国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)

2019 Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji
Ms. LEUNG Suet Lun

AUDIT COMMITTEE

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

REMUNERATION AND EVALUATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGIC COMMITTEE

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

REGISTERED OFFICE

Room 1601, Emperor Group Centre
288 Hennessy Road
Wanchai
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STOCK CODE

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

Stock code: 00570

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
35/F., One Pacific Place
88 Queensway
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.
Ping An Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
Bank of China (Hong Kong) Limited

WEBSITE

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

Five Year Financial Summary

(Expressed in RMB)

	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**	2015-2019 Compound Annual Growth Rate
Results						
Revenue	3,709,406	6,532,867	8,337,795	11,258,941	**14,320,949**	40.17%
Gross profit	2,200,673	3,787,680	4,651,582	6,193,573	**8,575,788**	40.50%
Profit from operations	760,978	1,376,783	1,786,453	2,156,025	**2,460,716**	34.10%
Profit before taxation	689,160	1,303,804	1,567,237	1,856,697	**2,154,618**	32.97%
Profit attributable to the shareholders of the Company	625,596	966,927	1,170,434	1,439,018	**1,588,114**	26.23%
Profitability						
Gross profit margin	59.33%	57.98%	55.79%	55.01%	**59.88%**	
Operating profit margin	20.51%	21.07%	21.43%	19.15%	**17.18%**	
Net profit margin	17.36%	16.63%	15.73%	13.92%	**12.38%**	
Earnings per share						
Basic & Diluted	16.97 cents	21.73 cents	26.41 cents	29.84 cents	**31.54 cents**	16.76%
Financial position						
Total assets	19,208,676	21,036,784	24,885,307	30,287,390	**32,473,725**	
Total equity attributable to equity shareholders of the Company	11,133,372	11,588,327	12,436,778	15,551,433	**16,623,415**	
Total liabilities	7,068,463	8,280,922	11,070,050	12,776,819	**13,423,000**	
Bank balances and cash	2,101,856	2,373,356	4,787,781	6,349,714	**5,613,633**	
Debt asset ratio	36.80%	39.36%	44.48%	42.19%	**41.33%**	

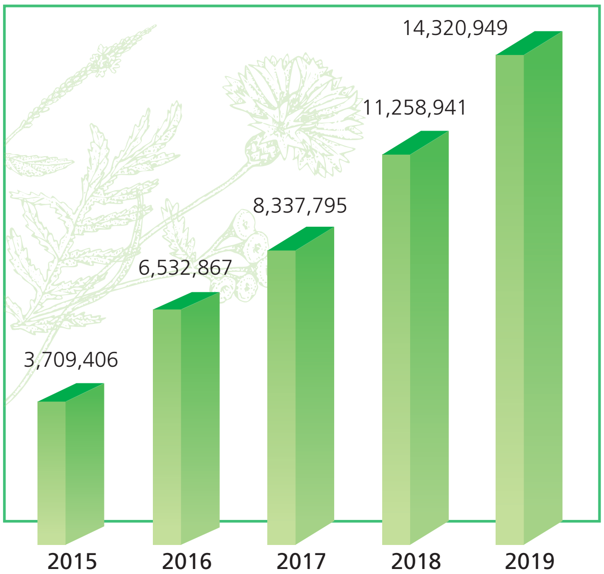
Five Year Financial Summary

(Expressed in RMB)

