wholly owned subsidiary of the Company.

The Vendor is the holding company of Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is the controlling shareholder holding 1,614,313,642 shares of the Company, representing approximately 32.06% of the total issued Shares as at the date of the Agreement. The Target is currently owned as to approximately 96.95% by Shyndec, which is ultimately controlled by China National Pharmaceutical Group Corporation ("CNPGC"), the ultimate controlling shareholder of the Company. Accordingly, the Vendor and the Target are connected persons of the Company and the Agreement constituted connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the share transfer and the capital increase exceed 0.1% but are less than 5%, the share transfer and the capital increase are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Acquisition will create synergic effects in the Group's finished drugs business and granules business. As announced by the Hubei Economy and Information Technology Commission, Health and Family Planning Commission of Hubei Province and Hubei CFDA in September 2017, the Target will become one of the six enterprises with provincial pilot license to develop, manufacture and use concentrated TCM granules in Hubei Province. Once the final approval is obtained, the Target together with its subsidiaries (the "Target Group") will focus on developing the concentrated TCM granules business while steadily promoting its finished drugs business. As the Group's subsidiary producing concentrated TCM granules in Hubei Province in the future, the Target Group will help expand the Group's market share in concentrated TCM granule business in Hubei Province. Moreover, the Target Group's development range of TCM varieties will be a great complement to the Group's existing product varieties. Together with the Group's promotion experience in the TCM segment, it is suggested that the Target Group's market coverage will be rapidly expanded in the next few years. At the same time, with the Group's large-scale procurement of TCM raw materials, the Target Group will be able to reduce its procurement cost of raw materials and increase the level of gross profit.

On 13 December 2018, Zhonglian Pharmaceutical obtained the provincial approval, and became one of concentrated TCM granules pilot manufacturers in Hubei Province.

For details of the connected transaction, please refer to the announcement dated 20 July 2018 and 17 December 2018 of the Company, respectively. The industrial and commercial registration date was 26 September 2018.

Disposal of 20% Equity Interest in Sinopharm Group Guizhou Blood Products Company Limited

On 9 October 2018, Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd.* (the "Vendor"), an indirect wholly-owned subsidiary of the Company, and Chengdu Rongsheng Pharmaceutical Co., Ltd.* (the "Purchaser"), a subsidiary of China Biotechnology and Beijing Tiantan Biological Products, entered into the Agreement, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire a 20% equity interest in Sinopharm Group Guizhou Blood Products Company Limited* (formerly known as Guizhou Zhongtai Biological Technology Company Limtied*) for a cash consideration of RMB90.6 million (equivalent to approximately HK$102.4 million).

The Purchaser is an indirect subsidiary of CNPGC, which is the holding company of Sinopharm Hongkong. Sinopharm Hongkong is the controlling Shareholder holding 1,614,313,642 Shares, representing approximately 32.06% of the total issued Shares as at the date of the agreement. The Purchaser is therefore a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules are more than 0.1% but less than 5%, the Disposal is subject to reporting and announcement but is exempt from the circular (including independent advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Target Group is principally engaged in the research and development, manufacture and sale of biological products in the PRC. Although the Target Group had profit contribution to the Group in last two years, its business does not form part of the development direction for the Group's core businesses. At the same time, the business of the Target Group has been facing severe competition which impacted its performance in the first half of year 2018. In light of the Group's devotion to dedicate more resources and focus on the consolidation of TCM supply chain and strengthening its leading position in the core businesses, the Board decided to dispose of the remaining interest in the Target.

For details of the connected transaction, please refer to the announcement of the Company dated 9 October 2018. The industrial and commercial registration date was 26 November 2018. Immediately after Completion, the Group will cease to hold any equity interest in the Target.

* *for identification purpose only*

CONTINUING CONNECTED TRANSACTIONS

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 18 November 2016, the Company entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ending 31 December 2017, 2018 and 2019.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase the materials supplied by the CNPGC and its subsidiaries (collectively, the "CNPGC Group") during the period from 1 January 2017 to 31 December 2019. The value of the purchases shall not exceed the annual caps of RMB45 million (equivalent to approximately HK$50.9 million) for each of the three financial years ending 31 December 2017, 2018 and 2019.

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the products to the CNPGC Group during the period from 1 January 2017 to 31 December 2019.

Pursuant to the New Master Supply Agreement, the Group agreed to supply and CNPGC Group agreed to purchase the products during the period from 1 January 2017 to 31 December 2019. Pursuant to the New Master Supply Agreement, the value of the sales shall not exceed the annual caps of RMB800 million (equivalent to approximately HK$904 million), RMB900 million (equivalent to approximately HK$1,017 million) and RMB1,000 million (equivalent to approximately HK$1,130 million) for each of the three financial years ending 31 December 2017, 2018 and 2019 respectively.

On 18 November 2016, CNPGC wholly owned Sinopharm Hongkong, a controlling shareholder of the Company. Therefore, CNPGC is a connected person of the Company. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

For details of these renewed continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2016 and 19 December 2016 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 6 January 2017.

During the period from 1 January 2018 to 31 December 2018, the actual purchases of materials by the Group from CNPGC Group amounted to RMB22,767,000 (excluding value added tax) which was below the cap amount of RMB 45,000,000 for the year ended 31 December 2018.

During the period from 1 January 2018 to 31 December 2018, the actual sales of products by the Group to CNPGC Group amounted to RMB678,795,000 (excluding value added tax) which was below the cap amount of RMB 900,000,000 for the year ended 31 December 2018.

Research and Development Agreements with SIPI and SPERC

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

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

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

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

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

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

During the period from 1 January 2018 to 31 December 2018, there is no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2018 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

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

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

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

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. During 2018, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 45 of the audited consolidated financial statements of this report. Such related party transactions include the transactions as disclosed in the "CONNECTED TRANSACTIONS" and "CONTINUING CONNECTED TRANSACTIONS" of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditors

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

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with relevant agreements governing the transactions; and

(iv) have exceeded the annual cap.

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

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

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

DEBENTURES ISSUED

For the year ended 31 December 2018, no debenture is issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

CONTROLLING SHAREHOLDERS'S INTEREST IN CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 6.0% and 14.2% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 6.0% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 4.4% and 10.2% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.3% of the Group's total purchases during the year.

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

RETIREMENT SCHEME

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

CHANGE OF AUDITORS

After obtaining the approval in the AGM of 2015, the Company appointed Deloitte Touche Tohmatsu as the auditors of the Company.

Deloitte Touche Tohmatsu shall retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming AGM. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2018 have been reviewed by the audit committee ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 52 to 70 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 52 to 70 of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

By Order of the Board

WU Xian
Chairman

Hong Kong, 15 March 2019

Corporate Governance Report

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. Save as disclosed in this report, the Company has applied the corporate governance practices and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2018.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There is no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. WU Xian	*Chairman*
Mr. WANG Xiaochun	*Managing Director*
Mr. YANG Wenming	*(appointed on 24 December 2018)*
Mr. ZHAO Dongji	*(resigned on 24 December 2018)*
Ms. HUANG He	*(resigned on 24 December 2018)*

Non-executive Directors:

Mr. YANG Shanhua	*(appointed on 28 March 2018)*
Ms. LI Ru	*(appointed on 18 February 2019)*
Mr. YANG Binghua	*(appointed on 24 December 2018)*
Mr. WANG Kan	*(appointed on 24 December 2018)*
Mr. KUI Kaipin	*(appointed on 30 May 2018)*
Ms. RONG Yan	*(appointed on 24 December 2018 and resigned on 18 February 2019)*
Mr. LIU Cunzhou	*(resigned on 24 December 2018)*
Ms. TANG Hua	*(resigned on 24 December 2018)*
Mr. DONG Zenghe	*(resigned on 28 March 2018)*

Independent Non-executive Directors:

Mr. XIE Rong	
Mr. YU Tze Shan Hailson	
Mr. QIN Ling	*(appointed on 18 February 2019)*
Mr. LI Weidong	*(appointed on 18 February 2019)*
Mr. ZHOU Bajun	*(resigned on 28 January 2019)*
Mr. LO Wing Yat	*(resigned on 25 January 2019)*

As of the date of this report, the Board comprises twelve Directors, including three executive Directors, five non-executive Directors and four independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, finance, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and the relevant committee works. The Company has complied with the requirements of at least three independent non-executive directors in accordance with the requirements of Rule 3.10 (1) and (2) of the Listing Rules and one of the independent non-executive Directors, Mr. XIE Rong, also has the appropriate professional accounting qualification and financial management expertise. In addition, the Company has complied with Rule 3.10A of the Listing Rules, that is, the independent non-executive directors appointed must account for at least one third of the number of members of the Board. The independent non-executive directors have issued an annual confirmation letter on their independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are in compliance with the Independent Guidelines set out in Rule 3.13 of the Listing Rules and are independent under the terms of the Guidelines.

During the period from 25 January 2019 to 17 February 2019, the cessation of office of Mr. LO Wing Yat and Mr. ZHOU Bajun as disclosed in the announcements of the Company dated 25 January 2019 and 28 January 2018 respectively, the Company was not in compliance with (i) Rule 3.10(1) of the Listing Rules, which stipulates that the board of directors of the issuer must include at least three independent non-executive directors and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise; (ii) Rules 3.10A of the Listing Rules, which stipulates that the number of independent non-executive directors shall represent at least one-third of the Board; (iii) Rule 3.25 of the Listing Rules, which stipulates that the remuneration committee members shall comprise a majority of independent nonexecutive directors; and (iv) Code Provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which stipulates that the nomination committee members shall comprise a majority of independent non-executive directors.

In compliance with the requirements of the Listing Rules, the Board appointed Mr. QIN Ling as an independent non-executive director, chairman of the Remuneration Committee, a member of the Audit Committee, a member of the Nomination Committee and a member of the Strategic Committee of the Company, all with effect from 18 February 2019. The Board also appointed Mr. LI Weidong as an independent non-executive director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company, all with effect from 18 February 2019.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at approximately quarterly intervals. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the Directors within reasonable time before the meetings. Draft minutes of Board meetings are circulated to the Directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by Directors.

Code Provision A.1.5 of the Corporate Governance Code stipulates that, among other things, the draft and final versions of minutes of board meetings and its committee meetings should be sent to all directors for their comments and record respectively. For the board meetings held during the year ended 31 December 2018, the Company had recorded the whole process of each meeting in digital format, arranged for the Directors to sign summary of board resolutions, and prepared board minutes which were signed off by the chairman of the meeting (the "Practice"). Given that a complete record of the board meetings in digital format would be maintained under the Practice, the Company did not consider there was a need to send the draft and final versions of the minutes to the directors for comments and record. While the Practice, in a technical and strict manner, had constituted a deviation from the language of Code Provision A.1.5, the Board believes that the purpose of the code provision is to ensure that the board minutes of a listed issuer shall at all times reflect accurately in all material aspects the discussions and views made by its directors at board meetings and that each director's views and concerns could be correctly recorded in the listed issuer's records (the "Purpose"), and that the Practice could serve the Purpose better and are in compliance with the spirit of Code Provision A.1.5 and in no circumstances had the interests of the Directors and the shareholders of the Company been impaired nor compromised.

In order to ensure strict adherence to the language of Code Provision A.1.5, the Board has, since its meeting on 18 February 2019 and going forward, adopted and will adopt an additional step in its standard procedures for board meetings in that draft and final versions of the board minutes would be provided to the Directors for their comments and record.

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results

– declaration and recommendation of the payment of dividend;

– appointment of new directors; and

– appointment and dismissal of senior management of the Company.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board Committees.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 12 and 13 to the financial statements.

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2018 is set out below:

Remuneration Band (RMB'000)	Number of persons
0-1,000	0
1,001-1,200	0
1,201-1,400	3

For the year ended 31 December 2018, the Company had convened five Board meetings, the 2018 annual general meeting (the "2018 AGM") and one extraordinary general meeting (collectively terms as the "General Meeting"). The following table shows the details of Directors' attendance

	Attendance/Number of Meetings		
Directors	**Board Meetings**	**2018 AGM**	**Extra-ordinary General Meeting**
Executive Directors:			
Mr. WU Xian *(Chairman)*	5/5	1/1	1/1
Mr. WANG Xiaochun *(Managing Director)*	4/5	1/1	1/1
Mr. YANG Wenming *(appointed on 24 December 2018)*	1/1	N/A	N/A
Mr. ZHAO Dongji *(resigned on 24 December 2018)*	4/4	1/1	1/1
Ms. HUANG He *(resigned on 24 December 2018)*	3/4	1/1	1/1
Non-executive Directors:			
Mr. YANG Shanhua *(appointed on 28 March 2018)*	5/5	1/1	0/1
Mr. YANG Binghua *(appointed on 24 December 2018)*	1/1	N/A	N/A
Mr. WANG Kan *(appointed on 24 December 2018)*	1/1	N/A	N/A
Mr. KUI Kaipin *(appointed on 30 May 2018)*	4/4	N/A	N/A
Ms. RONG Yan *(appointed on 24 December 2018 and resigned on 18 February 2019)*	1/1	N/A	N/A
Mr. LIU Cunzhou *(resigned on 24 December 2018)*	4/4	0/1	0/1
Ms. TANG Hua *(resigned on 24 December 2018)*	4/4	0/1	0/1
Mr. DONG Zenghe *(resigned on 28 March 2018)*	N/A	N/A	N/A
Independent Non-executive Directors:			
Mr. XIE Rong	4/5	1/1	0/1
Mr. YU Tze Shan Hailson	5/5	1/1	1/1
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	5/5	1/1	0/1
Mr. LO Wing Yat *(resigned on 25 January 2019)*	1/5	0/1	0/1

Chairman and Managing Director

As at the date of this report, Mr. WU Xian, an executive Director, is the Chairman of the Board, and Mr. WANG Xian, an executive Director, is the Managing Director of the Company.

The Chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of the daily operations of the Group.

Appointment and Re-election of Directors

The nomination committee (the "Nomination Committee") is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company. All the Directors are appointed for a specific term and subject to retirement by rotation once every three years and re-election in accordance with the Articles of Association of the Company.

According to the Articles of Association of the Company, newly appointed Directors are required to offer themselves for re-election at the next following general meeting (in the case of filling a causal vacancy) or at the next following AGM (in the case of an addition to the Board) following their appointment.

Continuous Professional Development of Directors

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will be arranged as necessary.

The training attended by the Directors during the reporting period is summarized as follows:

Directors	Training Types
Executive Directors:	
Mr. WU Xian *(Chairman)*	A
Mr. WANG Xiaochun *(Managing Director)*	B
Mr. YANG Wenming *(appointed on 24 December 2018)*	N/A
Mr. ZHAO Dongji *(resigned on 24 December 2018)*	A
Ms. HUANG He *(resigned on 24 December 2018)*	A
Non-executive Directors:	
Mr. YANG Shanhua *(appointed on 28 March 2018)*	A
Mr. YANG Binghua *(appointed on 24 December 2018)*	N/A
Mr. WANG Kan *(appointed on 24 December 2018)*	N/A
Mr. KUI Kaipin *(appointed on 30 May 2018)*	A
Ms. RONG Yan *(appointed on 24 December 2018 and resigned on 18 February 2019)*	N/A
Mr. LIU Cunzhou *(resigned on 24 December 2018)*	A
Ms. TANG Hua *(resigned on 24 December 2018)*	A
Mr. DONG Zenghe *(resigned on 28 March 2018)*	N/A
Independent Non-executive Directors:	
Mr. XIE Rong	A
Mr. YU Tze Shan Hailson	A
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	A
Mr. LO Wing Yat *(resigned on 25 January 2019)*	B

A: Attending training related to development, strategies and business updates

B: Reading materials

Nomination Committee

The Board established the Nomination Committee in 2012. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

During the period from 25 January 2019 to 17 February 2019, owing to the cessation of office of Mr. LO Wing Yat and Mr. ZHOU Bajun as disclosed in an announcement of the Company dated 25 January 2019 and 28 January 2018 respectively, the Company was not in compliance with Code Provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which stipulates that the nomination committee members shall comprise a majority of independent non-executive directors.

In compliance with the requirements of the Listing Rules, the Board appointed Mr. QIN Ling as an independent non-executive Director, chairman of the Remuneration Committee, a member of the Audit Committee, a member of the Nomination Committee and a member of the Strategic Committee of the Company, all with effect from 18 February 2019. The Board also appointed Mr. LI Weidong as an independent non-executive Director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company, all with effect from 18 February 2019.

As at the date of this report, the Nomination Committee comprises of three executive Directors and four independent non-executive Directors. During the year, three Nomination Committee meetings were held and the individual attendance of each member is set out below:

Members of the Nomination Committee	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. WU Xian *(Chairman)*	3/3
Mr. WANG Xiaochun	3/3
Mr. YANG Wenming *(appointed on 24 December 2018)*	N/A
Independent Non-executive Directors:	
Mr. XIE Rong	2/3
Mr. YU Tze Shan Hailson *(appointed as a member of the Nomination Committee on 24 December 2018)*	N/A
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	3/3
Mr. LO Wing Yat *(resigned on 25 January 2019)*	0/3
Mr. QIN Ling *(appointed on 18 February 2019)*	N/A
Mr. LI Weidong *(appointed on 18 February 2019)*	N/A

Nomination Policy

The Nomination Committee has formulated a nomination policy (the "Nomination Policy"). The Nomination Policy aims to ensure that the Nominating Committee will identify and nominate suitable candidates based on merit and a range of diversity criteria, including their professional experience, business perspective, skills, cultural and educational background, age and length of service. The Company has formulated:

– the procedure for selection, appointment and re-appointment of Directors which has been formally and carefully considered;
– the procedure for making recommendations to the shareholders on electing or re-electing any Directors at a general meeting; and
– the nomination criteria and nomination procedure for the shareholders to nominate new Directors.

The Nomination Committee will review and monitor the structure, size and composition of the Board in terms of skills, knowledge, experience and diversity annually and make recommendations on any proposed changes to the Board to complement the Company's strategies.

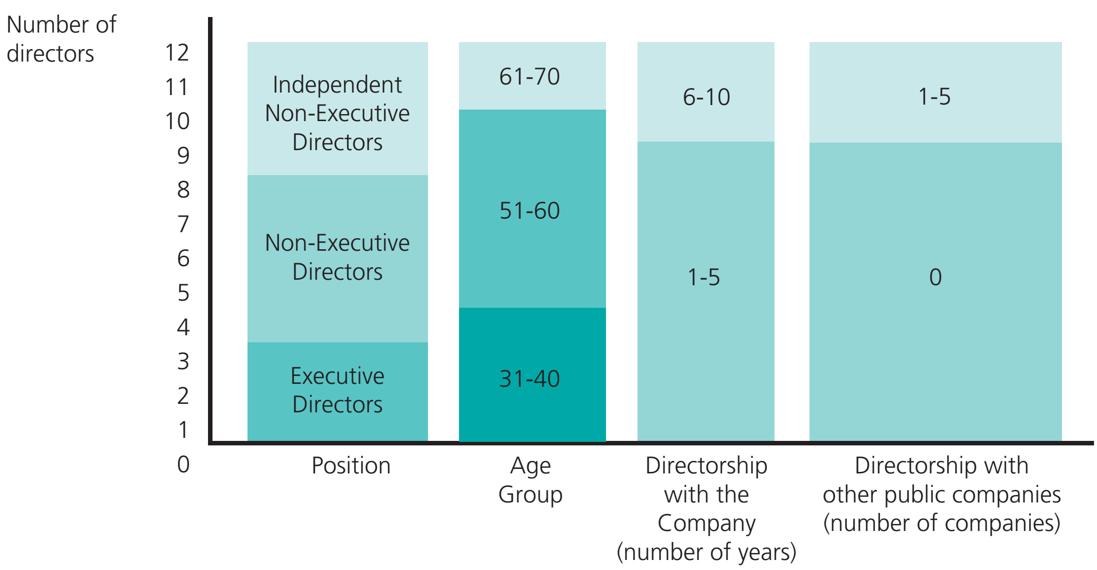
Board Diversity Policy

The Board adopted the board diversity policy in August 2013. The policy sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board developed measurable objectives to implement the board diversity policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit, and contribution that the selected candidate will bring to the Board.

An analysis of the Composition of the current Board based on a range of diversity perspectives is set out below:



Audit Committee

As at the date of this report, the Audit Committee comprises of one non-executive Director and four independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The terms of reference of the Audit Committee were effective from 1 April 2012 and have been amended on 1 January 2016 and 2 November 2018, with effect from the same dates. The terms of reference are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;
– overseeing the Group's financial reporting system, internal control procedures and reviewing risk management system; and
– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Members of the Audit Committee	Attendance/ Number of Meetings
Non-executive Directors:	
Mr. YANG Shanhua *(appointed as a member of the Audit Committee on 24 December 2018)*	N/A
Ms. TANG Hua *(resigned on 24 December 2018)*	2/2
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	2/2
Mr. YU Tze Shan Hailson	2/2
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	2/2
Mr. LO Wing Yat *(resigned on 25 January 2019)*	0/2
Mr. QIN Ling *(appointed on 18 February 2019)*	N/A
Mr. LI Weidong *(appointed on 18 February 2019)*	N/A

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2017 and the interim results and the interim report of the Group for the year 2018, as well as the effectiveness of the internal control and risk management system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

During the period from 25 January 2019 to 17 February 2019, owing to the cessation of office of Mr. LO Wing Yat and Mr. ZHOU Bajun as disclosed in an announcement of the Company dated 25 January 2019 and 28 January 2018 respectively, the Company was not in compliance with Rule 3.25 of the Listing Rules, which stipulates that the remuneration committee members shall comprise a majority of independent non-executive directors.

