



石四藥集團有限公司

SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2005)

2019
Annual Report

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CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Qu Jiguang (*Chairman*)
Mr. Wang Xianjun
Mr. Su Xuejun

NON-EXECUTIVE DIRECTOR

Mr. Feng Hao

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Chow Hing Yeung

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 4902-03, 49th Floor
Central Plaza, 18 Harbour Road
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Mr. Chow Hing Yeung

AUDIT COMMITTEE

Mr. Chow Kwok Wai (*Chairman*)
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun (*Chairman*)
Mr. Wang Yibing
Mr. Chow Kwok Wai

NOMINATION COMMITTEE

Mr. Wang Yibing (*Chairman*)
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House - 3rd Floor
24 Shedden Road
P.O. Box 1586, Grand Cayman
KY1-1110, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of Communications
BNP Paribas
China CITIC Bank International
China Construction Bank
Citibank (China)
Hang Seng Bank
Hongkong and Shanghai Banking Corporation
Industrial and Commercial Bank of China

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

WEBSITE

<http://www.ssygroup.com.hk>

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

I. RESULT AND DIVIDEND DISTRIBUTION

During 2019, there were no significant change in the market landscape and the product price of the intravenous infusion solutions industry compared to the corresponding period of last year. The Group fully utilised its own advantages in scale, varieties, qualities, innovation and brand name to achieve improvements in terms of quality and quantity in its operation results, and continuously kept its development in the leading position within the industry. The dynamics of product research & development and bulk pharmaceuticals projects emerged, which facilitated further consolidation and reinforcement of the Group's market influence and competitiveness.

During the year, the Group achieved a revenue of HK\$4,636 million (or approximately RMB4,079 million), representing an increase of 10.9% (or 15.3% in RMB). The net profit was HK\$1,136 million (or approximately RMB1,000 million), representing an increase of 24.6% (or 29.6% in RMB) compared with last year.

The Board resolved to pay a final dividend of HK\$0.06 per share on 9 June 2020 to the shareholders named in the register of members of the Company on 27 May 2020, which represented an increase of 20% compared to last year. The total amount to be distributed for the year is HK\$334 million, representing an increase of 23% compared with last year.

II. BUSINESS REVIEW

(1) Sales of Products

During 2019, we focused on the reinforcement of penetration rate in major provincial markets, so as to maintain and consolidate our competitive advantage. We completed the market development for over 170 new hospitals, focused on adjustments to product mix, improved the sales growth of therapeutic infusion solutions, and ensured that both production and sales of the Company's products were vigorous. We continued to be the company with the fastest growth of production and sales volume in the intravenous infusion solutions industry. During the year, the sales volume of the intravenous infusion solutions, being our major products, reached approximately 1,545 million bottles/bags, representing an increase of approximately 5.6% compared to the corresponding period of last year, of which the proportion of therapeutic infusion solutions increased to 22.3%, representing an increase of 2.6 percentage points compared to the corresponding period of last year.

Ampoule products had a fast growth. During the year, the sales of ampoule products amounted to HK\$392 million, representing a growth of 208% compared to the corresponding period of last year.

In recent years, access to different markets by newly approved products has been gradually completed with sales promotion for new products being facilitated in different provinces. Of those, the market access work of Moxifloxacin Hydrochloride and Sodium Chloride Injection has been completed in 22 provinces and has resulted in sales in 21 provinces, reaching the milestone of over HK\$100 million sales in 2019 as its first full year in sales, achieving a sales of approximately HK\$165 million. With the progress of market access and development work in hospitals, it will continue to maintain the momentum in fast development.

CHAIRMAN'S STATEMENT

II. BUSINESS REVIEW (CONTINUED)

(1) Sales of Products (Continued)

Arbidol capsule was included in the National Medical Insurance Catalogue 2019, the Diagnosis and Treatment Program for Influenza (2019 version) by the National Health Commission and the Diagnosis and Treatment Program for Novel Coronavirus Infected Pneumonia (Trial Version) of China. The product has been admitted to either Catalogues of Products for Epidemic Prevention and Control or Green Channels for Preventive and Control Drugs in 27 provinces and municipalities. As a broad-spectrum antiviral drug, Abidol has played a very good role in this fight against the epidemic, and has been widely recognised by medical institutions. Such factors have laid a good foundation for the Group to expand the market of the product and will provide a new driving force for the growth of the Company's result.

The export sales to foreign countries kept growing steadily with a growth of 19% in sales volume during the year as compared to the corresponding period of last year. We completed the export registration procedures and obtained registration certificates for 34 product specifications, including Metronidazole and Sodium Chloride Injection, Ciprofloxacin Lactate Injection, 18AA Amino Acid Injection and Sodium Lactated Ringer's Injection, in 9 countries including Philippines, Bolivia, Uzbekistan and Jamaica, and increased 5 new countries for export.

In respect of medical materials, Jiangsu Best brought its own technological advantages into play in responding to the policy for examination and approval associated with pharmaceutical products: enhancing the communication with the Research & Development department of other major national pharmaceutical enterprise and jointly developing medical materials products in accordance to customers' needs to seize opportunities in market development. Consistency evaluation for injection was conducted in active concert with the enterprises of pharmaceutical formulation. A total of 16 types of injection were submitted for 12 customers to Centre for Drug Evaluation for related review.

(2) Research and Development of New Products

Our technological innovation capabilities have been further enhanced, gradually forming a set of comprehensive, scientific and articulate systems for technology innovation. In 2019, preparation works for reaccreditations of National Centre for Enterprise Technology, Model Enterprises for National Technology Innovation, National and Local Joint Laboratory and Workstation for Postdoctoral Scientific Research have been completed. Application of China's Patent Award and Dominating Enterprise of National Intellectual Property have been submitted to National Intellectual Property Administration, which was important for the Company to remain at "the forefront of the national team" in terms of technology innovation competence and level.

The Company submitted the review of NP-01, a Type 1 new drug, to the China Center for Drug Evaluation of National Medical Products Administration, which marked the first ever submission of innovative drugs by the Company, demonstrating that the Company had advanced from "generic drug R&D" to "combination of generic and innovative drugs" new stage.

CHAIRMAN'S STATEMENT

II. BUSINESS REVIEW (CONTINUED)

(2) Research and Development of New Products (Continued)

Achievements from new innovations have been emerging. During the year, the Company has obtained 13 approvals for production of generic drugs and 2 approvals for consistency evaluation. Among which, Tirofiban Hydrochloride and Sodium Chloride Injection, a cardiovascular drug clinically used to treat acute coronary syndrome, was viewed as a therapeutic drug of great potential in promoting for clinical use and thus a key product for the Company's performance development. Approval for peritoneal dialysis solution series, combining with the Company's existing hemodialysis product portfolio will bring the Company to the market of dialysis products which has a nice room for market growth. Hydroxyethyl starch 130 sodium chloride injection will win a place in the blood capacity and anaesthetic markets; Ambroxol ampoule products in 3 specifications will further enrich the Company's product series in the respiratory field. Fluconazole tablet with 2 specifications (50mg & 150mg) passing consistency evaluation, of which the 150mg specification being the first one passing consistency evaluation in China, will bring better market potential into effect in its future national product tendering.

(3) Development of Projects

To satisfy the market demand, a production line for large volume and large specification of high-value-added infusion such as hemofiltration solution and peritoneal dialysis solution was recently built. With GMP certification obtained in May and designed capacity of 20 million bags per year, it is now in production and operation.

The main building as well as ancillary construction and structures of the Group's pharmaceutical R&D platform, pilot-testing and industrialized support project, have completed construction and is currently entering latter stages of equipment installation. They will be in service by April 2020.

The phase-one bulk pharmaceuticals project, which was invested and constructed in Bohai new district under Hebei Guangxiang Pharmaceutical Co., Ltd., has been completed. It passed the GMP certification in August 2019 and obtained the necessary approval for spot production of caffeine. Mass production began in October 2019. Participation in international market competition and efficiency enhancement has been regarded as the foothold of the project, while advanced technological ideas in bulk pharmaceutical production as well as artifices and new devices have been introduced and applied. Innovations and breakthroughs have been achieved in key areas such as quality risk control, ecological environmental protection and safety energy conservation. It has a national-wide leading level of automation, and continuously creates competitive advantages.

CHAIRMAN'S STATEMENT

III. PROSPECTS FOR DEVELOPMENT

Looking ahead in 2020, the domestic and international economy will be more complex and dynamic. The outbreak of novel coronavirus epidemic caused disturbances to the whole society and production chains. Pharmaceutical markets, raw materials supply and human resources market all require rebuilding and time order restoration, bringing numerous challenges to the production and operation of the Company. Policies such as Group Purchasing Organisation Programme and control over medical insurance expenditure in China have a long-lasting impact on the operation of pharmaceutical enterprises. Facing numerous uncertain factors, the Group will keep its composure, and do its best in maintaining the momentum in fast development of the Company.

1. We will maintain its major products in the leading position of intravenous infusion solution market. Despite the sales of intravenous infusion solution were affected by the epidemic in the first quarter of this year, we still strive for a sales volume of intravenous infusion solution products to reach approximately 1,600 million bottles/bags, representing a year-on-year increase of approximately 3.56%. We will continue to expand the sales proportion of therapeutic infusion solution products. We will strengthen market sales of the major therapeutic infusion products such as Moxifloxacin. On the foundation of Moxifloxacin's sales record of over HK\$100 million made in 2019, we will make efforts to reach a new level of sales target in multiples.
2. We will continue to enhance the utilisation rate of ampoule production lines, enrich products' variety, improve the sales growth of dominant ampoule products such as Hydrochloride Betahistine, Hydrochloride Ambroxol and Doxofylline, and maintain a consistent sales growth in ampoule product series.
3. We will actively utilise production capacity of bulk pharmaceuticals. The phase-one bulk pharmaceuticals project under Hebei Guangxiang Pharmaceutical will reach maximum efficiency and result in the mass production of bulk pharmaceuticals including caffeine, theophylline, aminophylline, metronidazole and nifedipine. We will create sales channel domestically and internationally while establishing quality and cost advantages to foster new growth poles for the Group's development.
4. We will create a new growth pole of the solid preparation products like Arbidol capsules. We will seize the market opportunities in fighting against the epidemic and strengthen the market recognition and sales of Arbidol, so as to facilitate the breakthrough in the whole solid preparation products. The sales volume of Arbidol is expected to reach the milestone of over 100 million this year.
5. Jiangsu Best will continue following up the progress of consistency evaluation for injections, increase the interaction between pharmaceutical enterprises in research and development, and start product market development of packaging according to customers' special requirements, with market expansion always driven by technology.
6. We will continue to carry out new product development and consistency evaluations. We will adhere to the new products development idea of "combination of generic and innovative drugs" with injection as the basis, reinforcing the Company's technological and product advantages in the intravenous infusion solutions industry of China. We will make comprehensive progress on the development of new products for therapeutic injections, and focus on various fields including treatment of chronic diseases, respiratory system, circulation systems, emergency anesthesia therapy, antipyretic and analgesic therapy, as well as the new anti-infective therapy.

CHAIRMAN'S STATEMENT

III. PROSPECTS FOR DEVELOPMENT (CONTINUED)

Within this year, we will comprehensively complete the research works for consistency evaluation of the major types of intravenous infusion solutions, and ensure that the Company maintains its leading position in development within the intravenous infusion solutions industry.

We will gradually create a product series of high-end anti-infective intravenous infusion solutions focusing on Moxifloxacin Hydrochloride Sodium Chloride Injection, Levornidazole Sodium Chloride Injection (type 2.1 innovative drug in China awaiting approval) and Linezolid and Glucose Injection, and create a product series in respiratory field including Bromhexine Hydrochloride Injection, Ambroxol Injection and Doxofylline Injection. We will create a product series in anaesthesia field including Ropivacaine Hydrochloride Injection and Dexmedetomidine Hydrochloride for injection. Hemodialysis and peritoneal product series will form the Company's product portfolio in the field of kidney disease and dialysis. Through developing new microspheres, Liposomal and Emulsion High-end Injection, Lyophilized Powder Injection, Dual-chamber Bag, Multi-chamber Bag and Aseptic Filling Injection, the Company gradually establishes its leading position in injections in terms of high-end drug delivery system and innovative packaging form.

Regarding innovative drugs, the phase I clinical trial of type 1 anti-tumor new drug NP-01 is expected to commence in the first half of year 2020. The type I new drug AND-9 used for the treatment of liver fibrosis is now under preclinical pharmacology and toxicology studies, and submission for phase 1 clinical trial registration application is expected during the year. Currently, 3 highly active target compounds selected from our self-developed series of compounds for treating pulmonary hypertension, are submitted to preclinical investigation in order. A preliminary animal experimentation of new type of anti-epileptic compound QO-83 indicates a good potential of drug-formation. Anti-tumor chemical drug Miriplatin, a type 2 innovative drug, has started the pharmacodynamics study and safety assessment work as scheduled, and is expected to apply for clinical trials within this year.

We are full of confidence on the future development of the Company. Leveraging on the competitive edges on our scale, quality and lean management in the industry, our development will be further strengthened despite strong market competition. We are committed to bringing satisfactory return to our investors.

I would like to take this opportunity to express our gratitude to our investors and all staff of the Group for their support to the development of the Company.

Qu Jiguang
Chairman

Hong Kong, 30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

SSY Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the research, development, manufacturing and selling of a wide range of pharmaceutical products, which includes finished medicines of mainly intravenous infusion solution to hospitals and distributors, bulk pharmaceuticals and medical materials. The Group has manufacturing plants in Hebei Province and Jiangsu Province, the People’s Republic of China (the “PRC”), and sells to customers mainly in the PRC.

For the year ended 31 December 2019, the review on the Group’s business performance and financial performance are contained in the Chairman’s statement under section headed “BUSINESS REVIEW” and in this Management Discussion and Analysis under section headed “FINANCIAL PERFORMANCE REVIEW” respectively. The future development in the Group’s business is discussed in the Chairman’s statement under section headed “PROSPECT FOR DEVELOPMENT”.

Principle risks and uncertainties

As a pharmaceutical enterprise selling products of mainly intravenous infusion solution to hospitals and distributors in the PRC, the Group considers adverse changes and uncertainties in the pharmaceutical industry environment as well as in the government policy regarding intravenous infusion solution in the PRC as the Group’s principal risks and uncertainties.

The COVID-19 novel coronavirus outbreak has brought uncertainties and challenges to the pharmaceutical industry environment in China. While it is too early to fully assess its impact on the Group, the Group has been actively responding to the government’s measures in fighting against novel coronavirus outbreak. For example, the Group has increased its supply of Abidol Hydrochloride capsules, the antiviral drug included under the China National Health Commission’s “Diagnosis and Treatment Program for Novel Coronavirus”, through “green channels” of drug procurements in various provinces and “shipping orders” from the State Council of China. On the other hand, The Group has taken all possible effective measures to minimize the impact of novel coronavirus outbreak on its business. The Group will keep continuous attention on the change of situation and make timely responses.

During the first half year of 2019, “4+7” Group Purchasing Organisation (the “GPO”) Programme was launched as a new way of tendering for drugs procurement in 11 selected cities in the PRC. The second round of the GPO was announced in December 2019 which expanded its coverage to more cities and more drugs. In general, drugs included under the GPO are likely to face price competition. Intravenous infusion solution, being the Group’s major product, has not yet been included under the GPO. Nevertheless, the Group has started preparation works such as those required in the consistency evaluations for certain products selected by the Group.

Save as the abovementioned principal risks and uncertainties, other risks and uncertainties had been evaluated by the Company as set out in the Chairman Statement and note 26 to the financial statement.

Compliance with laws and regulations

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

Environmental policies and performance

As a pharmaceutical enterprise, the Group recognizes the importance of environmental sustainability and green manufacturing. The Group has set out policies to ensure its production to be in compliance with environmental requirements under the GMP standard and other relevant laws and regulations. For operating practices, the Group persistently adopted measures with low energy consumption and low pollution level, and encouraged its employees to put relevant environmental factors into consideration from time to time. Moreover, the Group had provided a green and eco-friendly working environment for its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Relationships with employees, suppliers and customers

The Group believes that employees are valuable assets. The Group provides competitive remuneration package to employees and is periodically reviewed with reference to industry practice. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options and grant of shares may be awarded to employees according to the assessment of individual performance.

The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. The Group has been working continuously with its suppliers to improve the standard of raw materials, and aiming at delivering products with high quality to its customers. During the year, there was no material and significant dispute between the Group and its suppliers and/or customers.

FINANCIAL PERFORMANCE REVIEW

Revenue

	2019		2018		Increase/ (Decrease) %
	Sales HK\$'000	Percentage of sales %	Sales HK\$'000	Percentage of sales %	
Intravenous infusion solution and others	4,474,109	96.5	4,026,403	96.3	11.1
(Including: Non-PVC soft bag & upright soft bag infusion solution	2,573,437	55.5	2,412,761	57.7	6.7
PP plastic bottle infusion solution	861,261	18.6	814,391	19.5	5.8
Glass bottle infusion solution	442,121	9.6	468,655	11.2	(5.7)
Ampoule injection	391,600	8.4	127,270	3.0	207.7
Others)	205,690	4.4	203,326	4.9	1.2
Medical materials	161,566	3.5	154,385	3.7	4.7
Total	4,635,675	100	4,180,788	100	10.9

The Group's intravenous infusion solution products and ampoule injection products are mainly manufactured and sold by Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma"), a wholly-owned subsidiary. There are different forms of packing in intravenous infusion solution products, including Non-PVC Soft Bag, Upright Soft Bag, PP Plastic Bottle and Glass Bottle, while ampoule injection products are mainly small liquid injections in forms of glass and PP plastic. The Group's medical materials are mainly manufactured and sold by Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), which was also a wholly-owned subsidiary in the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Revenue *(Continued)*

Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi ("RMB"), which depreciated by approximately 3.8% when translated into Hong Kong dollars ("HK\$") for the year ended 31 December 2019 as compared with last year. Nevertheless, as a result of the increase in sales volumes of intravenous infusion solutions and ampoule injections, revenue of the Group for the year ended 31 December 2019 increased to HK\$4,635,675,000 (2018: HK\$4,180,788,000), representing a growth of 10.9% on a year-to-year basis. Among which, revenue from intravenous infusion solution products contributed HK\$3,876,819,000 (2018: HK\$3,695,807,000), representing a growth of 4.9% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK\$1,939,661,000 and HK\$633,776,000 respectively, totalling HK\$2,573,437,000, representing 66.4% of the total revenue from intravenous infusion solution and an increase of 6.7% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK\$861,261,000, representing 22.2% of the total revenue from intravenous infusion solution and an increase of 5.8% as compared with last year; revenue from Glass Bottle infusion solution was HK\$442,121,000, representing 11.4% of the total revenue from intravenous infusion solution and a decrease of 5.7% as compared with last year. Revenue from ampoule injections accounted for HK\$391,600,000 (2018: HK\$127,270,000), representing a significant increase of 207.7% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the Non-PVC Soft Bag and Upright Soft Bag infusion solution as well as increasing the proportion of therapeutic infusion solution among its revenue. The Group will also keep expanding its production in ampoule injections to drive revenue growth.