REVENUE
RMB'000

Annual Growth of 2018-2019

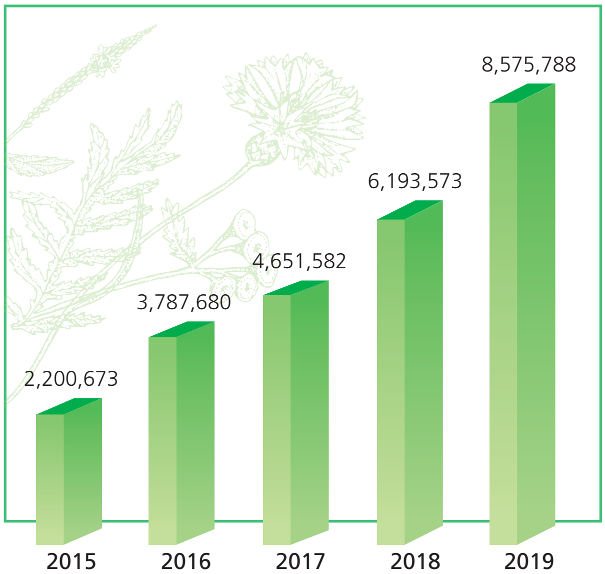
27.20%



GROSS PROFIT
RMB'000

Annual Growth of 2018-2019

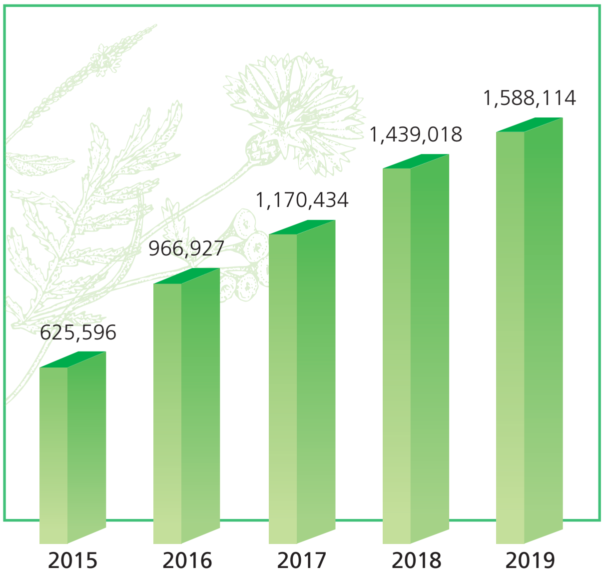
38.46%



PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY
RMB'000

Annual Growth of 2018-2019

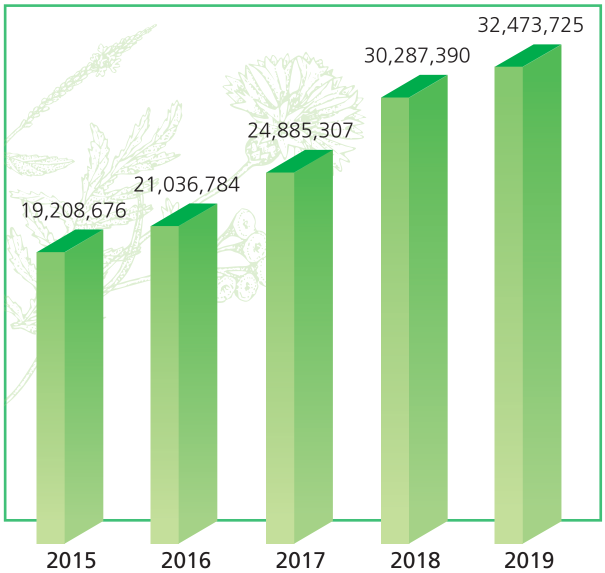
10.36%



TOTAL ASSETS
RMB'000

Annual Growth of 2018-2019

7.22%



Chairman's Statement

Dear shareholders,

In 2019, China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") carried out business transformation while maintaining sustainable and high-quality development. With strong support from all shareholders, the Group continued to focus on its five-year strategic plan of "building a leading comprehensive TCM healthcare industrial group", seized TCM development opportunities, made solid progress in various businesses, and steadily improved its industry position. On behalf of the Board of the Company, I would like to express my sincere gratitude to all of you for your dedication and encouragement.

In 2019, we tapped into new development opportunities for the TCM industry. In October, the National Traditional Chinese Medicine Conference was held with a theme of "Inheriting Essence and Keeping Up with Innovation", and the Central Committee of the Communist Party of China and State Council issued the "Opinions on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine", setting a clear direction for TCM industry development. We also witnessed breakthroughs made in the concentrated TCM granule industry. In the spirit of the Traditional Chinese Medicine Conference, the National Medical Products Administration ("NMPA") sought public opinion on the "Technical Requirements for Establishing the Quality Control and Standards of Concentrated Traditional Chinese Medicine Granules (Consultation Draft) (中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿))", and the concentrated TCM granule industry will enter an era of standardisation in the foreseeable future. Under this new situation, with the support of national policy, the Group pushed ahead with organic growth, external expansion and integrated development with the core TCM segment businesses. This main direction of development was in line with the Group's strategic positioning and leveraged the Group's key role as a driving and leading force (as the core platform of China National Pharmaceutical Group Corporation ("CNPGC") for the TCM process segment) for the high-quality development of the TCM industry.

During the Reporting Period, the Company's revenue was approximately RMB14,320,949,000, representing a 27.2% increase from the previous year's approximately RMB11,258,941,000. The Board of the Company recommends the distribution of a final dividend of HK4.76 cents (approximately RMB4.34 cents) per share for the year ended 31 December 2019 as shareholders' return, with a payout ratio of 30.0% for the full year.

ADHERING TO STRATEGY AND BUILDING AN INDUSTRY-LEADING TCM COMPANY

The year 2019 was one of transition. The Board of Directors made a series of adjustments to lead the Group toward the forefront of the TCM industry. The Board followed national strategy, formulated development strategies for the Group and improved the whole nationwide TCM healthcare industry chain, thereby achieving full coverage from the cultivation of Chinese medicinal herbs to TCM healthcare value-added services.

During the Reporting Period, the Company's cooperative project with Boston Consulting Group ("BCG") was officially concluded. BCG conducted an in-depth analysis of the Group's strategic goals – ranging from control of Chinese medicinal herb sources to terminal service field – and made feasibility suggestions for the strategy's implementation. The Board will take its recommendations into consideration for improving the scientific basis of decision-making, and will adhere to its strategy of exploring the future development of major business segments on the basis of the Group's needs.

LAUNCHING THE "DRAGON SEAL SINO-TCM" BRAND AND EXPLORING NEW OPPORTUNITIES WITH NEW CORPORATE IMAGE

In October 2019, the Group implemented the "Dragon Seal Sino-TCM" brand strategy and established its core position of "good TCM products with raw materials source from quality medicinal herbs in authentic medicinal herb production areas". This was achieved by focusing on TCM source quality, as well as stronger management and control of these sources. We officially consolidated businesses including seed breeding, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, and medicine food homology compound products under the "Dragon Seal Sino-TCM" brand to make the whole process traceable from source to the end. These measures ensure quality and improve market recognition of the Group's product quality.

As with the "Dragon Seal Sino-TCM" brand strategy, the Group began to integrate its brands to form a strong identity and create a win-win situation for existing brands and those containing "Dragon Seal Sino-TCM" element. This led to a new chapter of development started with a brand-new corporate image.

UPGRADING THE MANAGEMENT AND CONTROL MODEL TO FACILITATE HIGH-QUALITY DEVELOPMENT

In 2019, the Group optimised and upgraded its management and control model, creating a modern corporate system from top to bottom. It commenced with finance, management upgrade, internal policy system improvement, equity optimisation, risk management and control, engineering construction compliance and human resource management. All these measures contributed to an improved standard of governance in line with the size of the enterprise.

To fully understand the post-investment situation in various industry sectors, the Board of the Company arranged six site visits of core subsidiaries during the Reporting Period. Through on-site investigation, the Board reviewed the Company's development deficiencies and difficulties, efficiently produced a summary, and proposed effective solutions, turning the review results into concrete actions to solve the problems.

During the year, the Group focused on the establishment of boards of directors for subsidiaries at all levels in order to implement board responsibilities of subsidiaries, make use of board functions, push the modernisation of corporate governance, improve the effectiveness of the governance system, and stimulate business operations of the Group. The Group also took measures to prevent compliance risks, by incorporating compliance awareness into each business segment, and formulating practical management and control measures, so as to improve the risk management and control capabilities and lead the Group onto a high-quality development track.

FULFILLING THE RESPONSIBILITIES OF A PHARMACEUTICAL ENTERPRISE AND DELIVERING VALUE BY SERVING THE PUBLIC

During the year, the Company fulfilled its responsibility as a pharmaceutical enterprise to serve society. Notably, the Group continued to explore diverse poverty alleviation models, with main focus on industry and education. Currently, 33 county-level poverty alleviation projects are ongoing, as well as six municipal-level projects.