In compliance with the requirements of the Listing Rules, the Board appointed Mr. QIN Ling as an independent non-executive director, chairman of the Remuneration Committee, a member of the Audit Committee, a member of the Nomination Committee and a member of the Strategic Committee of the Company, all with effect from 18 February 2019. The Board also appointed Mr. LI Weidong as an independent non-executive director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company, all with effect from 18 February 2019.

As at the date of this report, the Remuneration Committee comprises of one non-executive Director and three independent non-executive Directors.

The main roles and functions of the Remuneration Committee are as follows:

(a) making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management;

(d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(f) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(g) making recommendations to the Board on the remuneration of non-executive Directors. The Company has adopted the model whereby the Remuneration Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

The terms of reference of the Remuneration Committee were effective from 1 April 2012 and have been amended in 2015. The revised terms of reference are available on the websites of the Company and the Stock Exchange.

In determining the emolument payable to the Directors, the Remuneration Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;
– providing basic remuneration to the employees that is competitive to the industry and general market condition;
– awarding employees in recognition of good individual and corporate performance; and
– encouraging future employee contributions to achieve overall corporate goals.

During the year, two Remuneration Committee meetings were held and the individual attendance of each member is set out below:

Members of the Remuneration Committee	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. WU Xian *(appointed and resigned as a member of the Remuneration Committee on 24 December 2018 and 18 February 2019 respectively)*	N/A
Mr. YANG Wenming *(appointed and resigned as a member of the Remuneration Committee on 24 December 2018 and 18 February 2019 respectively)*	N/A
Non-Executive Directors:	
Mr. LIU Cunzhou *(resigned on 24 December 2018)*	2/2
Mr. YANG Shanhua *(appointed as a member of the Remuneration Committee on 18 February 2019)*	N/A
Independent Non-executive Directors:	
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	2/2
Mr. XIE Rong	1/2
Mr. YU Tze Shan Hailson *(appointed as a member of the Remuneration Committee on 18 February 2019)*	N/A
Mr. LO Wing Yat *(resigned on 25 January 2019)*	0/2
Mr. QIN Ling *(Chairman) (appointed on 18 February 2019)*	N/A
Mr. LI Weidong *(appointed on 18 February 2019)*	N/A

During the year, the Remuneration Committee determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

Strategic Committee

The Board set up a strategic committee ("Strategic Committee") in January 2014. As at the date of this report, the Strategic Committee comprises of the five Directors including Mr. WU Xian, Mr. WANG Xiaochun, Mr. YANG Wenming, Mr. YU Tze Shan Hailson and Mr. QIN Ling. Mr. Wu Xian was appointed as the chairman. During the year, no Strategic Committee meeting was held.

The Strategic Committee is a specific working body set up by the Board. Its main responsibilities are to conduct researches and submit proposals to the Board in respect of medium-to-long term development strategies and material investment decisions of the Group. The Board considers that the proposals submitted by Strategic Committee will strengthen the core competitiveness of the Group, determine its development plans as well as improve its procedures of making investment decisions, so as to enhance the effectiveness and quality of material investment decisions and perfect its corporate governance structure.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

For the year ended 31 December 2018, the Group has been complying with applicable laws and regulations applicable to the Group, including "Pharmaceutical Administration Law of the People's Republic of China" and its implementation regulations, "Regulations of the People's Republic of China on Traditional Chinese Medicine", "Regulations on Protection of Traditional Chinese Medicines", "Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers", "Law of the People's Republic of China on Traditional Chinese Medicine", "Trademark Law of the People's Republic of China", "Patent Law of the People's Republic of China" and its rules for implementation, "Environmental Protection Law of the People's Republic of China" and "Labor Contract Law of the People's Republic of China". The Group attaches great importance to product safety and conducts multiple quality inspection in the production process to ensure the compliance with the applicable quality regulations promulgated by the relevant authorities. As of this year, the company's production subsidiaries have passed the relevant drug production quality audit and obtained the GMP certification.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group attaches high importance to environmental management and has developed a comprehensive environmental management and monitoring system to strictly perform in accordance with relevant laws and regulations governing the amount and standard of emissions. Apart from monitoring its own emission data, the Group has also entrusted third parties to monitor its sewage emission on a quarterly basis and the emission of exhaust gases from boilers every six months. Having established the hazardous waste management system, the transfer of hazardous waste generated from production is recorded and the waste is recycled or disposed of regularly by local qualified professional hazardous waste recycling companies. The storage area of the hazardous waste is monitored, and relevant information filed by the local environmental protection department.

The Group promotes the concept of green production to achieve the goals of saving energy, reducing consumption and alleviating pollution. Striving to improve the environment surrounding the plant, the Group has put much efforts into the improvement of facilities over the years by replacing oil-burning boilers with gas-burning boilers and upgrading the sewage treatment facilities. In addition, through corporate culture education, the Group carries out the resources conservation campaigns and promotes the importance of green living to all staff, encouraging them to join the green living community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has commenced preparation of the Company's environmental, social and governance report in accordance with the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange, which is planned to released in or before July 2019.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group values the development and construction for talents and keeps building the platform for the mutual growth of all staff together with the Group through various means. The Group strictly complies with the requirements of Law of the People's Republic of China on Employment Contracts and the Labour Legislation of Hong Kong Special Administrative Region, and abides by the open, fair and just principles while providing employment opportunities, remuneration, leave, benefits, etc. without discriminatory acts towards differences on gender, religion, culture, educational background, etc.. All of the labour standards and recruitment procedures are conducted in strict compliance with the relevant labour laws of the PRC to avoid child labour or forced labour.

Moreover, the Group understands the importance of training and development for the employees. Starting from the appointment of a new staff member, induction course on corporate culture, business operation, regulations and so on is provided. Staff members of different grading are further provided with different training on marketing, production, human resources, financial management, etc. to ensure that staff members can solve their problems encountered in work and their comprehensive capabilities can be enhanced.

The Group strives to take care of the interests of customers and maintain product safety. All production lines are GMP certified as required by laws and regulations. Regarding the research and development of new drugs, the Group would perform all research and development procedures in compliance with the regulations and requirements of regulatory authorities to ensure the passing of clinical tests and the successful registration of new drugs. Currently more than 10 new drugs are at different research and development stages and the Group possesses production approvals for more than 500 drugs.

In addition, the Group maintained good and stable working relationship with the major suppliers of raw materials.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the reporting year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. In addition, the Board has adopted the provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in securities of the Company. Such relevant employees who may possess or have access to inside information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at board meetings for approval.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2018, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 77 to 82 of this report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit and non-audit service are set out below:

Services rendered	**Fee paid/ payable in 2018** RMB'000
Audit service	5,640
Non-audit service *(Note)*	5,258
Total	10,898

Note: Non-audit services include review of the interim financial report of the Group, due diligence work on the potential target of acquisition, tax services and special audit service during the year.

JOINT COMPANY SECRETARIES

From 20 October 2016, the Company appointed a representative of an external service provider, Ms. LEUNG Suet Lun, as the Company Secretary. From 21 July 2017, Mr. ZHAO Dongji, an executive director, was appointed as a joint company secretary. On the same day, Ms. LEUNG continues to serve as the joint company secretary of the Company. The main contact person of the Company is Mr. ZHAO Dongji. Both Ms. LEUNG and Mr. ZHAO confirmed that they had taken not less than 15 hours' relevant professional training complied with code provision 3.29 of the Code during the reporting period.

INTERNAL CONTROLS

The Board has an overall responsibility for the system of internal controls of the Group and reviewing its effectiveness. The Board is of the view that such system is effective and adequate. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual review of the effectiveness of system of internal controls each year, which covered relevant financial, operational, compliance control and risk management function within an established framework. The annual review also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the Audit Committee to ensure appropriate remedial measures have been implemented.

INSIDE INFORMATION DISCLOSURE POLICY

In 2013, the Board adopted an inside information disclosure policy in relation to the procedures and internal controls for handling and disseminating inside information. The Group's inside information disclosure policy sets out guidelines and procedures for directors, senior management and related personnel to ensure that the Group's inside information is distributed to the public in an equal, accurate, timely and clear manner. The directors, senior management and related personnel with potential inside information and/or inside information shall take reasonable steps to ensure that appropriate measures are in place to keep the information in strict confidence and that the recipients are aware of their responsibilities for keeping the information in confidence. The related personnel must disclose the inside information in accordance with the Administrative Measures for the Information Disclosure and let all market users obtain the same information at the same time. The Company will update and revise the inside information disclosure policy according to the changing circumstances and the changes from the Listing Rules, Part XIVA of the Securities and Futures Ordinance and related statutory and regulatory requirements.

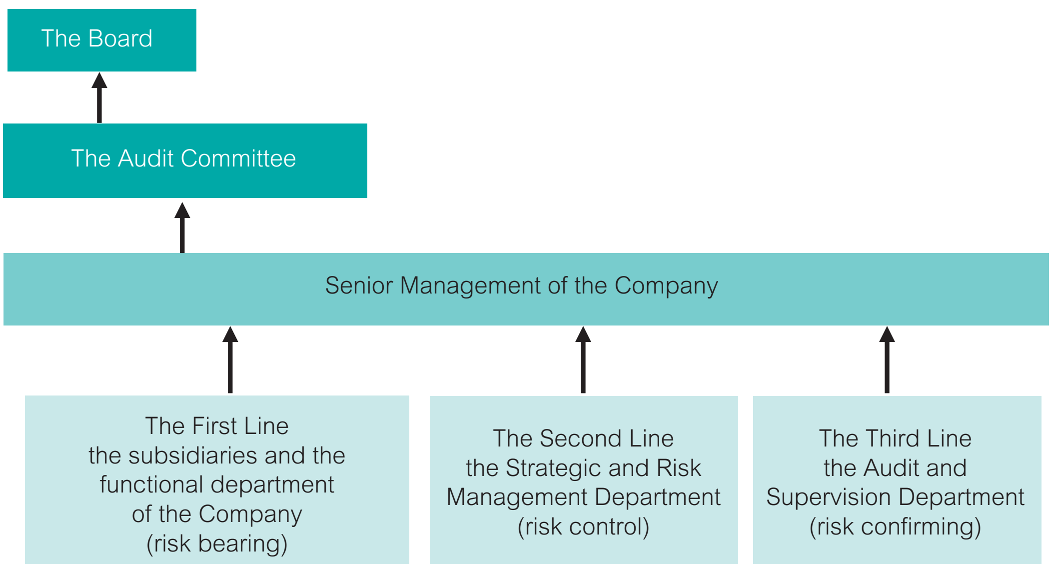
RISK MANAGEMENT

The Board is responsible for the risk management system of the Company and its subsidiaries, reviewing and approving significant policies and reviewing the effectiveness of the risk management system. The Company considers that such systems are effective and adequate. These systems are designed to relieve the Group's inherent risks in the business to an acceptable level, rather than to eliminate all risks. As such, these systems provide reasonable, but not absolute guarantee against the material misrepresentations or financial losses in financial information.

Currently, the Company has established a clear organization and management structure, including appropriate division of responsibilities and authorization reporting mechanism, and has implemented audited policies and procedures for all staff in all business areas that are significant or have a certain degree of risk. The company also has a sound risk reporting system, which the management of the company monthly prepare the financial statements, and make a comparison and analysis with the budget information and the main performance indicators so as to tackle the existing issues and risks as soon as possible. For medium and long term risks, the Company's business has a long-term strategic planning and annual financial budget, subject to the Board's approval. In the course of the development process, the management of the business concerned will assess and report on the risks that are expected to face. At the same time, the Company has an internal audit department with sufficient personnel and resources to be responsible for the internal audit of the business units within the Company, including a detailed review of the internal control systems, operational benefits and compliance with the regulations, to ensure the company's units have a sound internal control system. In addition, the Company will regularly invite external auditors to carry out inspection of the Company's existing risk control system and timely adjust and improve the Company's risk management and control system.

The Strategic and Risk Management Department, as a coordinating unit between the Group's subsidiaries and functional departments and the Audit Committee, reports regularly to the Audit Committee on the Group's risk control for the previous reporting period and provides annual work reports for review.

At present, the company's risk management framework takes the following "three lines" model as a guide.



During the Reporting Period, the Company further demonstrated the role of "three lines" and carried out internal control works of each business procedure, emphasizing on strengthening the control of various aspects including marketing sales, procurement, safety and environmental protection, quality management, information management, human resources, financial management, investment and merger and acquisition. During the Reporting Period, in order to meet the latest requirements of the Stock Exchange and improve the corporate governance level of the Company, the Company reviewed and updated the corporate governance documents such as the rules of procedures for the Board and the strategic committee, and clarified the nomination procedure for directors based on the existing management system.

For internal controls, the Company drafted the "Internal Policy System Formulation Plan", and formulated and revised 34 new internal policies during the Reporting Period. In terms of the implementation of internal controls, the Company 1) strengthened the financial management and fully executed financial supervision; 2) strengthened management on investment, merger and acquisition, optimized resource allocation and improved the enterprise efficiency; 3) comprehensively rationalized and revised the procurement standards of Chinese medicinal herbs, optimized the approval procedure for new suppliers, reduced procurement costs and prevented the risks of out of stock; 4) strengthened the production management and ensured the production safety, supply stability and quality; and strengthened sales audit and improved compliance and risk prevention. During the Reporting Period, the internal control department conducted 26 audit inspection projects for 19 subsidiaries, put forward 130 recommendations and issued 26 reports.

For risk management, during the Reporting Period, the Company 1) closely monitored and analyzed the internal and external environmental changes, simplified the internal communication process and costs, and improved the business efficiency; 2) strengthened legal consultation and management to check and eliminate legal risks in the course of business operations on a timely basis; 3) improved risk asset management, controlled various marketing processes and capital risks, and improve the capital efficiency.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.china-tcm.com.cn as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email:	ir@china-tcm.com.cn
Telephone:	(852) 2854 3393
Fax:	(852) 2544 1269
Address:	Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision D.3.1 of the Code, including:

(a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements;

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

(e) to review the issuer's compliance with the code and disclosure in the Corporate Governance Report.

ARTICLES OF ASSOCIATION

During the reporting year, there is no change in the Company's articles of association.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Pursuant to the Listing Rules, any resolution put forward at shareholders' meetings will be voted by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on a show of hands and the poll results will be posted on the websites of the Stock Exchange at "www.hkexnews.hk" and the Company at "www.china-tcm.com.cn" after the relevant shareholders' meetings.

CONVENING OF GENERAL MEETING ON REQUEST

In accordance with Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); and must be authenticated by the person or persons making it. In accordance with Section 567 of the Companies Ordinance, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the Companies Ordinance and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at Annual General Meeting

To put forward a resolution at an annual general meeting, shareholders are requested to follow the requirements and procedures set out in Sections 615 and 616 of the Companies Ordinance.

Section 615 of the Companies Ordinance provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than: (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the Companies Ordinance provides that the Company that is required under Section 615 of the Companies Ordinance to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to article 105 of the articles of association of the Company, no person, other than a retiring director, shall, unless recommended by the Directors for election, be eligible for election to the office of director at any general meeting, unless notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 58, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 29 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He has been the director, general manager and deputy secretary to the Party Committee of China National of Traditional & Herbal Medicine Co., Ltd. (formerly named as China National Corp. of Traditional & Herbal Medicine) since August 2010. He is re-designated from deputy secretary of the Party Committee to secretary of the Party Committee since January 2018. He is currently the deputy secretary to the Party Committee of China Traditional Chinese Medicine Holdings Co. Limited.

Mr. WANG Xiaochun, aged 51, was appointed to the Board on 23 October 2013. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989. Mr. WANG has been the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. He has been a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He was appointed as a vice president of China Traditional Chinese Medicine Holdings Co. Limited in October 2013. He is currently the president of China Traditional Chinese Medicine Holdings Co. Limited.

Mr. YANG Wenming, aged 55, was appointed to the Board on 24 December 2018. Mr. YANG graduated from Zhejiang University majoring in Biological and Medical Instruments and obtained a bachelor degree of Engineering in 1985. Mr. YANG Wenming also has the senior engineer professional qualification. He was previously a staff member of the quality standard department, a senior staff member, a principal staff member, the deputy department head of the external cooperation department, the assistant of general manager and the department head of the external cooperation department and the assistant of general manager of China National Medical Equipment Industry Corporation from August 1985 to March 1999 and the assistant of the department head of the Medical Equipment Administration Department and a senior staff of the Medical Equipment Products Examination and Registration Centre of the State Medicine Administrative Bureau of China from January 1997 to January 1998. He was previously an office manager, manager of the information department, manager of the discipline inspection and supervision office, manager of the audit department, deputy secretary of discipline inspection committee, vice president of labour union and the staff supervisor of China National Pharmaceutical Group Corporation (中國醫藥集團總公司) (currently known as 中國醫藥集團有限公司), and deputy general manager, deputy secretary of the Party Committee and secretary of discipline inspection committee, president of labour union of China National Pharmaceutical Industry Company Limited from March 1999 to April 2017; the deputy secretary of the Party Committee, secretary of discipline inspection committee and president of labour union of Shanghai Shyndec Pharmaceutical Co., Ltd. from November 2016 to December 2018. He is currently the staff supervisor of Shanghai Shyndec Pharmaceutical Co., Ltd., the secretary of the Party Committee and vice president of China Traditional Chinese Medicine Holdings Co. Limited.

NON-EXECUTIVE DIRECTORS

Mr. YANG Shanhua, aged 52, was appointed to the Board on 28 March 2018. Mr. YANG graduated from Southwestern University of Finance and Economics in 1993, with a master degree in accounting major and he obtained a doctoral degree in accounting from Chinese Academy of Fiscal Science in 2005. He is a senior accountant and a qualified Certified Public Accountant of Chinese Institute of Certified Public Accountants. Mr. YANG was chief financial officer and manager of financial department in Beijing Oriental Yuhong Waterproof Technology Co., Ltd, chief accountant in China National Biotec Group Company Limited, deputy general manager in China National Pharmaceutical Group Corporation (中國醫藥集團總公司) (currently known as 中國醫藥集團有限公司), one after another, from June 2000 to May 2017. He is currently the chief accountant of China National Pharmaceutical Group Corporation.

Ms. LI Ru, aged 39, was appointed to the Board on 18 February 2019. Ms. LI graduated from pharmaceutical preparations at Shenyang Pharmaceutical University in 2001. She was product manager, regional sales manager and divisional sales manager of the narcotics department at China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code 600511) successively from September 2001 to January 2010, and market manager of Nycomed Pharma AS (奈科明製藥有限公司) from January 2010 to January 2012. From January 2012 until the present, she has acted as deputy director and director of the risk and operation management department and director of the legal and risk management department of China National Pharmaceutical Group Corporation (中國醫藥集團有限公司) successively. Ms. LI is currently the director of the legal and risk management department of China National Pharmaceutical Group Corporation (中國醫藥集團有限公司).

Mr. YANG Binghua, aged 38, was appointed to the Board on 24 December 2018. Mr. YANG obtained a bachelor degree in Politics and Administration of Public Administration from China Youth University for Political Sciences in 2004 and obtained a master degree in Public Administration from School of Government of Peking University in 2011. He was previously a staff member, a senior staff member and a principal staff member of the information research office of the State Council State-owned Assets Supervision and Administration Commission ("SASAC") Office from July 2004 to December 2013; person-incharge of the basic training programme of Daqing Oilfield production plant No.2 from April 2010 to March 2011; person-in-charge of the basic training programme of the governmental and enterprises customers division of China Telecom from August 2012 to December 2013; the deputy department head of the second secretarial department, a senior staff of the department party committee office, the deputy department head of the promotional department of the department party committee and the department head of the promotional department of the department party committee of the State Council SASAC Office from December 2013 to March 2017. In which, he served as a staff member of the management enhancement group office of asset committee authorities from July 2012 to August 2014. He was previously a deputy director of department of party-people relationship and a deputy director of department of party-people relationship (incharge of the department) of China National Pharmaceutical Group Corporation (中國醫藥集團有限公司) from March 2017 to May 2018. He is currently a principal staff of department of party-masses relationship of China National Pharmaceutical Group Corporation (中國醫藥集團有限公司).

Mr. WANG Kan, aged 34, was appointed to the Board on 24 December 2018. Mr. WANG obtained a bachelor degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center in 2007, a master degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center and double bachelor degree of Economics from China Center for Economic Research of Peking University in 2009. Mr. WANG was a staff member of planning development and industrial management department of China National Pharmaceutical Industry Company Limited from August 2009 to May 2010; a staff member of the investment management department and securities department of China National Biotech Group Company Limited from May 2010 to November 2014; and a senior business executive and assistant of manager of the investment management department of CNPGC from November 2014 to January 2018. He has also been a director of Suzhou Capsugel Co., Ltd. in March 2018. He is currently the deputy manager of the investment management department of CNPGC.