Revenue from medical materials products contributed HK\$161,566,000 (2018: HK\$154,385,000) to the Group, representing an increase of 4.7% as compared with last year.

Cost of Sales

The Group's cost of sales increased by 11.7% to HK\$1,758,842,000 for the year ended 31 December 2019 as compared to last year of HK\$1,574,415,000. The cost of direct materials, direct labour and other costs represented approximately 64.0%, 14.3% and 21.7% of the total cost of sales respectively for the year ended 31 December 2019 while their comparative percentages for 2018 were 57.8%, 15.8% and 26.4% respectively.

Gross Profit Margin

For the year ended 31 December 2019, the Group recorded a total gross profit of HK\$2,876,833,000 (2018: HK\$2,606,373,000). Overall gross profit margin slightly decreased by 0.2 percentage point to 62.1% from that of last year 62.3%.

Other Income

For the year ended 31 December 2019, the Group's other income amounted to HK\$157,886,000 (2018: HK\$73,389,000) which mainly represented a gain on disposal of assets held for sale of HK\$131,456,000 (2018: Nil) and income from government grants of HK\$17,041,000 (2018: HK\$68,693,000).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Selling and Distribution Costs

For the year ended 31 December 2019, selling and distribution costs amounted to approximately HK\$1,261,406,000 (2018: HK\$1,230,047,000), which mainly consisted of transportation cost of approximately HK\$430,395,000 (2018: HK\$512,952,000), marketing service expenses of approximately HK\$476,096,000 (2018: HK\$367,481,000), advertising expenses of approximately HK\$203,785,000 (2018: HK\$190,961,000) as well as staff expenses for sales and marketing staff of approximately HK\$66,326,000 (2018: HK\$64,585,000).

Selling and distribution costs increased by 2.5% for the year ended 31 December 2019 as compared with last year. Such increase was caused by increases in marketing service and advertising expenses due to the Group's continuous expansion in sales and products coverage, but it was offset by a decrease in transportation cost due to price reduction by service providers and efficiency improvement in products logistics.

General and Administrative Expenses

For the year ended 31 December 2019, general and administrative expenses was approximately HK\$381,657,000 (2018: HK\$336,260,000) which mainly comprised staff expenses for administrative staff of approximately HK\$158,108,000 (2018: HK\$117,161,000) as well as depreciation and amortisation expenses of approximately HK\$83,441,000 (2018: HK\$90,130,000).

The increase of 13.5% in general and administrative expenses in 2019 as compared to that of 2018 was mainly due to a higher staff cost as a result of the Group's overall expansion in business and more staff involved in the new bulk pharmaceuticals project.

Profit from Operations

For the year ended 31 December 2019, the Group's profit from operations amounted to HK\$1,391,656,000, representing an increase of 25.0% as compared to HK\$1,113,455,000 in 2018. The operating profit margin (defined as operating profit divided by total revenue) increased to 30.0% as compared to 26.6% in 2018.

Finance Costs — net

The Group's net finance costs in 2019 amounted to HK\$30,513,000 (2018: HK\$34,312,000), which represented mainly interest expenses of bank borrowings offset by interest income on bank deposits. The decrease of 11.1% in net finance costs was mainly due to higher interest income from larger bank deposits on average.

Income Tax Expense

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Hanlin Biotechnology Co., Ltd. and Hebei Guolong Pharmaceutical Co., Ltd. are qualified as the High and New Technology Enterprise and thus subject to a 15% preferential income tax in the PRC for both 2019 and 2018. For the year ended 31 December 2019, the income tax expense of the Group increased by 36.1% to HK\$223,838,000 (2018: HK\$164,524,000) mainly due to higher profits before taxation of the Group and a withholding tax provision arising from dividend distribution to be made out of the PRC subsidiary.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Profit Attributable to Equity Shareholders

Profit attributable to equity shareholders of the Company in 2019 increased by 24.6% to HK\$1,136,101,000 (2018: HK\$911,774,000). The net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) increased from 21.8% last year to 24.5% this year.

Dividends

For the year ended 31 December 2019, the Board recommended a final dividend of HK\$0.06 per share (2018: HK\$0.05 per share) which, together with the interim dividend of HK\$0.05 per share (2018: HK\$0.04 per share), will result in total dividends of HK\$0.11 per share for the year ended 31 December 2019 (2018: HK\$0.09 per share).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the projected operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2019, the cash and cash equivalents aggregated to HK\$817,429,000 (2018: HK\$902,062,000), mostly were denominated in RMB.

As at 31 December 2019, the Group's bank borrowings amounted to HK\$1,695,857,000 (2018: HK\$1,494,502,000), comprising HK\$717,810,000 (2018: HK\$639,123,000) of borrowings denominated in RMB and HK\$978,047,000 (2018: HK\$855,379,000) in Hong Kong dollars. As at 31 December 2019, all of the Group's bank borrowings were repayable within 5 years, mostly bearing interest at variable rates. Please refer to note 19 to the financial statements for details of repayment, security and fulfilment of covenants.

Gearing ratio (defined as bank borrowings and lease liabilities less cash and cash equivalents divided by total capital less non-controlling interests) increased from 12.3% as at 31 December 2018 to 15.0% as at 31 December 2019. Current ratio (defined as current assets divided by current liabilities) decreased from 2.22 as at 31 December 2018 to 2.13 as at 31 December 2019. Overall, the Group continued to maintain a sound liquidity position and a low-risk capital structure in view of opportunities as well as uncertainties in the future.

As at 31 December 2019, the Group's total capital commitments outstanding but not provided for was HK\$538,249,000 (31 December 2018: HK\$505,649,000).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As its business operation keeps growing, the Group had a need to strengthen its workforce to approximately 4,800 employees as at 31 December 2019 (2018: 4,100 employees), most of whom were based in the PRC. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options under the Share Option Scheme and shares granted under the Restricted Share Award Scheme may be awarded to eligible employees according to the assessment of individual performance. Please refer details of the Share Option Scheme and the Restricted Share Award Scheme to the relevant sections in the Corporate Governance Report.

The remuneration policy of executive Directors and senior management are reviewed and recommended for the Board's approval by the Remuneration Committee. In addition, share options may be granted under the Share Option Scheme and shares may be granted under the Restricted Share Award Scheme to the executive Directors and senior management. The remuneration package is reviewed with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senior management and his/her contribution to the Group.

The total remuneration cost incurred by the Group for year ended 31 December 2019 was approximately HK\$476,147,000 (2018: HK\$430,055,000).

CHARGE ON ASSETS

As at 31 December 2019, the Group's right-of-use assets of HK\$52,156,000 (2018: land use right of HK\$72,984,000 and property, plant and equipment of HK\$28,273,000) were pledged as collateral for the Group's borrowings. In addition, as at 31 December 2019, the Group's right-of-use assets of HK\$17,600,000 and property, plant and equipment of HK\$26,624,000 were under the process of the release as collateral for the Group's borrowings which has been repaid.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB. Except for the foreign currency translation risk arising from the translation into Hong Kong dollars for the financial statements of subsidiaries with the functional currencies of RMB, the Group does not expect any materially adverse effects of the exchange rate fluctuation. Hence, no financial instrument for hedging was employed. Nevertheless, the Group is closely monitoring the financial market and would consider appropriate measures if required.

As at 2019 and 2018, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2018	0.83591
31 December 2018	0.87620
31 December 2019	0.89578

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal of subsidiaries or associates for the year ended 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Qu Jiguang (曲繼廣先生), aged 65, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Qu is also the chief executive officer of the Company who is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory (“No. 1 Pharma”) as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, a wholly owned subsidiary of the Company (“New Orient”), the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company (“CPCL”) and the chairman of CMP Group Limited (“CMP”). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has over 30 years of experience in pharmaceutical industry. He has key roles in China Pharmaceutical Industry Association (中國化學製藥協會), Hebei Provincial Association of Enterprise (河北省企業聯合會) and Hebei Pharmaceutical Industry Association (河北省醫藥行業協會).

Mr. Wang Xianjun (王憲軍先生), aged 57, an executive director. Mr. Wang has nearly 30 years of experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang graduated from Beijing Chemical Engineering College with a Master’s degree in Engineering in 1987. He joined the Group in July 2004 and was appointed as general manager of the Company in December 2004.

Mr. Su Xuejun (蘇學軍先生), aged 52, an executive director. Mr. Su is currently the chairman of the Board of Shijiazhuang No. 4 Pharma, the Company’s indirectly wholly-owned subsidiary. Mr. Su focuses in the pharmaceutical market development, operations and management. He has extensive understanding and experience in sales and marketing as well as the policy in pharmaceutical related industries. Mr. Su joined No.1 Pharma as assistant to factory manager in 1990. And afterwards he served as deputy general manager of a subsidiary of the Shijiazhuang Pharmaceutical Group selling preparations, deputy general manager of Shijiazhuang No.4 Pharma and general manager of Shijiazhuang No.4 Pharma. Since January 2007, Mr. Su acts as executive director of Shijiazhuang No.4 Pharma and New Orient. He is currently a Representative of the 13th People’s Congress of Hebei Province (河北省第十三屆人民代表大會代表). Mr. Su graduated from Hebei Normal University, majoring in biology, with a bachelor’s degree.

Non-executive director

Mr. Feng Hao (馮昊先生) aged 39, a non-executive Director. Mr. Feng currently serves as a deputy general manager and the secretary to the board of directors of Sichuan Kelun Pharmaceutical Co., Ltd. (“Sichuan Kelun”). Mr. Feng has a Master’s degree; was a teacher at the School of Economics at Huazhong University of Science and Technology; an analyst at the Actuarial Division of Taiping Life Insurance Company Limited; an actuarial advisory consultant at Watson Wyatt Consultancy (Shanghai) Ltd.; a senior manager at the investment banking division of Ping An Securities Limited; and a business director at the investment banking division of Sinolink Securities Co. Ltd. Since April 2014, Mr. Feng has been a senior management of Sichuan Kelun.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Wang Yibing (王亦兵先生), aged 57, an independent non-executive Director. Mr. Wang graduated from Shenyang Pharmaceutical University, majored in pharmacy (瀋陽藥科大學藥學). Mr. Wang joined Hebei Provincial Pharmaceutical Research Centre (河北省藥物研究所) in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine (河北省醫藥管理局綜合經濟處) as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration (河北省食品藥品監督管理局藥品註冊處·藥品安全監管處). Mr. Wang possesses over 30 years' experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun (梁創順先生), aged 54, an independent non-executive Director. Mr. Leung is also an independent non-executive director of China Coal Energy Company Limited (Stock code: 1898), China Medical System Holdings Limited (Stock code: 867) and Min Xin Holdings Limited (Stock Code: 222), companies listed on the Stock Exchange. He served as an independent non-executive director of China Metal Recycling (Holdings) Limited (Stock code: 773) from May 2009 to August 2013, China Communications Construction Company Limited (Stock Code: 1800) from January 2011 to November 2017 and China National Materials Company Limited (Stock code: 1893) from July 2007 to May 2018. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo Kwan Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance. Mr. Leung is currently a China-Appointed Attesting Officer appointed by the Ministry of Justice of the PRC.

Mr. Chow Kwok Wai (周國偉先生), aged 53, an independent non-executive Director. Mr. Chow is currently a non-executive director of Cinda International Holdings Limited (stock code: 111), a company listed on the Stock Exchange. He served as an executive director of Silver Grant International Holdings Group Limited (stock code: 171) from April 2004 to December 2012 and an independent non-executive director of Youyuan International Holdings Limited (stock code: 2268), a company incorporated in the Cayman Islands with limited liability, from May 2010 to October 2019. He has worked in Price Waterhouse, which is now known as PriceWaterhouseCoopers, and has accumulated valuable audit experience there. Mr. Chow has nearly 30 years of experience in accounting, financial management and corporate finance. Mr. Chow received his bachelor degree in Social Sciences from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. He is also a Certified Tax Adviser and a Fellow member of the Taxation Institute of Hong Kong.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Chow Hing Yeung (周興揚), aged 41, the Chief Financial Officer and Company Secretary of the Company. Mr. Chow is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chow obtained a Bachelor's degree of Business Administration from the Chinese University of Hong Kong. He has nearly 20 years of experience in areas of auditing, accounting and financial management.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance. The Board believes that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests.

The Company has adopted various policies to ensure compliance with the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year ended 31 December 2019, the Company has complied with all applicable provisions of CG Code except code provisions A.2.1 (as set out below under the heading "Chairman and chief executive officer") and A.6.7 (as set out below under the heading "Board of Directors").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2019.

BOARD OF DIRECTORS

As at 31 December 2019, the Board comprises three executive Directors, namely, Mr. Qu Jiguang (Chairman), Mr. Wang Xianjun and Mr. Su Xuejun, one non-executive Director, namely Mr. Feng Hao and three independent non-executive Directors, namely, Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions. The Board is also responsible for reviewing and monitoring the training and continuous professional development of directors and senior management, the policies and practices on compliance with legal and regulatory requirements of the Company, the code of conduct applicable to employees and directors as well as the Company's compliance with the code and disclosure in the Corporate Governance Report.

The Board has delegated the day-to-day responsibility for the management of the Group to the management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown under the section headed "Biographical Details of Directors and Senior Management". There are sufficient numbers of independent non-executive Directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers them to be independent.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company.

There are no financial, business, family and other material or relevant relationships among members of the Board.

During the year ended 31 December 2019, a total of four board meetings and one annual general meeting ("AGM") were held and the attendance of each Director was as follows:

Name of Director	Number of meetings attended/held	
	Board meetings	AGM <i>(Note)</i>
<i>Executive Directors</i>		
Mr. Qu Jiguang <i>(Chairman)</i>	4/4	1/1
Mr. Wang Xianjun	4/4	1/1
Mr. Su Xuejun	4/4	0/1
<i>Non-executive Director</i>		
Mr. Feng Hao	4/4	0/1
<i>Independent non-executive Directors</i>		
Mr. Wang Yibing	4/4	0/1
Mr. Leung Chong Shun	4/4	1/1
Mr. Chow Kwok Wai	4/4	1/1

Note: Code Provision A.6.7 stipulates that, generally, independent non-executive directors and other non-executive directors should also attend general meetings to gain and develop a balanced understanding of the views of shareholders. For the annual general meeting of the Company held on 8 May 2019, Mr. Feng Hao (the non-executive director of the Company) and Mr. Wang Yibing (one of the independent non-executive directors of the Company) were unable to attend the meeting because they had more important business engagements on that day.

Notice of at least 14 days was given of a regular board meeting. For all other board meetings, reasonable notice will be given. All Directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Agendas and accompanying board papers were sent to all Directors at reasonable time before the intended date of meetings.

Minutes of board meetings and meetings of board committee were kept by Company Secretary and such minutes are open for inspection at reasonable time and on reasonable notice by any Director. Such minutes were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of such minutes were sent to all directors for their comment and record respectively within a reasonable time after the board meeting was held.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. The Company has a procedure to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually held. Independent non-executive Directors who have no material interest in the transaction shall be present at such Board meeting.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board appointed Mr. Qu Jiguang as the Chairman, who was responsible for the leadership and effective running of the Board. Mr. Qu Jiguang has also assumed the role as the chief executive officer of the Company, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Company believes that vesting both roles in Mr. Qu Jiguang will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NOMINATION POLICY OF DIRECTORS

The appointment and re-election of Directors shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations, including but not limited to the Listing Rules. In addition, the Company has established a nomination policy with the objectives of setting out the key selection criteria, principles and procedures of appointments and re-election of directors. The factors used as reference by the Nomination Committee in assessing the suitability of a proposed candidate includes reputation for integrity, skills and knowledge, experience in pharmaceutical industry, commitment in respect of available time as well as age, culture, ethnicity and gender diversity of the Board. The candidate to be nominated as an independent non-executive Director must satisfy the independence criteria set out in the Listing Rules. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated for filling the office of an independent non-executive Director. All these criteria are for reference only and are not meant to be exhaustive or decisive, and the Board shall take into consideration the benefits of a diversified Board when selecting Board candidates. The Nomination Committee will monitor the implementation of and from time to time review the nomination policy, as appropriate, to ensure the effectiveness of it.

Regarding nomination procedures, the Company Secretary shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members. Details of the candidate including the names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information should be provided for consideration by the Nomination Committee, the Board and/or the shareholders in the general meeting. For shareholders' nomination of any proposed candidate for election as a director, please refer its procedures to the section headed "Shareholders' Rights" in this report.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

All Directors including independent non-executive Directors are appointed for a specific term which may be extended as each Director and the Company may agree. The Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

Also, at each annual general meeting, one-third of the Directors including independent non-executive Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that each Director shall be subject to retirement at least once every three years.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to directors will be arranged whenever necessary. A record of the training are kept and updated by the Company Secretary of the Company.

During the year, all directors namely Mr. Qu Jiguang, Mr. Wang Xianjun, Mr. Su Xuejun, Mr. Feng Hao, Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai have complied with the code provision A.6.5 of the CG Code through participating in continuous professional development in one or more of the following manners:

1. reading materials or attending seminars in relation to corporate governance and regulatory requirements;
2. attending seminars/courses/conferences to develop professional skills and knowledge; and
3. site visit.

BOARD DIVERSITY POLICY

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

Taking into account the characteristics of the pharmaceutical industry, the Group's current situation and the feasibility of measurable objectives related to various factors, the Board has set the following measurable objectives:

1. the Board comprises directors who have professional qualifications or relevant experience in each of the following fields: accounting, legal and China pharmaceutical industry; and
2. the Board comprises executive director, non-executive director and independent non-executive director;

At present, the above measurable objectives are achieved.

To ascertain the progress made towards achieving the objective of Board diversity, the Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness. The Board will also review the measurable objectives to ensure their appropriateness and consider setting any new measurable objectives from time to time.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board has established the Nomination Committee. The Nomination Committee is chaired by Mr. Wang Yibing and with committee members of Mr. Leung Chong Shun and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Nomination Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

The principal roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board taking into account the Board Diversity Policy of the Company, and making recommendations on any proposed changes to the Board, identifying candidates and/or making recommendations to the Board on candidates nominated for directorships taking into account the Nomination Policy of Directors of the Company.