When the COVID-19 outbreak occurred at the beginning of 2020, the Group responded quickly, harnessing its whole industry chain to donate medical supplies. The industry-leading scientific research and high-standard production capabilities of Guangdong Yifang Pharmaceutical Co., Ltd. ("Guangdong Yifang") and Sinopharm Group Tongjitang (Guizhou) Pharmaceutical were commissioned to produce "Toujie Quwen Granules" (formerly known as "No. 1 formula for pneumonia"), "Chaigechangyuan mixture" and "Dayuan disinfectant mixture" to fight the outbreak and realize their social value.

The outbreak of the novel coronavirus pneumonia has spotlighted the outstanding contribution of traditional Chinese medicine to epidemic prevention and control. More and more clinical studies have demonstrated the remarkable effects of combined Chinese and Western medical treatment, drawing great attention to the TCM industry. We believe that new investment and sources of consumption growth after the epidemic will bring new development opportunities to the medicine and health industries. As CNPGC's core platform in the TCM industry, the Group will leverage the advantages of the whole TCM healthcare complex industry chain, conduct high quality research and analysis, monitor the speed and quality of development, seize opportunities and further consolidate the Group's dominant position in the TCM industry, creating greater value for our shareholders.

Wu Xian
Chairman

Hong Kong, 30 March 2020

Management Discussion and Analysis

OVERVIEW

2019 is the second year of the Group's implementation of the strategy of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain", and the geographical coverage of the TCM industry chain has achieved initial success, while its business continued to develop steadily, the Group also focuses on promoting collaborative management and improving quality and efficiency, which lays a solid foundation for sustainable development of the enterprise, and ensuring that the Group is stable and far-reaching in its transition to high-quality development.

During the Reporting Period, the Group's revenue was approximately RMB14,320,949,000, representing an increase of 27.2% over the approximately RMB11,258,941,000 for the same period of last year. This was mainly attributable to the steady growth of concentrated TCM granules and finished drugs business and the external sales of local TCM integrated operation. The concentrated TCM granules business contributed approximately RMB9,227,314,000, or 64.4% of total revenue. Revenue from the finished drugs business was approximately RMB3,504,656,000, representing 24.5% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB1,296,953,000, representing 9.1% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB89,661,000, representing 0.6% of total revenue. Revenue from the local TCM integrated operation was approximately RMB202,365,000, representing 1.4% of total revenue.

Gross profit was RMB8,575,788,000, representing an increase of 38.5% over the approximately RMB6,193,573,000 for the same period of last year. Gross profit margin was 59.9%, representing an increase of 4.9 percentage points as compared with 55.0% for the same period of last year. This was mainly due to the reduced extraction cost of some concentrated TCM granule varieties, and increased selling price of some products.

BUSINESS REVIEW

In 2019, the Group fully grasped the opportunities of national pharmaceutical industry policy adjustments, closely followed the new trends of industry development, and matched the phased results of enterprise development with overall strategic goals: (1) continued to improve the national planning of the TCM industry chain and strengthen control of all aspects of upstream, midstream, and downstream; (2) focused on the first-mover advantage of scientific research, highlighting the role of scientific research and innovation in supporting business; (3) carried out the "Dragon Seal Sino-TCM" brand strategy and expanded market share through precise market management; and (4) emphasized the reasonable integration of the internal resources, so as to improve the quality and efficiency of the Company's operations.

The following is a review of the highlights of the Group's business in 2019:

I. CONSOLIDATING THE OVERALL PLANNING OF THE INDUSTRY CHAIN AND STRENGTHENING THE CONTROL OF EACH ASPECT OF THE INDUSTRY CHAIN

1 Constructing and perfecting GACP cultivation bases to strengthen the source management of raw materials

Under the development trend of standardization of the TCM industry, quality control and traceability of source of Chinese medicinal herbs will be among the keys to win over other enterprises. Based on the gain experience of the previous work in centralized procurement of upstream Chinese medicinal herbs and tracing of raw materials, and with reference to the "Plan for Constructing Authentic Medicinal Herbs Production Bases Nationwide (2018-2025) (全國道地藥材生產基地建設規劃(2018-2025年))"compiled by the National Administration of Traditional Chinese Medicine in 2018, the Group further extended to the resource and commenced the construction of Good Agriculture and Collection Practices for Medicinal Plants ("GACP") bases for large variety of Chinese medicinal herbs in 2019.

Taking honeysuckle in Pingyi Shandong, pinellia ternata in Xihe Gansu and Chinese rhubarb in Li County Gansu as examples, the Group has reached cooperation with local farmers on development of resources of core varieties of Chinese medicinal herbs, and established the modern Chinese medicinal herbs industry demonstration bases integrating functions of plantation, local initial processing, inspection and testing, storage and logistics, medicinal herbs trading, and data tracing, so as to build a long-term medicinal herbs supply channel with stable quality and controllable cost, and realize the development needs of TCM products such as authenticity and traceability, highlighting the Group's overall competitiveness.

During the Reporting Period, GACP TCM bases were constructed or jointly constructed in 7 provinces which covered 10 medicinal varieties, and the planting area spanned over nearly 10,000 mus. Details are as follows:

Provinces	medicinal herb varieties
Shandong	salvia, honeysuckle
Zhejiang	Fritillaria
Guizhou	Radix seudostellariae
Sichuan	Aconite
Gansu	Chinese gancao, pinellia ternata, Chinese rhubarb
Hubei	Angelicae Pubescentis Radix
Anhui	Radix Paeoniae Alba

2. Continuously promoting the local TCM integrated operation and completing the coverage across the country

In order to streamline all aspects of the industry chain, enhance synergy in the industry and break the market barriers led by the local policies of the traditional TCM industry, based on the original business segment of concentrated TCM granules, finished drugs and TCM decoction pieces, the Group has vigorously developed local TCM integrated operation business. After two years of investment and construction, the framework of the local TCM integrated operation business has been initially completed. During the Reporting Period, there were a total of 17 integrated operation companies, of which subsidiaries in Hunan, Chongqing, Yunnan, Sichuan, Heilongjiang, Fujian, and Shandong have obtained production licenses.