Mr. KUI Kaipin, aged 33, was appointed to the Board on 30 May 2018. Mr. KUI graduated from the School of International Liberal Studies of Waseda University with a bachelor's degree in International Liberal Studies in 2008. He obtained a master's degree in International Relation from the Graduate School of Asia-Pacific Studies of Waseda University in 2010. Mr. KUI joined Ping An in 2012 and has served various positions in the Ping An Group. He is currently a managing director of the private equity department of China Ping An Insurance Overseas (Holdings) Limited responsible for overseas private equity investments and strategic investments. He is also a director of Ping An Japan Investment Co., Ltd. managing Ping An Group's investments in Japan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XIE Rong, aged 66, was appointed to the Board on 5 February 2013. Mr. XIE has over 49 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) from April 2003 to May 2018 and was its independent director from April 2003 to June 2008. Mr. XIE was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) and Shanghai Baosight Software Co., Ltd. (a company listed on the Shanghai Stock Exchange) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014, from August 2007 to September 2014 and from April 2010 to April 2016 respectively. Mr. XIE has been an independent non-executive director of each of China Everbright Bank Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Shenwan Hongyuan Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Shanghai Bairun Investment Holding Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange) since January 2013, January 2015, June 2016 and June 2018, respectively. Mr. XIE was a professor of the Shanghai National Accounting Institute from October 2002 to November 2017 and was also the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012.

Mr. YU Tze Shan Hailson, aged 62, was appointed to the Board on 25 November 2013. Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a fellow of Hong Kong Institution of Engineers, Engineering Council in United Kingdom, the Institute of Arbitrators of the United Kingdom and Hong Kong Institute of Arbitrators. Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. Since 1998, Mr. YU has been a deputy managing director of Versitech Limited (港大科橋有限公司) and deputy director of Technology Transfer Office of the University of Hong Kong, a technology transfer and commercial company of The University of Hong Kong which mainly commercializes and transfers achievements in scientific research to the business sectors. Additional, Mr. YU has been an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since September 2014. Mr. YU also serves as an independent non-executive director of China NT Pharma Group Company Limited since June 2017.

Mr. QIN Ling, aged 60, was appointed to the Board on 18 February 2019. He graduated from the Basic Medical and Life Sciences in Physical Education Faculty of the Beijing Sport University in 1982 and received his PhD in Exercise Science from the German Sports University, Cologne, Germany in 1992. He completed a post-doctoral research relating to osteoporosis in the AO Research Institute in 1992.He was the laboratory director of the Department of Trauma & Reconstructive Surgery, School of Medicine, Free University of Berlin, Germany from July 1993 to August 1994, and director of the research laboratory in the Department of Orthopaedics & Traumatology, director of the Bone Quality and Health Centre and director of Innovative Orthopaedic Biomaterial and Drug Translational Research Laboratory, Li Ka Shing Institute of Health Sciences, Faculty of Medicine, the Chinese University of Hong Kong from September 1994 until the present. Mr. QIN is currently a professor of Orthopaedics and director of laboratory in the Faculty of Medicine and doctorate and post-doctorate supervisor at the Chinese University of Hong Kong.

Mr. LI Weidong, aged 51, was appointed to the Board on 18 February 2019. Mr. LI graduated from Nanjing University with bachelor's degrees in science and law in 1992 and obtained a doctor of philosophy in law from the City University of Hong Kong in 2004. Mr. LI acted as a professional lawyer of Nanjing Zhongshan Law firm from September 1992 to January 1994 and as a professional lawyer of Jiangsu Jingwei Law Firm from February 1994 to April 1997. He is currently a director (主任) of Haipei Law Firm (Shenzhen and Hong Kong), an independent director of MYS Group Co. Ltd. (formerly known as Shenzhen MYS Environmental Protection & Technology Company Limited （深圳市美盈森環保科技股份有限公司)) (a company listed on the Shenzhen Stock Exchange, stock code: 002303), an independent non-executive director of Ocean Line Port Development Limited (a company listed on the Stock Exchange, stock code: 8502), an independent director of Avic Sanxin Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002163) and an independent director of Shenzhen Liantronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300269).

SENIOR MANAGEMENT

Mr. ZHANG Qingsheng, aged 58, was appointed as a vice president of the Company in July 2013. Mr. ZHANG graduated from Traditional Chinese Medicine in Harbin University of Commerce (formerly known as Heilongjiang College of Commerce) in 1982. Mr. ZHANG has the senior economist professional qualification. He has over 30 years of experience in the Chinese medicine industry. Mr. ZHANG has served as several positions including director, vice president, party secretary, chairman of the labor union and secretary of the board of directors of China National Corp. of Traditional & Herbal Medicines (currently known as China National Traditional Chinese Medicine Corporation) from 1982 to 2013.

Mr. LAN Qingshan, aged 54, was appointed as a vice president on 24 December 2018. Mr. LAN was graduated from Jiangxi University of Traditional Chinese Medicine with a bachelor degree of Traditional Chinese Medicine in 1985 and a master degree of Traditional Chinese Medicine in 1990, and completed the EMBA programme from Peking University in 2000. Mr. LAN has the professional qualifications of university teacher certification, practicing physician, practicing pharmacist and chief pharmacist. He was a teaching assistant, house physician and lecturer of Jiangxi University of Traditional Chinese Medicine from July 1985 to September 1992. He was previously a sales staff, provincial manager, regional manager, sales manager of Jiangzhong (Pharmaceutical) Group Co., Ltd., the deputy general manager of Jiangxi Dongfeng Pharmaceutical Co., Ltd., the general manager of Jiangzhong Pharmaceutical Trading Co., Ltd., the deputy general manager of Jiangzhong Pharmaceutical Co., Ltd., the general manager of Jiangxi Shangao Pharmaceutical Co., Ltd., the general manager of Jiangxi Hengseng Food Company, person-incharge of the new products research and development department of Jiangzhong Group and the general manager of Jiang Zhong Xiao Zhou Medicine Trading Limited Company from October 1992 to December 2009. In which, he was the Deputy County Chief of Duchang County People's Government of Jiangxi in a temporary basis from April to December 2009. He was the deputy general manager of China National Traditional Chinese Medicine Co., Ltd. and a senior staff of Medicinal Resources Industry Centre and the president of the Chinese Medicine Research Institute of China National Traditional Chinese Medicine Corporation from January 2010 to December 2018.

Mr. CHEN Yinglong, aged 47, was appointed as a vice president on 24 December 2018. Mr. CHEN was graduated from Heilongjiang University with a bachelor degree of English majoring in English Literature in 1993 and obtained a master degree in Management Engineering from School of Management of Harbin Institute of Technology in 1999. Mr. CHEN has the professional qualification of senior economist. He was the business manager of the first business department of Harbin Metals and Minerals Import and Export Corporation from August 1993 to September 1994; the first representative of Harbin branch of Eisenberg Group United Development Co., Ltd. from September 1994 to October 1999; the general manager of Harbin Runhe Technology Development Co., Ltd. from October 1999 to February 2005; a director and general manager of Harbin Baida Pharmaceutical Co., Ltd. from February 2005 to November 2009; manager of the raw material department and successively manager of the safety and environmental protection department of China National Pharmaceutical Industry Company Limited from November 2009 to August 2010; the deputy general manager and secretary of the board of directors China Traditional Chinese Medicine Holdings Co. Limited from August 2010 to April 2018. He is currently the chief legal advisor of the China Traditional Chinese Medicine Holdings Co. Limited and the member of the Standing Committee and the deputy mayor of Baishan City of Jilin Province.

Mr. ZHAO Dongji, aged 51, has been appointed as a vice president and joint company secretary since 5 June 2017 and 21 July 2017 respectively. Mr. ZHAO was a non-executive director and an executive director of the Company from February 2013 to June 2017 and from June 2017 to December 2018 respectively. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 30 years of related working experience, including over 20 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager of Investment Management Department, director of Investment Department and deputy general manager of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) from 2011 to 2017.

Mr. CHENG Xueren, aged 55, was appointed as a vice president on 24 December 2018. Mr. CHENG was graduated from Anhui Institute of Traditional Chinese Medicine (currently known as Anhui University of Traditional Chinese Medicine) with a bachelor degree in Traditional Chinese Medicine in 1985, and obtained a master degree from Guangzhou University of Chinese Medicine in Basic Theory of Integrated Chinese and Western Medicine in 1992. Mr. CHENG has the professional qualifications of chief pharmacist and physician. He was a physician of Anhui Chuzhou People's Hospital from July 1985 to August 1989; a doctor of Guangdong Second Hospital of Traditional Chinese Medicine from July 1992 to March 1993; a deputy manager of production, the deputy manager of sale and general manager of Guangdong E-fong Pharmaceutical Co., Ltd. from March 1993 to November 2017. In which, he was the vice director of Guangdong Institute of Traditional Chinese Medicine from March 1993 to May 2015. He is currently the general manager of Guangdong E-fong Pharmaceutical Co., Ltd. and the secretary of Party General Branch.

Mr. WANG Xingkai, aged 39, was appointed as a chief financial officer on 24 December 2018. Mr. WANG was graduated from Dongbei University of Finance and Economics with a bachelor degree in Accounting in 2002. Mr. WANG was an auditor of Beijing Zhonghui Accounting Firm from July 2002 to October 2003; a senior auditor in SHINEWING CPA from October 2003 to May 2007; an accounting supervisor, manager assistant, deputy manager and manager of the finance department of China National Pharmaceutical Foreign Trade Corporation. He was previously the financial controller and deputy general manager of China Medical Equipment Co., Ltd. from June 2012 to October 2015. He was the financial controller of China Medical Equipment Co., Ltd. and the financial controller of China National Scientific Instruments and Materials Co., Ltd. from November 2015 to December 2018.

Deloitte. 德勤

To the members of
China Traditional Chinese Medicine Holdings Co. Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 83 to 204, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment on goodwill and other intangible assets	
Refer to notes 4, 16, 19 and 20 We identified the annual impairment assessment of goodwill and other intangible assets allocated to the cash-generating units ("CGUs") including, as defined in note 20, Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang as a key audit matter due to significant judgements exercised and assumptions used by the management in the impairment assessment. As disclosed in notes 4 and 20 to the consolidated financial statements, in determining whether goodwill and other intangible assets are impaired required an estimation of the recoverable amounts (i.e. the value in use) of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the corresponding CGUs, with key assumptions including the growth rates, budgeted sales and gross profit margin, and suitable discount rates in order to calculate the present values. The carrying amounts of goodwill and other intangible assets allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate of RMB3,329,809,000 and RMB4,117,940,000, respectively, at 31 December 2018. The management has determined that there were no impairment identified on those goodwill and other intangible assets.	Our procedures in relation to evaluating the appropriateness of impairment assessment of goodwill and other intangible assets allocated to the CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang included: • Understanding how the management performed the impairment assessment; • Evaluating the appropriateness of the value in use calculations prepared by the management; • Assessing the reasonableness of the key assumptions used by the management in determining the value in use of the CGUs including discount rates, growth rates, budgeted sales and gross margin; • Evaluating the historical accuracy of the cash flow forecasts by comparing that the historical cash flow forecasts with the actual performance of the CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang; and • Evaluating the potential impacts on the recoverable amounts of the CGUs on the reasonably possible changes of discount rates and growth rates assessed by the management.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Valuation of trade and bills receivables	
Refer to notes 2, 4, 23 and 42 We identified impairment assessment of trade and bills receivables as a key audit matter due to the significance of trade and bills receivables to the Group's consolidated financial position and the involvement of subjective judgment and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade and bills receivables at the end of the reporting period. As at 31 December 2018, the Group's net trade and bills receivables amounting to RMB3,089,267,000, which represented approximately 10% of total assets of the Group. As explained in notes 2.2 and 42 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9) and recognized an additional impairment of RMB32,099,000 as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9. As disclosed in note 42 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade and bills receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade and bills receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade and bills receivables that are credit-impaired are assessed for ECL individually. The loss allowance amount of the credit-impaired trade and bills receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 42 to the consolidated financial statements, the Group's lifetime ECL on trade and bills receivables as at 31 December 2018 amounted to RMB50,393,000.	Our procedures in relation to impairment assessment of trade and bills receivables included: • Understanding key controls on how the management estimates the loss allowance for trade and bills receivables; • Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9; • Testing the integrity of information used by management to develop the provision matrix, including trade and bills receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade and bills receivables as at 1 January 2018 and 31 December 2018, including their identification of credit-impaired trade and bills receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade and bills receivables in notes 4, 23 and 42 to the consolidated financial statements; and • Testing subsequent settlements of credit-impaired trade and bills receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**11,258,941**	8,337,795
Cost of sales		**(5,065,368)**	(3,686,213)
Gross profit		**6,193,573**	4,651,582
Other income	7a	**144,392**	119,544
Other gains and losses	7b	**43,440**	(8,608)
Impairment losses, net of reversal	8	**90,648**	12,711
Selling and distribution expenses		**(3,417,195)**	(2,437,167)
Administrative expenses		**(552,294)**	(349,449)
Research and development expenses		**(346,539)**	(202,160)
Profit from operations		**2,156,025**	1,786,453
Finance costs	9	**(292,300)**	(221,068)
Share of results of associates	21	**(7,028)**	1,852
Profit before tax	11	**1,856,697**	1,567,237
Income tax expense	10	**(289,669)**	(255,804)
Profit for the year		**1,567,028**	1,311,433
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
– Debt instruments measured at fair value through other comprehensive income		**1,429**	–
– Income tax relating to items that may be reclassified to profit or loss		**(176)**	–
Other comprehensive income for the year, net of income tax		**1,253**	–
Total comprehensive income for the year		**1,568,281**	1,311,433
Profit for the year attributable to:			
Owners of the Company		**1,439,018**	1,170,434
Non-controlling interests ("NCI")		**128,010**	140,999
		1,567,028	1,311,433
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,440,296**	1,170,434
Non-controlling interests		**127,985**	140,999
		1,568,281	1,311,433
EARNINGS PER SHARE			
Basic (RMB cents)	15	**29.84**	26.41

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**4,298,440**	2,386,927
Prepaid lease payments	18	**814,718**	346,457
Investment properties	17	**42,016**	6,840
Goodwill	16	**3,568,984**	3,486,372
Other intangible assets	19	**6,612,833**	6,703,786
Interests in associates	21	**11,788**	92,576
Deposits and prepayments	22	**326,105**	338,894
Deferred tax assets	33	**126,812**	139,405
		15,801,696	13,501,257
CURRENT ASSETS			
Inventories	25	**4,482,732**	3,551,829
Trade and other receivables	23	**3,467,084**	3,024,076
Prepaid lease payments	18	**29,461**	19,673
Financial assets at fair value through profit or loss ("FVTPL")	27	**1,076**	–
Debt instruments at fair value through other comprehensive income ("FVTOCI")	28	**66,819**	–
Held for trading investments	26	**–**	691
Pledged bank deposits	29	**88,808**	–
Bank balances and cash	29	**6,349,714**	4,787,781
		14,485,694	11,384,050
CURRENT LIABILITIES			
Trade and other payables	30	**4,147,800**	3,856,512
Contract liabilities	31	**356,956**	–
Bank and other borrowings	34	**1,411,569**	638,697
Unsecured notes – due within one year	35	**2,497,330**	–
Tax liabilities		**219,099**	199,678
		8,632,754	4,694,887
NET CURRENT ASSETS		**5,852,940**	6,689,163
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,654,636**	20,190,420

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants	*32*	**182,558**	145,507
Deferred tax liabilities	*33*	**1,736,898**	1,714,698
Unsecured notes – due after one year	*35*	**1,992,735**	4,481,958
Bank and other borrowings	*34*	**231,874**	33,000
		4,144,065	6,375,163
NET ASSETS		**17,510,571**	13,815,257
CAPITAL AND RESERVES			
Share capital	*36*	**11,982,474**	9,809,935
Reserves		**3,568,959**	2,626,843
Equity attributable to owners of the Company		**15,551,433**	12,436,778
Non-controlling interests		**1,959,138**	1,378,479
TOTAL EQUITY		**17,510,571**	13,815,257

The consolidated financial statements on pages 83 to 204 were approved and authorised for issue by the Board of Directors on 15 March 2019 and are signed on its behalf by:

WU Xian
Executive Director

WANG Xiaochun
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital RMB'000 (note a)	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (note b)	FVTOCI reserve RMB'000	Other reserves RMB'000 (note c)	Accumulated profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	9,809,935	(165,183)	200,253	–	(53,039)	1,796,361	11,588,327	1,167,535	12,755,862
Profit and total comprehensive income for the year	–	–	–	–	–	1,170,434	1,170,434	140,999	1,311,433
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	(51,907)	(51,907)
Dividend paid	–	–	–	–	–	(321,983)	(321,983)	–	(321,983)
Acquisition of subsidiaries	–	–	–	–	–	–	–	41,634	41,634
Capital injection from non-controlling equity holders	–	–	–	–	–	–	–	80,218	80,218
Transfer to statutory surplus reserve	–	–	111,135	–	–	(111,135)	–	–	–
At 31 December 2017	9,809,935	(165,183)	311,388	–	(53,039)	2,533,677	12,436,778	1,378,479	13,815,257
Adjustments (see note 2)	–	–	–	(1,885)	–	(26,317)	(28,202)	(1,173)	(29,375)
At 1 January 2018 (restated)	9,809,935	(165,183)	311,388	(1,885)	(53,039)	2,507,360	12,408,576	1,377,306	13,785,882
Profit for the year	–	–	–	–	–	1,439,018	1,439,018	128,010	1,567,028
Other comprehensive income (expense) for the year	–	–	–	1,278	–	–	1,278	(25)	1,253
Total comprehensive (expense) income for the year	–	–	–	1,278	–	1,439,018	1,440,296	127,985	1,568,281
Shares issued	2,175,026	–	–	–	–	–	2,175,026	–	2,175,026
Transaction costs attributable to issue of shares	(2,487)	–	–	–	–	–	(2,487)	–	(2,487)
Acquisition of subsidiaries (note 38)	–	–	–	–	–	–	–	425,953	425,953
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	(73,670)	(73,670)
Dividend paid	–	–	–	–	–	(475,135)	(475,135)	–	(475,135)
Capital injection from non-controlling equity holders	–	–	–	–	–	–	–	122,654	122,654
Acquisition of non-controlling interest	–	–	–	–	5,157	–	5,157	(21,090)	(15,933)
Transfer to statutory surplus reserve	–	–	217,049	–	–	(217,049)	–	–	–
At 31 December 2018	11,982,474	(165,183)	528,437	(607)	(47,882)	3,254,194	15,551,433	1,959,138	17,510,571

Notes:

(a) The Company allotted and issued 604,296,222 ordinary shares at HK$4.43 (approximately RMB3.60) per share on 10 May 2018 to Ping An Life Insurance Company of China, Ltd. The total net proceeds from the share issues, after deducting shares issued expense of HK$2,809,000 (approximately RMB2,487,000), amounted to HK$2,674,223,000 (approximately RMB2,172,539,000).

(b) As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation.