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31 December 2019. During the meeting, composition of the Board was reviewed and the nomination policy of directors of the Company was discussed and was recommended to the Board. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Wang Yibing	1/1
Mr. Leung Chong Shun	1/1
Mr. Chow Kwok Wai	1/1

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Remuneration Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

Remuneration Committee is responsible for formulation, review and recommending to the Board of the remuneration policy of executive Directors and senior management. The overriding objective of the remuneration policy is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary.

Other roles and functions of the Remuneration Committee include consulting the Chairman and/or Chief Executive Officer about their remuneration proposals for other executive Directors and senior management, reviewing and approving remuneration proposals with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senior management and his/her contribution to the Group, approving the terms of executive Directors' service agreements and making recommendations to the Board on the remuneration packages of individual Directors and senior management.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(Continued)*

Meeting of the Remuneration Committee shall be held at least once a year. One meetings had been held during the year ended 31 December 2019. During the meeting, remuneration paid to the Directors and review of remuneration policy have been discussed. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Leung Chong Shun	1/1
Mr. Wang Yibing	1/1
Mr. Chow Kwok Wai	1/1

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK\$228,000 for the non-executive Director, namely Mr. Feng Hao, and each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. All the Directors are entitled to participate in the Share Option Scheme. The emolument payable to Directors depends on their respective contractual terms under the service agreement with the Company, and as recommended by the Remuneration Committee. Details of the remuneration of Directors for the year ended 31 December 2019 are set out in note 8 to the financial statement.

AUDIT COMMITTEE

The Board has established the Audit Committee and its terms of reference are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited. In compliance with Rule 3.21 of the Listing Rules, the Audit Committee comprises three independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun. No member of the Audit Committee is a member of the former or the existing auditor of the Company.

The major functions of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the external audit and internal control review processes, and to review the Company's policies and practices on corporate governance.

According to its terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings had been held during the year ended 31 December 2019. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Chow Kwok Wai	2/2
Mr. Leung Chong Shun	2/2
Mr. Wang Yibing	2/2

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Continued)*

During the year, in performing its duties in accordance with its terms of reference and under the CG code, the work performed by the Audit Committee included:

- (a) review the financial information of the Company and its subsidiaries, including those contained in the Annual Report and the Interim Report;
- (b) discuss the audit approach and audit issues with the external auditor at least twice a year;
- (c) recommend to the Board, for the approval by shareholders, of the re-appointment of the external auditor and approval of its remuneration; and
- (d) oversee the Company's financial reporting system and internal control procedures.

ACCOUNTABILITY AND AUDIT

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects. The management provides such explanation and information to the Board and reports regularly to the Board and financial position of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in page 54 of this Annual Report under the section headed "Independent Auditor's Report") for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report.

AUDITOR'S REMUNERATION

The fees paid and payable to the Company's auditor, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to approximately HK\$2,500,000 and HK\$nil respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for overseeing the risk management and internal control systems of the Company. The Board is committed to maintain the effectiveness of such systems so as to manage the risk of failure to achieve business objectives, provide reasonable assurance against material misstatement or loss and to safeguard shareholders' interests and the assets of the Company. Detailed policies and procedures in various departments and functions are established to implement such systems and achieve their objectives.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Board conducted annual review of the Company's risk management and internal control systems. Having assessed the current situation of the Group including its operation size, business risk level and resources required for setting up in-house internal audit, the Board considered the engagement of an external professional firm as internal control consultant is in the best interests of the Company. A risk management plan is set up by the internal control consultant and reported to the Audit Committee. The significant risks of the Group are then identified, assessed and documented, which are taken into consideration by the internal control consultant in the design of internal control system review. The review covers all material controls of the Group, including financial, operational and compliance controls. Results of the review are reported to the Audit Committee for making recommendation to the Board on the effectiveness of the risk management and internal control systems. Suggestions proposed in the review are also considered by the Board for improving the Company's internal control measures and resolve material internal control defects, if any.

For the year ended 31 December 2019, a review on the effectiveness of the risk management and internal control systems of the Company has been conducted by the Board. Based on the information provided by the internal control consultant and its own observations and assessments, the Board concluded that the risk management and internal control systems are effective and adequate, and the overall resources of the accounting and financial reporting function are sufficient.

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary who is a full time employee of the Company. During the year, the Company Secretary had taken no less than 15 hours of relevant professional training requirement.

SHAREHOLDERS' RIGHTS

(1) Procedures for shareholders to convene an EGM

In accordance with the Company's Article 58, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting ("EGM") to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionists and deposit it to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionists concerned at EGM varies according to the nature of the proposal, as follows:

- At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;
- At least 21 clear days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company at EGM.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

(1) Procedures for shareholders to convene an EGM *(Continued)*

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

(2) Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at EGM. The requirements and procedures are set out above.

(3) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong.

COMMUNICATIONS WITH INVESTORS AND HANDLING OF INSIDE INFORMATION

The Company believes that effective communication is essential for enhancing investor relations and investors' understanding of the Group. The Company also recognises the importance of transparency and timely disclosure of its corporate information, which enables shareholders and potential investors to make informed decisions.

The Company issues guidance to Directors and officers on assessing whether material information that comes to their knowledge is inside information and escalating such information for the attention of the Board promptly. The Company discloses information and publish announcements in compliance with the Listing Rules and other relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, accurate and complete.

The Company uses a number of channels to communicate with its shareholders, investors and other stakeholders. These include the AGM, annual and interim reports and quarterly statements, announcements, circulars to shareholders, press releases and the Company's website www.ssygroup.com.hk.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

As a pharmaceutical enterprise, the Group recognises the importance of environmental sustainability and green manufacturing. Combining its own experience, the Group mainly adopts the principles and the basis of “Environmental, Social and Governance Reporting Guide” as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) as the standard of the Group, with the objective of establishing a sound environmental, social and governance structure.

This report covers the period from 1 January 2019 to 31 December 2019. This report sets out the Group’s strategies and practices in two categories, namely environmental and social, to enhance the comprehensive and in-depth understanding by the shareholders, investors and public towards the Company’s governance and culture through this report.

STAKEHOLDERS’ ENGAGEMENT AND MATERIALITY

The Group believes that we need to prioritize environment and social responsibility and to continuously look for ways to improve its environment management system. Apart from achieving business targets, we recognise the responsibility to operate business in a more responsible and sustainable manner, incorporating environmental, social and governance considerations into our daily operations.

Based on our experiences and communications with internal and external organisations, the Group consolidated seven different groups of stakeholders that are relevant to our business. These include our management, general staff, community and the public, shareholders and investors, suppliers and business partners, customers, and the government and regulators. The Group tries its utmost best to communicate with every stakeholder group through various communication channels. Stakeholder participation allows the Group to ensure our business and sustainability strategies align with the stakeholders’ perspectives and expectations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS' ENGAGEMENT AND MATERIALITY *(Continued)*

STAKEHOLDER GROUP ENGAGED		ENGAGEMENT METHODS
Internal Stakeholders	Management	— Regular Meetings
	General Staff	— Regular Meetings — Trainings and workshops — Annual appraisal meetings — Company magazine and intranet
External Stakeholders	Community and the Public	— Joint community activities
	Shareholders and Investors	— General meetings — Investor information sessions — Site visits — Regular information disclosure of the listed company — Investor visits and meetings — Telephone and email enquiries
	Suppliers and Business Partners	— Tender meetings — Supplier management procedure
	Customers	— Customer opinion surveys — Customer communication meetings — Day-to-day communication with frontline staff — Customer feedback mechanism
	The Government and Regulators	— On-site inspection and work reports preparation, submission and approval — Conversations with regulatory authorities — Regular communication with local environmental departments — Consultation and information disclosure

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS' ENGAGEMENT AND MATERIALITY *(Continued)*

After communicating with our senior management and internal control consultant, and after taking into account the materiality of effects of the Group's environment, social and governance issues on the stakeholders and the Group, the Group has assessed and determined four focus aspects, namely emission in emissions reduction aspect, supply management and anti-bribery in production aspect, and labour regulation in employee aspect, and are included in the disclosure in later section of this report..

ENVIRONMENTAL CATEGORY

The Group has formulated policies to ensure the compliance of the production by its companies in the PRC (the "Company") with the environmental requirements under the GMP standards and relevant environmental laws and regulations of the PRC. In practice, the Company adopted low energy consumption and low pollution measures, and encouraged its employees to consider related environmental factors from time to time.

The Company has advocated "green" pharmaceutical philosophy, in which significant historical missions such as environmental protection and the rational use of resources play a prominent role in each and every section of the Company's operations including technological transformation and product formulation selection. Where there is a conflict between production development and environmental protection or resources conservation, the Company has always prioritised the harmonious development of the society and has never sacrificed the environment and resources for profits. In recent years, the Company has actively conducted emissions reduction measures and has put energy conservation and environmental protection in important positions. By means of technological transformation, the adoption of new materials, technologies and processes, the promotion of equipment and technologies with high energy efficiency, as well as technological advancements, the Company has realised its sustainable development, fully embodying the social responsibilities and conscience of a pharmaceutical manufacturer.

Emissions reduction aspect

The Company devoted great effort in pollution prevention and control, protection of ecological system in strict compliance of each GMP standard and the relevant laws and regulations in the PRC, in an effort to strengthen the management ability in environment. Based on new techniques, new technologies and new products of zero or minimal pollution, the Company commenced integrated treatment for "three waste", details as below: for exhaust gas, "Alkaline wash+ multi-media catalysts and oxidants absorption tower" treatment, bag-type filter and "pre-wash+ bio-filter" treatment were utilised to meet emission targets; for sewage, a newly built sewage treatment plant has been put into normal operation; for solid wastes, sorting and separation were conducted to implement full process supervision and management of hazardous waste, covering from its generation to treatment. In August 2017, the Company was the first batch of companies recognised in the Green Manufacturing Demonstration List by the Ministry of Industry and Information Technology. During 2019, the Group has not breached the above laws and regulations in relation to emission.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Emissions reduction aspect *(Continued)*

Emissions

	2019 (Note 1)	2018
Wastewater emission <i>(note 2)</i> (ton)	531,645	233,893
Chemical oxygen demand (CODcr) (ton)	35	16
Carbon dioxide emission <i>(note 3)</i> (ton)	146,968	122,259

Note 1: Bulk pharmaceutical production base in Cangzhou only began operation in Q4 of year 2019, and thus was not included in data collection of year 2019 due to its low materiality relative to whole of the Group.

Note 2: In year 2019, condensate from recycle of steam was used for pre-heating in production and different cleansing purpose. Such condensate from steam has been emitted as sewage after use led to substantial increase in waste water comparing to that in year 2018.

Note 3: Emission amount represents indirect emission from energy consumption

The Company uses various machines and equipment to treat different pollutions, including:

The Company has two sewage treatment stations which improve the sewage treatment capacity. The sewage treatment station uses the biochemical treatment process in combination with physical and chemical treatment methods. The treated sewage is discharged into the sewage pipe network after it meets the standards. The sewage that has been treated in the sewage treatment station meets the discharge target of the industrial zone.

The station mainly handles exhaust gas and is equipped with four sets of treatment facilities, among which, the "bag filter + 25m high exhaust gas pipe" is mainly used for filtering workshop dust, the "alkali wash + multi-media catalytic oxidation absorption tower + 25m high exhaust pipe" is used to remove the odour generated in the workshops, and the "bio-filter + 15m high exhaust pipe" is used to remove the odour generated in the tanks; the Company has also installed facilities including grinders, tableting machines, pumps, fans and air compressors for vibration damping, sound insulation, sound reduction, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Energy consumption aspect

Taking the management approach of “conserving energy to increase efficiency, reducing consumption to increase production, reducing emission to improve environment and implementing green practices to develop pharmaceutical” in energy, the Company conscientiously implemented its energy management system to enhance its quality of overall management and awareness on environmental protection, as well as to minimize operational risk. Water for circular sterilisation in infusion production lines were utilized by separation of high-temperature water and low-temperature water, externally purchased steam used were condensed, recycled and used for heat source and supplementary water in circulation, so to achieve energy conservation. Since the existing compressed air output can no longer meet the production needs under the continuous expansion of the Company’s production, the application of centrifugal air compressor as the replacement for the original screw air compressor and the application of Pneumatch Desiccant Dryers as the replacement for the damaged cold dryers not only doubled the production capacity, but also reduced electricity consumption. Initiatives such as recycling of thermal energy from the hot-pressed distilled water machine were in place to conserve energy and reduce sewage discharge.

Energy and packing materials consumption

	2019 <i>(Note)</i>	2018
Water (ton)	708,603	620,200
Electricity (thousand kWh)	137,482	126,635
Steam (million kJ)	937,575	906,299
Total amount of packaging materials used on finished products (ton)	104,163	93,634

Note: Bulk pharmaceutical production base in Cangzhou only began operation in Q4 of year 2019, and thus was not included in data collection of year 2019 due to its low materiality relative to whole of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Energy consumption aspect *(Continued)*

In line with the committed pursuit for a “high growth, low consumption” economic growth model, the Company aggressively started resources regeneration and circular economy projects to conserve energy and reduce consumption. The Company has recycled all condensed steam water, and completed: the renovation of screw air compressors and post-treatment systems for 14 units on top of the 2 units last year, to conserve energy by reducing gas loss; the renovation of automated self-loading vehicles for a total of 6 production lines to reduce the change of soft bag abrasion; and the renovation of product inspection by light from manual to automatic for glass bottles, greatly enhancing production ability, reducing labour intensity, as well as increasing the product quality. The Company also adopted Germany’s powder freeze and dryer, which has expedited the research and development of the products of the Company. Through such, the Company has successfully reduced the electricity consumption and achieved cutback of raw materials, hence fully demonstrated an economic use of energy and resources. The Company has also completed the establishment of “energy management system”, on the basis of the “four mechanisms” of energy conservation management, namely “planning, implementation, inspection and improvement”, optimised the development of the energy conservation and emission reduction management system, implemented continuous enhancement of energy conservation work, realised continuous enhancement of energy conservation management and continuous improvement of the efficiency levels, thereby ensuring the full completion of energy conservation and emission reduction objectives.

For the new projects of the Company, in addition to the foundation of the existing advanced domestic standards, such projects have directly aligned to the international advanced standards. Advanced technology and design concepts are brought from Germany, and the world’s most advanced equipment and facilities are selectively procured, so as to achieve scale production and serve as a high-standard demonstration project of energy conservation and integrated use of resources for the intravenous infusion industry in China. Such demonstration project is echoing to the necessity of the domestic intravenous infusion sector to raise its quality standard and reduce its waste discharge.

Heat and electricity are two major energy consumption of the Company. The Company has exploited potential from various aspects to reduce its energy consumption, lower its production costs. The Company established an advanced energy management centre. It is equipped with an energy monitoring system which conducts whole-process and real-time monitoring of general water, steam, power systems, compressed air, cooling, circulating water, heat supply and waste heat recovery systems to gain real-time understanding of its energy supply and consumption, as well as the operational status of its equipment. The system can access the monitoring signal process curves or historical data in relation to pressure, flow volume, temperature, etc. The Company adopted energy-saving products such as the application of energy-efficient motor, inverter and servo-motor control. High-voltage motors are utilised for high-power equipment to reduce energy consumption as much as possible. The Company’s overall power system adopts the combination of power compensation and harmonic control, which not only ensures its power quality, but also effectively improves the power quality of the entire power grid. With the remarkable social benefits of energy saving and environmental protection, this not only guarantees the economic benefits of the Company, but also takes the responsibility for the interests of society as a whole.

ENVIRONMENTAL CATEGORY *(Continued)*

Energy consumption aspect *(Continued)*

In order to reduce product energy consumption, it is necessary for the Company to reduce heat consumption. Steam consumption has been greatly reduced after the Company's application of hot-press distilled water machine as the replacement for domestic multi-effect distilled water machine. The Company promotes energy conservation and purchased tens of thousands of sets of the most energy-efficient LED green lighting to replace the traditional fluorescent lamps, energy-saving lamps and incandescent lamps, and has conserved energy. Canteen is equipped with a solar hot water station, which uses low-carbon and clean new energy for cooking, washing and staff to wash their hands. By adopting solar energy systems, the Company replaces coal consumption for steam generation with renewable energy, reducing the consumption of non-renewable energy sources.

To improve water utilisation, the Company not only uses water-saving appliances and equipment, but also develops its water-saving potential. Steam is recycled through condensation and reused as the heat source for preheating raw water in the production of injection water. Moreover, the condensed water is reused in the circulating pool, greatly reduces the freshwater needed for supplementing the circulating pool. Strengthen water-saving technological transformation: A concentrated water recycling device was installed in the water generation system. Large infusion bottles are now washed with clean air instead of water, which have considerably reduces water consumption. Optimise equipment combination to reduce water consumption: changing the traditional way of isolated, small-batch production by production lines, the Company has concentrated multiple production lines for production in much larger quantities. Besides, the Company has greatly reduced the number of errors and materials pollution during production and improved the yield. It has reduced the area of clean areas to reduce the energy consumption of air conditioning systems. It has also lowered the number of times for cleaning preparation tanks and the water volume used for single-time washing, thus cutting the consumption of injected water. The Company utilises advanced equipment at home and abroad to reduce water consumption. Purified water production adopts the RO + EDI and RO + RO purified water preparation system in replacement of the RO + mixed ion exchange resin (mixed bed) purified water preparation system. Additionally, the Company has improved its comprehensive water utilisation rate and is no longer require the use of acid and alkali to avoid the pollution of water by the use of acid and alkali for the regeneration of resin, thereby reducing sewage discharge. The Company has established four sets of water circulation systems for sterilisation, cold water, cooling water and air compressor cooling, which are capable of recycling circulating water, greatly reducing one-off water consumption.

The Company uses various energy-saving machines and equipment, including:

- Modification of existing machines: Modifying 1 unit of screw air compressor into 2 units of centrifugal air compressors, the air to electricity ratio of air compressor is greatly reduced, massively conserving electric energy. Modifying 15 units of cold dryers into 8 units of desiccant dryers, reducing air loss, thus greatly increasing the production of compressed air and conserving electric energy.
- Bottle blowing equipment: Appropriate allocation of production lines by the Company enhances production and delivery ability, thus increases the daily production of each unit and lowers energy consumption of products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Energy consumption aspect *(Continued)*

- Large hot-pressed injected water machine: The hot-pressed injected water machine has undergone multiple heat exchange internally comparing to traditional multi-functioned water machine, achieving optimised energy usage. At the same time, rational production of water output and water storage is achieved through variable frequency control, saving steam by approximately 60%.
- Offline punching machine: Solving the waste issue of leftover materials in production, massively increases the production ability of liquid injections products.