According to the announcement of NMPA on matters related to the implementation of the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》)(2019 No. 103), the drug GMP and GSP certifications have been cancelled since 1 December 2019. In order to unify standard, as of the date of results release, the Group's qualifications and provinces covered are as follows:

Qualification type	Numbers	Provinces covered
National Pilot License for TCM concentrated granules	2	Nationwide
Provincial Pilot License for TCM concentrated granules	10	Fujian, Guangxi, Guizhou, Heilongjiang, Hubei, Shandong, Shanxi, Shaanxi, Sichuan, Yunnan
Production license for decoction pieces	19	Anhui, Beijing, Chongqing, Fujian, Gansu, Guangdong, Guizhou, Hubei, Hunan, Jilin, Jiangsu, Jiangxi, Shandong, Shanxi, Shanghai, Sichuan (2), Yunnan, Zhejiang
Extraction base	9	Anhui, Gansu, Guangdong (2), Jiangsu, Shandong, Sichuan (2), Zhejiang
Granule production license	8	Chongqing, Guangdong, Guizhou, Heilongjiang, Hubei, Jiangsu, Sichuan, Yunnan
Finished drugs production license	11	Anhui, Beijing, Guangdong (3), Guizhou, Hubei (2), Jilin, Qinghai, Shandong

In addition, according to the overall production capacity and business demands, the Company continued to promote the implementation of local TCM integrated operation business in the remaining key areas of the planned layout, such as Henan, Hebei, and Liaoning, and further improved the implementation of the Group's nationwide planned strategy.

3. Paying attention to terminal value-added services and the healthcare complex segment continues to strengthen its efforts

While aligning with the upstream and midstream industries, the Group is paying more and more attention to the development of terminal value-added services, so as to achieve complementarity, synergy and resource sharing among the various links in the Group's TCM healthcare complex chain. During the Reporting Period, the project sharing of TCM intelligent distribution centers advanced steadily, fully utilizing the advantages of "internet-plus", and practicing the concept of sharing economy. Currently, there are 12 distribution centers in operation, covering 9 provinces and cities including Shanghai, Beijing, and Guangdong; with the official launch of 3 TCM clinics, there are currently 8 TCM clinics in operation, covering provinces and cities such as Guizhou, Guangdong, Jiangsu, and Chongqing.

II. STEPPING UP EFFORTS IN SCIENTIFIC RESEARCH AND INNOVATION TO HIGHLIGHT ITS ROLE IN SUPPORTING BUSINESS

In 2019, the Group carried out work on strategic deployment of "one core" and "two major categories" of scientific research, vertically developed sophisticated technology, horizontally integrated research and application, and created a comprehensive closed-loop research and development ecosystem. By utilizing the research advantages of the single medicinal herb of concentrated TCM granules and the resources covering the entire TCM industry chain, the Group comprehensively promoted the work of substance standards of classical formulas. At the same time, the Group accelerated the research on national standards of concentrated TCM granules and actively participated in international standard research to promote the internationalization of concentrated TCM granules.

1. Leading research on standards of concentrated TCM granules to embrace the promulgation of national standards

The Group has been actively participating in the formulation of national standards for concentrated TCM granules. The first batch of national standards were announced by the Chinese Pharmacopoeia Commission on 8 November 2019, which were both encouragement and opportunity, as well as challenge for the Group. On one hand, the Group has accumulated considerable mature technical experience in research in the past and has been recognised by the state. The publication and implementation of national standards was an affirmation of the Group's active participation in the research and development of standards. On the other hand, as the implementation and application of national standards will bring changes to the market access and competition environment of the concentrated TCM granules industry, enterprises need to adapt to the new market environment as soon as possible to maintain their competitive advantages.

For the first batch of 160 concentrated TCM granules quality standards announced for public review by the state, the number of inspection items has increased and the inspection indicators have improved as compared with existing standards. The Group has organised the R&D department and related subsidiaries to carry out testing and trial production to assist the production, procurement, and technical departments in the transition to national standard, so as to fully prepare for the final promulgation and implementation of the national standard for concentrated TCM granules.

2. Carrying out in-depth research on TCM classical formula products and promote research progress steadily

In 2019, each research department and subsidiary smoothly promoted the following work on research of classical formula in accordance with the set goals. In-depth research on 32 classic formulas including "Taohe Chengqi Decoction", "Shaoyao Gancao Decoction" and"Danggui Buxue Decoction" was conducted, and physical corresponding analysis methods for certain classical formulas were developed; the collection of raw materials, processing of TCM decoction pieces and internal control standards of certain classical formulas were unified; and research on small-scale trial production of certain classical formulas was launched. Meanwhile, considering the correlation between the research of standards for concentrated TCM granules and the research and development of classical formulas, we coordinated the research and development of the two parts to improve the efficiency of research and development.

III. ACCURATING MARKET MANAGEMENT AND PROMOTING THE "DRAGON SEAL SINO-TCM" BRAND STRATEGY

In the past few years, the market environment of the pharmaceutical industry has changed continuously, and it has gradually moved towards standardization and standardized management, which has further increased the requirements for marketing management of enterprises. During the Reporting Period, the Group closely aligned with the main line of "improving product quality, innovating service model and sharing industry chain value" to carry out comprehensive optimization. We implemented diversified marketing plans in each segment of the principal businesses, maintaining excellent market responsiveness and sustainably exploring leading advantages, and focused on key products to optimize internal resources, promoting the professionalization of each terminal.

1. Developing market channels through targeted promotion and consolidating the market advantages of concentrated TCM granules

During the Reporting Period, Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") and Guangdong Yifang, leaders in the concentrated TCM granules industry, continued to develop new promotion models to consolidate their market competitive advantages. While actively exploring new hospital customers, we have strengthened our leading role of academic promotion and held more than 1,400 academic conferences of various types such as "Dayi Jincheng"(「大醫今承」), "Guoyi Dashi"(「國醫大師」), and "Yuejian Bencao"(「閲鑒本草」), attracting over 150,000 participants.

By creating an academic and marketing promotion system for particular department and disease, the terminal recognition of the product was improved; by establishing a distinctive academic brand, the passive promotion was changed to active promotion and the brand influence was strengthened; and by establishing an expert database, a closed-loop academic ecological system was formed, and the market reliability of the Group's concentrated TCM granule products was enhanced.