(c) A credit amount of RMB5,157,000 was recognised during the year ended 31 December 2018, which represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interests in the subsidiaries being acquired from the non-controlling interests in 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating activities		
Profit before tax	**1,856,697**	1,567,237
Adjustments for:		
Depreciation and amortisation	**529,172**	423,389
Amortisation of deferred government grants	**(28,509)**	(33,017)
Impairment losses (reversed) recognised in respect of		
– trade receivables	**(92,449)**	(18,462)
– other receivables	**2,911**	5,751
– other items subject to ECL (as defined in note 2)	**(1,110)**	–
Write down (reversal of) of inventories	**14,605**	(8,088)
Finance costs	**292,300**	221,068
Interest income	**(43,246)**	(32,561)
Loss on disposal of property, plant and equipment	**3,353**	892
Gain on disposal of other intangible assets	**–**	(278)
Fair value changes of financial assets at FVTPL	**(385)**	–
Fair value changes on held for trading investments	**–**	(100)
Fair value changes on foreign currency forward contracts	**–**	16,751
Net foreign exchange gain	**(9,720)**	(15,546)
Compensation from ex-shareholder of Jiangyin Tianjiang Group (as defined in note 20)	**–**	(22,970)
Gain on disposal of an associate	**(6,090)**	–
Share of results of associates	**7,028**	(1,852)
Operating cash flows before movements in working capital	**2,524,557**	2,102,214
Increase in inventories	**(640,213)**	(1,622,566)
Increase in trade and other receivables	**(62,284)**	(316,891)
Decrease in pledged bank deposit	**–**	2,226
(Decrease) increase in trade and other payables	**(549,975)**	1,363,476
Increase in contract liabilities	**146,369**	–
Decrease in debt instrument at FVTOCI	**68,170**	–
Cash generated from operations	**1,486,624**	1,528,459
PRC Enterprise Income Tax paid	**(296,133)**	(292,865)
Net cash from operating activities	**1,190,491**	1,235,594

Consolidated Statement of Cash Flows

For the year ended 31 December 2018 (continued)

	NOTE	2018 RMB'000	2017 RMB'000
Investing activities			
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired	38	**(386,488)**	(108,457)
Cash consideration paid for the prior year acquisition of subsidiaries		**(11,242)**	–
Withdrawal of fixed deposits		**–**	1,050,000
Purchase of financial assets at FVTPL		**(2,711,100)**	–
Proceeds from disposal of financial assets at FVTPL		**2,718,100**	–
Purchase of property, plant and equipment and payment for construction in progress		**(961,186)**	(595,069)
Proceeds from disposal of property, plant and equipment		**7,573**	1,069
Proceeds on disposal of an interest in an associate		**90,600**	–
Purchase of prepaid lease payments		**(296,545)**	(24,599)
Purchase of other intangible assets		**(5,006)**	(7,875)
Assets-related government grants received		**65,560**	44,972
Proceeds from disposal of other intangible assets		**–**	357
Capital contribution to an associate		**(10,750)**	–
Increase in pledged deposits with banks		**(88,808)**	–
Interest received		**43,246**	32,561
Net cash (used in) from investing activities		**(1,546,046)**	392,959
Financing activities			
Proceeds from issue of shares		**2,175,026**	–
Expenses on issue of shares		**(2,487)**	–
New bank borrowings raised		**1,869,754**	1,406,322
Repayment of bank borrowings		**(1,470,849)**	(2,169,913)
Dividend paid		**(479,669)**	(316,083)
Interest paid		**(283,165)**	(156,682)
Dividends paid to non-controlling interests of a subsidiary		**(26,504)**	(21,757)
Acquisition of non-controlling interest without a change in control		**(15,933)**	–
Proceeds from issue of unsecured notes		**–**	2,000,000
Expenses on issue of unsecured notes		**–**	(12,170)
Capital injection from non-controlling equity holders		**122,654**	80,218
Increase in restricted bank deposits		**(373,889)**	(257,304)
Decrease in restricted bank deposits		**257,304**	226,018
Other financial cashflows		**–**	6,943
Net cash from financing activities		**1,772,242**	785,592
Net increase in cash and cash equivalents		**1,416,687**	2,414,145
Cash and cash equivalents at beginning of the year		**4,530,477**	2,147,338
Effect of foreign exchange rate changes		**28,661**	(31,006)
Cash and cash equivalents at end of the year, represented by bank balances and cash		**5,975,825**	4,530,477

1. GENERAL

China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is a listed company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. In the opinion of directors of the Company, the Company's ultimate controlling party is China National Pharmaceutical Group Corporation ("CNPGC"), a company established in the People's Republic of China (the "PRC") which is a Chinese state-owned enterprise. The address of the registered office and principal place of business of the Company is Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

The principal activities of the Company and its subsidiaries (the "Group") are research and development, production and sale of Chinese medicine and pharmaceutical products in the PRC.

The consolidated financial statements are presented in RMB, which is also the functional currency of the Company and all the Group's subsidiaries.

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

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

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

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

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

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

2.1 HKFRS 15 Revenue from Contracts with Customers

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

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

The Group recognises revenue mainly from manufacture and sale of pharmaceutical products and provision of healthcare service.

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

Summary of effects arising from initial application of HKFRS 15

There was no material impact of transition to HKFRS 15 on accumulated profits 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.

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018 RMB'000
Current Liabilities			
Trade and other payables	3,856,512	(194,429)	3,662,083
Contract liabilities	–	194,429	194,429

Note: As at 1 January 2018, advances from customers of RMB194,429,000 in respect of sales of pharmaceutical products contracts previously included in trade and other payables were reclassified to contract liabilities.

The following table summaries the impact of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line item affected. Line items that were not affected by the changes have not been included.

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

2.1 HKFRS 15 Revenue from Contracts with Customers" (continued)

Impact on the consolidated statement of financial position

	As reported RMB'000	Reclassification RMB'000	Amounts without application of HKFRS15 RMB'000
Current Liabilities			
Trade and other payables	4,147,800	356,956	4,504,756
Contract liabilities	356,956	(356,956)	–

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS15 RMB'000
Operating Activities			
(Decrease) increase in trade and other payables	(549,975)	146,369	(403,606)
Increase in contract liabilities	146,369	(146,369)	–

2.2 HKFRS 9 Financial Instruments

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

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

2.2 HKFRS 9 Financial Instruments (continued)

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

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

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

Summary of effects arising from initial application of HKFRS 9

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

	Notes	Held-for-trading investments RMB'000	Financial assets at FVTPL RMB'000	Debt instruments at FVTOCI RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Deferred tax assets RMB'000	FVTOCI reserve RMB'000	Accumulated profits RMB'000	Non-controlling interests RMB'000
Closing balance at 31 December 2017 – HKAS 39		691	–	–	7,612,548	139,405	–	2,533,677	1,378,479
Effect arising from initial application of HKFRS 9:									
Reclassification									
From held-for-trading investments		(691)	691	–	–	–	–	–	–
From loans and receivables	*(a)*	–	–	137,343	(137,343)	–	–	–	–
Remeasurement									
Impairment under ECL model	*(b)*	–	–	–	(34,066)	6,664	56	(26,317)	(1,141)
From amortised cost to fair value	*(a)*	–	–	(2,354)	–	381	(1,941)	–	(32)
Opening balance at 1 January 2018		–	691	134,989	7,441,139	146,450	(1,885)	2,507,360	1,377,306

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

2.2 HKFRS 9 Financial Instruments (continued)

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

Note:

(a) Loans and receivables

As part of the Group's cash flow management, the Group has the practice of discounting some of the bills receivables to financial institutions or transferring bank-issued bills receivables to its suppliers to settle the payables through endorsing the bank-issued bills to its suppliers before maturity of the bills. The Group derecognises bills discounted to financial institutions on the basis that the Group has transferred substantially all the risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of RMB137,343,000 as at 1 January 2018 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. The related fair value losses of RMB2,354,000 was adjusted to debt instruments at FVTOCI, FVTOCI reserve, deferred tax assets and non-controlling interests as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost mainly comprise of other receivables, are assessed on 12m ECL basis and there had been no significant increase in credit risk since initial recognition. Pledged bank deposits and bank balances are subject to ECL model but the impairment is immaterial.

All of the Group's debt instruments at FVTOCI are bills receivables that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is assessed on 12m ECL basis.

As at 1 January 2018, additional credit loss allowance of RMB34,066,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset, except for the debt instruments which is measured at FVTOCI, the loss allowance for which is recognised against the FVTOCI reserve.

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

2.2 HKFRS 9 Financial Instruments (continued)

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

(b) Impairment under ECL model (continued)

All loss allowances for financial assets including trade and other receivables, and debt instruments at FVTOCI as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade and other receivables RMB'000	Debt instruments at FVTOCI RMB'000
At 31 December 2017		
– HKAS 39	138,741	–
Amounts remeasured through opening retained profits	34,066	56
Amount recognized in FVTOCI reserve	–	(56)
At 1 January 2018	172,807	–

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

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had been restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets				
Property, plant and equipment	2,386,927	–	–	2,386,927
Prepaid lease payments	346,457	–	–	346,457
Investment properties	6,840	–	–	6,840
Goodwill	3,486,372	–	–	3,486,372
Other intangible assets	6,703,786	–	–	6,703,786
Interests in associates	92,576	–	–	92,576
Deposits and prepayments	338,894	–	–	338,894
Deferred tax assets	139,405	–	7,045	146,450
	13,501,257	–	7,045	13,508,302
Current assets				
Inventories	3,551,829	–	–	3,551,829
Trade and other receivables	3,024,076	–	(171,409)	2,852,667
Prepaid lease payments	19,673	–	–	19,673
Financial assets at FVTPL	–	–	691	691
Debt instruments at FVTOCI	–	–	134,989	134,989
Held-for-trading investments	691	–	(691)	–
Bank balances and cash	4,787,781	–	–	4,787,781
	11,384,050	–	(36,420)	11,347,630
Current liabilities				
Trade and other payables	3,856,512	(194,429)	–	3,662,083
Contract liabilities	–	194,429	–	194,429
Bank borrowings	638,697	–	–	638,697
Tax liabilities	199,678	–	–	199,678
	4,694,887	–	–	4,694,887
Net current assets	6,689,163	–	(36,420)	6,652,743
Total assets less current liabilities	20,190,420	–	(29,375)	20,161,045

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

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

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current liabilities				
Deferred government grants	145,507	–	–	145,507
Deferred tax liabilities	1,714,698	–	–	1,714,698
Unsecured notes	4,481,958	–	–	4,481,958
Bank borrowings	33,000	–	–	33,000
	6,375,163	–	–	6,375,163
Net assets	13,815,257	–	(29,375)	13,785,882
Capital and reserves				
Share capital	9,809,935	–	–	9,809,935
Reserves	2,626,843	–	(28,202)	2,598,641
Equity attributable to owners of the Company	12,436,778	–	(28,202)	12,408,576
Non-controlling interests	1,378,479	–	(1,173)	1,377,306
Total equity	13,815,257	–	(29,375)	13,785,882

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

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

New and amendments to HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

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

Except for HKFRS 16 mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

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

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

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

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

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

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

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

HKFRS 16 "Leases" (continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB59,523,000 as disclosed in note 39. These arrangements meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB3,530,000 and refundable rental deposits received of nil as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in 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 assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

The subsequent accounting for the contingent consideration that 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 to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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

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

Acquisition of a subsidiary not constituting a business

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

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). Any impairment is recognised immediately as an expense and is not subsequently reversed.

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

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

Investments in associates

An associate is an entity over which the Group has significant influence. 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 an associate are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments are made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that 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 the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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 immediately in profit or loss in the period in which the investment is acquired.

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant 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 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) upon disposal/partial disposal of the relevant associate.

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

When a group entity transacts with 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 that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (prior to 1 January 2018)

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

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

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

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Service income is recognised when services are provided.

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

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

Leases

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

The Group as 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

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

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)

Leases (continued)

Leasehold land and building

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing 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 arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose 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. RMB) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises 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 government grants in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefit costs

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

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and 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 probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Current and deferred taxes are recognised in profit or loss, except when they relate 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 and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such 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 assets other than properties under construction less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Transfer from owner-occupied property to investment property

An item of property, plant and equipment becomes an investment property when its use has changed as evidenced by end of owner-occupation. The carrying amount of the property transferred is not changed.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

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

Intangible assets

Internally-generated intangible assets-research and development expenditure

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Internally-generated intangible assets-research and development expenditure (continued)

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

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets 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 value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

At the end of the reporting period, the Group reviews the amortisation period and the amortisation method for an intangible asset with a finite useful life. If the expected useful life of the asset is different from previous estimates or there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method is changed to reflect the changed pattern. The Group also reviews the useful life of an intangible asset that is not being amortised to determine whether events and circumstances continue to support an indefinite useful life assessment of that asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

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

Inventories

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

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/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

Financial assets

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

Classification and subsequent measurement of financial assets

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

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

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

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

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

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

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including pledged bank deposits, bank balances, trade receivables, bills receivables, other receivables and debt instruments at FVTOCI). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment 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 date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

(i) Significant increase in credit risk (continued)

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.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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.

(ii) Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

(iii) *Credit-impaired financial assets*

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

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

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

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

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

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

(iv) *Write-off policy*

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables);
- 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.

Except for investments in debt instruments/receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and bills receivables, and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments/receivables that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

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 assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item.

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)

(ii) Loans and receivables

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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

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

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

Derecognition of financial assets

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

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

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

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 Group are recognised at the proceeds received, net of direct issue costs.

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bank and other borrowings and unsecured notes 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 immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an 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 the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Business model assessment of trade receivables and bills receivables

Classification and measurement of financial assets including trade receivables and bills receivables depends on the results of the solely payments of principal and interest on the principal amount outstanding ("SPPI") and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Normally the Group will hold the trade and bills receivables till their maturity to receive the contractual cash flow which fulfilled SPPI criterion. However, as part of the credit risk management, the Group may sometimes factor a portfolio of trade and bills receivables arising from sales transactions with certain specific customers on a non-recourse basis prior to their original maturity which results in derecognition of the financial assets prior to their maturity. As at 31 December 2018, the Group's trade receivables and bills receivables with a carrying amount of RMB66,819,000 that were held under the "held to collect and sell" business model were measured at fair value through other comprehensive income. The remaining trade receivables and bills receivables with an aggregate carrying amount of RMB3,089,267,000 were held under the "held to collect" business model and were measured at amortised cost.

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

Key sources of estimation uncertainty

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

Impairment assessment of goodwill and other intangible assets with indefinite useful life allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang (as defined in note 20)

In determining whether goodwill and other intangible assets with indefinite useful life are impaired required an estimation of the recoverable amounts (i.e. the value in use) of the CGUs to which goodwill and other intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires management to estimate future cash flows expected to arise from the corresponding CGUs, with key assumptions including the growth rates, budgeted sales and gross margin, and suitable discount rates in order to calculate the present values. Where the actual future cash flows are less than expected, change in facts and circumstances which results in a downward revision of future cash flows, a material impairment loss may arise.

Impairment assessment of goodwill and other intangible assets with indefinite useful life allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang (as defined in note 20) (continued)

At 31 December 2018, the carrying amounts of goodwill and other intangible assets allocated to Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate RMB3,329,809,000 (2017: RMB3,292,693,000) and RMB4,117,940,000 (2017: RMB4,107,865,000) respectively. Details of the definitions and recoverable amounts are disclosed in note 20.

Impairment assessment of other intangible assets with finite useful lives

The Group assesses annually whether other intangible assets with finite useful lives have any indication of impairment, in accordance with the relevant accounting policies. Customer relationships with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable at the end of each reporting period. In the opinion of directors of the Company, there is no indicator of impairment (including adverse changes on financial performance such as profit margin, adverse changes on continuing customer portfolios etc.) identified for customer relationships at 31 December 2018.

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

Key sources of estimation uncertainty (continued)

Impairment assessment of other intangible assets with finite useful lives (continued)

At 31 December 2018, the carrying amount of other intangible assets with finite useful lives was in aggregate RMB2,489,856,000 (2017: RMB2,580,809,000). Details of the recoverable amounts are disclosed in note 19.

Provision of ECL for trade and bills receivables

The Group uses provision matrix to calculate ECL for the trade and bills receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and bills 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 bills receivables are disclosed in notes 42 and 23 respectively.

Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and consider also technical or commercial obsolescence of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned. Changes in these estimations may have a material impact on the results of the Group. At 31 December 2018, the carrying amount of property, plant and equipment excluding construction in progress was RMB3,699,523,000 (2017: RMB2,070,716,000) as disclosed in note 17.

Amortisation of other intangible assets with finite useful lives

Other intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives of the assets. The Group determines the estimated useful lives of other intangible assets on initial recognition in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives are determined taking into account the factors including expected changes in market demands for the Group's products, the Group's historical experience with similar assets, the useful lives of similar intangible assets in certain comparable transactions, historical customer data, anticipated technological changes, legal or similar limits on the use of other intangible assets and management's experience and industry knowledge. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates. The Group has performed an annual review of the amortisation period and the amortisation method for other intangible assets with finite useful life and has concluded that the expected useful life of the assets is not different from previous estimates, and there has not been a change in the expected pattern of consumption of the future economic benefits embodied in the assets. At 31 December 2018, the carrying amount of other intangible assets with finite useful lives was RMB2,489,856,000 (2017: RMB2,580,809,000) as disclosed in note 19.

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

Key sources of estimation uncertainty (continued)

Assessment of the indefinite useful lives of the trademarks (including brand names) and product protection rights arising from the acquisition of Jiangyin Tianjiang Group (defined in note 20)

The management estimates the useful lives of the trademarks (including brand names) and product protection rights arising from the acquisition of Jiangyin Tianjiang Group based on the expected lifespan of those trademarks (including brand names) and product protection rights. The trademarks (including brand names) and product protection rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely, taking into account the stable track record of industry of Concentrated Traditional Chinese Medicines ("TCM") granules and the high barrier on entering into the national TCM granules market in the PRC. The useful lives of the trademarks (including brand names) and product protection rights could change significantly as a result of regulatory, commercial and technological environment. When the actual useful lives of trademarks (including brand names) and product protection rights are different from their estimated useful lives, such difference will impact the amortisation charges and the amounts of assets written down for future periods.

The Group has performed an annual review of the useful life of these intangible assets and has concluded there is no foreseeable limit to the period over which the assets are expected to generate net cash flows for the Group and so these assets continue to have indefinite useful life. The carrying amount of the trademarks (including brand names) and product protection rights with infinite useful lives were RMB1,594,548,000 and RMB2,166,163,000 respectively at 31 December 2018 (2017: RMB1,594,548,000 and RMB2,166,163,000).

Impairment of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place. At 31 December 2018, the carrying amount of inventories, net of allowance for slow-moving and obsolete inventories, were RMB4,482,732,000 (2017: RMB3,551,829,000) as disclosed in note 25.

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

Key sources of estimation uncertainty (continued)

Recognition of deferred tax assets

As at 31 December 2018, deferred tax assets of RMB126,812,000 (2017: RMB139,405,000) have been recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Besides, no deferred tax assets has been recognised in respect of certain deductible tax losses of RMB119,330,000 (2017: RMB6,275,000) due to the unpredictability of future profits streams, details of which are set out in note 33. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which such a situation take place.

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018				
Segments	**Finished drugs RMB'000**	**Concentrated TCM granules RMB'000**	**TCM decoction pieces RMB'000**	**TCM healthcare complex RMB'000**	**Total RMB'000**
Types of goods or services					
Goods					
Sales of finished drugs	**2,771,021**	–	–	–	**2,771,021**
Sales of concentrated TCM granules					
Concentrated TCM granules	–	**7,150,562**	–	–	**7,150,562**
Sales of TCM decoction pieces					
Decoction pieces	–	–	**1,274,829**	–	**1,274,829**
Services					
TCM healthcare complex					
Healthcare complex	–	–	–	**62,529**	**62,529**
Total	**2,771,021**	**7,150,562**	**1,274,829**	**62,529**	**11,258,941**

5. REVENUE (CONTINUED)

A. For the year ended 31 December 2018 (continued)

(i) Disaggregation of revenue from contracts with customers (continued)

Segments	For the year ended 31 December 2018 Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Total RMB'000
Geographical markets					
Mainland China	2,770,764	7,057,300	1,274,829	62,529	11,165,422
Hong Kong	257	32,022	–	–	32,279
Overseas and others	–	61,240	–	–	61,240
Total	2,771,021	7,150,562	1,274,829	62,529	11,258,941
Timing of revenue recognition					
A point in time	2,771,021	7,150,562	1,274,829	62,529	11,258,941
Sales channel/type of customer					
Distributors	2,766,040	984,738	597,254	–	4,348,032
Hospitals and primary health care institutions	4,981	6,165,824	677,575	–	6,848,380
Others	–	–	–	62,529	62,529
Total	2,771,021	7,150,562	1,274,829	62,529	11,258,941

(ii) Performance obligations for contracts with customers

Sales of pharmaceutical products (revenue recognised at a point in time)

The Group sells pharmaceutical products (finished drugs, concentrated TCM granules, TCM decoction pieces and TCM healthcare complex) to the customers including end customers, distributors, hospitals and primary health care institutions.

For sales of pharmaceutical products to customers, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' designated location (delivery). Following delivery, the customer has the ability to direct the use of the pharmaceutical products and obtain substantial all of the remaining benefits of the products. The normal credit term granted to distributors is within 180 days upon delivery and for hospitals and primary health care institutions, the credit term is within 365 days upon delivery. Payment of the transaction price is due immediately at the point the end customer purchases the pharmaceutical products.

5. REVENUE (CONTINUED)

A. For the year ended 31 December 2018 (continued)

(ii) Performance obligations for contracts with customers (continued)

Sales of pharmaceutical products (revenue recognised at a point in time) (continued)

Product sales represent the sales value of goods, less estimated discounts.

The provision for deduction of estimated income is recorded in the same period in which the relevant sales are recorded and based on sales terms, historical experience and trend analysis. Providing a discount to pharmaceutical distributors is in accordance with the practice of the pharmaceutical industry. The Group records discount provision for sales at the time of sale based on the agreed rate.

The Group regularly reviews the estimates and accordingly adjusts provisions.

Provision of TCM healthcare services (revenue recognised at a point in time)

The Group provides medical diagnosis and health examination services.

The Group's contractual performance is responsible for the delivery of diagnostic results and reports after the completion of a service contract, which is usually in one day. The Group recognizes revenue when the diagnostic results and reports are delivered to the customer, which means that the control of the results is transferred to the customer. The Group normally does not grant credit term to the customers.