Environment and natural resources aspect

As a manufacturer of intravenous infusion solution, water is the foundation of the Company. The Company continuously implements process reforms and enhances its integrated utilisation of water resources for water conservation. For effective utilisation of limited water resources, the fine cleaning water is reused for rough cleaning in the glass bottle production lines; the reverse-osmosis-first-grade concentrated water in the water station is recycled, and the second-grade concentrated water is recycled and used for cleaning; the steam condensed water generated from sterilisation cabinets and distilled water machines is recycled and used for pre-heating of raw water for production of water for injection, water for bathroom, cooling water for sterilisation during production process and supplementary water for air conditioning.

Meanwhile, the Company highly focuses on the intensive use of land. On top of its scientific planning, reasonable layouts and sophisticated designs are orderly implemented, enabling its factories to create greater economic and social benefits despite having limited land resources. In the past few years, for greater utilisation of the limited land, the Company endeavoured in its intensive use of land with conscientious in its land planning, utilisation, took advantage on the effects from land-savings, and adopted a “up and down” combined approach through the full utilisation of aboveground and underground space resources. The Company has successively established a three-dimensional logistics centre which meets advanced international standards, which has once been the largest of and earliest of its kind in Northern China with the highest standard of automation. Such warehouse is larger than that of a flat warehouse in capacity by seven times. Currently, the Company has five three-dimensional logistics centre. The Company’s land saving practice has been highly praised by the Ministry of Land and Resources of the People’s Republic of China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY

Employees aspect

The Group appreciates its employees as valuable asset. The Group provides competitive remuneration package to employees and periodically reviewed such packages with reference to industry practice. Discretionary bonuses and share options might be granted to employees based on the assessment of individual performance of the employees. The Group's companies in the PRC annually reviewed remuneration package of employees based on the development of the society, increase in consumer prices and corporate results to maintain the employee remuneration at reasonable level. In addition, pensions, work-related injury insurances, medical insurances, maternity insurances, unemployment insurances and housing provident funds are paid for employees as required by the laws to ensure various legitimate interests of its employees. At the same time, the Company advocates for fair competition and was against discrimination to ensure equal starting salary for same gender and equal pay for equal work.

Total number of employees

		31 December 2019 (Note)	31 December 2018
Total		4,773	4,091
By gender	Male	2,702	2,216
	Female	2,071	1,875
By age	18-30	2,624	2,377
	31-50	1,888	1,504
	Over 50	261	210
By education level	Doctorate	7	6
	Post graduate	126	112
	Bachelor	735	690
	Tertiary	1,287	1,302
	Technical secondary school and below high school	2,618	1,981

Note: Including 548 employees in bulk pharmaceutical production base in Cangzhou

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Employees aspect *(Continued)*

The Group's companies in the PRC strictly complied with the relevant laws and regulations such as the Labour Law and the Labour Contract Law of the PRC, and timely optimised the management system of employment relationships pursuant to the changes and amendments of national policies and regulations. The Company strictly followed the relevant laws and regulations, such as the Labour Law and the Labour Contract Law in the signing, renewal, cancellation and termination of employment contracts with employees; deployed labour in accordance with procedures to reduce disputes and controversies related to employment contracts, and maintain the mutual interest of the parties to employment contracts. The Company also set up rigorous recruitment systems and procedures to prevent child and forced labour.

The Company persistently upheld occupational health and safety of employees, strictly complied with the requirements regarding production safety under GMP standard and the PRC laws, and provided trainings and educational seminars to its employees. The Company has also set up a health and safety committee to gradually optimize health and safety management through efforts in various areas, including setting up an accountability system for production safety for staff at all levels, performance evaluation, safety inspection, hazard assessment, emergency drills, personal protections and operation safety. The Company has also assessed and upgraded the fire-control facilities, machines and equipment for safety and medical emergency of all workshops to ensure a safe work place for its employees.

The Company focuses on the personal health of our staff, thus, body check is arranged for them every year. In addition, the Company actively responds to "One Day Donation (一日捐)", a mutual assistance activity for our staff organised by the government, which aims to make contributions and help staff and their families who are in difficulties due to serious illness or accidents.

The Company paid great attention to employee development. With the aim to enhance the individual capability of, and provide better development opportunities for its employees, the Group invested substantial amount of financial and human resources in the trainings for staff. During the reporting period, the Company arranged a total of 38,160 training hours for new employees. Pursuant to the annual training plan, the training hours received by staff among the organization increased by 73,782 hours in total. The Company has also elected a total of 7 staff of middle-management or above level to receive trainings at the Renmin University of China in relation to corporate operation and management.

The Company actively launched for all workshops the evaluation and upgrade of fire control facilities, devices and equipment for safety and emergency, as well as the safety control hardware in the places where flammable and explosive chemicals are used. The Company continued to implement the assessment rules for the implementation of departmental responsibilities, and initiated mechanical protection surveys and evaluations on all mechanical equipment, devices and production lines in the department offices and workshops. The inspection of mechanical protection device for equipment, which may cause higher risk of personal injury has effectively reduced the probability of personal injury accidents, resulting in an improved intrinsic safety of the equipment. The Company implemented the management and control of risks by classification as well as identification and mitigation of hidden hazards. By applying classification of safety risks as foundation and using inspection and mitigation of hidden hazards as tools, we can identify the risks from its source, control the risks, and timely discover potential defects, loopholes and failures in the risk control process through potential hazard inspection. The Company has started various forms of process optimization and improvement for process safety management, mechanical protection, lockout-tagout, occupational safety analysis, safety observation, emergency preparedness and response, fire protection, visualization, 5S organisation, high-risk working operation, road traffic safety, health safety knowledge education and promotion and other professional factors. The health and safety awareness of employees has been continually improved.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Employees aspect *(Continued)*

Percentage of Employees Trained

		2019 (Note)	2018
By gender	Male	98.2%	98.4%
	Female	97.9%	87.7%
By category	Management	80.7%	51.0%
	Executive	90.9%	90.4%
	Non-Executive	98.6%	98.7%

Average Number of Training Hours per Employee

		2019 (Note)	2018
By gender	Male	75.8 hours	70.4 hours
	Female	73.4 hours	70.3 hours
By category	Management	17.6 hours	8.2 hours
	Executive	54.5 hours	46.3 hours
	Non-Executive	76.2 hours	72.2 hours

Note: Including 548 employees in bulk pharmaceutical production base in Cangzhou and their training hours.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Employees aspect *(Continued)*

The Company pays great attention to the occupational health of its employees. It provides good working and production environment to employees, as well as regular body check and occupational health check for employees who have direct or indirect contact with the production process. In 2019, according to the current laws and regulations on occupational health, the department of safety set up effective facilities like dust collector, air extractor and sound insulation screen in the production line where there may be dust, odour or noise. To ensure the occupational health of employees, personal protective devices, such as earplugs, earmuffs, safety goggles, respiratory protective equipment with dust-proof and other functions and protective clothing, are also equipped in accordance with requirements to minimize potential adverse effects on the employees' health due to the hazardous factors in the production and operation sites. For those who are in positions with occupational hazard risk (those directly or indirectly exposed to statutory occupational disease hazards), it will regularly conduct physical examination of occupational health by occupational disease prevention and control agencies to ensure the health of the employees. Occupational health files have also been established for each employee who has received the occupational health check-up. The Company also strengthened our occupational health and safety management system and occupational health records. Meanwhile, regular occupational health trainings were conducted in accordance with the occupational health training program. Employees' awareness of their own health protection has been further strengthened.

The Company places great importance to providing environment, occupational health and safety management (EHS) training and education activities for employees, which are crucial to the sustainable development of the Group. The Company also endeavours to enhance the environmental, health and safety awareness of all employees and society as a whole. In this respect, the Company has established full time and part-time EHS management personnel, and regularly conducted the continuous improvement behaviour of "plan, implement, check and act (PDCA)".

During 2019, the Group has not breached the laws and regulations regarding employee recruitment, labour standards or health and safety.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Production aspect

The Group understands that a good relationship with its suppliers is crucial to the fulfilment of its short-term and long-term goals. The Group has been working continuously with its suppliers with the objectives of improving the quality of raw materials, and delivering high quality products to its customers. To reinforce the quality control of central tender for material procurement, the Group's companies in the PRC have implemented the "management system of tenders for material procurement" and "filing and management system of suppliers' quality" to specify the approval of suppliers for material procurement and the staff duties of each segment. In addition, by specifying the procedures such as the filing of material suppliers' quality, quality standard, on-site audit, quality assessment, inspections and trials as well as the handling of quality problems, the management of major raw materials and the environmental or social risk caused by suppliers have been stepped up, which has in turn strengthened the quality management of material supply.

The Company performed internal review at all levels regularly in accordance with the requirements of GMP to promptly identify problems throughout the actual production process and formulate practicable rectification and prevention measures. The Company has set up quality service department which was responsible for handling enquiries and follow up regarding customer feedbacks on quality, providing after-sales service on quality at all stages from pharmaceutical production, distribution to clinical usage. The department has set up a comprehensive after-sales service system and product-tracking system, including quality information feedback, assistance on recall of pharmaceutical products, quality tracking on substandard products and supervision of adverse reaction on pharmaceutical products. It has also developed a corresponding management system and standardised operation procedures in order to respond to different kinds of complaints on the market and customer enquiries on quality information in a timely manner.

The Company also proactively participated in the inventory management of its customers to avoid return of goods due to overstock or sluggish inventory. For expired pharmaceutical products, the Company sought for a solution through active negotiation; as to inventory of expired pharmaceutical products, it strictly followed the "Substandard Pharmaceutical Products Management System" to determine, report and destroy the substandard pharmaceutical products. During 2019, the Group has not breached the above laws and regulations regarding product responsibility.

The Company strictly complied with the relevant national laws and regulations regarding anti-corruption such as "Anti-Unfair Competition Law". All unfair competition behaviours such as commercial bribery were prohibited in the sales and procurement processes, whereas employees were under strict supervision, management and training. The Company was dedicated to maintaining a sound competition environment and order in the pharmaceutical distribution industry through fair competition with its counterparts in the industry. During 2019, the Group has not breached the above laws and regulations regarding anti-corruption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Community aspect

As an enterprise with a strong commitment to its social responsibilities, the Group has been dedicated to investing greater effort, physical, human and financial resources in its participation in social welfare activities, while ensuring the interest of shareholders and investors and the growth of the enterprise.

The Companies of the Group in PRC have made both financial and physical donations in response to various natural disasters in the PRC in the past. In 2019, the Company supported poverty alleviation in poverty-stricken areas in Yangyuan County, Zhangjiakou, Hebei Province and Dangshan County, Anhui Province by various means such as donating to Hebei Zhongji Foundation for Poverty Alleviation and buying local specialties. In November 2019, the Company donated RMB400,000 to Beijing Medical and Health Foundation in support of medical research in clinical observation, investigation, assessment and meta-analysis in the domain of chronic obstructive pulmonary disease.

The Group believes that the commitment on social responsibilities shall be fully borne by enterprises. As an enterprise with integrity and social responsibility, the Group should stand at the forefront for the community and shoulder the responsibility for business, social and ecological civilization in the course of business growth and the protection of interest for pharmaceutical market and end-users, to achieve a balance between benefit and obligation and to fulfil the responsibility as a “corporate citizen”.

In the adherence to its operational philosophy of “Openness basing on sincerity helps people by quality”, the Group eagerly took up and performed its corporate social responsibilities to make a greater contribution to the harmonious development of society, economy and environment.

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") of SSY Group Limited (the "Company") present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 13 to the financial statements.

BUSINESS REVIEW

Discussions and reviews of the Group's business are contained in the Management Discussion and Analysis as set out on pages 8 to 13. These discussions form part of this Report of the Directors.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2019 is set out in note 4 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 57 to 58.

DIVIDENDS

The Company will consider paying dividends twice a year, which are interim dividend and final dividend. From time to time, the Board may declare interim dividend. Under normal business conditions, and subject to the approval by the shareholders in a general meeting, the Board may recommend final dividend to maintain a stable dividend payout ratio (defined as the aggregated amount of interim dividend and final dividend in each financial year divided by the Group's audited net profits attributable to the shareholders in that year) but there is no assurance that dividends will be paid in any particular amount for any given period. The Board may also declare special dividends in addition to such dividends, or consider the issuance of bonus shares on a basis permitted by the applicable laws and regulations as it considers appropriate.

For the year ended 31 December 2019, an interim dividend of HK\$0.05 per share was declared on 26 August 2019 and paid on 20 September 2019 (2018: HK\$0.04 per share). The Board recommended a final dividend of HK\$0.06 per share (2018: HK\$0.05 per share) which, together with the interim dividend of HK\$0.05 per share (2018: HK\$0.04 per share), will result in total dividends of HK\$0.11 per share for the year ended 31 December 2019 (2018: HK\$0.09 per share). The payment of the final dividend is subject to the approval in the forthcoming annual general meeting.

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 148.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the consolidated statement of changes in equity and in note 25(c) to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 25(d) to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had distributable reserves of approximately HK\$424,629,000 (2018: HK\$702,385,000) calculated in accordance with the Companies Law of the Cayman Islands. This includes the Company's share premium account of approximately HK\$417,589,000 (2018: HK\$614,946,000) which is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 1,700,000 shares which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2019.

During the year ended 31 December 2019, the Company acquired an aggregate of 1,700,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK\$10,152,000 which details are set out below. As at 31 December 2019, all of the 1,700,000 shares have been cancelled.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate consideration (HK\$)
23 October 2019	600,000	5.95	5.87	3,567,000
9 December 2019	1,100,000	5.99	5.94	6,585,000
	1,700,000			10,152,000

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

As approved by an ordinary resolution passed by the shareholders at the Extraordinary General Meeting held on 20 September 2012, the Board had terminated the old share option scheme adopted on 16 October 2005 and adopted the existing share option scheme ("Share Option Scheme").

Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the "Scheme Period") unless terminated earlier by shareholders in general meeting. The purpose of Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Pursuant to Share Option Scheme, the offer for grant of options ("Offer") must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK\$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Share Option Scheme and any conditions of grant as may be stipulated by the Board.

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the "Scheme Mandate Limit"). The Scheme Mandate Limit may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate Limit must not exceed 10% of the issued share capital of the Company at the date of the shareholders' approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders' approval is obtained under the terms of Share Option Scheme.

On 19 October 2015, the Company granted a total of 122,000,000 share options to two executive directors of the Company and other management staff of the Group under Share Option Scheme, representing about 4.33% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$1.98. The exercisable period was from 19 October 2015 to 18 October 2018. During the year ended 31 December 2018, a total of 72,368,000 share options were exercised by two of management staff of the Group who was not a director of the Company and two executive directors of the Company. As a result, during the year ended 31 December 2018, a total of 72,368,000 ordinary shares of the Company was issued. All of the share options granted on 19 October 2015 have been exercised as at 31 December 2018.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

On 15 April 2016, the Company granted 122,000,000 share options to Mr. Qu Jiguang, the Chairman and the CEO of the Company, under Share Option Scheme, representing about 4.31% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$2.58. The exercisable period was from 15 April 2016 to 14 April 2021. Such grant of share options was approved by the independent shareholders at the annual general meeting held on 27 May 2016. During the year ended 31 December 2019, a total of 20,000,000 (2018: 70,000,000) share options were exercised by Mr. Qu Jiguang and, as a result, a total of 20,000,000 (2018: 70,000,000) ordinary shares of the Company was issued. As at 31 December 2019, a total of 32,000,000 share options remain outstanding and exercisable.

The refreshment of Scheme Mandate Limit was approved at the annual general meeting held on 27 May 2016. Upon such approval, the Directors were authorised to grant share options to subscribe up to 10% of the issued share capital as at the date of such approval. Pursuant to the Listing Rules and the Share Option Scheme, share options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised share options) will not be counted for purpose of calculating the Scheme Mandate Limit as refreshed. The limit on the number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. No share options may be granted under the Share Option Scheme and any other schemes of the Company if this will result in the limit being exceeded.

The movement of total number of share options outstanding is shown as follows:

	2019	2018
Outstanding at the beginning of the year	52,000,000	194,368,000
Granted during the year	—	—
Exercised during the year	(20,000,000)	(142,368,000)
Lapsed during the year	—	—
Outstanding and exercisable at the end of the year	32,000,000	52,000,000

As at 31 December 2019, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of HK\$2.58 (31 December 2018: HK\$2.58) and a remaining contractual life of approximately 1.29 years (31 December 2018: 2.29 years).

The details of share options movements during the year ended 31 December 2019 are shown as follows:

Name of Director	Date of grant	Exercise price per share	Exercisable period	Number of share options			
				Outstanding at 1 Jan 2019	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2019
Mr. Qu Jiguang	15 Apr 2016	HK\$2.58	15 Apr 2016 — 14 Apr 2021	52,000,000	—	(20,000,000)	32,000,000

Assuming that all share options outstanding as at 31 December 2019 are exercised, the Company will receive proceeds of approximately HK\$82,560,000.

REPORT OF THE DIRECTORS

RESTRICTED SHARE AWARD SCHEME

The Company has adopted the Restricted Share Award Scheme on 27 December 2018 (the “Adoption Date”), pursuant to which existing Shares will be purchased by the trustee from the market out of cash contributed by the Group and be held on trust for the participants selected by the Board (the “Selected Participants”) until such Shares are vested in the relevant Selected Participants in accordance with the terms of the Restricted Share Award Scheme. The purpose and objective of the Restricted Share Award Scheme are to provide the Selected Participants with an opportunity to acquire a proprietary interest in the Company, to encourage and retain such individuals to work with the Company, and to provide additional incentive for them to achieve performance goals. The Restricted Share Award Scheme shall terminate upon the expiry of the period of 10 years from the Adoption Date.

The Board may, from time to time, at its absolute discretion determine the number of restricted Shares to be granted and select any participant to be a Selected Participant with such vesting conditions as it may deem appropriate under the Restricted Share Award Scheme. Participants of the Restricted Share Award Scheme include any individual being an executive director, employee, officer of the Company or any subsidiary. The maximum number of Shares which the trustee may purchase with funds contributed by the Group amounts to 60,280,507 Shares, representing 2% of the Company’s issued share capital as at the Adoption Date. The maximum number of Shares which may be granted to a Selected Participant at any one time or in aggregate may not exceed 1% of the issued share capital of the Company as at the Adoption Date, and the transactions involved shall be in compliance with the requirements of Chapter 14A of the Listing Rules if they fell under the definition of “connected transactions” in Chapter 14A of the Listing Rules.