2. By promoting the blockbuster strategy continuously, the finished drug segment actively explored product resources and built competition barriers

During the Reporting Period, the TCM finished drugs segment carried out a comprehensive review on the Company's existing product lines. By classifying the products as core products, key products and initial products, we continued to explore the advantages of varieties to effectively supplement the current product pool. Based on the evidence system established with previous clinical research data, core products such as Yu Ping Feng Granules (玉屏風顆粒) and Xianling Gubao Capsules (仙靈骨葆膠囊) have been recommended by relevant guidelines or experts in consensus and blockbuster TCM finished drugs of hospital channel carried out clinical application guidelines for dominant indications to improve the clinical value of the products. Meanwhile, Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Nifedipine Sustained-release Tablets (I) (聖通平) and Bi Yan Kang Tablets (鼻炎康片) were confirmed as the core OTC product series, and the product group development was promoted by re-planning the brand communication plan.

3. Using premium products as platform to promote the "Dragon Seal Sino-TCM" brand strategy

During the Reporting Period, the Group proposed a new brand strategy and held a launch conference for the "Dragon Seal Sino-TCM" brand strategy in October 2019. Brand building is vital to the Company's sustainable development and excellent brands must rely on premium products. The Company will use product resources of TCM finished drugs and the premium TCM decoction pieces business to be carried out during promotion to actively promote the "Dragon Seal Sino-TCM" brand strategy.

For the forthcoming premium TCM decoction pieces product series, the Group rationalized more than 400 product specifications including precious and rare medicinal materials, high-end products, and toxic medicinal herbs, and established a standard system and quality traceability system for premium decoction pieces products, gradually promoting upgrade of product line of Chinese medicinal drink.

IV. INTEGRATING INTERNAL RESOURCES OF THE ENTERPRISE TO IMPROVE THE QUALITY AND EFFICIENCY OF OPERATION

1. Using TCM decoction pieces business as a step-in point and strengthening the Group's internal collaboration and product lines upgrade

Starting with the Group's overall development plan, the Group implemented the unified planning and management on various aspects of the subsidiary's varieties, production capacity, quality control and process management, etc., and at the same time, the project implementation details should be optimized in line with local circumstances according to the different needs of the TCM decoction pieces business and the concentrated TCM granules business, so as to improve the operating level and synergy of subsidiaries, and pave the way for the rapid development of the future market at the same time.

The Group has 24 manufacturers for TCM decoction pieces, of which Shanghai Tongjitang Pharmaceutical Co., Ltd., Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), and Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. are the core companies and have realized production and operation of medical used decoction pieces of all product category. Meanwhile, the Group actively promoted the construction of a coordinated production system for industrial decoction pieces, with the advantages of medicinal herbs resources in various places, the Group reasonably allocated the main decoction pieces species to subsidiaries in various provinces and cities, and implemented the intra-group allocation synergy of decoction products to open up the supply chain channels of industrial decoction pieces, which was conducive to the cost control and quality traceability assurance of downstream concentrated TCM granules extraction and TCM finished drugs production.

For the production of concentrated TCM granules, all subsidiaries allocated resources reasonably and made full use of existing capacity by shared extraction workshops, and therefore reduced or controlled production costs and improved the efficiency of internal source utility.

2. Strengthening financial management to ensure healthy funding and operations

During the Reporting Period, in order to improve the quality of financial management, the Company comprehensively refined its management on the deployment of funds. Through multiple measures such as optimizing the structure of deposits and loans, increasing the concentration of funds and enhancing the ability of bill payments, the Company effectively reduced the cost of funds and improved the utilization efficiency.

By establishing an effective budget management system, the Company strengthened the management of various working capital indicators, including inventory management, accounts receivable management, and cash flow management, all of which achieved an overall improvement. Through efforts on budgeting, the Company had a full picture of the operation of each subsidiary in a timely manner, and mechanism was established for addressing relevant issues so as to effectively improve the quality of operations and reduce operational risks.

3. Carrying out risk management and control work and improve the corporate governance management

During the Reporting Period, the Company organised various functional centers (departments) and its subsidiaries to conduct major risk investigations in the form of risk self-examination. In response to loopholes in the risk management work and possible deficiencies in the implementation of the system, we filled in the gaps, developed corresponding rectification measures and estimated completion time of the rectification so as to achieve a horizontal and vertical synergistic risk management guarantee system. Based on the results of risk investigation work to prepare the "Internal Control Manual", we sorted out the risk points and control processes, built a risk identification control system, and signed the "Compliance Management Commitment" with each functional center (department) and the subsidiaries to make them take their responsibilities seriously, so as to improve the Group's risk management capability.

During the Reporting Period, the Company actively improved the board management, established the subsidiary level board management system, and set up relevant internal policy. During the Period, all subsidiaries set up board or assigned executive director position, which further improved the operation quality of the subsidiaries.

INVESTMENT PROJECTS

During the Reporting Period, the Group continued to carry out equity investment work around the nationwide distribution of medicinal materials resources, concentrated TCM granules, TCM decoction pieces, and TCM healthcare complex.

Through the merger and acquisition of Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd. and Gansu Longzhong Pharmaceutical Co., Ltd., the Group further strengthened the cooperation with local medical institutions in the field of concentrated TCM granules and TCM decoction pieces; by setting up new companies in Wuzhai Shanxi, Li County and Xihe Gansu, we established a large-scale base of authentic medicinal herbs to strengthen the control of the source of medicinal herbs resources; in order to meet the needs of the subsidiary's construction progress and development funding, and to ensure that the Group's strategy can be effectively implemented, we increased the capital of local integrated TCM operation companies in Hunan, Shaanxi, Guangxi, Yunnan, Jiangxi, and Chongqing; at the same time, with the national layout of local TCM integrated operation companies, we carried out medicinal herbs and TCM decoction pieces trading, and business of sharing of TCM intelligent distribution centers through acquisition or establishment of new pharmaceutical trading companies, and established business cooperation with local medical institutions to implement terminal services across the country, so as to enhance the Group's overall influence.

Except as disclosed above, the Group had no other material acquisitions and disposals for the year ended 31 December 2019.

ANALYSIS OF BUSINESS SEGMENTS

From the end of 2017 to 2019, pursuant to the strategic goal of building a vertically consolidated TCM healthcare industry chain, and amidst changing policies for the concentrated TCM granules industry, the Company began to undertake an expansion of its strategic presence in major authentic medicinal herb producing provinces in the PRC and to establish the "local TCM integrated operation" companies which produce concentrated TCM granules, decoction pieces, and conduct local primary processing and trading of medicinal herbs and decoction. The establishment of such companies can provide the Group with authentic local medicinal herbs and reduce the cost of mass production of local products; while stationed locally, the Group can enjoy the preferential policies of the local market, further open up the local market, increase the market share, and form a comprehensive competitive advantage.