B. For the year ended 31 December 2017

The principal activities of the Group are manufacture and sale of pharmaceutical products in the PRC. Revenue represents the sales value of goods sold less returns, discounts and sales tax and is analysed as follows:

	2017 RMB'000
Sale of pharmaceutical products	
– Finished drugs	2,381,202
– Concentrated TCM granules	5,499,679
– TCM decoction pieces	398,742
– TCM healthcare complex	58,172
	8,337,795

6. OPERATING SEGMENTS

The Group's operating and reporting segments have been identified on the basis of internal management reports that are regularly reviewed by the Executive Directors, being the chief operating decision makers ("CODM") of the Group, in order to allocate resources to segments and to assess their performances.

The Group presented the following four reportable and operating segments, based on different types of goods and services delivered or provided, in the current year, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; and (iv) TCM healthcare complex.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments. Further details of the adjusted items are set out in note 6(ii).

Segment assets include all tangible, intangible assets and current assets with the exception of held for trading investments, financial assets at FVTPL, deferred tax assets and unallocated head office and corporate assets. Segment liabilities include trade and other payables, contract liabilities, bank borrowings, deferred government grants and unsecured notes attributable to individual segments and bank borrowings managed directly by the segments, with the exception of tax liabilities, deferred tax liabilities and unallocated head office and corporate liabilities.

In addition to collecting segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue, interest income from cash and bank balances and finance costs on borrowings, depreciation and amortisation, which is managed directly by the segments.

Information regarding the Group's reportable segments as provided to the CODM for the purposes of resource allocation and assessment of segment performance is set out below.

6. OPERATING SEGMENTS (CONTINUED)

(i) Segment results, assets and liabilities (continued)

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Total RMB'000
For the year ended 31 December 2018					
Reportable segment revenue	**2,822,008**	**7,192,342**	**1,450,339**	**62,529**	**11,527,218**
Eliminated of inter-segment revenue	**(50,987)**	**(41,780)**	**(175,510)**	**–**	**(268,277)**
Revenue from external customers	**2,771,021**	**7,150,562**	**1,274,829**	**62,529**	**11,258,941**
Reportable segment profit (adjusted EBITDA)	**610,035**	**1,905,655**	**128,138**	**5,531**	**2,649,359**
Interest income	**21,270**	**20,185**	**1,753**	**38**	**43,246**
Finance costs	**103,323**	**183,282**	**5,514**	**181**	**292,300**
Depreciation and amortisation	**154,717**	**307,189**	**59,407**	**7,859**	**529,172**
At 31 December 2018					
Reportable segment assets	**11,169,348**	**22,311,701**	**2,782,764**	**208,193**	**36,472,006**
Reportable segment liabilities	**4,663,013**	**10,067,849**	**1,888,996**	**17,126**	**16,636,984**

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Total RMB'000
For the year ended 31 December 2017					
Reportable segment revenue	2,415,838	5,514,655	490,508	58,172	8,479,173
Eliminated of inter-segment revenue	(34,636)	(14,976)	(91,766)	–	(141,378)
Revenue from external customers	2,381,202	5,499,679	398,742	58,172	8,337,795
Reportable segment profit (adjusted EBITDA)	557,082	1,579,672	48,986	11,223	2,196,963
Interest income	5,624	25,383	1,505	49	32,561
Finance costs	95,993	124,334	672	69	221,068
Depreciation and amortisation	118,358	275,500	19,122	10,409	423,389
At 31 December 2017					
Reportable segment assets	8,009,975	19,229,770	973,948	178,323	28,392,016
Reportable segment liabilities	3,844,653	7,891,874	552,577	13,647	12,302,751

Inter-segment sales are charged at prevailing market rates.

6. OPERATING SEGMENTS (CONTINUED)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2018 RMB'000	2017 RMB'000
Reportable segment profit (adjusted EBITDA)	**2,649,359**	2,196,963
Depreciation and amortisation	**(529,172)**	(423,389)
Interest income	**43,246**	32,561
Finance costs	**(292,300)**	(221,068)
Rental income	**5,593**	1,162
Fair value changes on foreign currency forward contracts	**–**	(16,751)
Fair value changes on held for trading investments	**–**	100
Fair value changes on financial assets at FVTPL	**385**	–
Net exchange gain	**9,720**	15,546
Gain on disposal of an associate	**6,090**	–
Share of results of associates	**(7,028)**	1,852
Head office and corporate expenses	**(29,196)**	(19,739)
Consolidated profit before taxation	**1,856,697**	1,567,237

	2018 RMB'000	2017 RMB'000
Assets		
Reportable segment assets	**36,472,006**	28,392,016
Elimination of inter-segment receivables	**(6,396,134)**	(3,669,786)
	30,075,872	24,722,230
Held for trading investments	**–**	691
Financial assets at FVTPL	**1,076**	–
Deferred tax assets	**126,812**	139,405
Unallocated head office and corporate assets	**83,630**	22,981
Consolidated total assets	**30,287,390**	24,885,307
Liabilities		
Reportable segment liabilities	**16,636,984**	12,302,751
Elimination of inter-segment payables	**(6,396,134)**	(3,669,786)
	10,240,850	8,632,965
Tax liabilities	**219,099**	199,678
Deferred tax liabilities	**1,736,898**	1,714,698
Unallocated head office and corporate liabilities	**579,972**	522,709
Consolidated total liabilities	**12,776,819**	11,070,050

6. OPERATING SEGMENTS (CONTINUED)

(iii) Geographical information and information about major customers

Analysis of the Group's revenue and results as well as non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both 2018 and 2017.

7a. OTHER INCOME

	2018 **RMB'000**	2017 RMB'000
Government grants		
– Unconditional subsidies (note)	**67,044**	29,834
– Conditional subsidies	**28,509**	33,017
Interest income on bank deposits	**43,246**	32,561
Compensation from ex-shareholder of Jiangyin Tianjiang Group	**–**	22,970
Rental income from investment properties	**5,593**	1,162
	144,392	119,544

Note:

The amount represents subsidy income received from various government authorities as incentives to the Group to recognise their contribution to the local economy with conditions which have been satisfied.

7b. OTHER GAINS AND LOSSES

	2018 **RMB'000**	2017 RMB'000
Loss on disposal of property, plant and equipment	**(3,353)**	(892)
Gain on disposal of other intangible assets	**–**	278
Gain on disposal of an associate (note 21)	**6,090**	–
Fair value changes on foreign currency forward contracts	**–**	(16,751)
Fair value changes on held for trading investments	**–**	100
Fair value changes on financial assets at FVTPL	**385**	–
Net foreign exchange gain	**9,720**	15,546
Others	**30,598**	(6,889)
	43,440	(8,608)

8. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 **RMB'000**	2017 RMB'000
Impairment losses reversed (recognised) in respect of		
– trade receivables	**92,449**	18,462
– other receivables	**(2,911)**	(5,751)
– bill receivables	**1,251**	–
– debt instruments at FVTOCI	**(141)**	–
	90,648	12,711

Details of impairment assessment for the year ended 31 December 2018 are set out in note 42.

9. FINANCE COSTS

	2018 **RMB'000**	2017 RMB'000
Interest on bank borrowings	**114,245**	72,079
Effective interest expense on unsecured notes	**192,707**	148,989
Total borrowing costs	**306,952**	221,068
Less: amounts capitalised in the cost of qualifying assets	**(14,652)**	–
	292,300	221,068

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.39%.

10. INCOME TAX EXPENSE

	2018	2017
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**317,263**	279,443
(Over) under provision in prior years	**(3,539)**	9,893
	313,724	289,336
Deferred tax credit (note 33)	**(24,055)**	(33,532)
	289,669	255,804

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit derived from Hong Kong for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the ''EIT Law'') and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, except for the following. The definition of entities listed below other than those being defined are set out in note 20.

(1) Feng Liao Xing, Dezhong, Foshan Dezhong Pharmaceutical Machinery Co., Ltd. ("Dezhong Yaoji"), Guangdong Medi-World, Jiangyin Tianjiang, Guangdong Yifang Pharmaceutical Co., Ltd. ("GD Yifang"), Huayi, Jingfang and Anhui Tianxiang Pharmaceutical Co., Ltd. ("Tianxiang") were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for the year ended 31 December 2018 (2017: The PRC Enterprise Income Tax rate applicable to Feng Liao Xing, Guangdong Medi-World, Dezhong, Jingfang, Jiangyin Tianjiang, GD Yifiang and Tianxiang was 15%) pursuant to relevant documents issued by local government authorities;

(2) Tongjitang Pharmaceutical, Sichuan Tianhao Pharmaceutical Company Limited ("Sichuan Tianhao"), Pulante, and Longxi Yifang Pharmaceutical Co., Ltd. ("Longxi Yifang"), being qualified enterprises located in the western region of the PRC, enjoy a preferential income tax rate of 15% effective retrospectively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58, dated 27 July 2011;

(3) Fujian Chengtian Jinling Pharmaceutical Co., Ltd. ("Fujian Chengtian Pharmaceutical "), Jiangsu Jiangkang Pharmaceutical Co., Ltd. ("Jiangkang Pharmaceutical"), Shandong Fengliaoxing Herbal Co., Ltd, Taixing Tianjiang Pharmaceutical Co., Ltd., Guizhou Tongjitang Herbal Co., Ltd ("Tongjitang Herbal"), Longxixian Feng Liao Xing Herbal Co., Ltd. ("Longxixian Fengliaoxing"), Sichuan Tianxiong Pharmaceutical Co., Ltd. ("Sichuan Tianxiong"), Bozhou Hongda, Beijing Huamiao and Sichuan Jiangyou, being qualified enterprise with operation of medicinal plants primary processing business in the PRC, enjoy a full enterprise income tax exemption from 1 January 2017 to 31 December 2018 pursuant to the EIT Law, Order of the President [2007] No. 63; and

(4) Shanghai Tongjitang, being qualified enterprise in operation of medicinal plants primary processing business in the PRC, enjoy a full enterprise income tax exemption from 2010 to 2024 in regard of its medicinal plants procession business pursuant to CaiShui [2008] No.149 dated 20 November 2008.

10. INCOME TAX EXPENSE (CONTINUED)

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

	2018	2017
	RMB'000	RMB'000
Profit before tax	**1,856,697**	1,567,237
Tax at the domestic income tax rate of 25%	**464,174**	391,809
Tax effect of expenses not deductible for tax purposes	**8,137**	8,617
Tax effect of income not taxable for tax purposes	**(3,973)**	(4,598)
Income tax at concessionary rate	**(235,482)**	(176,471)
Effect of tax exemptions granted to PRC subsidiaries	**(1,913)**	(1,528)
(Over) under provision in respect of prior years	**(3,539)**	9,893
Tax effect of tax losses not recognised	**23,446**	375
Utilisation of tax losses previously not recognised	**(1,051)**	(1,289)
Withholding tax on interest income from PRC entities	**13,620**	10,996
Withholding tax on distributable profits of PRC entities	**26,250**	18,000
Income tax expense for the year	**289,669**	255,804

The domestic tax rate (which is PRC corporate tax rate) in the jurisdictions where the operation of the Group is substantially based is used.

11. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration	**7,074**	4,249
Other staff costs		
Salaries, wages and other benefits	**1,204,983**	825,298
Contributions to defined contribution retirement plans	**84,972**	65,233
	1,289,955	890,531
Auditors' remuneration	**5,640**	4,320
Depreciation		
– investment properties	**1,068**	159
– property, plant and equipment	**329,032**	234,827
Amortisation of prepaid lease payments	**19,510**	19,673
Amortisation of other intangible assets	**179,562**	168,730
Total depreciation and amortisation	**529,172**	423,389
Write-down (reversals of) of inventories	**14,605**	(8,088)
Minimum lease payments under operating leases in respect of land and buildings	**24,605**	18,394
Gross rental income from investment properties	**(5,593)**	(1,162)
Less: direct operating expenses incurred for investment properties	**398**	326
	(5,195)	(836)

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executives' remuneration for both years, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	2018			
	Directors' fees RMB'000	Salaries and allowances RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors				
Wu Xian	–	–	–	–
Wang Xiaochun	–	2,106	54	2,160
Yang Wenming (note a)	–	–	–	–
Zhao Dongji (note b)	–	1,408	124	1,532
Huang He (note b)	–	1,898	124	2,022
Non-executive directors				
Yang Shanhua (note c)	–	–	–	–
Rong Yan (note d)	–	–	–	–
Yang Binghua (note d)	–	–	–	–
Wang Kan (note d)	–	–	–	–
Kui Kaipin (note e)	128	18	–	146
Liu Cunzhou (note f)	207	34	–	241
Dong Zenghe (note g)	–	–	–	–
Tang Hua (note f)	–	–	–	–
Independent non-executive directors				
Zhou Bajun	211	43	–	254
Xie Rong	211	43	–	254
Yu Tze Shan Hailson	211	43	–	254
Lo Wing Yat	211	–	–	211
	1,179	5,593	302	7,074

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	2017			
	Directors' fees RMB'000	Salaries and allowances RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors				
Wu Xian	–	–	–	–
Wang Xiaochun	202	1,691	78	1,971
Yang Bin (note h)	50	421	33	504
Zhao Dongji (note b)	–	281	68	349
Huang He (note b)	–	281	68	349
Non-executive directors				
Liu Cunzhou	90	–	–	90
Dong Zenghe	–	–	–	–
Tang Hua	–	–	–	–
Independent non-executive directors				
Zhou Bajun	216	35	–	251
Xie Rong	216	35	–	251
Yu Tze Shan Hailson	216	35	–	251
Lo Wing Yat	216	17	–	233
	1,206	2,796	247	4,249

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

The non-executive directors' emoluments shown above for both years were for their services as directors of the Company or its subsidiaries.

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

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Notes:

(a) Appointed as an executive director on 24 December 2018.

(b) Re-designated as an executive director on 5 June 2017 and resigned as an executive director on 24 December 2018.

(c) Appointed as a non-executive director on 28 March 2018.

(d) Appointed as a non-executive director on 24 December 2018.

(e) Appointed as a non-executive director on 30 May 2018.

(f) Resigned as a non-executive director on 24 December 2018.

(g) Resigned as a non-executive director on 28 March 2018.

(h) Resigned as an executive director on 31 March 2017.

Some directors were also the employees of the CNPGC and their remuneration were paid for and borne by CNPGC and there is no reasonable basis to allocate the emoluments relating to services provided to the Group during the years ended 31 December 2018 and 2017.

Mr. Wang Xiaochun is the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three director (2017: one director), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining two (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**3,583**	5,660
Retirement benefits	**88**	159
	3,671	5,819

13. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The emoluments of the two (2017: four) individuals with highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$		
Nil-1,000,000	**–**	–
1,000,001-1,500,000	**–**	2
1,500,001-2,000,000	**1**	1
2,000,001-2,500,000	**1**	–
2,500,001-3,000,000	**–**	1

14. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2018 RMB'000	2017 RMB'000
2018 Interim – HK6.04 cents (2017: 2017 interim dividend HK4.75 cents) per share	**268,545**	184,966
2017 final of HK4.96 cents (2017: 2016 final dividend HK3.59 cents) per share	**206,590**	137,017
	475,135	321,983

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2018 of HK5.51 cents per share has been proposed by the directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. The total amount of the proposed final dividend amounting to HK$277,473,000, calculated based on the Company's number of shares issued at the date of issuance of these consolidated financial statements, is not recognised as a liability in the consolidated statement of financial position.

15. EARNINGS PER SHARE

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

	2018	2017
	RMB'000	RMB'000
Profit attributable to the owners of the Company	**1,439,018**	1,170,434
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,822,229**	4,431,505

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

16. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2017	3,456,353
Acquired through business combinations (note 38)	30,019
At 31 December 2017	3,486,372
Acquired through business combinations (note 38)	82,612
At 31 December 2018	3,568,984

Particulars regarding to the carrying amount of goodwill and impairment testing on goodwill are disclosed in note 20.

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
COST								
At 1 January 2017	1,265,177	610,042	38,022	339,175	267,480	2,519,896	6,252	2,526,148
Additions	38,663	195,820	4,371	325,039	25,234	589,127	–	589,127
Acquisitions of subsidiaries	14,857	4,656	360	99	203	20,175	–	20,175
Transfer from construction in progress	241,285	85,926	–	(348,102)	20,891	–	–	–
Transfer to investment properties	(5,886)	–	–	–	–	(5,886)	5,886	–
Disposals	(5,060)	(20,560)	(3,878)	–	(5,870)	(35,368)	–	(35,368)
At 31 December 2017	1,549,036	875,884	38,875	316,211	307,938	3,087,944	12,138	3,100,082
Additions	61,168	180,955	7,039	728,825	73,360	1,051,347	–	1,051,347
Acquisitions of subsidiaries (note 38)	1,039,894	132,311	4,581	23,080	16,949	1,216,815	19,553	1,236,368
Transfer from construction in progress	289,283	114,234	–	(469,199)	65,682	–	–	–
Transfer to investment properties	(20,230)	–	–	–	–	(20,230)	20,230	–
Disposals	(4,212)	(22,024)	(5,792)	–	(8,254)	(40,282)	–	(40,282)
At 31 December 2018	2,914,939	1,281,360	44,703	598,917	455,675	5,295,594	51,921	5,347,515
ACCUMULATED DEPRECIATION								
At 1 January 2017	143,739	259,452	16,817	–	80,852	500,860	3,876	504,736
Charge for the year	77,268	110,518	5,197	–	41,844	234,827	159	234,986
Transfer to investment properties	(1,263)	–	–	–	–	(1,263)	1,263	–
Written back on disposals	(4,585)	(20,154)	(3,508)	–	(5,160)	(33,407)	–	(33,407)
At 31 December 2017	215,159	349,816	18,506	–	117,536	701,017	5,298	706,315
Charge for the year	122,041	145,069	6,354	–	55,568	329,032	1,068	330,100
Transfer to investment properties	(3,539)	–	–	–	–	(3,539)	3,539	–
Written back on disposals	(2,532)	(14,803)	(4,861)	–	(7,160)	(29,356)	–	(29,356)
At 31 December 2018	331,129	480,082	19,999	–	165,944	997,154	9,905	1,007,059
NET BOOK VALUE								
At 31 December 2018	2,583,810	801,278	24,704	598,917	289,731	4,298,440	42,016	4,340,456
At 31 December 2017	1,333,877	526,068	20,369	316,211	190,402	2,386,927	6,840	2,393,767

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2018 was RMB75,682,000 (2017: RMB32,000,000). The fair value of the investment properties as at 31 December 2018 and 31 December 2017 has been arrived at based on a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent valuer not connected with the Group.

The fair value of the investment properties as at 31 December 2018 was determined based on the market approach (direct comparison approach) assuming sale of the property interests in their existing states with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy are as follows:

	2018		2017	
	Carrying amount RMB'000	**Fair value (Level 3) RMB'000**	Carrying amount RMB'000	Fair value (Level 3) RMB'000
Commercial property units	**459**	**2,990**	488	2,990
Office units	**32,308**	**52,642**	5,660	21,210
Plant units	**9,249**	**20,050**	692	7,800
	42,016	**75,682**	6,840	32,000

(b) The above items of property, plant and equipment, other than construction in progress, are depreciated after taking into account their estimated residual value, using straight-line method over the following useful lives:

Buildings	20 to 50 years
Plant, machinery and equipment	3 to 5 years
Motor vehicles	4 to 10 years
Office equipment and others	2 to 12 years
Investment properties	25 to 38 years

(c) Certain of the Group's buildings with carrying value of RMB97,250,000 (2017: RMB31,477,000) were pledged to secure certain bank borrowings granted to the Group.

(d) The Group has not yet obtained the ownership certificate for the building situated in the PRC with an aggregate carrying value of RMB577,467,000 (2017: RMB11,085,000). Management of the Group considers there is no material legal impediment for the Group to obtain the ownership certificate.

18. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
CARRYING AMOUNT		
At beginning of the year	**366,130**	344,366
Additions	**296,545**	24,599
Acquisition of subsidiaries (note 38)	**201,014**	16,838
Charge to profit or loss for the year	**(19,510)**	(19,673)
At the end of the year	**844,179**	366,130
Analysed for reporting purposes as:		
Current portion	**29,461**	19,673
Non-current portion	**814,718**	346,457
	844,179	366,130

The Group's prepaid lease payments are situated in the PRC and are held on medium/long term leases of 50 to 70 years. At 31 December 2018, the remaining period of the prepaid lease payments ranged from 19 years to 50 years (2017: 20 years to 50 years).

Certain of the Group's prepaid lease payments with carrying value of RMB13,084,000 (2017: RMB3,581,000) were pledged to secure certain bank borrowings granted to the Group.