As at 31 December 2019 and up to the date of this annual report, no Shares have been purchased by the trustee and no shares have been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme since the Adoption Date.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this Annual Report were:

Executive Directors

Mr. Qu Jiguang
Mr. Wang Xianjun
Mr. Su Xuejun

Non-executive Director

Mr. Feng Hao

Independent Non-executive Directors

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

Pursuant to Article 87 of the Company's articles of association, Mr. Wang Xianjun, Mr. Su Xuejun and Mr. Chow Kwok Wai will retire from office by rotation in the forthcoming annual general meeting. All of them, being eligible, offer themselves for re-election in the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 14 to 15.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date renewable for successive terms of 3 years commencing from the day next after the expiry of the then current term of the appointment.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and Senior Management arising out of corporate activities. Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 28 to the financial statements, no transaction, arrangement or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the interest of Directors of the Company in businesses which was likely to compete with the Group during the year ended 31 December 2019 and as at 31 December 2019 were as follows:

Non-executive Director, Mr. Feng Hao (who was appointed on 24 November 2017), has been a deputy general manager and the secretary to the board of directors of Sichuan Kelun Pharmaceutical Co., Ltd. ("Sichuan Kelun", a substantial shareholder of the Company) since April 2014. Sichuan Kelun is engaged in the same industry of manufacturing and selling of intravenous infusion solution as the Group. Although some of the business conducted by Sichuan Kelun are similar to those conducted by the Group, most of them are of different kinds of products and/or at different locations. The Group has been operating independently of, and at the arm's length from, the businesses of Sichuan Kelun. Furthermore, all directors of the Company are reminded of their fiduciary duties to the Group and that they must, in the performance of their duties of directors, avoid actual and potential conflicts of interest and duty. There are three Independent non-executive Directors in the Board to ensure that the interests of the general shareholders are adequately represented. Therefore, the Board is of the view that the interests of the Group and of the shareholders as a whole are properly safeguarded.

Save as disclosed above, as at 31 December 2019 and up to the date of this Annual Report, none of the Directors are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2019, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Name of Director	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner (Note 1)	Long	32,000,000	1.05%
	Beneficial owner	Long	245,746,000	8.10%
	Interest in a controlled corporation (Note 2)	Long	746,084,000	24.61%
Mr. Wang Xianjun	Beneficial owner	Long	24,416,000	0.81%
Mr. Su Xuejun	Beneficial owner	Long	24,416,000	0.81%

Notes:

1. These shares represent the underlying interest in shares of the Company pursuant to share options outstanding as at 31 December 2019 which were granted to Mr. Qu Jiguang on 15 April 2016 under the Share Option Scheme.
2. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year ended 31 December 2019 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

As at 31 December 2019, the register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that the Company had been notified of the following interests, being 5% or more in the issued share capital and underlying shares of the Company.

Name of Shareholder	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner (Note 1)	Long	32,000,000	1.05%
	Beneficial owner	Long	245,746,000	8.10%
	Interest in a controlled corporation (Note 2)	Long	746,084,000	24.61%
CPCL (Note 2)	Beneficial owner	Long	746,084,000	24.61%
Sichuan Kelun Pharmaceutical Co., Ltd (四川科倫藥業股份有限公司)	Interest in a controlled corporation (Note 3)	Long	446,852,000	14.74%
	Beneficial owner	Long	159,870,000	5.27%
Kelun International Development Co., Ltd (科倫國際發展有限公司) (Note 3)	Beneficial owner	Long	446,852,000	14.74%
UBS Group AG (Note 4)	Interest in a controlled corporation	Long	214,265,474	7.07%
	Person having a security interest in shares	Long	17,835,793	0.58%

Notes:

- These shares represent the underlying interest in shares of the Company pursuant to share options outstanding as at 31 December 2019 which were granted to Mr. Qu Jiguang on 15 April 2016 under the Share Option Scheme.
- These shares were registered in the name of and beneficially owned by CPCL. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.
- These shares were registered in the name of and beneficially owned by Kelun International Development Co., Ltd. (科倫國際發展有限公司). Kelun International Development Co., Ltd. (科倫國際發展有限公司) is held as to 100% by Sichuan Kelun Pharmaceutical Co., Ltd. (四川科倫藥業股份有限公司).
- Among the interests of UBS Group AG in the Company, 982,000 shares were held through cash settled derivatives (off exchange).

REPORT OF THE DIRECTORS

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Group sold less than 30% of its turnover to its 5 largest customers and purchased less than 30% of its total purchases from its 5 largest suppliers.

None of the Directors, their associates or any shareholders, which to the knowledge of the Directors, owns more than 5% of the Company's shareholding, has interests in these customers and suppliers during the year.

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, certain related party transactions as disclosed in note 28 to the financial statements also fell under the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing connected transaction — Master Sale and Purchase Agreement with Sichuan Kelun

Pursuant to a Master Sale and Purchase Agreement entered on 25 April 2018 between the Company and Sichuan Kelun, a substantial shareholder (as defined under the Listing Rules) of the Company, the Company agreed to purchase certain materials from Kelun Group (Sichuan Kelun itself and its subsidiaries) and the Company agrees to sell certain materials to Kelun Group for a term of three years from 1 January 2018 to 31 December 2020. The unit price of the materials purchased by the Company was calculated based on the prevailing market price from time to time as determined by reference to at least two contemporaneous transactions with other unrelated third-party suppliers for similar materials in similar quantities and specifications. The unit price of the materials sold by the Company was determined by reference to the price lists of the relevant materials adopted by the Company and generally applicable to all customers of the Company at the material time. As stated in the Company's announcement dated 30 September 2019, the annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ended 31 December 2019 was revised while the other annual caps as stated in the Master Sale and Purchase Agreement remained unchanged.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transaction — Master Sale and Purchase Agreement with Sichuan Kelun *(Continued)*

For the year ended 31 December 2019, total purchase from Kelun Group by the Group and total sales to Kelun Group by the Group were RMB18,504,000 and RMB35,441,000 respectively, which did not exceed the annual caps of RMB75,310,000 and RMB68,560,000 respectively prescribed for the year ended 31 December 2019 under the Master Sale and Purchase Agreement.

The independent non-executive Directors have confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of Group; (b) on normal commercial terms or better; and (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group's shareholders as a whole.

The Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions to the Board of Directors. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

MANAGEMENT CONTRACT

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 30 March 2020, and at all times during the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance. The Board believes that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 16 to 24.

AUDITOR

The consolidated financial statements for the year have been audited by KPMG. The audited consolidated financial statements have been reviewed by the Audit Committee of the Company.

REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING

The 2020 Annual General Meeting of the Company will be held at 2:00 p.m. on 22 May 2020 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 18 May 2020.

RECORD DATE FOR FINAL DIVIDEND

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 27 May 2020 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Tuesday, 9 June 2020.

On behalf of the Board

Qu Jiguang
Chairman

Hong Kong, 30 March 2020

INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report
to the shareholders of SSY Group Limited**
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of SSY Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 57 to 147, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT



Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 94 to 95.

The Key Audit Matter

The Group's revenue principally comprises sales of intravenous infusion solution to a significant number of distributors and hospitals.

The Group enters into framework distribution agreements with certain of its major distributors which specify the terms of sales relating to pricing, goods acceptance and return, as well as credit terms. Sales to the remainder of the Group's customers are based on terms and conditions included in purchase orders. The Group's sales contracts do not include terms relating to discounts or rebates and do not permit sales returns except for where the products are damaged or defective.

The Group recognises revenue at the point in time when control of the goods is transferred to the customer. Depending on the terms of the contract, this point in time will either be when the customer collects the goods from the warehouse, when the goods are delivered to a location designated by the customer or when the goods are delivered to and have been accepted by the customers.

We identified the timing of revenue recognition as a key audit matter because of the differing terms of trade offered by the Group to its customers which increases the risk that revenue may be recognised before the control of the goods has been transferred to the customers and because the impact of any errors in the timing of revenue recognition could be material to the consolidated financial statements.

How the matter was addressed in our audit

Our audit procedures to assess the timing of revenue recognition included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;
- inspecting a sample of framework distribution agreements and purchase orders with key customers to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's policies in respect of the timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;
- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, including goods delivery notes and goods acceptance notes, to assess whether revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework distribution agreements or purchase orders; and
- inspecting manual journal entries relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT



Recoverability of trade receivables

Refer to notes 15 and 26(a) to the consolidated financial statements and the accounting policies on pages 83 to 86.

The Key Audit Matter

As at 31 December 2019, the gross amount of the Group's trade receivables totalled HK\$1,681.1 million, against which a loss allowance of HK\$8.4 million was made. The carrying value of the Group's trade receivables represented approximately 21.7% of the total assets as at 31 December 2019.

The Group's loss allowance is measured at an amount equal to lifetime expected credit loss ("ECL") based on management's estimated loss rates for each category of receivables. The estimated loss rates take into account the aging of the trade receivables, overdue balances, information regarding the ability and intent of the debtor to pay and historical data on default rates.

Management is required to apply judgement in assessing the loss allowance for trade receivables under the ECL model. The ability of the debtors to repay the Group depends on shared credit risk characteristics of trade receivables groups and market conditions which involves inherent uncertainty.

We identified the loss allowance for trade receivables as a key audit matter because of the inherent uncertainty in assessing if trade receivables will be recovered and because the assessment of the ECLs requires the exercise of management judgement.

How the matter was addressed in our audit

Our audit procedures to assess the loss allowance for trade receivables included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the ECLs;
- assessing the trade receivables ageing report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- obtaining an understanding of the basis of management's approach to measuring ECLs of trade receivable balances and evaluating the loss allowance made by management with reference to the industry in which the debtors are operating, customer credit risk characteristics, ageing of receivables, overdue balances, historical and post year-end payment records. Evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information. This included inspecting relevant correspondence with individual debtors; and
- comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2019 with bank statements and relevant underlying documentation on a sample basis.

INDEPENDENT AUDITOR'S REPORT



Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT AUDITOR'S REPORT



Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism 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.

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

INDEPENDENT AUDITOR'S REPORT



Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 this independent auditor's report is Tse, Wong Pui.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK\$'000	2018 (Note) HK\$'000
Revenue	4	4,635,675	4,180,788
Cost of sales		(1,758,842)	(1,574,415)
Gross profit		2,876,833	2,606,373
Other income	5	157,886	73,389
Selling and distribution costs		(1,261,406)	(1,230,047)
General and administrative expenses		(381,657)	(336,260)
Profit from operations		1,391,656	1,113,455
Finance income		24,755	16,657
Finance costs		(55,268)	(50,969)
Finance costs — net	6(a)	(30,513)	(34,312)
Profit before taxation	6	1,361,143	1,079,143
Income tax	7	(223,838)	(164,524)
Profit for the year		1,137,305	914,619
Other comprehensive income for the year, net of nil tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		(130,803)	(240,679)
Other comprehensive income for the year		(130,803)	(240,679)
Total comprehensive income for the year		1,006,502	673,940

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	<i>Note</i>	2019 HK\$'000	2018 (<i>Note</i>) HK\$'000
Profit attributable to:			
Equity shareholders of the Company		1,136,101	911,774
Non-controlling interests		1,204	2,845
Profit for the year		1,137,305	914,619
Total comprehensive income attributable to:			
Equity shareholders of the Company		1,009,287	679,602
Non-controlling interests		(2,785)	(5,662)
Total comprehensive income for the year		1,006,502	673,940
Earnings per share			
	<i>10</i>		
— Basic		HK\$0.3755	HK\$0.3044
— Diluted		HK\$0.3725	HK\$0.2999

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

The notes on pages 63 to 147 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	31 December 2019 <i>HK\$'000</i>	31 December 2018 (Note) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	11	3,414,398	2,879,018
Land use rights	2(c), 11	—	272,004
Right-of-use assets	2(c), 11	263,652	—
Intangible assets	12	545,509	499,056
Deferred tax assets	23(b)	13,022	9,139
Fixed deposits	17	122,798	114,129
		4,359,379	3,773,346
Current assets			
Inventories	14	506,923	422,504
Trade and bills receivables	15	1,803,279	1,271,424
Prepayments, deposits and other receivables	16	230,070	216,081
Pledged bank deposits and time deposits	17	7,262	252,671
Cash and cash equivalents	18	817,429	902,062
		3,364,963	3,064,742
Assets held for sale	21(b)	—	42,657
		3,364,963	3,107,399
Current liabilities			
Borrowings	19	816,915	448,383
Trade payables	20	171,798	148,505
Contract liabilities		47,411	32,659
Lease liabilities	2(c), 22	2,394	—
Accruals and other payables	21	475,283	720,031
Income tax payable	23(a)	63,207	49,375
		1,577,008	1,398,953
Net current assets		1,787,955	1,708,446
Total assets less current liabilities		6,147,334	5,481,792

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	31 December 2019	31 December 2018 (Note)
		HK\$'000	HK\$'000
Non-current liabilities			
Borrowings	19	878,942	1,046,119
Lease liabilities	2(c), 22	904	—
Deferred tax liabilities	23(b)	24,203	17,974
Deferred revenue	24	56,137	39,453
		960,186	1,103,546
NET ASSETS			
		5,187,148	4,378,246
CAPITAL AND RESERVES			
Share capital	25(c)	67,454	67,088
Reserves		4,918,968	4,171,344
Total equity attributable to equity shareholders of the Company		4,986,422	4,238,432
Non-controlling interests		200,726	139,814
TOTAL EQUITY		5,187,148	4,378,246

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on 30 March 2020.

Qu Jiguang
Director

Wang Xianjun
Director

The notes on pages 63 to 147 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Note	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Share-based payment reserve HK\$'000	Currency translation differences HK\$'000	Retained earnings (note) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 January 2018		64,241	375,830	176,819	231,875	50,076	1,656	2,574,861	3,475,358	11,384	3,486,742
Changes in equity for 2018:											
Profit for the year		—	—	—	—	—	—	911,774	911,774	2,845	914,619
Other comprehensive income		—	—	—	—	—	(232,172)	—	(232,172)	(8,507)	(240,679)
Total comprehensive income		—	—	—	—	—	(232,172)	911,774	679,602	(5,662)	673,940
Capital contribution from non-controlling interests		—	—	706	—	—	—	—	706	134,092	134,798
Shares issued under share option scheme	25(c)(iii)	2,847	359,677	—	—	(38,636)	—	—	323,888	—	323,888
Dividends paid to equity shareholders of the Company	25(b)	—	(120,561)	—	—	—	—	(120,561)	(241,122)	—	(241,122)
Transfer to statutory reserve		—	—	—	8,272	—	—	(8,272)	—	—	—
Balance at 31 December 2018		67,088	614,946	177,525	240,147	11,440	(230,516)	3,357,802	4,238,432	139,814	4,378,246
Balance at 1 January 2019		67,088	614,946	177,525	240,147	11,440	(230,516)	3,357,802	4,238,432	139,814	4,378,246
Changes in equity for 2019:											
Profit for the year		—	—	—	—	—	—	1,136,101	1,136,101	1,204	1,137,305
Other comprehensive income		—	—	—	—	—	(126,814)	—	(126,814)	(3,989)	(130,803)
Total comprehensive income		—	—	—	—	—	(126,814)	1,136,101	1,009,287	(2,785)	1,006,502
Capital contribution from non-controlling interests and acquisition of additional interests in subsidiaries	13	—	—	(343)	—	—	—	—	(343)	63,697	63,354
Shares issued under share option scheme	25(c)(iii)	400	55,600	—	—	(4,400)	—	—	51,600	—	51,600
Dividends paid to equity shareholders of the Company	25(b)	—	(242,839)	—	—	—	—	(59,563)	(302,402)	—	(302,402)
Purchase and cancellation of own shares	25(c)(ii)	(34)	(10,118)	—	—	—	—	—	(10,152)	—	(10,152)
Transfer to statutory reserve		—	—	—	6,824	—	—	(6,824)	—	—	—
Balance at 31 December 2019		67,454	417,589	177,182	246,971	7,040	(357,330)	4,427,516	4,986,422	200,726	5,187,148

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

The notes on pages 63 to 147 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 HK\$'000	2018 (Note) HK\$'000
Operating activities			
Cash generated from operations	18(b)	905,236	1,180,645
Interest paid		(52,903)	(46,800)
Income tax paid	23(a)	(206,376)	(164,020)
Net cash generated from operating activities		645,957	969,825
Investing activities			
Purchase of property, plant and equipment		(761,451)	(533,064)
Purchase of intangible assets		(74,549)	(47,218)
Proceeds from disposal of property, plant and equipment		55	4,891
Government grant received related to property, plant and equipment	24	19,659	—
Payments for acquisition of additional interests in a subsidiary	13	(1,394)	—
Deposit received for proposed disposal of property, plant and equipment	21(b)	—	117,085
Interest received		23,367	13,412
Decrease/(increase) of time deposits and fixed deposits		68,080	(310,451)
Net cash used in investing activities		(726,233)	(755,345)
Financing activities			
Proceeds from exercise of share options	25(c)(iii)	51,600	323,888
Payments for repurchase of own shares of the Company	25(c)(ii)	(10,152)	—
Capital element of lease rentals paid	18(c)	(3,343)	—
Interest element of lease rentals paid	18(c)	(238)	—
Proceeds from borrowings	18(c)	920,441	770,730
Repayments of borrowings	18(c)	(706,125)	(948,507)
Dividends paid to equity shareholders of the Company	25(b)	(302,402)	(241,122)
Proceeds from capital contribution from non-controlling interests		64,748	134,798
Net cash generated from financing activities		14,529	39,787
Net (decrease)/increase in cash and cash equivalents		(65,747)	254,267
Cash and cash equivalents at 1 January		902,062	687,319
Effect of foreign exchange rate changes		(18,886)	(39,524)
Cash and cash equivalents at 31 December		817,429	902,062

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

The notes on pages 63 to 147 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

SSY Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are engaged in the research, development, manufacturing and selling of a wide range of finished medicines, bulk pharmaceutical products and medical materials. The Group has manufacturing plants in Hebei Province and Jiangsu Province, the People’s Republic of China (the “PRC”), and sells to customers mainly in the PRC.