From the end of 2017 to 2019, 17 local TCM integrated operation companies were either acquired or self-constructed by Jiangyin Tianjiang and Guangdong Yifang. Currently, it has 13 companies and 4 subsidiaries in a strategic incubation period of preparation or acquisition and consolidation, and each is at different stages of development from the original concentrated TCM granules business. However, the advantages it obtained will be conducive to providing a new growth driver for the future development of the Group.

In order to better present to the readers of this announcement with the original concentrated TCM granules enterprises (Jiangyin Tianjiang and Guangdong Yifang and their subordinate production companies) and the newly added local TCM integrated operation business, during the Reporting Period, the Company rearranged its previous four business segments (consisting of concentrated TCM granules, finished drugs, TCM decoction pieces and TCM healthcare complex) into five, and divided local TCM integrated operation segment from the concentrated TCM granules segment, and comparative figures from the same period last year were restated.

As of 31 December 2019, the "local TCM integrated operation" comprised 17 companies:

Company Name*	**Proposed Construction Project Investment Amount** (RMB million)	**Original Segment**	**Current Segment**
Shaanxi Yifang Pingkang Pharmaceutical Co., Ltd.	453.88 (Additional investment budget over the interim period)	Concentrated TCM Granules	Local TCM integrated operation (set up in 2017)
Shaanxi Jitaining Pharmaceutical Co., Ltd.	Sales subsidiary under Shaanxi Yifang	Newly added during the Period	Local TCM integrated operation (set up in 2019)
Guangxi Yifang Tianjiang Pharmaceutical Co., Ltd.	214.48	Concentrated TCM Granules	Local TCM integrated operation (set up in 2018)
Hunan Yifang Tianjiang Pharmaceutical Co., Ltd.	198.90	Concentrated TCM Granules	Local TCM integrated operation (set up in 2017)
Changde Yifan Pharmaceutical Co., Ltd.	Sales subsidiary under Hunan Yifang	Newly added during the Period	Local TCM integrated operation (set up in 2019)
Jiangxi Yifang Tianjiang Pharmaceutical Co., Ltd.	193.90	Concentrated TCM Granules	Local TCM integrated operation (set up in 2017)
Jiangxi Fanglian Pharmaceutical Co., Ltd.	Sales subsidiary under Jiangxi Yifang	Newly added during the Period	Local TCM integrated operation (set up in 2019)
Chongqing Tianjiang Yifang Pharmaceutical Co., Ltd.	192.00	Concentrated TCM Granules	Local TCM integrated operation (set up in 2017)
Yunnan Tiangjiang Yifang Pharmaceutical Co., Ltd.	273.94 (Additional investment budget over the interim period)	Concentrated TCM Granules	Local TCM integrated operation (set up in 2017)
Sichuan Sino Tianjiang Pharmaceutical Co., Ltd.	128.17	Concentrated TCM Granules	Local TCM integrated operation (acquired in 2018)

Company Name*	**Proposed Construction Project Investment Amount** (RMB million)	**Original Segment**	**Current Segment**
Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd.	Utilized the existing production lines	Concentrated TCM Granules	Local TCM integrated operation (acquired in 2018)
Heilongjiang Sino Tianjiang Pharmaceutical Co., Ltd.	146.00	Concentrated TCM Granules	Local TCM integrated operation (set up in 2017)
Fujian Chengtian Jinling Pharmaceutical Co., Ltd.	19.60 (Reduction of investment budget over the interim period)	Concentrated TCM Granules	Local TCM integrated operation (acquired in 2018)
Fujian Chengtian Jinling Medical Co., Ltd.	Sales subsidiary under Fujian Chengtian	Concentrated TCM Granules	Local TCM integrated operation (acquired in 2018)
Liaoning Tianjiang Yifang Pharmaceutical Co., Ltd.	150.00	Newly added during the Period	Local TCM integrated operation (set up in 2019)
Shandong Zhongping Pharmaceutical Co., Ltd.	225.50	Newly added during the Period	Local TCM integrated operation (set up in 2019)
Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd.	153.52	Newly added during the Period	Local TCM integrated operation (acquired in 2019)

* *The English name is for reference only*

1. CONCENTRATED TCM GRANULES

Key financial indicators for the concentrated TCM granules business

	Twelve months ended 31 December		
	2019	2018	Change
	RMB'000	RMB'000	
Revenue	**9,227,314**	7,136,743	29.3%
Cost of sales	**3,023,074**	2,870,427	5.3%
Gross profit	**6,204,240**	4,266,316	45.4%
Gross profit margin	**67.2%**	59.8%	7.4ppt
Operating profit	**2,077,895**	1,675,737	24.0%
Profit for the year	**1,548,868**	1,286,887	20.4%
Net profit margin	**16.8%**	18.0%	-1.2ppt

During the Reporting Period, the concentrated TCM granules business recorded rapid sales growth and achieved a revenue of approximately RMB9,227,314,000, representing an increase of 29.3% over the previous year, and accounting for 64.4% of total revenue.

The rapid growth in sales revenue was mainly due to: (1) the distinct advantages in quality control and convenience of concentrated TCM granules, as well as effective academic promotion and gradual improvement in market recognition. About 20.2% of the sales growth was attributed to the old customers; and (2) to conform to the market needs and medical reform policies; the Company strived to explore new clients to further expand its market share. Approximately 9.1% of the sales growth during the Period was contributed by new customers.

Gross profit margin rose by 7.4 percentage points to 67.2% from 59.8% for the same period last year, mainly due to: (1) the price adjustment to some products in line with the market and sales channel promotion; and (2) the decrease in unit production cost as centralized extraction production technology increased the extraction yield output of intermediate products.