19. OTHER INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Licenses and franchises RMB'000	Total RMB'000
COST							
At 1 January 2017	2,825,693	2,006,590	59,000	3,820	2,245,552	–	7,140,655
Acquisition of subsidiaries	–	–	–	–	–	100,799	100,799
Additions	–	–	–	7,875	–	–	7,875
Disposals	–	(310)	–	–	–	–	(310)
At 31 December 2017	2,825,693	2,006,280	59,000	11,695	2,245,552	100,799	7,249,019
Acquisition of subsidiaries (note 38)	331	–	–	174	–	83,098	83,603
Additions	1,282	–	–	3,724	–	–	5,006
At 31 December 2018	2,827,306	2,006,280	59,000	15,593	2,245,552	183,897	7,337,628
ACCUMULATED AMORTISATION							
At 1 January 2017	155,120	18,187	46,708	1,341	155,378	–	376,734
Amortisation for the year	38,300	1,026	5,900	1,406	116,233	5,865	168,730
Written back on disposals	–	(231)	–	–	–	–	(231)
At 31 December 2017	193,420	18,982	52,608	2,747	271,611	5,865	545,233
Amortisation for the year	39,166	1,005	5,900	4,036	116,233	13,222	179,562
At 31 December 2018	232,586	19,987	58,508	6,783	387,844	19,087	724,795
NET BOOK VALUE							
At 31 December 2018	2,594,720	1,986,293	492	8,810	1,857,708	164,810	6,612,833
At 31 December 2017	2,632,273	1,987,298	6,392	8,948	1,973,941	94,934	6,703,786

At 31 December 2018, the carrying amount of other intangible assets with finite useful lives was RMB2,489,856,000 (2017: RMB2,580,809,000). Other intangible assets with finite useful lives are amortised on a straight-line basis over the following periods:

19. OTHER INTANGIBLE ASSETS (CONTINUED)

		2018 RMB'000	2017 RMB'000
Product protection rights	5 to 25 years	**428,557**	466,110
Trademarks	10 to 44 years	**29,479**	30,484
Distribution network	10 years	**492**	6,392
Software	5 to 10 years	**8,810**	8,948
Customer relationship	5 to 21 years	**1,857,708**	1,973,941
Licenses and franchises	12 to 20 years	**164,810**	94,934
		2,489,856	2,580,809

The amortisation charge for the year is mainly included in "cost of sales" line item in the consolidated statement of profit or loss and other comprehensive income.

The following other intangible assets, trademarks (including brand names) and product protection rights acquired through business combinations, are assessed to have indefinite useful lives. The product protection rights and trademarks have a legal life of 5 years and 10 years respectively but are renewable at minimal cost. The directors of the Company are of the opinion that the Group could renew the product protection rights and maintain the trademarks (including brand names) continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks (including brand names) and product protection rights have no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademarks (including brand names) and product protection rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks (including brand names) and product protection rights will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 20.

	Trademarks		**Product protection rights**	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Tongjitang Group				
– Tongjitang Pharmaceutical	**209,047**	198,972	**–**	–
– Jingfang	**37,779**	37,779	**–**	–
– Guizhou LLF	**–**	10,075	**–**	–
– Pulante	**5,037**	5,037	**–**	–
– Shanghai Tongjitang	**110,403**	110,403	**–**	–
Jiangyin Tianjiang Group	**1,594,548**	1,594,548	**2,166,163**	2,166,163
	1,956,814	1,956,814	**2,166,163**	2,166,163

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill, trademarks (including brand names) and product protection rights with indefinite useful lives set out in notes 16 and 19 have been allocated to individual cash generating units (CGUs) as below:

	Goodwill		Trademarks		Product protection rights	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Manufacture and sale of pharmaceutical products						
Dezhong	**100,391**	100,391	**–**	–	**–**	–
Feng Liao Xing	**23,664**	23,664	**–**	–	**–**	–
Guangdong Medi-World	**26,055**	26,055	**–**	–	**–**	–
Luya	**11,221**	11,221	**–**	–	**–**	–
Tongjitang Group*						
– Tongjitang Pharmaceutical	**770,153**	733,037	**209,047**	198,972	**–**	–
– Jingfang	**139,184**	139,184	**37,779**	37,779	**–**	–
– Guizhou LLF#	**–**	37,116	**–**	10,075	**–**	–
– Pulante	**18,558**	18,558	**5,037**	5,037	**–**	–
Jiangyin Tianjiang Group	**2,208,980**	2,208,980	**1,594,548**	1,594,548	**2,166,163**	2,166,163
Huayi	**9,774**	9,774	**–**	–	**–**	–
Shanghai Tongjitang	**111,101**	111,101	**110,403**	110,403	**–**	–
Tongjitang Herbal	**29,433**	29,433	**–**	–	**–**	–
Beijing Huamiao	**11,447**	–	**–**	–	**–**	–
Bozhou Hongda	**2,598**	–	**–**	–	**–**	–
Zhonglian Pharmaceutical	**68,567**	–	**–**	–	**–**	–
Sale of pharmaceutical products						
Feng Liao Xing Material & Slices	**2,449**	2,449	**–**	–	**–**	–
Guizhou Tongjitang Pharmacy Chain	**30,019**	30,019	**–**	–	**–**	–
Winteam Sales	**5,390**	5,390	**–**	–	**–**	–
	3,568,984	3,486,372	**1,956,814**	1,956,814	**2,166,163**	2,166,163

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The names of the entities referred to the above table are defined as:

- Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. ("Dezhong"),
- Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing"),
- Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"),
- Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. ("Luya"),
- Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical")*,
- Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. ("Jingfang")*,
- Sinopharm Group Longlife (Guizhou) Pharmaceutical Co., Ltd. ("Guizhou LLF")*,
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")*,
- Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang Group"),
- Huayi Pharmaceutical Co., Ltd. ("Huayi"),
- Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"),
- Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal"),
- Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices"),
- Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain"),
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales"),
- Beijing Huamiao Pharmaceutical Co., Limited ("Huamiao Pharmaceutical"),
- Bozhou Hongda TCM Decoction Pieces Technology Co., Ltd.(" ("Bozhou Hongda"), and
- Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical").

* Tongitang Pharmaceutical, Jingfang, Guizhou LLF and Pulante are collectively referred to as Tonjitang Group.

\# Guizhou LLF have been absorbed and merged by Tongjitang Pharmaceutical in December 2017. The Group monitors Tongjitang Pharmaceutical as the lowest level for internal management purpose from 2018, so the goodwill and trademarks previously recognised in Guizhou LLF have re-allocated to Tongjitang Pharmaceutical.

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

During the year ended 31 December 2018, management of the Group determines that there are no impairments of any of its CGUs containing goodwill, trademarks (including brand names) or product protection rights with indefinite useful lives (2017: nil).

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The recoverable amounts of the CGUs as at 31 December 2018 has been arrived at on the basis of valuation carried out on the respective date by an independent qualified professional valuers. The key assumptions used in the valuations are those regarding the suitable discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGUs. The Group determined the value-in-use by preparing cash flow projections of these CGUs derived from the most recent financial forecast approved by the management covering a five-year period with an average sales growth rate. Cash flows beyond the fifth year are extrapolated using an estimated increase rate. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate reflects specific risks relating to the relevant CGUs.

	Jiangyin Tianjiang Group	Dezhong	Tongjitang Pharmaceutical	Jingfang	Shanghai Tongjitang	Others
Average growth rate for projection period						
2018	11.30%	20.60%	12.30%	13.81%	6.77%	7.10%-22.70%
2017	10.81%	11.34%	12.06%	9.42%	5.00%	7.20%-23.52%
Terminal growth rate						
2018	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
2017	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Pre-tax discount rates						
2018	18.38%	15.91%	15.53%	16.59%	15.01%	13.00%-17.42%
2017	18.03%	15.49%	14.75%	15.10%	15.08%	13.69%-18.19%

As at 31 December 2018, the recoverable amount of the above CGUs exceeds their carrying amount by 4% to 38% (2017: 8% to 39%).

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of each of the above CGU that contains goodwill and other intangible assets to exceed their respective recoverable amount.

21. INTERESTS IN ASSOCIATES

	2018 **RMB'000**	2017 RMB'000
Cost of investments in associates, unlisted	**12,894**	91,917
Share of post-acquisition (losses) profits and other comprehensive (expense) income	**(1,106)**	659
	11,788	92,576

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Country of establishment and principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting power held		Principal activities
		2018	2017	**2018**	2017	
Guizhou Zhongtai Biological Technological Company Limited and its subsidiaries ("Guizhou Zhongtai")	The PRC	**–**	20%	**–**	20%	Development, manufacturing, marketing and sales of blood products
Foshan Shunde Cili Biological Technology Company Limited	The PRC	**40%**	40%	**40%**	40%	Catering
Mianyang Anju District Feishui Town Tiantai Mountain Chinese Medicine Herbs Planting Professional Cooperatives	The PRC	**37.6%**	37.6%	**37.6%**	37.6%	Chinese Medicine Herbs planting
An District Feishui Town Tianfu Fuzi Professional Cooperatives	The PRC	**37.5%**	37.5%	**37.5%**	37.5%	Fuzi planting
Guangdong Baobaobao Healthy Soup Co., Ltd. ("Guangdong Baobaobao")	The PRC	**49%**	–	**49%**	–	Healthy soup

21. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

Guizhou Zhongtai which was disposed of in October 2018, was the most material associate to the Group and it is accounted for using the equity method upto the date of disposal in these consolidated financial statements. Details of the disposal are set out below.

Guizhou Zhongtai

	2018 RMB'000	2017 RMB'000
Current assets	**N/A**	129,171
Non-current assets	**N/A**	83,144
Current liabilities	**N/A**	(110,949)
Non-current liabilities	**N/A**	(4,892)

	2018 RMB'000	2017 RMB'000
Revenue for the period/year	**67,390**	87,854
(Loss) profit and total comprehensive (expense) income for the period/year	**(25,735)**	5,002

Note: Revenue, profit and total comprehensive income for the year represent accumulated amounts from 1 January to 9 October 2018 (date of disposal).

21. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate in respect of Guizhou Zhongtai recognised in the consolidated financial statements:

	2018 **RMB'000**	2017 RMB'000
Net assets of Guizhou Zhongtai attributable to owners	**N/A**	96,472
Proportion of the Group's ownership interest in Guizhou Zhongtai	**N/A**	20%
	N/A	19,294
Goodwill	**N/A**	70,363
Carrying amount of the Group's interest in Guizhou Zhongtai	**N/A**	89,657

In October 2018, the Group disposed of its 20% interest in Guizhou Zhongtai to Chengdu Rongsheng Pharmaceutical Co., Ltd., which is an indirect subsidiary of CNPGC for a consideration of RMB90,600,000. This transaction has resulted in the recognition of a gain in profit or loss, calculated as follows.

	RMB'000
Proceeds of disposal	90,600
Less: carrying amount of the 20% investment on the date of loss of significant influence	(84,510)
Gain recognized	6,090

Aggregate information of associates that are not individually material

	2018 **RMB'000**	2017 RMB'000
The Group's share of (losses) profits and total comprehensive (expense) income	**(1,881)**	856
Aggregate carrying amount of the Group's interest in associates	**11,788**	2,919

22. DEPOSITS AND PREPAYMENTS

	2018 **RMB'000**	2017 RMB'000
Prepayments for property, plant and equipment	**232,105**	211,718
Deposit paid for acquisition of property, plant and equipment (note)	**94,000**	94,000
Rental prepayment	**–**	33,176
	326,105	338,894

Note: The amount represents the Group's deposit paid for the land and buildings in Foshan City, Guangdong Province of the PRC. Pursuant to the agreement, the amount paid by the Group is fixed at RMB94,000,000 and the other independent third party is responsible for the remaining construction cost. The Group would be entitled to certain percentage of the relevant buildings after its completion based on the proportion of RMB94,000,000 to the total construction costs in the construction project.

23. TRADE AND OTHER RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Trade receivables	**2,532,688**	1,871,350
Less: allowance for credit losses	**(49,221)**	(113,092)
	2,483,467	1,758,258
Bills receivables	**606,972**	984,550
Less: allowance for credit losses	**(1,172)**	–
	605,800	984,550
Deposits and prepayments	**111,293**	144,326
Consideration receivable from disposal of Guizhou Zhongtai	**–**	3,332
Value added tax recoverable	**140,884**	54,983
Other receivables	**156,167**	104,276
Less: allowance for credit losses	**(30,527)**	(25,649)
	125,640	78,627
	3,467,084	3,024,076

The Group allows a credit period within 365 days to certain trade customers. The bills receivables have maturity period ranging from 90 to 365 days as at 31 December 2018 and 2017.

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

The aged analysis of the Group's trade receivables based on invoice date at the end of each reporting period are as follows:

	2018	2017
	RMB'000	RMB'000
0-90 days	**1,790,175**	858,472
91-180 days	**371,157**	532,221
181-365 days	**332,017**	328,320
Over 365 days	**39,339**	152,337
	2,532,688	1,871,350

The aged analysis of the Group's bills receivables based on issue date at the end of each reporting period is as follows:

	2018	2017
	RMB'000	RMB'000
0-90 days	**425,377**	647,085
91-180 days	**170,604**	226,250
181-365 days	**10,991**	111,215
	606,972	984,550

Impairment of trade and bills receivables at 31 December 2017

At 31 December 2017, impairment losses in respect of trade and bills 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 bills receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

	RMB'000
At 1 January 2017	141,325
Impairment loss reversed	(19,774)
Impairment loss recognised	1,312
Amounts written off as uncollectible	(9,771)
At 31 December 2017	113,092

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in trade and other receivables are RMB8,452,000 (2017: 2,142,000) and RMB38,019,000 (2017: Nil), which are denominated in HK$ and US$ respectively, the currencies other than functional currency of the relevant group entities:

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 42.

24. TRANSFERS OF FINANCIAL ASSETS

At 31 December 2018, the Group had financial assets that were transferred to banks by discounting those receivables on full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables. These financial assets are carried at their carrying amounts in the Group's consolidated financial statements and associated liabilities have been recognised and included in liabilities for these trade and bills receivables discounted with recourse.

	Bill receivables discounted to banks with full recourse	
	2018	2017
	RMB'000	RMB'000
Carrying amount of transferred assets	**1,455**	83,824
Carrying amount of associated liabilities	**(1,455)**	(83,824)
Net position	**–**	–

25. INVENTORIES

	2018	2017
	RMB'000	RMB'000
Inventories comprise:		
Raw materials	**1,439,768**	1,189,805
Work in progress	**1,329,852**	978,679
Finished goods	**1,713,112**	1,383,345
	4,482,732	3,551,829

25. INVENTORIES (CONTINUED)

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**5,050,763**	3,694,301
Write down (reversal of) of inventories (note 11)	**14,605**	(8,088)
	5,065,368	3,686,213

Certain of the Group's inventories with carrying value of RMB24,000,000 (2017: RMB22,527,000) were pledged to secure certain bank borrowings granted to the Group.

26. HELD FOR TRADING INVESTMENTS

	2018 RMB'000	2017 RMB'000
Held for trading investments include:		
– Equity securities listed in Hong Kong	**–**	691

27. FINANCIAL ASSETS AT FVTPL

	2018 RMB'000	2017 RMB'000
Equity securities listed in Hong Kong	**1,076**	–

28. DEBT INSTRUMENTS AT FVTOCI

	2018 **RMB'000**	2017 RMB'000
Bills receivable	**66,819**	–

The aged analysis of the Group's notes receivable based on invoice date at the end of each reporting period are as follows:

	2018 **RMB'000**	2017 RMB'000
0-90 days	**52,900**	–
91-180 days	**13,919**	–
	66,819	–

Details of impairment assessment are set out in note 42.

29. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

	2018 **RMB'000**	2017 RMB'000
Guarantee deposits and other restricted deposits with maturity of less than three months	**88,808**	–

Pledged bank deposits carries interest at market rates ranging from 0.30% to 0.35% per annum for 2018.

(b) Bank balances and cash

	2018 **RMB'000**	2017 RMB'000
Restricted bank deposits	**373,889**	257,304
Bank balances and cash	**5,975,825**	4,530,477
	6,349,714	4,787,781

29. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (CONTINUED)

(b) Bank balances and cash (continued)

Bank balances and cash of RMB5,975,825,000 (2017: RMB4,530,477,000) comprised of cash held by the Group and short-term deposits and carried interest at prevailing market rates ranging from 0.30% to 0.35% per annum (2017: 0.30% to 0.35% per annum) with original maturity of three months or less.

Restricted bank deposits represented cash from settlement of receivables under the non-recourse factoring arrangement, which are repayable on a monthly basis.

Included in pledged bank deposits/bank balances and cash is RMB18,476,000 (2017: RMB19,517,000), which is denominated in HK$, the currency other than functional currency of the relevant group entities:

30. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	RMB'000
Trade payables	**1,804,551**	1,782,943
Deposits received	**561,995**	531,442
Advances received from customers	**–**	194,429
Advances of government grants (note a)	**23,068**	20,962
Salary and welfare payables	**226,416**	134,345
Other tax payables	**132,210**	126,137
Accruals of operating expenses	**546,526**	526,084
Bills payable	**84,640**	–
Interest payable	**67,528**	66,500
Dividend payable	**78,682**	36,050
Consideration payable for acquisition of subsidiaries	**36,760**	30,614
Other payables (note b)	**585,424**	407,006
	4,147,800	3,856,512

30. TRADE AND OTHER PAYABLES (CONTINUED)

Notes:

(a) As at 31 December 2018 and 2017 advances of government grants to the Group mainly included various conditional government grants to compensate the Group's research and development projects of new or existing pharmaceutical products. Such government grants are recognised as income in the period when the recognition criterion are met in accordance to the Group's accounting policy.

(b) Included in other payables is RMB373,889,000 (2017: RMB257,304,000) which represents the cash from settlement of receivables under the non-recourse factoring arrangement. The Group has an obligation to remit the cash flows to the financial institution without material delay.

The aged analysis of the Group's trade and bills payables based on invoice date at the end of each reporting period are as follows:

	2018 **RMB'000**	2017 RMB'000
0-90 days	**1,243,657**	1,248,177
91-180 days	**271,002**	256,254
181-365 days	**216,598**	170,254
Over 365 days	**157,934**	108,258
	1,889,191	1,782,943

Included in trade and other payables is RMB7,000 (2017: RMB1,425,000), which is denominated in HK$, the currency other than functional currency of the relevant group entities:

31. CONTRACT LIABILITIES

	31/12/2018 **RMB'000**	1/1/2018* RMB'000
Amounts received in advance of delivery products-current	**356,956**	194,429

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

Contract liabilities as at 1 January 2018 is fully recognised as revenue for the year ended 31 December 2018.

32. DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under non-current liabilities are as follows:

	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**145,507**	142,630
Additions	**65,560**	35,894
Credited to profit or loss (note 7)	**(28,509)**	(33,017)
At the end of the year	**182,558**	145,507

As at 31 December 2018, deferred government grants of the Group mainly includes various conditional government grants relating to purchase of property, plant and equipment. Such deferred government grants will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

33. DEFERRED TAXATION

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

	2018	2017
	RMB'000	RMB'000
Deferred tax assets	**(126,812)**	(139,405)
Deferred tax liabilities	**1,736,898**	1,714,698
	1,610,086	1,575,293

33. DEFERRED TAXATION (CONTINUED)

The components of deferred tax (assets) liabilities recognised in the consolidated statement of financial position and the movements during the current and prior years are as follows:

	Intangible assets RMB'000	Depreciation allowances in excess of related depreciation RMB'000	Allowance for doubtful debts RMB'000	Fair value changes of debt instruments at FVTOCI RMB'000	Withholding tax on distributable profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	1,660,533	46,007	(47,396)	–	16,377	(19,783)	(27,156)	(45,381)	1,583,201
Addition through acquisition (note 38)	25,624	–	–	–	–	–	–	–	25,624
(Credited) charged to profit or loss	(23,581)	(4,900)	3,372	–	18,000	(8,866)	21,783	(15,978)	(10,170)
Release upon dividend declared	–	–	–	–	(23,362)	–	–	–	(23,362)
At 31 December 2017	1,662,576	41,107	(44,024)	–	11,015	(28,649)	(5,373)	(61,359)	1,575,293
Adjustments (note 3)	–	–	(6,664)	(381)	–	–	–	–	(7,045)
At 1 January 2018	1,662,576	41,107	(50,688)	(381)	11,015	(28,649)	(5,373)	(61,359)	1,568,248
Addition through acquisition (note 38)	20,827	47,569	(373)	–	–	–	–	(2,306)	65,717
(Credited) charged to profit or loss	(37,405)	(3,568)	20,803	98	26,250	(3,907)	(969)	6,116	7,418
Charge (credit) to other comprehensive income	–	–	–	176	–	–	–	–	176
Release upon dividend declared	–	–	–	–	(31,473)	–	–	–	(31,473)
At 31 December 2018	1,645,998	85,108	(30,258)	(107)	5,792	(32,556)	(6,342)	(57,549)	1,610,086

At the end of the reporting period, the Group had unused tax losses of RMB136,038,000 (2017: RMB27,767,000) available for offset against future profits. A deferred tax asset of RMB6,342,000 (2017: RMB5,373,000) has been recognised in respect of RMB25,368,000 (2017: RMB21,492,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB110,670,000 (2017: RMB6,275,000) due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by 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 RMB4,020,660,000 (2017: RMB2,883,157,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

34. BANK AND OTHER BORROWINGS

	2018 **RMB'000**	2017 RMB'000
Bank loans	**1,641,988**	587,873
Other loans (note)	**1,455**	83,824
	1,643,443	671,697
Secured	**408,074**	243,824
Unsecured	**1,235,369**	427,873
	1,643,443	671,697

	2018 **RMB'000**	2017 RMB'000
Carrying amount repayable:		
Within one year	**1,411,569**	638,697
More than one year, but not exceeding five years	**180,000**	–
More than five years	**51,874**	33,000
	1,643,443	671,697
Amounts due within one year shown under current liabilities	**1,411,569**	638,697
Add: Amounts shown under non-current liabilities	**231,874**	33,000
	1,643,443	671,697

Note: Other loans represented discounting of bill receivables with recourse amounting to RMB1,455,000 (2017: RMB83,824,000), which were repayable within one year.