The Company is an exempted company with limited liability established under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 20 December 2005.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(e)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. Comparative information has not been restated and continues to be reported under HKAS 17.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

HKFRS 16, Leases *(continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. For an explanation of how the Group applies lessee accounting, see note 2(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.76%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 27(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018	7,774
Less: commitments relating to leases exempt from capitalisation: — short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(709)
	7,065
Less: total future interest expenses	(406)
Present value of remaining lease payments, discounted using the incremental borrowing rates at 1 January 2019 and total lease liabilities recognised at 1 January 2019	6,659

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

As at 31 December 2018, the Group did not have any leases classified as finance leases. There is no impact on the opening balance of equity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Land use rights	272,004	(272,004)	—
Right-of-use assets	—	278,663	278,663
Total non-current assets	3,773,346	6,659	3,780,005
Lease liabilities (current)	—	3,332	3,332
Current liabilities	1,398,953	3,332	1,402,285
Net current assets	1,708,446	(3,332)	1,705,114
Total assets less current liabilities	5,481,792	3,327	5,485,119
Lease liabilities (non-current)	—	3,327	3,327
Total non-current liabilities	1,103,546	3,327	1,106,873
Net assets	4,378,246	—	4,378,246

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

HKFRS 16, Leases *(continued)*

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. There is no significant difference on the reported profit from operations in the Group's consolidated statement of profit or loss and other comprehensive income as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 18(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement (see note 18(d)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

c. Impact on the financial result and cash flows of the Group (continued)

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019			Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) HK\$'000	2018 Compared to amounts reported for 2018 under HKAS 17 HK\$'000
	Amounts reported under HKFRS 16 (A) HK\$'000	Add back: HKFRS 16 depreciation and interest expense (B) HK\$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) HK\$'000		
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	1,391,656	3,336	(3,581)	1,391,411	1,113,455
Finance costs — net	(30,513)	238	—	(30,275)	(34,312)
Profit before taxation	1,361,143	3,574	(3,581)	1,361,136	1,079,143
Profit for the year	1,137,305	3,574	(3,581)	1,137,298	914,619

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

c. Impact on the financial result and cash flows of the Group (continued)

	2019			2018
	Amounts reported under HKFRS 16 (A) HK\$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1&2) (B) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	905,236	(3,581)	901,655	1,180,645
Net cash generated from operating activities	645,957	(3,581)	642,376	969,825
Capital element of lease rentals paid	(3,343)	3,343	—	—
Interest element of lease rentals paid	(238)	238	—	—
Net cash generated from financing activities	14,529	3,581	18,110	39,787

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

d. Lessor accounting

The Group leases out certain office premise as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(d) Subsidiaries and non-controlling interests

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

— Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

(i) Consolidation (continued)

— Business combinations (continued)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts represented by subsidiaries have been adjusted to conform with the Group's accounting policies.

— Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transaction that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

— Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

(ii) *Company's statement of financial position*

Investments in subsidiaries are accounted for at cost less impairment (see note 2(k)), unless the investment is classified as held for sale (see note 2(e)). Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required when there is any indication that the investment is impaired or upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(e) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's most senior executive management for the purpose of allocating resources and assessing performance of the operating segments.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(g) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and New Orient Investments Pharmaceutical Holding (Hong Kong) Limited is HK dollars ("HK\$") and the functional currency of other Group's companies is Renminbi ("RMB"). The consolidated financial statements are presented in HK\$.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss and other comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within 'other income'.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

— Buildings	10 — 40 years
— Plant, machinery and tools	5 — 10 years
— Furniture, fixtures, office equipment and others	5 — 10 years
— Vehicles	5 — 10 years

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2(k)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income', in the consolidated statement of profit or loss and other comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(i) As a lessee *(continued)*

(A) Policy applicable from 1 January 2019 *(continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(i) **As a lessee** *(continued)*

(B) *Policy applicable prior to 1 January 2019*

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. In the comparative period, the premiums paid for such rights are treated as prepayment for operating leases and recorded as land use rights, which are amortised to profit or loss on a straight-line basis over the periods of the leases, or when there is impairment, the impairment losses is charged in profit or loss.

(ii) **As a lessor**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised on a straight-line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

— Trademarks	50 years
— Patents	6 — 10 years

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 — 5.25 years.

(iv) Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets (continued)

(v) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use it;
- there is an ability to use the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding ten years.

(k) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of non-financial assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— **Recognition of impairment losses**

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(I) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 26(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) *Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(bb)).
- FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(cc).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(n) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for ECLs on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);
- contract assets as defined in HKFRS 15 (see note 2(p)); and
- lease receivables.

Other financial assets measured at fair value, including units in bond funds, equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

Measurement of ECLs *(continued)*

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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 since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

Significant increases in credit risk *(continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(bb) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(o) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(p) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(aa)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 2(n) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(q)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(aa)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(q)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Contract assets and contract liabilities *(continued)*

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(bb)).

(q) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(p)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(n)).

(r) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 2(n).

(s) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(t) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Borrowings

Borrowings are measured initially at fair value less transaction costs. Borrowings are subsequently stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(v)).

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(v) Borrowing costs

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

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

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

Borrowing costs include interest expense and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

— Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

— Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Current and deferred income tax (continued)

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(x) Employee benefits

(i) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

— Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK\$1,500 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes approximately 16% to 20% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee benefits (continued)

(i) Pension obligations (continued)

— Post-employment benefits

Some group companies provide post-employment benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The liability recognised in the financial position in respect of post-employment benefits is the present value of these benefits obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. These obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of these obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss and other comprehensive income.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(ii) **Share-based compensation**

— *Equity-settled share-based payment transactions*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

— *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(iii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iv) Bonus plan

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(y) Provisions, contingent liabilities and onerous contracts

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(ii) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Provisions, contingent liabilities and onerous contracts *(continued)*

(iii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(z) Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to assets are presented in the statement of financial position by setting up the grant as deferred revenue and recognised in profit or loss on a systematic basis over the useful life of the asset.

(aa) Revenue

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Revenue *(continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

- Revenue from the sale of goods is recognised upon the transfer of control of the goods to the customer, which generally coincides with the point in time when a group company has delivered products to the customer, the customer has taken possession of and accepted the products and collection of consideration is probable;
- Rental income is recognised on a straight-line basis over the terms of the leases; and
- Services income is recognised over time in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(bb) Interest income

Interest income is recognised using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(n)).

(cc) Dividend income

Dividend income is recognised when the right to receive payment is established.

(dd) Dividend distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ee) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. As the future is inherently uncertain, actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in note 2(k), the recoverable amount of CGUs has been determined based on the higher of value in use and fair value less costs of disposal.

The Group measured the value in use by discounting the future estimated cash flow deriving from the CGUs. These calculations required the Group to estimate the expected future cash flows from the CGUs and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews

(b) Impairment of receivables

The Group's management determines the provision for expected credit losses on trade, bills and other receivables based on an assessment of the present value of all expected cash shortfalls. These estimates are based on the information about past events, current conditions and forecasts of future economic conditions. The Group's management reassesses the provision at each reporting period end.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of changes in industry environment and competitor actions. Management reassesses the estimates at each reporting period end.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(d) Impairment of property, plant and equipment, right-of-use assets and intangible assets

Property, plant and equipment, right-of-use assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group derives revenue principally from the sale of finished medicines of mainly intravenous infusion solution to hospitals and distributors, bulk pharmaceutical products and medical materials.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregation by major products or service lines		
— Sales of pharmaceutical products	4,462,343	4,017,162
— Sales of medical materials	158,224	151,169
— Services income	4,709	6,041
— Sales of raw materials and by-products	10,155	6,241
	4,635,431	4,180,613
Revenue from other source		
— Rental income	244	175
	4,635,675	4,180,788
Disaggregated by geographical location of customers		
— The PRC	4,481,341	4,046,465
— Other countries	154,334	134,323
	4,635,675	4,180,788

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 4(b).

The geographical analysis on revenue above includes rental income from external customers in the PRC for the year ended 31 December 2019 of HK\$244,000 (2018: HK\$175,000). The directors have determined that no geographical segment information of specified non-current assets is presented as over 95% of the non-current assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

For the year ended 31 December 2019, no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customers are set out in note 26(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments, namely intravenous infusion solution and others and medical materials. No operating segments have been aggregated to form the reportable segments.

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:

Segment assets include all tangible, intangible assets and current assets. Unallocated assets mainly comprise corporate cash. Segment liabilities include operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

Revenue and expenses are allocated to the reportable segments with reference to revenue 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 profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	2019			
	Intravenous infusion solution and others HK\$'000	Medical materials HK\$'000	Unallocated HK\$'000	Total HK\$'000
Disaggregated by timing of revenue recognition				
Point in time	4,469,404	161,318	—	4,630,722
Over time	4,715	238	—	4,953
Revenue from external customers	4,474,119	161,556	—	4,635,675
Inter-segment revenue	21,564	169,939	—	191,503
Reportable segment revenue	4,495,683	331,495	—	4,827,178
Operating profit or loss/segment results	1,402,078	23,385	(33,807)	1,391,656
Finance income	24,610	81	64	24,755
Finance costs	(32,521)	(453)	(22,294)	(55,268)
Profit/(loss) before taxation	1,394,167	23,013	(56,037)	1,361,143
Income tax	(217,798)	(6,040)	—	(223,838)
Reportable segment profit/(loss) for the year	1,176,369	16,973	(56,037)	1,137,305
Depreciation and amortisation for the year	257,262	19,809	271	277,342
Write-off of internally generated research and development costs	8,943	—	—	8,943
Provision for impairment of receivables	2,692	36	—	2,728
Total assets/reportable segment assets	7,366,351	350,833	7,158	7,724,342
Additions to non-current assets	929,254	21,364	—	950,618
Total liabilities/reportable segment liabilities	1,989,746	24,004	523,444	2,537,194

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

	2018 (Note)			
	Intravenous infusion solution and others HK\$'000	Medical materials HK\$'000	Unallocated HK\$'000	Total HK\$'000
Disaggregated by timing of revenue recognition				
Point in time	4,020,187	154,385	—	4,174,572
Over time	6,216	—	—	6,216
Revenue from external customers	4,026,403	154,385	—	4,180,788
Inter-segment revenue	25,587	164,452	—	190,039
Reportable segment revenue	4,051,990	318,837	—	4,370,827
Operating profit or loss/ segment results	1,108,917	22,896	(18,358)	1,113,455
Finance income	16,436	219	2	16,657
Finance costs	(26,543)	(1,027)	(23,399)	(50,969)
Profit/(loss) before taxation	1,098,810	22,088	(41,755)	1,079,143
Income tax	(159,287)	(5,237)	—	(164,524)
Reportable segment profit/ (loss) for the year	939,523	16,851	(41,755)	914,619
Depreciation and amortisation for the year	259,864	23,526	590	283,980
Impairment of goodwill	6,206	—	—	6,206
Impairment of intangible assets	19,342	—	—	19,342
Provision for impairment of receivables	1,401	56	—	1,457
Total assets/reportable segment assets	6,460,123	364,666	55,956	6,880,745
Additions to non-current assets	781,826	11,992	—	793,818
Total liabilities/reportable segment liabilities	1,645,444	59,772	797,283	2,502,499

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER INCOME

	2019 HK\$'000	2018 HK\$'000
Government grants	17,041	68,693
Net gain on disposal of property, plant and equipment (note 21(b))	132,036	4,696
Others	8,809	—
	157,886	73,389

Government grants mainly represent subsidy income received from various government organisations to compensate the Group's research and development expenditures, and other incentives to support the operations of the Group.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after (crediting)/charging:

(a) Finance income and costs

	2019 HK\$'000	2018 (Note) HK\$'000
Finance income:		
— Interest income on bank deposits	(23,367)	(13,412)
— Net foreign exchange gain	(1,388)	(3,245)
Finance income	(24,755)	(16,657)
Finance costs:		
— Interest expense of borrowings	68,852	53,154
— Interest on lease liabilities	238	—
	69,090	53,154
Less: Interest expense capitalised into qualifying assets*	(13,822)	(2,185)
Finance costs	55,268	50,969
Finance costs — net	30,513	34,312

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

* During the year ended 31 December 2019, the borrowing costs have been capitalised at a rate of 4.90% per annum (2018: 4.11%).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(continued)*

(b) Staff costs

	2019 HK\$'000	2018 HK\$'000
Contributions to defined contribution retirement plan	41,702	44,830
Salaries, wages and other benefits	434,445	385,225
	476,147	430,055

(c) Other items

	2019 HK\$'000	2018 HK\$'000
Research and development costs (other than amortisation costs)	140,490	78,071
Less: Costs capitalised into intangible assets	(65,139)	(31,271)
	75,351	46,800
Amortisation [#]		
— land use rights <i>(note 11(a))</i>	—	6,879
— intangible assets <i>(note 12)</i>	15,814	18,601
Less: Amount capitalised as development costs	(994)	(923)
	14,820	24,557
Depreciation charges [#]		
— owned property, plant and equipment <i>(note 11(a))</i>	251,956	258,500
— right-of-use assets <i>(note 11(a))*</i>	9,572	—
Impairment losses		
— trade and bills receivables <i>(note 26(a))</i>	2,725	1,585
— intangible assets <i>(note 12)</i>	—	19,342
— goodwill <i>(note 12)</i>	—	6,206
Write-off of internally generated research and development costs <i>(note 12)</i>	8,943	—
Auditors' remuneration — audit services	2,500	2,300
Cost of inventories [#] <i>(note 14(b))</i>	1,721,736	1,510,912
Total minimum lease payments for leases previously classified as operating leases under HKAS 17 [*]	—	9,457
Other expenses		
— transportation expenses	434,694	518,651
— utility expenses	130,348	149,319
— advertising expenses	203,785	190,961
— marketing service expenses	499,887	394,311
— travelling, meeting and entertainment expenses	62,646	84,191
— surcharges and other tax expenses	63,525	71,934

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION (continued)

(c) Other items (continued)

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

Cost of inventories includes HK\$444,883,000 (2018: HK\$441,388,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2019 HK\$'000	2018 HK\$'000
Current tax – the PRC Corporate Income Tax (“CIT”)	221,235	172,280
Deferred tax – origination and reversal of temporary differences	2,603	(7,756)
	223,838	164,524

The Company is incorporated in the Cayman Islands as an exempted company and, accordingly, is exempted from payment of the Cayman Islands income tax.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2019 and 2018 as the Group did not have any profits assessable to Hong Kong Profits Tax during the current and prior years.

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (“Shijiazhuang No.4”), Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best”), Hebei Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. have been certified as High and New Technology Enterprises (“HNTE”) in 2018, 2017, 2017 and 2018, respectively. According to the tax incentives rules of the CIT Law of the PRC (the “CIT Law”) for HNTE, these entities are subject to a reduced corporate income tax rate of 15% for three years. The additional deduction of research and development expenditures have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018.

All other subsidiaries of the Company established and operated in the PRC are subject to the PRC CIT at an applicable rate of 25%.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX (continued)

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents: (continued)

The CIT Law and its relevant regulations also impose a withholding tax at 10% on the foreign investors with respect to dividend distributions made out of the PRC entities from earnings accumulated from 1 January 2008, unless the foreign investors meet certain requirements specified in the relevant tax regulations in the PRC and accordingly are entitled to a preferential rate of 5%. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 HK\$'000	2018 HK\$'000
Profit before taxation	1,361,143	1,079,143
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	347,727	271,938
Effect of the PRC preferential tax rate	(139,891)	(109,743)
Effect of non-deductible expenses	10,037	6,506
Additional deduction of research and development expenditures	(8,936)	(6,030)
Withholding tax on profit distributions	16,003	1,878
Others	(1,102)	(25)
Actual tax expense	223,838	164,524

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Name	2019						Total HK\$'000
	Directors' fees HK\$'000	Salaries HK\$'000	Discretionary bonuses (a) HK\$'000	Housing allowance HK\$'000	Estimated money value of other benefits (b) HK\$'000	Retirement scheme contributions HK\$'000	
<i>Executive directors</i>							
Mr. Qu Jiguang ("Mr. Qu")	—	6,216	6,350	456	—	18	13,040
Mr. Wang Xianjun	—	1,998	300	—	—	18	2,316
Mr. Su Xuejun	—	828	663	—	88	52	1,631
<i>Independent non-executive directors</i>							
Mr. Wang Yibing	228	—	—	—	—	—	228
Mr. Leung Chong Shun	228	—	—	—	—	—	228
Mr. Chow Kwok Wai	228	—	—	—	—	—	228
<i>Non-executive director</i>							
Mr. Feng Hao	228	—	—	—	—	—	228
	912	9,042	7,313	456	88	88	17,899

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS (continued)

Name	2018							Total HK\$'000
	Directors' fees HK\$'000	Salaries HK\$'000	Discretionary bonuses (a) HK\$'000	Housing allowance HK\$'000	Estimated money value of other benefits (b) HK\$'000	Retirement scheme contributions HK\$'000		
<i>Executive directors</i>								
Mr. Qu	—	6,330	10,116	342	—	18	16,806	
Mr. Wang Xianjun	—	1,998	500	—	—	18	2,516	
Mr. Su Xuejun	—	1,141	198	—	99	52	1,490	
<i>Independent non-executive directors</i>								
Mr. Wang Yibing	180	—	—	—	—	—	180	
Mr. Leung Chong Shun	180	—	—	—	—	—	180	
Mr. Chow Kwok Wai	180	—	—	—	—	—	180	
<i>Non-executive director</i>								
Mr. Feng Hao	180	—	—	—	—	—	180	
	720	9,469	10,814	342	99	88	21,532	

(a) Discretionary bonuses are determined based on the business performance of selected subsidiaries of the Group but are limited to a prescribed percent of the net profit of these subsidiaries, which is subject to the approval of the board of directors of the Company.

(b) Other benefits include leave pay and medical insurance, etc..