During the Reporting Period, the operating profit and profit for the year of concentrated TCM granules segment amounted to approximately RMB2,077,895,000 and RMB1,548,868,000 respectively, representing respective increases of 24.0% and 20.4% year-on-year. Net profit margin decreased by 1.2 percentage points compared to the previous year. This was mainly because: (1) in order to adapt to market changes, investments in new markets were raised to further expand the promotion channels, and to strengthen the marketing research, consulting, services, and promotion, channel services, product influence and brand recognition was improved, and constant growth was ensured. Especially, the improved maintenance model of dispensing machine expanded the market coverage and enhanced the customer service level. The proportion of sales expenses for the Period increased by 6.4 percentage points compared with the previous year, due to the continuous input of marketing, and the concentrated TCM granules kept a rapid growth; (2) the Company continued to increase the investment in the R&D of the national standards of concentrated TCM granules, and carried out research on the classical formulated granules, so that the proportion of R&D expenses to revenue for the Period increased by 0.3 percentage point compared with the previous year; and (3) in 2018, account receivables with carrying amount of

RMB107,608,000 were used as non-recourse factoring, and reversed impairment loss of credit was about RMB92.67 million, and in 2019, according to the Group's provision policy of credit impairment loss, the credit impairment loss was about RMB4.17 million, reducing the net profit margin by 1.3 percentage points.

Revenue analysis by region (RMB million)

Region	**2019**	**Proportion**	2018	Proportion	Growth amount	Growth rate
East China	**2,854.55**	**30.8%**	2,273.29	31.9%	581.26	25.6%
South China	**2,104.18**	**22.8%**	1,518.79	21.2%	585.39	38.5%
North China	**1,263.81**	**13.7%**	927.30	13.0%	336.51	36.3%
Central China	**1.012.86**	**11.0%**	847.27	11.9%	165.59	19.5%
Northwest China	**689.71**	**7.5%**	539.27	7.6%	150.44	27.9%
Northeast China	**431.04**	**4.7%**	398.07	5.6%	32.97	8.3%
Southwest China	**771.12**	**8.4%**	551.48	7.7%	219.64	39.8%
Overseas and others	**100.04**	**1.1%**	81.27	1.1%	18.77	23.1%
Total	**9,227.31**	**100.0%**	7,136.74	100.0%	2,090.57	29.3%

During the Reporting Period, sales in east, south, north and central China accounted for 78.3% of total sales, compared with 78.0% for the same period last year. Sales in south, north and southwest China achieved a year-on-year increase of more than 35.0%.

Notes:

East China (including Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong)

South China (including Guangdong, Guangxi and Hainan)

North China (including Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia)

Central China (including Henan, Hubei and Hunan)

Northwest China (including Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang)

Northeast China (including Heilongjiang, Jilin and Liaoning)

Southwest China (including Sichuan, Guizhou, Yunnan, Chongqing and Tibet)

2. FINISHED DRUGS

Key financial indicators for the finished drugs business

	Twelve months ended 31 December		
	2019 RMB'000	2018 RMB'000	Change
Revenue	**3,504,656**	2,771,021	26.5%
Cost of sales	**1,381,053**	1,068,144	29.3%
Gross profit	**2,123,603**	1,702,877	24.7%
Gross profit margin	**60.6%**	61.5%	-0.9ppt
Operating profit	**416,169**	454,128	-8.4%
Profit for the year	**253,209**	257,214	-1.6%
Net profit margin	**7.2%**	9.3%	-2.1ppt

Revenue analysis by product type (RMB million)

	Twelve months ended 31 December				
Type of product	**2019**	**Proportion**	2018	Proportion	Change
Core prescription products	**1,780.57**	**50.8%**	1,391.42	50.2%	28.0%
Core OTC products	**822.43**	**23.5%**	714.06	25.8%	15.2%
Other products	**901.66**	**25.7%**	665.54	24.0%	35.5%
Total	**3,504.66**	**100.0%**	2,771.02	100.0%	26.5%

Note: Core prescription channel products: 10 products including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Fengshi Gutong Capsules (風濕骨痛膠囊), Zaoren Anshen Capsules (棗仁安神膠囊), Qili Capsules (七厘膠囊), Waimaining Capsules (威麥寧膠囊), Trionycis Bolus (鱉甲煎丸) and Jinye Baidu Granules (金葉敗毒顆粒).

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

During the Reporting Period, the revenue of the finished drugs segment is approximately RMB3,504,656,000, representing an increase of 26.5%, accounting for 24.5% of total revenue. The prescription and OTC channel core products continued to grow steadily: (1) the achievement on evidence-based research further delivered, and the core products continued to maintain their leading position in their indication fields, which brought up the sales volume; (2) brand building and cooperation with chain pharmacy has been enhanced, and the volume and price of the retail products has increased simultaneously; and (3) the financial statements of Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical") were consolidated since October 2018, so the annual income has increased by approximately RMB308.11 million compared with the same period last year.

Gross profit margin decreased by 0.9 percentage point to 60.6% from 61.5% for the previous year due to an increase in the purchase price of raw materials for some finished drugs leading an increase in unit costs. Besides, the gross profit margin of Zhonglian Pharmaceutical was lower than that of the original finished drugs enterprise.

During the Reporting Period, operating profit and profit for the year of the finished drugs segment amounted to approximately RMB416,169,000 and approximately RMB253,209,000 respectively, representing respective year-on-year decreases of 8.4% and 1.6%. Excluding the impact of Zhonglian Pharmaceutical, the finished drugs business's net profit margin in 2019 was 9.3%, lower than that for the full year of 2018 (10.5%, excluding Zhonglian Pharmaceutical); the main reasons of which were that: (1) Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. and Huayi Pharmaceutical Co., Ltd.'s provision for impairment of assets of goodwill were RMB27.59 million during the Period; (2) the Company carried out a complete asset inspection during the Period and recognised asset impairment losses and other losses of approximately RMB68.93 million; and (3) due to housing demolition, the Company realized a disposal gain of RMB32.09 million; excluding the one-off impact above, the net profit margin of the finished drugs business (excluding Zhonglian Pharmaceutical) during the Period remained at the same level as last year.

In 2019, Zhonglian Pharmaceutical reshaped the marketing system; the finished drug marketing center was responsible for the overall sales of finished drugs and established an independent sales team for promotion of Zhonglian Pharmaceutical's main products Jinye Baidu Granules (金葉敗毒顆粒) and Trionycis Bolus (鱉甲煎丸) through the existing nationwide marketing network, and established business relationships with more than 500 medical institutions. At the same time, Zhonglian Pharmaceutical also initiated the re-pricing of key products, and the increase in product prices drove the annual growth of revenue by approximately RMB30.73 million.