The details of pledged assets to secure certain bank borrowings granted to the Group are disclosed in notes 17, 18 and 25.

	2018 **RMB'000**	2017 RMB'000
Fixed rate borrowings	**1,231,629**	278,824
Floating rate borrowings	**411,814**	392,873
	1,643,443	671,697

The Group's floating rate borrowings carried interest at Hong Kong Inter-bank Offered Rate ("HIBOR") plus 1.65%.

34. BANK AND OTHER BORROWINGS (CONTINUED)

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2018	2017
Effective interest rate		
– Fixed rate borrowings	**0.29%-6.41%**	1.20%-6.09%
– Floating rate borrowings	**2.32%-3.99%**	2.65%-2.99%

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

	2018 **RMB'000**	2017 RMB'000
Floating rate		
– expiring beyond one year	**5,000**	777,058
Fixed rate		
– expiring within one year	**2,137,700**	240,000
– expiring beyond one year	**95,509**	550,191
	2,238,209	1,567,249

Included in bank borrowings is RMB411,814,000 (2017: RMB392,873,000), which is denominated in HK$, the currency other than the functional currency of the relevant group entities.

35. UNSECURED NOTES

	2018 RMB'000	2017 RMB'000
Carrying amount repayable:		
Within one year	**2,497,330**	–
Within two to five years	**1,992,735**	4,481,958
	4,490,065	4,481,958
Less: Amounts due within one year shown under current liabilities	**(2,497,330)**	–
Amounts shown under non-current liabilities	**1,992,735**	4,481,958

In November 2016, the Company registered medium-term notes in an aggregate amount of RMB4,500,000,000 and the notes could be issued by the Company in multiple tranches within two years from 9 November 2016. On 16 November 2016, the Company completed the issuance of the first tranche of notes in an aggregate amount of RMB2,500,000,000, with a maturity of three years and coupon rate of 3.4% per annum. On 13 June 2017, the Company completed the issuance of the second tranche of notes in an aggregate amount of RMB2,000,000,000, with a maturity of three years and coupon rate of 4.98% per annum.

As at 31 December 2018, an aggregate amount of arrangement fee totaling RMB9,935,000 (2017: RMB18,042,000) was included in the balance of unsecured notes, and is released to profit or loss as finance cost using the effective interest method over the period of the unsecured notes.

36. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2018 '000	2017 '000	2018 RMB'000	2017 RMB'000
Issued and fully paid				
At beginning of the year	**4,431,505**	4,431,505	**9,809,935**	9,809,935
New shares issued (note)	**604,296**	–	**2,172,539**	–
At end of the year	**5,035,801**	4,431,505	**11,982,474**	9,809,935

Note:

The Company allotted and issued 604,296,222 ordinary shares at HK$4.43 (approximately RMB3.60) per share on 10 May 2018 to Ping An Life Insurance Company of China, Ltd. The total net proceeds from the share issues amounted to HK$2,674,223,000 (approximately RMB2,172,539,000). The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares rank pari passu with other shares in issue in all respects.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

37. RETIREMENT BENEFITS PLANS

Hong Kong

The Group participates in a defined contribution scheme under a Mandatory Provident Fund Scheme ("MPF Scheme"). For members of the MPF Scheme, both the Group and the employee contribute 5% of the employee's relevant income to the MPF Scheme according to the Hong Kong Mandatory Provident Fund Schemes Ordinance.

PRC

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

38. ACQUISITIONS OF SUBSIDIARIES

During the year ended 31 December 2018, the Group had the following acquisitions of subsidiaries:

(a) On 5 January 2018, the Group acquired 100% of the equity interest of the entities (hereinafter collectively referred to as the "First Batch Entities") listed below for a total cash consideration of RMB499,237,000 from China National Traditional Chinese Medicine Co., Ltd, a subsidiary of CNPGC and also the Company's intermediate holding company.

List of the First Batch Entities:

Beijing Huamiao Pharmaceutical Co., Limited ("Huamiao Pharmaceutical")
Heilongjiang Sinopharm Medicinal Materials Co., Limited ("Heilongjiang Sinopharm ")
Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Beijing Huatai")
Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou")

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB11,447,000.

The First Batch Entities are principally engaged in the manufacture and sale of TCM decoction pieces. The acquisition of the First Batch Entities are in line with the Group's development strategy to become leader in the TCM industry and will allow the Group to expand its product mix, consolidate upstream resources, as well as extending its coverage in the industry value chain.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(a) (continued)

The information for acquisition of the First Batch Entities are disclosed on an aggregated basis as they are individually immaterial to the Group. Fair value of assets acquired and liabilities recognised at the date of acquisition and goodwill arising on acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000
Property, plant and equipment	366,195
Prepaid lease payments	106,886
Investment properties	19,553
Other intangible assets	38,255
Inventories	212,237
Trade and other receivables	181,995
Bank balances and cash	191,736
Trade and other payables	(300,178)
Amount due to intermediate holding company	(168,751)
Contract liabilities	(7,941)
Bank borrowings	(110,000)
Tax liabilities	(532)
Deferred tax liabilities	(41,665)
	487,790
Consideration transferred	499,237
Less: Fair value of identifiable net assets acquired	(487,790)
Provisional goodwill arising on acquisition	11,447

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	499,237
Less: Bank balances and cash acquired	(191,736)
	307,501

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(a) (continued)

In the opinion of the directors of the Company, goodwill arose on the acquisition of the First Batch Entities mainly due to the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the First Batch Entities. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, which was the best estimate at acquisition date of the contractual cash flows of the receivable.

Acquisition-related costs are not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

During the year ended 31 December 2018, the First Batch Entities contributed RMB824,943,000 to the Group's revenue and profit of RMB57,901,000 to the Group's results.

The acquisition of the First Batch Entities was completed on 5 January 2018. The impact to the Group's revenue and profit are immaterial had the acquisition of the First Batch Entities been effected on 1 January 2018.

(b) During the year 2018, the Group acquired 6 entities (hereinafter collectively referred to as the "Second Batch Entities") from independent third parties for an aggregated cash consideration of RMB255,858,000. The consideration consists of two parts, (i) acquired the equity interests of entities from the ex-shareholders in cash of RMB57,367,000; (ii) injection of capital for an aggregate sum of RMB198,491,000 to certain entities by way of capital increase. The acquisition of the Second Batch Entities have been accounted for using the purchase method. The amount of goodwill which was determined provisionally, arising as a result of these acquisitions was RMB2,598,000.

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(b) (continued)

List of the Second Batch Entities:

Name of entity	Date of acquisition	% of equity interest acquired
Heilongjiang Shuanglanxing Pharmaceutical Co., Ltd. ("Shuanglanxing Pharmaceutical")	21 March 2018	51%
Jiangkang Pharmaceutical	23 March 2018	51%
Sichuan Sinopharm Pharmaceutical Co., Ltd. ("Sichuan Sinopharm Pharmaceutical")	20 April 2018	51%
Fujian Chengtian Pharmaceutical	23 April 2018	51%
Bozhou Hongda	22 June 2018	51%
Fujian Chengtian Jinling Medicine Co., Ltd. ("Fujian Chengtian Medicine")	30 October 2018	100%

The Second Batch Entities are principally engaged in the manufacture and sale of TCM decoction pieces and concentrated TCM granules. The acquisition of the Second Batch Entities are in line with the Group's development strategy to become leader in the TCM industry and will allow the Group to expand its product mix, consolidate upstream resources, enlarge the market share of concentrated TCM granules in Sichuan, Fujian and Heilongjiang Province, as well as extending its coverage in the industry value chain.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(b) (continued)

The information for acquisitions of the Second Batch Entities are disclosed on an aggregated basis as they were individually immaterial to the Group. Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000 (Provisional basis)
Property, plant and equipment	322,028
Prepaid lease payments	46,127
Other intangible assets	44,608
Deferred tax assets	2,306
Deposits and prepayments	3,100
Inventories	24,394
Trade and other receivables	168,053
Financial assets at FVTPL	7,000
Bank balances and cash	202,810
Trade and other payables	(244,159)
Bank borrowings	(56,900)
Contract liabilities	(7)
Tax liabilities	(1,145)
Deferred tax liabilities	(24,698)
	493,517
Consideration transferred	57,367
Capital injection	198,491
Plus: Non-controlling interests	240,257
Less: Fair value of identifiable net assets acquired	(493,517)
Provisional goodwill arising on acquisition	2,598

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(b) (continued)

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	57,367
Capital injection	198,491
Consideration payable	(13,838)
	242,020
Less: Bank balances and cash acquired	(202,810)
	39,210

The directors of the Company are in process of assessing the fair value of the identifiable net assets and liabilities assumed of the Second Batch Entities at the date of the acquisition and thus goodwill was determined provisionally.

In the opinion of the directors of the Company, goodwill arose on the acquisition of the Second Batch Entities mainly due to the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the Second Batch Entities. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, which was the best estimate at acquisition date of the contractual cash flows of the receivable.

Acquisition-related costs are not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

The non-controlling interests in the acquirees at the respective acquisition dates was measured by reference to the proportionate share of the recognised amount of the acquirees' net assets.

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(b) (continued)

Impact of acquisition on the results of the Group

During the year ended 31 December 2018, the Second Batch Entities contributed RMB133,639,000 to the Group's revenue and loss of RMB36,972,000 to the Group's results.

Had the acquisition of the Second Batch Entities been effected at 1 January 2018, the total amount of revenue of the Group for the year ended 31 December 2018 would have been RMB11,436,610,000 and the amount of the profit of the Group for the year would have been RMB1,550,502,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

(c) Zhonglian Pharmaceutical

On 26 September 2018, the Group acquired 51% of the equity interest of Zhonglian Pharmaceutical for a consideration of RMB261,842,000. The consideration consists of two parts, (i) acquired the 0.71% equity interest of Zhonglian Pharmaceutical from the ex-shareholder in cash of RMB1,813,000; (ii) injection of capital RMB260,029,000 to Zhonglian Pharmaceutical by way of capital increase. Before the acquisition, Zhonglian Pharmaceutical was 96.95%-owned by Shanghai Shyndec Pharmaceutical Co., Ltd. which in turn is ultimately controlled by CNPGC. This acquisition has been accounted for using the purchase method. The amount of goodwill which was determined provisionally, arising as a result of the acquisition was RMB68,567,000.

Zhonglian Pharmaceutical is principally engaged in the manufacture and sale of TCM and pharmaceutical products. The acquisition of Zhonglian Pharmaceutical is in line with the Group's development strategy to become leader in the TCM industry and will allow the Group to expand its product mix, consolidate upstream resources, enlarge the market share of concentrated TCM granules in Hubei Province as well as extending its coverage in the industry value chain.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(c) (continued)

Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000 (Provisional basis)
Property, plant and equipment	384,334
Prepaid lease payments	40,313
Other intangible assets	740
Deferred tax assets	373
Inventories	68,664
Trade and other receivables	101,664
Bank balances and cash	271,487
Trade and other payables	(161,208)
Contract liabilities	(8,210)
Bank borrowings	(317,000)
Tax liabilities	(153)
Deferred tax liabilities	(2,033)
	378,971
Consideration transferred	1,813
Capital injection	260,029
Plus: Non-controlling interests	185,696
Less: Fair value of identifiable net assets acquired	(378,971)
Provisional goodwill arising on acquisition	68,567

Net cash inflow arising on acquisition

	RMB'000
Consideration transferred	1,813
Capital injection	260,029
Less: Bank balances and cash acquired	(271,487)
	(9,645)

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(c) (continued)

Net cash inflow arising on acquisition (continued)

The directors of the Company are in process of assessing fair value of the identifiable net assets and liabilities assumed of Zhonglian Pharmaceutical at the date of the acquisition and thus goodwill was determined provisionally.

In the opinion of the directors of the Company, goodwill arose in the acquisition of Zhonglian Pharmaceutical mainly due to the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Zhonglian Pharmaceutical. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, which was the best estimate at acquisition date of the contractual cash flows of the receivable.

Acquisition-related costs are not material and have been excluded from the consideration transferred and have been recognised as an expense during the year, and presented under the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

During the year ended 31 December 2018, Zhonglian Pharmaceutical contributed RMB102,908,000 to the Group's revenue and loss of RMB23,831,000 to the Group's results.

Had the acquisition of Zhonglian Pharmaceutical been effected at 1 January 2018, the total amount of revenue of the Group for the year ended 31 December 2018 would have been RMB11,503,458,000 and the amount of the profit of the Group for the year would have been RMB1,475,234,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(d) Golden Footwear

In July 2018, the Group acquired 100% of the equity interest of Foshan Nanhai Golden Footwear Co., Ltd. ("Golden Footwear") for a consideration of RMB53,950,000 from an independent third party (the "Golden Footwear Acquisition"). On the date of acquisition, Golden Footwear did not engage in any business activities other than renting out certain land and buildings, which are located in Guangdong Province of the PRC, to the Group. The Group intended to use of the land and buildings to expand the pharmaceutical business.

In the opinion of the directors of the Company, Golden Footwear Acquisition does not constitute business combination in accordance with HKFRS 3 "Business Combinations" and as such, the Golden Footwear Acquisition has been accounted for as acquisition of assets.

Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000
Property, plant and equipment	144,258
Prepaid lease payments	7,688
Trade and other receivables	6,292
Bank balances and cash	978
Trade and other payables	(4,142)
Bank borrowings	(70,000)
Amount due to the Group*	(31,124)
	53,950

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	53,950
Less: Outstanding consideration payable	(3,550)
Less: Bank balances and cash acquired	(978)
	49,422

* The amount represented the rental received in advance from the Group before the Golden Footwear Acquisition.

38. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

2017

(a) Guizhou Tongjitang Pharmacy Chain

On 30 January 2017, the Group acquired 60% of the equity interest of Guizhou Tongjitang Pharmacy Chain for a consideration of RMB87,725,000 from Guizhou Tongjitang Medicine Distribution Co., Ltd. and Guizhou Tongjitang Asset Management Co., Ltd. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB30,019,000. The Group recognised in its consolidated financial statements for the year ended 31 December 2017 provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current year (i.e. end of the measurement year), the directors of the Company have completed the determination of the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

(b) Sichuan Tianxiong

On 30 September 2017, the Group acquired 85.7% of the equity interest of Sichuan Tianxiong through its subsidiary, Jiangyin Tianjiang for a consideration of RMB44,080,000. The consideration consists of two parts, (i) Jiangyin Tianjiang acquired 26.1% of the equity interest of Sichuan Tianxiong directly from the shareholders of Sichuan Tianxiong in cash of RMB12,420,000; (ii) The remaining 59.6% was satisfied by injection of capital to Sichuan Tianxiong in cash of RMB31,660,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was nil. The Group recognised in its consolidated financial statements for the year ended 31 December 2017 provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current year (i.e. end of the measurement year), the directors of the Company have completed the determination of the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

39. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**21,300**	10,117
In the second to fifth year inclusive	**21,352**	2,524
After fifth year	**16,871**	344
	59,523	12,985

Operating lease payments represent rentals payable by the Group for its office and production premises held under operating leases. The lease was negotiated for an average term of 1 to 10 years (2017: 1 to 7 years) with fixed rentals.

39. OPERATING LEASES (CONTINUED)

The Group as lessor

Property rental income earned during the year was RMB5,593,000 (2017: RMB1,162,000). All of the properties held have committed tenants fixed rental for the next 1 to 16 years (2017: 1 to 17 years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 **RMB'000**	2017 RMB'000
Within one year	**6,577**	1,825
In the second to fifth year inclusive	**15,075**	5,542
After fifth year	**9,508**	9,579
	31,160	16,946

40. CAPITAL COMMITMENTS

	2018 **RMB'000**	2017 RMB'000
Contracted but not provided for in the consolidated financial statements		
– Investments in PRC entities (note)	**640,000**	640,000
– Acquisition of subsidiaries	**–**	499,300
– Acquisition of property, plant and equipment	**684,662**	287,026
	1,324,662	1,426,326

Note: Pursuant to the cooperation agreements entered into by the Group, Foshan Health Development Co., Ltd. and Foshan Hospital of TCM on 13 January 2016, and a subsequent agreement entered by the Group and Baoli Huanan Industrial Co., Ltd. on 29 December 2016, the parties agreed to form two companies which are principally engaged in the provision of general hospital services, investments in medical industry and provision of hospital management consultancy services. The registered capital of these companies has not yet been paid up to the date of issue of these consolidated financial statements.

41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt, which includes bank and other borrowings and unsecured notes disclosed in notes 34 and 35 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity.

The adjusted debt-to-equity ratios at 31 December 2018 and 2017 are as follows:

	2018	2017
	RMB'000	RMB'000
Current liabilities:		
Bank and other borrowings	**1,411,569**	638,697
Unsecured notes – due within one year	**2,497,330**	–
	3,908,899	638,697
Non-current liabilities:		
Bank and other borrowings	**231,874**	33,000
Unsecured notes – due after one year	**1,992,735**	4,481,958
	2,224,609	4,514,958
Total debt	**6,133,508**	5,153,655
Less: Cash and cash equivalents	**(5,975,825)**	(4,530,477)
Adjusted net debt	**157,683**	623,178
Total equity	**17,510,571**	13,815,257
Adjusted net debt-to-equity ratio	**1%**	5%

The Group is not subject to externally imposed capital requirements except for financial covenants relating to certain of the banking facilities of the Company. The directors of the Company review the capital structure on a semi-annual basis. 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 of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

42. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018	2017
	RMB'000	RMB'000
Financial assets		
Financial assets at FVTPL	**1,076**	–
Held for trading investments	**–**	691
Financial assets at amortised cost	**9,653,429**	–
Debt instruments at FVTOCI	**66,819**	–
Loans and receivables (including cash and cash equivalents)	**–**	7,612,548
Financial liabilities		
Amortised cost	**9,353,088**	8,008,210

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, held for trading investments, financial assets at FVTPL, debt instruments at FVTOCI, pledged bank deposits, bank balances and cash, trade and other payables, unsecured notes and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than RMB, which are mainly other receivables, bank balances and cash, other payables, and bank and other borrowings of the Group, at the end of the reporting period are as follows:

	2018		2017	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
HK$	**26,928**	**(411,821)**	24,833	(394,069)
US$	**38,019**	**–**	–	–

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group manage the foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have a foreign exchange hedging policy. Management will consider hedging foreign currency exposure should the need arise.

Sensitivity analysis

The sensitivity analysis includes outstanding HK$ and US$ denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. If the RMB strengthens/weakens 5% (2017: 5%) against HK$ and US$, the post-tax profit of the Group would increase/decrease by RMB17,380,000 (2017: RMB18,536,000).

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and unsecured notes. The Group is exposed to cash flow interest rate risk in relation to the floating rate borrowings. The Group does not have any interest rate hedging policy. However, the management monitors the related interest rate risk exposure closely and will consider hedging the interest rate risk exposure should the need arise.

The Group's pledged bank deposits and bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate. The management considers the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are mainly within short maturity period.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's borrowings denominated in HK$.

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate profile

The following table details the interest rate profile of the Group's total bank borrowings and unsecured notes at the end of the reporting period.

	2018		2017	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other borrowings	**4.55%**	**1,231,629**	3.55%	278,824
Unsecured notes	**4.42%**	**4,490,065**	4.42%	4,481,958
		5,721,694		4,760,782
Floating rate borrowings:				
Bank and other borrowings	**3.14%**	**411,814**	2.17%	392,873
Total bank and other borrowings and unsecured note		**6,133,508**		5,153,655
Net fixed rate borrowings as a percentage of total bank borrowings and unsecured notes		**93.3%**		92.8%

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and floating rate borrowings. The analysis is prepared assuming that those balances outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis point increase or decrease which represents the management's assessment of the reasonably possible charge in interest rates is used.

If the interest rate on floating rate borrowings had been 10 basis points higher/lower and all other variables were held constant, the post-tax profit of the Group would decrease/increase by RMB412,000 (2017: decrease/increase by RMB393,000) for the year ended 31 December 2018.

If interest rates on floating rate bank balances had been 10 basis points higher/lower and all other variables were held constant, post-tax profit of the Group would increase/decrease by RMB5,175,000 (2017: increase/decrease by RMB4,060,000) for the year ended 31 December 2018.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk and impairment assessment

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

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the management of the Group carries out researches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant. In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. The Group performs impairment test assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix.