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2018: two) individuals are as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Salaries and other benefits	1,565	1,738
Discretionary bonuses	399	106
Retirement scheme contributions	70	82
	2,034	1,926

The emoluments of the two (2018: two) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 <i>Number of</i> <i>individuals</i>
Nil — HK\$1,000,000	1	1
HK\$1,000,001 — HK\$2,000,000	1	1

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$1,136,101,000 (2018: HK\$911,774,000) and the weighted average of 3,025,730,000 ordinary shares (2018: 2,995,448,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019 '000	2018 '000
Issued ordinary shares at 1 January	3,014,025	2,871,657
Effect of purchase and cancellation of own shares (note 25(c)(ii))	(131)	—
Effect of share options exercised (note 25(c)(iii))	11,836	123,791
Weighted average number of ordinary shares at 31 December	3,025,730	2,995,448

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$1,136,101,000 (2018: HK\$911,774,000) and the weighted average of 3,050,338,000 ordinary shares (2018: 3,040,695,000 ordinary shares) after adjusting the effect of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019 '000	2018 '000
Weighted average number of ordinary shares at 31 December (basic)	3,025,730	2,995,448
Effect of deemed issue of shares under the Company's share option scheme	24,608	45,247
Weighted average number of ordinary shares at 31 December (diluted)	3,050,338	3,040,695

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS

(a) Reconciliation of carrying amount

	Buildings HK\$'000	Plant, machinery and tools HK\$'000	Furniture, fixtures, office equipment and others HK\$'000	Vehicles HK\$'000	Construction- in-progress HK\$'000	Sub-total HK\$'000	Land use rights HK\$'000	Right- of-use assets HK\$'000	Total HK\$'000
Cost:									
At 1 January 2018	1,509,793	1,536,456	284,349	38,350	179,395	3,548,343	355,124	—	3,903,467
Transfers	77,229	65,626	6,228	—	(149,083)	—	—	—	—
Additions	7,195	73,349	30,739	9,534	622,675	743,492	—	—	743,492
Disposals	(5,623)	(9,600)	(8,971)	(97)	(683)	(24,974)	—	—	(24,974)
Transferred to assets held for sale (note 21(b))	(34,225)	(1,289)	—	—	—	(35,514)	(33,278)	—	(68,792)
Exchange adjustments	(68,983)	(74,979)	(14,297)	(1,999)	(24,326)	(184,584)	(16,330)	—	(200,914)
At 31 December 2018	1,485,386	1,589,563	298,048	45,788	627,978	4,046,763	305,516	—	4,352,279
Impact on initial application of HKFRS 16 (note)	—	—	—	—	—	—	(305,516)	312,175	6,659
1 January 2019	1,485,386	1,589,563	298,048	45,788	627,978	4,046,763	—	312,175	4,358,938
Transfers	305,267	141,254	12,702	931	(460,154)	—	—	—	—
Additions	63,275	133,564	38,524	874	631,077	867,314	—	—	867,314
Disposals	—	(18,306)	(1,597)	(701)	—	(20,604)	—	—	(20,604)
Exchange adjustments	(38,596)	(39,233)	(7,606)	(980)	(16,735)	(103,150)	—	(6,296)	(109,446)
At 31 December 2019	1,815,332	1,806,842	340,071	45,912	782,166	4,790,323	—	305,879	5,096,202

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS (continued)

(a) Reconciliation of carrying amount (continued)

	Buildings HK\$'000	Plant, machinery and tools HK\$'000	Furniture, fixtures, office equipment and others HK\$'000	Vehicles HK\$'000	Construction- in-progress HK\$'000	Sub-total HK\$'000	Land use rights HK\$'000	Right- of-use assets HK\$'000	Total HK\$'000
Accumulated amortisation and depreciation:									
At 1 January 2018	(272,580)	(560,038)	(140,684)	(26,450)	—	(999,752)	(36,866)	—	(1,036,618)
Charge for the year	(81,143)	(136,964)	(36,697)	(3,696)	—	(258,500)	(6,879)	—	(265,379)
Written back on disposals	6,340	6,756	7,869	56	—	21,021	—	—	21,021
Transferred to assets held for sale (note 21(b))	16,899	932	—	—	—	17,831	8,304	—	26,135
Exchange adjustments	13,381	29,813	7,206	1,255	—	51,655	1,929	—	53,584
At 31 December 2018	(317,103)	(659,501)	(162,306)	(28,835)	—	(1,167,745)	(33,512)	—	(1,201,257)
Impact on initial application of HKFRS 16 (note)	—	—	—	—	—	—	33,512	(33,512)	—
1 January 2019	(317,103)	(659,501)	(162,306)	(28,835)	—	(1,167,745)	—	(33,512)	(1,201,257)
Charge for the year	(78,873)	(140,583)	(28,801)	(3,699)	—	(251,956)	—	(9,572)	(261,528)
Written back on disposals	—	12,298	1,334	643	—	14,275	—	—	14,275
Exchange adjustments	8,431	16,630	3,797	643	—	29,501	—	857	30,358
At 31 December 2019	(387,545)	(771,156)	(185,976)	(31,248)	—	(1,375,925)	—	(42,227)	(1,418,152)
Net book value:									
At 31 December 2019	1,427,787	1,035,686	154,095	14,664	782,166	3,414,398	—	263,652	3,678,050
At 31 December 2018	1,168,283	930,062	135,742	16,953	627,978	2,879,018	272,004	—	3,151,022

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS *(continued)*

(a) Reconciliation of carrying amount *(continued)*

As at 31 December 2019, the Group's right-of-use assets with a carrying amount of HK\$52,156,000 (2018: land use rights and property, plant and equipment with a carrying amount of HK\$72,984,000 and HK\$28,273,000, respectively) was pledged as collateral for the Group's bank borrowings (see note 19).

As at 31 December 2019, right-of-use assets of HK\$17,600,000 and property, plant and equipment of HK\$26,624,000, which were previously secured for a bank borrowing, were under the process of the release of the mortgage (see note 19).

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	31 December 2019 HK\$'000	1 January 2019 HK\$'000
Properties leased for own use, carried at depreciated cost	(i)	3,722	6,659
Land use rights, carried at depreciated cost	(ii)	259,930	272,004
		263,652	278,663

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK\$'000	2018 (Note) HK\$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use, carried at depreciated cost	3,336	—
Land use rights, carried at depreciated cost	6,236	6,879
	9,572	6,879
Interest on lease liabilities <i>(note 6(a))</i>	238	—
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	4,955	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	—	9,457

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS *(continued)*

(b) Right-of-use assets *(continued)*

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 18(d) and 22, respectively.

(i) *Properties leased for own use, carried at depreciated cost*

The Group leases office premises under leases expiring from 1 to 3 years. Some leases include an option to renew the lease when all terms are renegotiated. None of the leases includes variable lease payments.

(ii) *Land use rights*

Land use rights are located in Hebei Province and Jiangsu Province, the PRC, and are held on medium-term leases of 37 to 50 years from the dates of acquisition.

(c) Assets leased out under operating leases

The Group leases out certain office premise in the PRC under operating leases. The lease typically run for an initial period of three years with an option to review the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. In 2019, the rental income is insignificant (see note 4).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTANGIBLE ASSETS

	Goodwill HK\$'000	Trademark and patents HK\$'000	Software HK\$'000	Customer relationships HK\$'000	Internally generated research and development costs HK\$'000	Total HK\$'000
Cost:						
At 1 January 2018	509,351	162,852	14,911	83,209	104,071	874,394
Additions	—	13,071	5,984	—	31,271	50,326
Exchange adjustments	(23,421)	(7,935)	(889)	(3,826)	(5,849)	(41,920)
At 31 December 2018 and 1 January 2019	485,930	167,988	20,006	79,383	129,493	882,800
Additions	—	13,049	5,116	—	65,139	83,304
Write-off	—	—	—	—	(8,943)	(8,943)
Exchange adjustments	(10,621)	(3,900)	(528)	(1,735)	(3,977)	(20,761)
At 31 December 2019	475,309	177,137	24,594	77,648	181,712	936,400
Accumulated amortisation and impairment losses:						
At 1 January 2018	(239,533)	(34,377)	(6,717)	(76,909)	—	(357,536)
Amortisation charge for the year	—	(13,376)	(3,151)	(2,074)	—	(18,601)
Impairment charge for the year	(6,206)	(19,342)	—	—	—	(25,548)
Exchange adjustments	11,224	2,693	417	3,607	—	17,941
At 31 December 2018 and 1 January 2019	(234,515)	(64,402)	(9,451)	(75,376)	—	(383,744)
Amortisation charge for the year	—	(9,771)	(4,048)	(1,995)	—	(15,814)
Exchange adjustments	5,126	1,580	278	1,683	—	8,667
At 31 December 2019	(229,389)	(72,593)	(13,221)	(75,688)	—	(390,891)
Net book value:						
At 31 December 2019	245,920	104,544	11,373	1,960	181,712	545,509
At 31 December 2018	251,415	103,586	10,555	4,007	129,493	499,056

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTANGIBLE ASSETS (continued)

As at 31 December 2019, based on the assessment made by management, certain capitalised research and development projects no longer fulfilled the criteria as set out in note 2(j)(v). As a result, the Group wrote off these internally generated research and development costs amounting to HK\$8,943,000 in 2019.

Majority of amortisation of intangible assets is recognised in general and administrative expenses.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's (CGU) identified according to country of operation and operating segment as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Intravenous infusion solution and others	224,998	230,025
Medical materials	20,922	21,390
	245,920	251,415

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year to a ten-year period with the final year representing a steady state in the development of the business. Cash flows beyond the five-to-ten-year period are extrapolated using an estimated weighted average growth rate. The key assumptions for the value-in-use calculations are as follows, which are based on either the past experience or external sources of information:

	Intravenous infusion solution and others		Medical materials	
	2019	2018	2019	2018
Gross profit margin in the next five to ten years	59.2% — 62.2%	59.7% — 64.6%	25.6%	28.4%
Growth rate in the next five to ten years	12% — 28%	9% — 30%	3% — 32%	3% — 15%
Other operating cost (as of revenue)	35% — 36%	33%	9%	10%
Perpetual growth rate	3%	3%	3%	3%
Pre-tax discount rate	14.1%	15.8%	14.1%	14.4%

Management determined the budgeted growth rate and gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

The recoverable amount of the CGU of Intravenous infusion solution and others and Medical materials is estimated to exceed the carrying amount of the CGU at 31 December 2019.

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13 INVESTMENTS IN SUBSIDIARIES

The following list contains all subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Issued/registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
New Orient Investments Pharmaceutical Holding (Hong Kong) Limited	Samoa/ Hong Kong	United States Dollar ("USD") 1	100%	100%	—	Investment holding
Shijiazhuang No. 4 Pharmaceutical Co., Ltd.	The PRC	RMB400,000,000	100%	—	100%	Manufacturing and sale of pharmaceutical products
Hebei Guolong Pharmaceutical Co., Ltd.	The PRC	RMB120,000,000	100%	—	100%	Manufacturing and sale of pharmaceutical products
Hebei Jinmen Pharmaceutical Import and Export Co., Ltd.	The PRC	RMB5,000,000	100%	—	100%	Trading of pharmaceutical products
Hebei Guangxiang Pharmaceutical Technology Co., Ltd.	The PRC	RMB3,000,000	100%	—	100%	Pharmaceutical technology research and development and consulting
Hebei Guangxiang Logistics Co., Ltd.	The PRC	RMB3,000,000	86%	—	86%	Logistics of pharmaceutical products
Shijiazhuang Guangxiang Catering Co., Ltd.	The PRC	RMB500,000	100%	—	100%	Provision of food, beverages and catering
Jiangsu Best New Medical Material Co., Ltd.	The PRC	RMB60,000,000	100%	41%	59%	Manufacturing and sale of pharmaceutical products
Hebei Hanlin Biotechnology Co., Ltd.	The PRC	RMB15,000,000	75%	—	75%	Research and development of biotechnology and related products
Hebei Guangxiang Pharmaceutical Co., Ltd. ("Hebei Guangxiang") (note (i))	The PRC	RMB560,000,000	71%	—	71%	Manufacturing and sale of pharmaceutical products
Anhui Guangxiang Pharmaceutical Co., Ltd. ("Anhui Guangxiang") (note (ii))	The PRC	RMB10,000,000	80%	—	80%	Trading of pharmaceutical products

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

- (i) As at 31 December 2018, the Group's effective interests in Hebei Guangxiang was 64%. During 2019, Shijiazhuang No.4 (a wholly-owned subsidiary of the Group) and several investors (the "Investors") subscribed for newly issued share capital of Hebei Guangxiang of RMB208,000,000 and RMB52,000,000 at a cash consideration of RMB228,800,000 and RMB57,200,000 (equivalent to HK\$262,275,000 and HK\$64,748,000), respectively. The Group's effective interests in Hebei Guangxiang was increased to 71%.

The shareholders of one Investor included directors of the Company, employees of the Group and a related party of a director of the Company. No service condition was contained in above capital injection. Management believe the Investors are not connected persons as defined in Chapter 14A of the Listing Rules. The subscription price paid by the Investors approximated to the fair value of Hebei Guangxiang's equity interests transferred.

- (ii) During 2019, the Group acquired additional 12.6% equity interest in Anhui Guangxiang from a non-controlling interest at a consideration of RMB1,260,000 (equivalent to HK\$1,394,000). The Group's effective interest in Anhui Guangxiang increased from 67% to 80% as at 31 December 2019.

The directors are of the view that the Group has no individually material non-controlling interests for the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2019 HK\$'000	2018 HK\$'000
Raw materials	246,281	227,333
Work in progress	6,162	6,261
Finished goods	254,480	188,910
	506,923	422,504

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold	1,690,407	1,496,364
Cost of inventories directly recognised as research and development costs and selling and distribution costs	31,329	14,548
	1,721,736	1,510,912

15 TRADE AND BILLS RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	1,681,143	1,177,794
Bills receivable	130,573	99,518
	1,811,716	1,277,312
Less: Loss allowance	(8,437)	(5,888)
	1,803,279	1,271,424

All of the trade and bills receivables are expected to be recovered within one year.

Bills receivable represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from the banks at maturity, which generally ranges from 3 to 12 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivable to suppliers in order to settle payables.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2019, the Group endorsed certain bank acceptance bills to suppliers for settling payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2019, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to HK\$573 million (31 December 2018: HK\$544 million). Bills receivable were therefore derecognised.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date is as follows:

	2019 HK\$'000	2018 HK\$'000
Within 3 months	1,244,219	986,536
4 to 6 months	385,524	225,455
7 to 12 months	179,291	65,260
1 to 2 years	2,682	61
	1,811,716	1,277,312

Further details on the Group's credit policy and credit risk arising from trade and bills receivable are set out in note 26(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Individual income tax recoverable from employee (<i>note 21(a)</i>)	90,610	90,610
Prepayments for purchases of inventories	23,664	37,134
Other deposits	4,097	5,289
Value-added tax and import duties recoverable	78,003	57,047
Staff advances	573	3,490
Others	33,202	22,589
	230,149	216,159
<i>Less: Loss allowance</i>	(79)	(78)
	230,070	216,081

17 PLEDGED BANK DEPOSITS, TIME DEPOSITS AND FIXED DEPOSITS

	2019 HK\$'000	2018 HK\$'000
Current		
Time deposits with original maturities over three months	2,350	82,193
Pledged bank deposits	4,912	170,478
	7,262	252,671
Non-current		
Fixed deposits with original maturities over one year	122,798	114,129

Pledged bank deposits as at 31 December 2019 were pledged for letters of credit facilities and bank acceptance notes issued by Shijiazhuang No.4.

As at 31 December 2019, fixed deposits with original maturities over one year have guaranteed repayment of principal, fixed returns and maturity periods of three years from the date of issue.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Cash on hand	23	20
Cash at bank	817,406	902,042
Cash and cash equivalents in the consolidated cash flow statement	817,429	902,062

(b) Reconciliation of profit before taxation to cash generated from operations:

	<i>Note</i>	2019 HK\$'000	2018 <i>(Note)</i> <i>HK\$'000</i>
Profit before taxation		1,361,143	1,079,143
Adjustments for:			
Impairment of trade and bills receivables	6(c)	2,725	1,585
Provision/(reversal) of impairment of other receivables		3	(128)
Amortisation of land use rights	6(c)	—	6,879
Amortisation of intangible assets	6(c)	14,820	17,678
Amortisation of deferred revenue	24	(1,798)	(1,015)
Impairment of goodwill	6(c)	—	6,206
Impairment and write-off of intangible assets	6(c)	8,943	19,342
Depreciation	6(c)	261,528	258,500
Finance costs	6(a)	55,268	50,969
Interest income	6(a)	(23,367)	(13,412)
Net gain on disposal of property, plant and equipment	5, 21(b)	(132,036)	(4,696)
Changes in working capital:			
Increase in inventories		(99,215)	(46,218)
Increase in trade and bills receivables		(572,394)	(146,138)
Increase in prepayments, deposits and other receivables		(26,778)	(84,846)
Increase/(decrease) in trade payables		46,027	(30,571)
Increase in contract liabilities		15,743	12,921
(Decrease)/increase in accruals and other payables		(5,345)	55,362
Decrease in pledged bank deposits		(31)	(916)
Cash generated from operations		905,236	1,180,645

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(b) Reconciliation of profit before taxation to cash generated from operations *(continued)*:

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 18(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Lease liabilities <i>HK\$'000</i>	Borrowings <i>(note 19)</i> <i>HK\$'000</i>
At 31 December 2018	—	1,494,502
Impact on initial application of HKFRS 16 <i>(note)</i>	6,659	—
At 1 January 2019	6,659	1,494,502
Changes from financing cash flows:		
Proceeds from borrowings	—	920,441
Repayments of borrowings	—	(706,125)
Capital element of lease rentals paid	(3,343)	—
Interest element of lease rentals paid	(238)	—
Total changes from financing cash flows	(3,581)	214,316
Exchange adjustments	(18)	(15,630)
Other change:		
Interest expense	238	2,669
At 31 December 2019	3,298	1,695,857

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2(c) and 18(b).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(c) Reconciliation of liabilities arising from financing activities *(continued)*

	Borrowings <i>(Note 19)</i> <i>HK\$'000</i>
At 1 January 2018	1,748,709
Changes from financing cash flows:	
Proceeds from borrowings	770,730
Repayments of borrowings	(948,507)
Total changes from financing cash flows	(177,777)
Exchange adjustments	(33,000)
Other changes:	
Derecognition of discounted bill receivables	(47,224)
Interest expense of borrowings	3,794
At 31 December 2018	1,494,502

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 <i>HK\$'000</i>	2018 <i>(Note)</i> <i>HK\$'000</i>
Within operating cash flows	4,955	9,457
Within financing cash flows	3,581	—
	8,536	9,457

Note: As explained in the note to note 18(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 BORROWINGS

As of the end of the reporting period, the Group's borrowings were repayable as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Within 1 year or on demand	816,915	448,383
After 1 year but within 2 years	69,315	810,904
After 2 years but within 5 years	809,627	223,802
After 5 years	—	11,413
	878,942	1,046,119
	1,695,857	1,494,502

As of the end of the reporting period, the Group's borrowings were secured as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Bank borrowings secured	276,854	275,051
unsecured	1,419,003	1,219,451
	1,695,857	1,494,502

As at 31 December 2019, the Group's borrowings of HK\$276,854,000 (2018: HK\$275,051,000) were secured by the Group's right-of-use assets with a carrying amount of HK\$52,156,000 (2018: HK\$72,984,000).

In 2019, the Group early repaid a bank borrowing of HK\$68,097,000, which was secured by the Group's right-of-use assets and property, plant and equipment. As at 31 December 2019, the release of the mortgage of abovementioned right-of-use assets of HK\$17,600,000 and property, plant and equipment of HK\$26,624,000, was still under the processing by the relevant government authorities.

The Group's drawn down bank facilities of HK\$1,366,535,000 (2018: HK\$1,065,433,000) are subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with covenants. As at 31 December 2019, none of the covenants relating to drawn down facilities had been breached.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 BORROWINGS (continued)

In December 2019, the Group entered into a facility agreement with a group of banks, pursuant to which, these banks agreed to provide a facility totalling HK\$780,000,000 (the "New Bank Facility"). The bank loan under the New Bank Facility will have a maturity date falling three years after the drawdown. The New Bank Facility will replace an existing banking facility of HK\$500,000,000 due in 2020 (the "Original Bank Facility"). As at 31 December 2019, the Group had the intention and discretion to roll over the Original Bank Facility and classified the bank loan of HK\$500,000,000 under the Original Bank Facility as non-current.