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The credit risk on liquid funds is limited because the counterparties are state-owned banks and banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and different regions of the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	The counterparty has a relatively high risk of default or repays after due date but usually settle in full within the year	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's trade and bill receivables and other receivables, which are subject to ECL assessment:

2018	*Notes*	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
				RMB'000	RMB'000
Debt instruments at FVTOCI					
Bill receivables	*28*	note ii	Lifetime ECL (not credit-impaired)	67,016	67,016
Financial assets at amortised cost					
Other receivables	*23*	note i	12-month ECL	128,777	
			Lifetime ECL (credit-impaired)	27,390	156,167
Trade receivables	*23*	note ii	Lifetime ECL (provision matrix)	2,516,953	
			Lifetime ECL (credit-impaired)	15,735	2,532,688
Bill receivables	*23*	note ii	Lifetime ECL (provision matrix)	606,972	606,972

Notes:

i. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. The Group considered the other receivables as credit-impaired on the reporting date once they are past due.

	Past due	Not past due	Total
	RMB'000	RMB'000	RMB'000
Other receivables	27,390	128,777	156,167

ii. For trade receivables and bill receivables, debt instruments at FVTOCI, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

For bank balances and cash and pledged bank deposits, the management considered the credit risk has not increased significantly since the initial recognition. According to the historical observed default rates of these debtors, the average loss rate is negligible.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and loss allowance for trade and bills receivables which are assessed collectively based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired). As at 31 December 2018, the credit-impaired debtors with gross carrying amounts of RMB 15,735,000 were assessed individually.

Internal credit rating	Average loss rate	Gross carrying amount	Impairment loss allowance
		RMB'000	RMB'000
Low risk	0.43%	2,359,319	10,080
Watch list	2.24%	732,871	16,395
Doubtful	25.79%	31,735	8,183
		3,123,925	34,658

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

There is no change in estimation techniques or significant assumptions made in relation to the measurement of expected credit loss during the current year.

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade and bills receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
At 31 December 2017 under HKAS 39	–	113,092	113,092
Adjustment upon application of HKFRS 9	32,099	–	32,099
At 1 January 2018-as restated	32,099	113,092	145,191
Changes due to financial instruments recognized as at 1 January 2018:			
– Transfer to credit-impaired	(1,118)	1,118	–
– Impairment losses reversed	(30,617)	(97,377)*	(127,994)
– Write-offs	–	(1,098)	(1,098)
New financial assets originated			
– Impairment losses recognised	34,294	–	34,294
At 31 December 2018	34,658	15,735	50,393

* The amount mainly represents reversal of bad debt allowance on overdue account receivables at 31 December 2017 of which receivables with carrying amount of RMB107,608,000 was factored on a non-recourse basis during the year.

The following tables shows reconciliation of loss allowances that has been recognised for other receivables.

	12-month ECL RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
At 31 December 2017 under HKAS 39	–	25,649	25,649
Adjustment upon application of HKFRS 9	1,967	–	1,967
At 1 January 2018 – As restated	1,967	25,649	27,616
Changes due to financial instruments recognized as at 1 January 2018:			
– Impairment losses recognised	688	1,741	2,429
New financial assets originated			
– Impairment losses recognised	482	–	482
At 31 December 2018	3,137	27,390	30,527

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following tables shows reconciliation of loss allowances that has been recognised for debt instruments at FVTOCI.

	Lifetime ECL (not credit-impaired) RMB'000
At 31 December 2017 under HKAS 39	–
Adjustment upon application of HKFRS 9	56
At 1 January 2018-As restated	56
Changes due to financial instruments recognized as at 1 January 2018:	
– Impairment losses recognised	21
New financial assets originated	
– Impairment losses recognised	120
At 31 December 2018	197

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

42. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period and the earliest date the Group can be required to pay:

	Weighted average effective interest rate	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
31 December 2018						
Trade and other payables	**–**	**3,219,580**	**–**	**–**	**3,219,580**	**3,219,580**
Floating rate bank borrowings	**3.14%**	**419,022**	**–**	**–**	**419,022**	**411,814**
Fixed rate bank borrowings	**4.55%**	**1,022,644**	**197,518**	**57,181**	**1,277,343**	**1,231,629**
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum	**3.62%**	**2,574,375**	**–**	**–**	**2,574,375**	**2,497,330**
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum	**5.21%**	**99,600**	**2,069,443**	**–**	**2,169,043**	**1,992,735**
		7,335,221	**2,266,961**	**57,181**	**9,659,363**	**9,353,088**
31 December 2017						
Trade and other payables	–	2,854,555	–	–	2,854,555	2,854,555
Floating rate bank borrowings	2.17%	398,964	–	–	398,964	392,873
Fixed rate bank borrowings	3.55%	249,549	1,476	36,263	287,288	278,824
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum	3.62%	85,000	2,574,375	–	2,659,375	2,491,961
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum	5.21%	99,600	2,169,043	–	2,268,643	1,989,997
		3,687,668	4,744,894	36,263	8,468,825	8,008,210

43. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)
	2018 RMB'000	2017 RMB'000		
Financial assets at FVTPL				
Listed equity securities	**1,076**	691	Level 1	Quoted bid prices in active markets
Financial assets at FVTOCI				
Bills receivables	**66,819**	–	Level 2	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period

There were no transfers between Level 1 and 2 during both years.

Except as disclosed below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

Unsecured notes	**2018 RMB'000**	**2017 RMB'000**
Carrying amount	**4,490,065**	**4,481,958**
Fair value under level 2 fair value hierarchy	**4,520,579**	**4,392,531**

The fair values of the financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Company.

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank Borrowings RMB'000	Unsecured notes RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Dividend payable to NCI RMB'000	Total RMB'000
At 1 January 2017	1,424,339	2,485,604	11,889	–	–	3,921,832
Financing cash flows	(763,591)	1,987,830	(156,682)	(316,083)	(21,757)	729,717
Acquired on acquisition of a subsidiary	57,500	–	–	–	–	57,500
Net foreign exchange gain	(46,551)	–	(1,251)	–	–	(47,802)
Dividend distribution to NCI	–	–	–	–	51,907	51,907
Other changes	–	8,524	212,544	321,983	–	543,051
At 31 December 2017	671,697	4,481,958	66,500	5,900	30,150	5,256,205
Financing cash flows	**398,905**	**–**	**(283,165)**	**(479,669)**	**(26,504)**	**(390,433)**
Acquired on acquisition of a subsidiary (Note 38)	**553,900**	**–**	**–**	**–**	**–**	**553,900**
Net foreign exchange loss	**18,941**	**–**	**–**	**–**	**–**	**18,941**
Dividend distribution to NCI					**73,670**	**73,670**
Other changes	**–**	**8,107**	**284,193**	**475,135**	**–**	**767,435**
At 31 December 2018	**1,643,443**	**4,490,065**	**67,528**	**1,366**	**77,316**	**6,279,718**

Notes:

(i) Other changes represents interest expenses on bank and other borrowings and unsecured notes recognised, and dividends distributed to non-controlling interests or the owners of the Group.

(ii) Interest outflow comprises interest paid of RMB98,565,000 (2017: RMB71,682,000) for bank and other borrowings and RMB184,600,000 (2017: RMB85,000,000) for unsecured notes.

45. RELATED PARTY TRANSACTIONS

Key management remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employees as disclosed in notes 12 and 13, is as follows:

	2018 **RMB'000**	2017 RMB'000
Short-term employee benefits	**10,355**	9,662
Post-employments benefits	**390**	406
	10,745	10,068

The above key management remuneration is included in "other staff costs" are set out in note 11.

Other related party transactions

Name of related party	**Relationship**
Mr. Wu Xian	Executive director of the Company
Mr. Wang Xiaochun	Executive director of the Company
Mr. Yang Wenming	Executive director of the Company (appointed on 24 December 2018)
Mr. Zhao Dongji	Executive director of the Company (resigned on 24 December 2018)
Mr. Huang He	Executive director of the Company (resigned on 24 December 2018)
Mr. Yang Bin	Executive director of the Company (resigned on 31 March 2017)
CNPGC	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

	2018 **RMB'000**	2017 RMB'000
(i) Sales of finished goods to CNPGC's subsidiaries other than the Group	**678,795**	335,431

45. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

	2018 RMB'000	2017 RMB'000
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	**22,767**	20,408

	2018 RMB'000	2017 RMB'000
(iii) Rental income from CNPGC's subsidiaries other than the Group	**2,116**	–

The above related party transactions (i), (ii) and (iii) constitute connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Connected transactions" of the section headed "Report of the Directors" of the annual report.

Particulars of significant balances between the Group and the related parties are as follows:

	2018 RMB'000	2017 RMB'000
(i) Trade and other receivable balances due from CNPGC's subsidiaries other than the Group as included in trade and other receivable balances set out in note 23	**848,885**	150,649

	2018 RMB'000	2017 RMB'000
(ii) Trade and other payable balances due to CNPGC's subsidiaries other than the Group as included in trade and other payable balances set out in note 30	**129,170**	20,642

45. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions/balances with other state-controlled entities

The Group itself is part of a large group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("stated-controlled entities") in the ordinary course of business. The directors of the Company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current year in which the directors of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) General information of subsidiaries

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2018	2017	**2018**	2017	
Directly held the Company						
Jiangyin Tiangjiang#	The PRC	**RMB394,555,556**	RMB394,555,556	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine granules
Indirectly held the Company						
Dezhong#	The PRC	**USD6,460,000**	USD6,460,000	**98.3%**	97.0%	Manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing#	The PRC	**USD7,526,100**	USD7,526,100	**98%**	98%	Manufacture and sale of Chinese pharmaceutical products

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2018	2017	**2018**	2017	
Indirectly held the Company (continued)						
Guangdong Medi-World*	The PRC	**USD172,640,000**	USD27,340,000	**100%**	100%	Manufacture and sale of pharmaceutical products and investment holding
Luya#	The PRC	**RMB24,529,300**	RMB24,529,300	**100%**	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices^	The PRC	**RMB595,000,000**	RMB300,000,000	**100%**	100%	Trading of pharmaceutical products
Winteam Sales^	The PRC	**RMB260,000,000**	RMB260,000,000	**100%**	100%	Trading of pharmaceutical products
Sinopharm Group Feng Liao Xing Traditional Chinese Medicine Health Industry Company Limited^	The PRC	**RMB40,000,000**	RMB26,000,000	**100%**	100%	Plantation, investment and management of the traditional Chinese medicine health industry
Guizhou Tongjitang Pharmacy Chain^	The PRC	**RMB5,000,000**	RMB5,000,000	**60%**	60%	Operation of chain pharmacies
Huayi^	The PRC	**RMB139,000,000**	RMB139,000,000	**100%**	100%	Development, manufacture, and sales of TCM products
Jilin Baiqi Pharmaceutical Company Limited^	The PRC	**RMB66,000,000**	RMB66,000,000	**65%**	50%	Development, manufacture, and sales of TCM products
Shanghai Tongjitang^	The PRC	**RMB80,000,000**	RMB80,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Tongjitang Herbal^	The PRC	**RMB60,000,000**	RMB6,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Jiangxi Yifang Tianjiang^	The PRC	**RMB60,000,000**	RMB21,000,000	**52.4%**	52.4%	Development, manufacture and sales of traditional Chinese medicine
Heilongjiang Sinopharm Group Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB60,000,000**	RMB3,600,000	**52.4%**	52.4%	Development, manufacture and sales of traditional Chinese medicine

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2018	2017	**2018**	2017	
Indirectly held the Company (continued)						
Longxixian Fengliaoxing^	The PRC	**RMB50,000,000**	RMB20,000,000	**100%**	100%	Development of TCM decoction product
Tongjitang Pharmaceutical*	The PRC	**RMB249,759,458**	RMB249,759,458	**100%**	100%	Development, manufacture, marketing and sales of medicine products
Jingfang^	The PRC	**RMB39,000,000**	RMB39,000,000	**100%**	100%	Development, manufacture, marketing and sales of medicine products
Pulante^	The PRC	**RMB27,520,000**	RMB27,520,000	**100%**	100%	Development, manufacture, and sales of medicine products
GD Yifang^	The PRC	**RMB364,491,680**	RMB364,491,680	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine granules
Longxi Yifang^	The PRC	**RMB30,000,000**	RMB30,000,000	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine granules
Tianxiang^	The PRC	**RMB110,000,000**	RMB110,000,000	**87.3%**	87.3%	Manufacture and sale of traditional Chinese medicine granules
Jiangyin Tianjiang Chinese Medical Clinics Ltd. ("TCM Clinics")^	The PRC	**RMB11,500,000**	RMB2,000,000	**87.3%**	87.3%	Provision of traditional Chinese medical consultation services
Chongqing Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB60,000,000**	RMB60,000,000	**52.4%**	52.4%	Development, manufacture and sales of traditional Chinese medicine
Yunnan Tianjiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB85,000,000**	RMB40,000,000	**52.4%**	52.4%	Development, manufacture and sales of traditional Chinese medicine

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2018	2017	**2018**	2017	
Indirectly held the Company (continued)						
Sichuan Tianxiong^~	The PRC	**RMB74,120,000**	RMB44,120,000	**44.5%**	44.5%	Development, manufacture, and sales of TCM products
Shandong Yifang Pharmaceutical Company Limited^	The PRC	**RMB100,000,000**	RMB50,000,000	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine
Zhejiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB100,000,000**	RMB40,000,000	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine
Shaanxi Yifang Pingkang Pharmaceutical Company Limited^~	The PRC	**RMB60,000,000**	RMB30,000,000	**44.5%**	44.5%	Development, manufacture and sales of traditional Chinese medicine
Changde Yifang Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB60,000,000**	RMB60,000,000	**61.1%**	61.1%	Development, manufacture and sales of traditional Chinese medicine
Sichuan Tianhao^~	The PRC	**RMB10,000,000**	RMB10,000,000	**44.5%**	44.5%	Development and sales of TCM products
Guangxi Yifang Tianjiang Pharmaceutical Company Limited^%~	The PRC	**RMB100,000,000**	N/A	**44.5%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Beijijng Huamiao^@	The PRC	**RMB55,940,636**	N/A	**100%**	N/A	Manufacture and sale of TCM decoction products
Beijing Huatai^@	The PRC	**RMB118,443,261**	N/A	**100%**	N/A	Manufacture and sale of TCM decoction products
Heilongjiang Sinopharm^@	The PRC	**RMB16,000,000**	N/A	**100%**	N/A	Operation of chain pharmacies
Sichuan Jiangyou^@	The PRC	**RMB54,200,000**	N/A	**100%**	N/A	Manufacture and sale of TCM decoction products
Bozhou Hongda^@	The PRC	**RMB28,595,300**	N/A	**51%**	N/A	Manufacture and sale of TCM decoction products

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2018	2017	**2018**	2017	
Indirectly held the Company (continued)						
Jiangkang Pharmaceutical^@~	The PRC	**RMB70,000,000**	N/A	**44.5%**	N/A	Manufacture and sale of TCM decoction products
Sichuan Sinopharm Pharmaceucital^@~	The PRC	**RMB153,061,200**	N/A	**44.5%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Fujian Chengtian Pharmaceucital^@~	The PRC	**RMB136,500,000**	N/A	**44.5%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Shuanglanxing Pharmaceucital^@~	The PRC	**RMB89,981,200**	N/A	**44.5%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Zhonglian Pharmaceucital^@~	The PRC	**RMB622,280,661**	N/A	**44.5%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Anhui Zhongping Warehouse Logistics Co., Ltd.^%	The PRC	**RMB100,000,000**	N/A	**100%**	N/A	Provide transport and warehouse services
Golden Footwear^@	The PRC	**RMB137,690,000**	N/A	**100%**	N/A	Property leasing

* These companies were established in the PRC in the form of wholly Foreign-owned Enterprises.

\# These companies were established in the PRC in the form of sino-foreign Equity Joint Ventures.

^ These companies were established in the PRC in the form of domestic enterprises.

@ Acquired by the Group during the year.

% Established by the Group during the year.

~ 51% directly or indirectly controlled by Jiangyin Tiangjiang which is a 87.3% owned subsidiary of the Group.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, 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 length.

None of the subsidiaries had issued any debt securities at the end of the year.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
				RMB'000	RMB'000	**RMB'000**	RMB'000
Jiangyin Tianjiang Group (note)	The PRC	**12.7%**	12.7%	**125,821**	133,301	**1,789,643**	1,235,622
Individually immaterial subsidiaries with non-controlling interests				**2,189**	7,698	**169,495**	142,857
				128,010	140,999	**1,959,138**	1,378,479

Note: The amounts have been adjusted for inter group elimination which primarily represent the goodwill and other intangible assets arising from the acquisition of the Jiangying Tianjiang Group.

Summarised consolidated financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below.

The following table lists out the information relating to Jiangyin Tianjiang Group, the only sub-group of the Group which has material non-controlling interest as at 31 December 2018.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

Jiangyin Tianjiang Group

	2018 **RMB'000**	2017 RMB'000
Current assets	**13,705,824**	9,096,292
Non-current assets	**8,745,906**	7,219,778
Current liabilities	**(10,267,210)**	(5,465,398)
Non-current liabilities	**(1,768,337)**	(1,559,690)
Net equity (Note)	**10,416,183**	9,290,982
Equity attributable to owners of Jiangyin Tianjiang Group	**9,881,489**	9,227,216
Non-controlling interests of Jiangyin Tianjiang Group	**534,694**	63,766

Note: The net equity includes fair value adjustments on properties, intangible assets and related deferred taxation arising from business combination amounting to RMB4,155,575,000 (2017: RMB4,266,202,000).

	2018 **RMB'000**	2017 RMB'000
Revenue	**7,293,774**	5,488,685
Expenses	**(6,076,404)**	(4,440,801)
Profit and total comprehensive income for the year (Note)	**1,217,370**	1,047,884
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group	**1,250,343**	1,047,632
Total comprehensive (expense) income attributable to the non-controlling interests of Jiangyin Tianjiang Group	**(32,973)**	252
Total comprehensive income for the year	**1,217,370**	1,047,884
Dividends declared to non-controlling interests	**73,670**	50,800
Net cash inflow from operating activities	**50,041**	1,397,449
Net cash (outflow) inflow from investing activities	**(825,186)**	552,288
Net cash inflow from financing activities	**1,451,797**	1,101,196
Net cash inflow	**676,652**	3,050,933

Note: The profit for the year includes adjustments for depreciation on properties and amortization on intangible assets recognized upon the business combination amounting to RMB110,627,000 (2017: RMB111,221,000).

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018	2017
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**13,604,506**	12,604,506
Loans to subsidiaries	**3,890,932**	4,472,820
Property, plant and equipment	**8**	6
	17,495,446	17,077,332
CURRENT ASSETS		
Other receivables	**105**	2,818
Amounts due from subsidiaries	**1,175,899**	894,737
Bank balances and cash	**79,550**	19,570
	1,255,554	917,125
CURRENT LIABILITIES		
Trade and other payables	**135,630**	123,409
Amounts due to subsidiaries	**643,676**	2,190,502
Bank borrowings	**411,814**	392,873
Unsecured notes-due within one year	**2,497,330**	–
	3,688,450	2,706,784
NET CURRENT LIABILITIES	**(2,432,896)**	(1,789,659)
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,062,550**	15,287,673
NON-CURRENT LIABILITIES		
Unsecured notes-due after one year	**1,992,735**	4,481,958
NET ASSETS	**13,069,815**	10,805,715
CAPITAL AND RESERVES		
Share capital	**11,982,474**	9,809,935
Reserves (note)	**1,087,341**	995,780
TOTAL EQUITY	**13,069,815**	10,805,715

Approved and authorised for issue by the board of directors on 15 March 2019.

WU Xian
EXECUTIVE DIRECTOR

Wang Xiaochun
EXECUTIVE DIRECTOR

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note:

Movements in the Company's reserves

	Translation reserve RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2017	813,199	96,276	909,475
Profit and total comprehensive income for the year	–	408,288	408,288
Dividends paid (note 14)	–	(321,983)	(321,983)
At 31 December 2017	813,199	182,581	995,780
Profit and total comprehensive income for the year	–	566,696	566,696
Dividends paid (note 14)	–	(475,135)	(475,135)
At 31 December 2018	813,199	274,142	1,087,341

48. MAJOR NON-CASH TRANSACTION

During the current year, bills received by the Group from its customers with an aggregate amount of RMB97,382,000 (2017: RMB152,443,000) were endorsed for the settlement of payables for acquisition of property, plant and equipment.

49. CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivables for the settlement of trade and other payables; and (ii) discounted certain bills receivables to banks for raising of cash. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivables, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivables is low because all endorsed and discounted bills receivables are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

	2018 **RMB'000**	2017 RMB'000
Settlement of trade and other payables	**55,628**	135,037
Discounted bills for raising of cash	**44,195**	83,824
Outstanding endorsed and discounted bills receivables with recourse	**99,823**	218,861

The outstanding endorsed and discounted bills receivables are aged within 180 days at the end of the reporting period. The directors of the Company consider that the carrying amounts of the endorsed and discounted bills receivables approximate their fair values.