20 TRADE PAYABLES

	2019 HK\$'000	2018 HK\$'000
Within 3 months	147,966	141,222
4 to 6 months	17,062	5,157
7 to 12 months	5,718	1,088
1 to 3 years	295	433
More than 3 years	757	605
	171,798	148,505

21 ACCRUALS AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Payables for purchase of property, plant and equipment	247,888	286,160
Withholding individual income tax payables (a)	90,610	90,610
Deposit received for proposed disposal of property and plant (b)	—	176,900
Accrued salaries and wages	35,732	24,416
Deposits from constructors	33,905	35,129
Value-added tax payable	27,447	79,652
Welfare payables	3,795	5,317
Professional fee payables	9,234	1,934
Travelling, meeting and entertainment expenses	14,448	9,544
Reserve for production safety	1,923	1,804
Others	10,301	8,565
	475,283	720,031

(a) Withholding individual income tax payables

According to the relevant the PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from the disposal of their shares of the Company acquired through the option scheme. In this regard, HK\$90,610,000 (31 December 2018: HK\$90,610,000) payables relating to the PRC individual income taxes in total have been recorded in the consolidated financial statements. Meanwhile, the same amount of receivables is also recorded (note 16).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21 ACCRUALS AND OTHER PAYABLES (continued)

(b) Gain on disposal of property and plant

Previously, the Group entered into agreements (the “Agreements”) with an independent property developer (the “Property Developer”), pursuant to which, the Group agreed to transfer certain a land parcel located in Hebei Province (the “Land Parcel”) to the Property Developer with a fixed consideration totalling RMB155,000,000. As at 31 December 2018, the Group had received the full consideration of RMB155,000,000 from the Project Developer and reclassified the Land Parcel as assets held for sale.

In December 2019, Shijiazhuang City Land Reserve Centre (“Land Reserve Centre”) and the Group entered into a land repurchase agreement (the “Land Repurchase Agreement”), pursuant to which, the Land Reserve Centre agreed to repurchase and the Group agreed to sell the land use right in respect of the Land Parcel. As at 31 December 2019, management determine that the sales terms and closing conditions in the Agreements had been substantially fulfilled with risks and rewards of the Land Parcel transferred by the Group. As a result, the Group recognised a gain on disposal of the Land Parcel amounting to HK\$131,456,000 in other income in 2019.

22 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group’s lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		At 1 January 2019 (note)	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	2,394	2,497	3,332	3,585
After 1 year but within 2 years	904	939	2,408	2,519
After 2 years but within 5 years	—	—	919	961
	904	939	3,327	3,480
	3,298		6,659	
Less: total future interest expenses		(138)		(406)
Present value of lease liabilities		3,298		6,659

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2019 HK\$'000	2018 HK\$'000
At beginning of the year	49,375	43,388
Provision for the year (note 7(a))	221,235	172,280
Tax paid	(206,376)	(164,020)
Exchange adjustments	(1,027)	(2,273)
At end of the year	63,207	49,375

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred revenue HK\$'000	Provision for asset impairment HK\$'000	Amortisation and depreciation of assets HK\$'000	Accrued expenses and others HK\$'000	Revaluation of assets on acquisition HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1 January 2018	(6,357)	(820)	(1,347)	(501)	24,856	1,313	17,144
Charged/(credited) to profit or loss (note 7(a))	153	(183)	175	(663)	(7,238)	—	(7,756)
Exchange adjustments	287	44	56	17	(896)	(61)	(553)
At 31 December 2018 and 1 January 2019	(5,917)	(959)	(1,116)	(1,147)	16,722	1,252	8,835
(Credited)/charged to profit or loss (note 7(a))	(3,787)	(429)	169	(89)	(1,367)	8,106	2,603
Exchange adjustments	195	29	21	8	(341)	(169)	(257)
At 31 December 2019	(9,509)	(1,359)	(926)	(1,228)	15,014	9,189	11,181

Reconciliation to the consolidated statement of financial position:

	2019 HK\$'000	2018 HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	(13,022)	(9,139)
Net deferred tax liabilities recognised in the consolidated statement of financial position	24,203	17,974
	11,181	8,835

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(w), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$75,838,000 (2018: HK\$73,277,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by the Group's subsidiaries in the PRC will expire in 5 years from the respective balance sheet date and the tax losses incurred in other tax jurisdiction do not expire.

(d) Deferred tax liabilities not recognised

At 31 December 2019, temporary differences relating to the undistributed profits of subsidiaries in the PRC amounted to HK\$4,674,839,000 (2018: HK\$3,987,638,000). Deferred tax liabilities of HK\$233,742,000 (2018: HK\$199,382,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 DEFERRED REVENUE

Deferred revenue represented subsidies received from municipal governments represented for the construction of laboratories and plants of the Group, and are recognised in profit or loss when the depreciation expense of the laboratories and plants are recognised in profit or loss.

The movements of deferred revenue are as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
At 1 January	39,453	42,382
Additions	19,659	—
Government grant recognised as other revenue	(1,798)	(1,015)
Exchange adjustments	(1,177)	(1,914)
At 31 December	56,137	39,453

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Share-based payment reserve HK\$'000	Retained earnings/(accumulated losses) HK\$'000	Total HK\$'000
Balance at 1 January 2018		64,241	375,830	173,703	50,076	90,948	754,798
Changes in equity for 2018:							
Shares issued under share option scheme	25(c)(iii)	2,847	359,677	—	(38,636)	—	323,888
Dividends paid to equity shareholders of the Company	25(b)	—	(120,561)	—	—	(120,561)	(241,122)
Total comprehensive income for the year		—	—	—	—	105,612	105,612
Balance at 31 December 2018 and 1 January 2019 (note)		67,088	614,946	173,703	11,440	75,999	943,176
Changes in equity for 2019:							
Shares issued under share option scheme	25(c)(iii)	400	55,600	—	(4,400)	—	51,600
Dividends paid to equity shareholders of the Company	25(b)	—	(242,839)	—	—	(59,563)	(302,402)
Purchase and cancellation of own shares	25(c)(ii)	(34)	(10,118)	—	—	—	(10,152)
Total comprehensive income for the year		—	—	—	—	(33,456)	(33,456)
Balance at 31 December 2019		67,454	417,589	173,703	7,040	(17,020)	648,766

Note: The Group, including the Company, has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

(i) *Dividends payable to equity shareholders of the Company attributable to the year:*

	2019 HK\$'000	2018 HK\$'000
Interim dividend declared and paid of HK5.0 cents per ordinary share (2018: HK4.0 cents per ordinary share)	151,701	120,561
Final dividend proposed after the end of the reporting period of HK6.0 cents per ordinary share (2018: HK5.0 cents per ordinary share)	181,940	150,701
	333,641	271,262

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2019 HK\$'000	2018 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5.0 cents per share (2018: HK4.0 cents per share)	150,701	120,561

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

(i) Issued share capital

	2019		2018	
	No. of shares ('000)	HK\$'000	No. of shares ('000)	HK\$'000
Ordinary shares of HK\$0.02 each, issued and fully paid:				
At 1 January	3,014,025	67,088	2,871,657	64,241
Purchase and cancellation of own shares (note 25(c)(ii))	(1,700)	(34)	—	—
Shares issued under share option scheme (note 25(c)(iii))	20,000	400	142,368	2,847
	3,032,325	67,454	3,014,025	67,088

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.

(ii) Purchase and cancellation of own shares

In 2019, the Company repurchased and cancelled a total of 1,700,000 (2018: NIL) ordinary shares of the Company through the Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK\$10,152,000, in accordance with the Company Law of the Cayman Islands.

(iii) Shares issued under share option scheme

During 2019, a total of 20,000,000 (2018: 142,368,000) share options were exercised by one director of the Company, with an exercise price of HK\$2.58 (2018: HK\$1.98 or HK\$2.58) to subscribe for 20,000,000 (2018: 142,368,000) ordinary shares in the Company at a consideration of HK\$51,600,000 (2018: HK\$323,888,000), all of which was credited to share capital and share premium. HK\$4,400,000 (2018: HK\$38,636,000) was transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 2(x).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. The share premium account may be applied by the Company to pay distributions or dividends to the equity shareholders of the Company.

(ii) Statutory reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained earnings to statutory general reserve at the rate of 10% of its net profit each year, until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.

(iii) Share-based payment reserve

The number and weighted average exercise prices of share options are as follows:

	2019		2018	
	Average exercise price (HK\$ per share)	Number of options ('000)	Average exercise price (HK\$ per share)	Number of options ('000)
Outstanding at 1 January	2.58	52,000	2.36	194,368
Exercised	2.58	(20,000)	2.28	(142,368)
Outstanding and exercisable at 31 December	2.58	32,000	2.58	52,000

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) *Share-based payment reserve (continued)*

The weighted average share price at the date of exercise for share options exercised during the year was HK\$6.28 (2018: HK\$6.59).

The option outstanding at 31 December 2019 had an exercise price of HK\$2.58 (2018: HK\$2.58) and a weighted average remaining contractual life of 1.29 years (2018: 2.29 years).

The Company adopted a restricted share award scheme (the "RSU Scheme") on 27 December 2018, pursuant to which, existing shares will be purchased by the Company and each selected participant may be granted, at any one time or in aggregate, no more than 1% of the issued share capital of the Company. Up to the date of this report, no share has been purchased or awarded.

(iv) *Currency translation differences*

The currency translation differences comprise all foreign exchange differences arising from the translation of the financial statements of certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 2(g).

(e) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$424,629,000 (2018: HK\$702,385,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. The adoption of HKFRS 16 does not have a material impact on the Group's total debt and gearing ratio on 1 January 2019 when compared to its position as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(f) Capital management (continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital less non-controlling interests. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital less non-controlling interests is calculated as total equity less non-controlling interests plus net debt.

The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019	2018
	HK\$'000	(Note)
		HK\$'000
Borrowings (note 19)	1,695,857	1,494,502
Lease liabilities (note 22)	3,298	—
Less: Cash and cash equivalents (note 18)	(817,429)	(902,062)
Net debt	881,726	592,440
Total equity less non-controlling interests	4,986,422	4,238,432
Total capital less non-controlling interests	5,868,148	4,830,872
Gearing ratio	15.0%	12.3%

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents pledged bank deposits, time deposits, fixed deposits and bills receivable is limited.

As at 31 December 2019, 96% (2018: 74%) of the Group's bank deposits are placed in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

	2019 HK\$'000	2018 HK\$'000
State-owned banks	573,035	439,924
Listed banks other than state-owned banks	340,080	504,552
Other financial institutions	34,351	324,366
Total	947,466	1,268,842

As at 31 December 2019, all of the Group's bills receivables are bank acceptance notes, the credit risks of which rest with the issuing banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the issuing banks. The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 5.42% (2018: 3.24%) and 12.41% (2018: 7.24%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 30 to 180 days from the date of billing. A regular review is carried out and follow up actions are taken on overdue amounts to minimise the Group's exposure to credit risk. Normally, the Group does not obtain collateral from customers.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables *(continued)*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2019		
	Expected loss rate %	Gross carrying amount \$'000	Loss allowance \$'000
Current (not past due)	0.50%	1,113,646	(5,568)
1 — 90 days past due	0.50%	385,524	(1,928)
over 90 days past due	0.52%	181,973	(941)
		1,681,143	(8,437)
	2018		
	Expected loss rate %	Gross carrying amount \$'000	Loss allowance \$'000
Current (not past due)	0.50%	887,018	(4,434)
1 — 90 days past due	0.50%	225,455	(1,127)
over 90 days past due	0.50%	65,321	(327)
		1,177,794	(5,888)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Balance at 1 January	5,888	4,567
Impairment losses recognised during the year	2,725	1,585
Exchange adjustments	(176)	(264)
Balance at 31 December	8,437	5,888

The increase in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2019.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2019					Carrying amount at 31 December HK\$'000
	Contractual undiscounted cash outflow					
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	
Borrowings	866,001	101,930	846,131	—	1,814,062	1,695,857
Trade payables	171,798	—	—	—	171,798	171,798
Accruals and other payables	357,194	—	—	—	357,194	357,194
Lease liabilities <i>(note)</i>	2,497	939	—	—	3,436	3,298
	1,397,490	102,869	846,131	—	2,346,490	2,228,147

	2018 <i>(Note)</i>					Carrying amount at 31 December HK\$'000
	Contractual undiscounted cash outflow					
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	
Borrowings	498,243	838,382	254,228	11,788	1,602,641	1,494,502
Trade payables	148,505	—	—	—	148,505	148,505
Accruals and other payables	549,765	—	—	—	549,765	549,765
	1,196,513	838,382	254,228	11,788	2,300,911	2,192,772

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from cash at banks, deposits with banks, interest-bearing borrowings and lease liabilities. Borrowings issued at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings issued at floating rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings, cash at banks, deposits with banks and lease liabilities at the end of the reporting period.

	2019		2018 (Note)	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
Fixed rate instruments:				
Pledged bank deposits and time deposits	1.65 – 3.85	130,060	1.65 – 3.40	366,800
Cash at banks	3.20 – 3.85	156,288	—	—
Borrowings	3.35 – 4.05	(440,956)	4.13 – 4.53	(364,072)
Lease liabilities (note)	3.92 – 5.88	(3,298)	—	—
		(157,906)		2,728
Variable rate instruments:				
Cash at banks	0.30 – 0.35	661,118	0.30 – 0.35	902,042
Borrowings	2.72 – 4.90	(1,254,901)	2.63 – 4.90	(1,130,430)
		(593,783)		(228,388)
		(751,689)		(225,660)

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK\$6,042,000 (2018: HK\$1,551,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained earnings) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2018.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Euros. The Group manages this risk as follows:

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK\$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency is excluded.

	2019			2018		
	RMB HK\$'000	US\$ HK\$'000	Euro HK\$'000	RMB HK\$'000	US\$ HK\$'000	Euro HK\$'000
Trade and other receivables	—	1,849	—	—	3,341	—
Cash and cash equivalents	1,007	72,221	21,045	1,002	55,534	12,982
Trade and other payables	—	(18,646)	(4,070)	—	(22,123)	(30)
Net exposure arising from recognised assets and liabilities	1,007	55,424	16,975	1,002	36,752	12,952

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK\$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK\$'000
USD (against HKD)	3%	1,370	3%	897
	-3%	(1,370)	-3%	(897)
EUR (against HKD)	3%	433	3%	330
	-3%	(433)	-3%	(330)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HK\$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement

The three-level fair value hierarchy of financial instruments are defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

As at 31 December 2019, the Group did not have any assets or liabilities that were measured at fair value.

The carrying values of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 2019.

For the year ended 31 December 2019, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments. Moreover, there were no significant reclassifications of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27 COMMITMENTS

- (a) Capital commitments in regard of property, plant and equipment and intangible assets outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 HK\$'000	2018 HK\$'000
Contracted for	251,996	220,399
Authorised but not contracted for	286,253	285,250
	538,249	505,649

- (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties HK\$'000
Within 1 year	3,640
After 1 year but within 5 years	4,134
	7,774

The Group is the lessee in respect of a number of properties which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(i), and the details regarding the Group's future lease payments are disclosed in note 22.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, bonus, allowance and other benefits	<u>17,960</u>	<u>21,735</u>

Total remuneration is included in "staff costs" (see note 6(b)).

(b) Other related party transactions

Sichuan Kelun Pharmaceutical Co., Ltd. ("Sichuan Kelun") has been regarded as having significant influence over the Company since 24 November 2017 and thus Sichuan Kelun and its subsidiaries (together as "Kelun Group") are related parties of the Company. In addition, the entities controlled by the ultimate controlling shareholder of Sichuan Kelun are also related parties of the Company.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions above constitute connected transactions or continuing 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 Report of the Directors.

During the year ended 31 December 2019, the Group: (i) purchased materials and received services totalling RMB18,504,000 (equivalent to HK\$21,027,000) (2018: RMB5,551,000 (equivalent to HK\$6,559,000)) from related parties; and (ii) sold goods totalling RMB35,441,000 (equivalent to HK\$40,273,000) (2018: RMB22,520,000 (equivalent to HK\$26,607,000)) to related parties.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2019		2018 (Note)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Property, plant and equipment		171		441
Right-of-use assets		1,548		—
Investments in subsidiaries		944,179		944,179
		945,898		944,620
Current assets				
Dividends receivable	130,336		130,336	
Prepayments, deposits and other receivables	1,299		1,297	
Amounts due from subsidiaries	83,580		83,580	
Cash and cash equivalents	4,888		53,418	
	220,103		268,631	
Current liabilities				
Lease liabilities	1,475		—	
Accruals and other payables	8,094		327	
Amounts due to subsidiaries	507,666		269,748	
	517,235		270,075	
Net current liabilities		(297,132)		(1,444)
Total assets less current liabilities		648,766		943,176
NET ASSETS		648,766		943,176
Capital and reserves (note 25(a))				
Share capital		67,454		67,088
Reserves		581,312		876,088
TOTAL EQUITY		648,766		943,176

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on 30 March 2020.

Qu Jiguang
Director

Wang Xianjun
Director

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

30 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The wide spread of the novel Coronavirus in the PRC and beyond since the beginning of 2020 is a challenging situation facing all the industries. The Group has taken all possible effective measures to minimise the impact on its business. The Group will keep continuous attention on the change of situation and make timely responses.

31 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate parent and ultimate controlling party of the Group to be China Pharmaceutical Co., Ltd., which is incorporated in Samoa. This entity does not produce financial statements available for public use.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				2019 HK\$'000
	2015	2016	2017	2018	
	(Note) HK\$'000	(Note) HK\$'000	(Note) HK\$'000	(Note) HK\$'000	
RESULTS					
Revenue	2,221,921	2,361,250	3,076,369	4,180,788	4,635,675
Profit before taxation	478,312	587,918	797,375	1,079,143	1,361,143
Profit attributable to equity shareholders	403,416	489,535	664,719	911,774	1,136,101
	As at 31 December				2019 HK\$'000
	2015	2016	2017	2018	
	(Note) HK\$'000	(Note) HK\$'000	(Note) HK\$'000	(Note) HK\$'000	
ASSETS AND LIABILITIES					
Total assets	5,008,094	4,744,074	5,903,946	6,880,745	7,724,342
Total liabilities	(2,612,915)	(2,059,652)	(2,417,204)	(2,502,499)	(2,537,194)
Non-controlling interests	(663)	(7,948)	(11,384)	(139,814)	(200,726)
Equity attributable to equity shareholders	2,394,516	2,676,474	3,475,358	4,238,432	4,986,422

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.