3. TCM DECOCTION PIECES

Key financial indicators for the TCM decoction pieces business

	Twelve months ended 31 December		
	2019 RMB'000	2018 RMB'000	Change
Revenue	**1,296,953**	1,274,829	1.7%
Cost of sales	**1,096,272**	1,066,843	2.8%
Gross profit	**200,681**	207,986	-3.5%
Gross profit margin	**15.5%**	16.3%	-0.8ppt
Operating profit	**21,573**	73,591	-70.7%
Profit for the year	**24,182**	71,026	-66.0%
Net profit margin	**1.9%**	5.6%	-3.7ppt

During the Reporting Period, revenue from external sales was approximately RMB1,296,953,000, while internal sales of industrial TCM decoction pieces to concentrated TCM granules and TCM finished drugs business was approximately RMB714,942,000, collectively the TCM decoction pieces business achieved 38.7% revenue growth compare to the same period last year.

The reasons for the change of key financial indicators of TCM decoction pieces business:

The existing TCM decoction pieces subsidiaries: (1) business structure was improved, part of the business with low profit was abandoned, and income growth slowed down; (2) some decoction centers just commenced operation and incurred relatively high fixed costs, and the revenue of which could not cover the costs; (3) the costs of raw materials increased, leading to a decrease of gross profit margin; (4) in order to integrate resources, one subsidiary was merged, brought up related one-time expense; and (5) in order to strengthen the internal marketing team and establish the premium decoction pieces department, the selling expense increased. Beijing Huamiao incurred RMB5 million marketing expenses to explore the Tianjin market.

Newly built TCM decoction pieces subsidiaries: (1) the new decoction pieces factories mainly focused on internal supply at present, the revenue increased in the second half of the year while the Group did not achieve full external sales and did not make profit; (2) the newly built factories incurred new fixed assets cost and high depreciation expense; (3) initial operation increased administrative expenses; and (4) there were seven TCM decoction pieces subsidiaries under construction or start-up phase with no revenue but certain fixed cost.

4. TCM HEALTHCARE COMPLEX

Key financial indicators for the TCM healthcare complex

	Twelve months ended 31 December		
	2019 RMB'000	2018 RMB'000	Change
Revenue	**89,661**	62,529	43.4%
Cost of sales	**50,527**	41,364	22.2%
Gross profit	**39,134**	21,165	84.9%
Gross profit margin	**43.6%**	33.8%	9.8ppt
Operating profit	**-15,641**	-2,291	-582.6%
Profit for the year	**-16,463**	-3,342	-392.5%
Net profit margin	**-18.4%**	-5.3%	-13.1ppt

During the Reporting Period, the TCM healthcare complex business had a total of eight TCM clinics in operation. Revenue was approximately RMB89,661,000, representing an increase of 43.4% over the RMB62,529,000 for the previous year, and accounting for 0.6% of total revenue.

The major reason for the increase in revenue was that the TCM clinics commenced operation in the second half of 2018, which contributed revenue of approximately RMB15.61 million. Along with the increased revenue proportion of healthcare service and high gross margin product sales like ginseng pilose antler, the overall gross profit margin of the TCM healthcare complex segment increased by 9.8 percentage points to 43.6% from 33.8% for the same period last year. However, the overall loss increased, which was mainly due to the fact that five TCM clinics just commenced operation or underwent transformation in the second half of 2018; the businesses of which were still under development with higher fixed costs.

5. LOCAL TCM INTEGRATED OPERATION

Key financial indicators for the local TCM integrated operation

	Twelve months ended 31 December		
	2019 RMB'000	2018 RMB'000	Change
Revenue	**202,365**	13,819	1,364.4%
Gross profit margin	**4.0%**	-34.5%	38.5ppt
Other income	**38,253**	3,033	1,161.2%
Administrative expenses	**60,294**	37,840	59.3%
Operating profit	**-39,280**	-45,140	13.0%
Profit for the year	**-36,499**	-44,757	18.5%
Net profit margin	**-18.0%**	-323.9%	305.9ppt

During the Reporting Period, the local TCM integrated operation's revenue was approximately RMB202,365,000, representing an increase of 1,364.4% over RMB13,819,000 for the previous year, and accounting for 1.4% of total revenue. Among which, Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd. and Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. have commenced sales of concentrated TCM granules and recorded sales of approximately RMB36.75 million. These significant increases of revenue and gross profit margin mainly resulted from the successive establishment of certain local TCM integrated operation companies and their commencement of normal external sales, which reversed their negative gross profits recorded from the previous year. Additionally, local TCM integrated operation companies have received a government grant of approximately RMB36,093,000 during the Period, which eliminated the impact of some initial establishment expenses and increased depreciation expenses on net profit.

PROSPECTS

In 2020, in keeping with its strategic plans and targets, the Group will continue to deepen the network planning for the whole TCM industry chain, focus on the midstream core businesses, consolidate the leading advantages of concentrated TCM granules, vigorously develop the TCM decoction pieces business, invest the specific TCM finished drug categories intensively, and explore medicinal and medicine food homology compound products. Based on the above, the Group will extend and develop the upstream and downstream businesses of the industry chain, and promote the construction of upstream medicinal herb plantation bases and downstream healthcare complex services steadily, to form an integrated network of the whole TCM industry chain, from breeding, medicinal herbs, TCM decoction pieces, concentrated TCM granules, TCM finished drugs to TCM healthcare complex services.

The core tasks of the Group in 2020 include: first, promoting the establishment of a traceability system for Chinese medicinal herbs, establishing an integrated management platform and a quality control system which the entire process of the Chinese herbal medicine production can be traceable; second, accelerating the plan out in provinces not yet covered, accelerating the application for production and operation license for the current local TCM integrated operation projects, and improving the collaborative system of the local TCM integrated operation; third, promoting the implementation of the "Dragon Seal Sino-TCM" brand strategy and actively carrying out the premium TCM decoction pieces business; fourth, focusing on building the new media marketing system, integrating internal and external resources, and establishing a sound company Internet marketing channel and online brand communication platform; fifth, continuing to conduct research on the quality standards of concentrated TCM granules and the TCM classical formula products, and establishing a sound management system for scientific research to improve the quality of research; sixth, further strengthening the risk management and refined management to ensure high quality and sustainable development of the enterprise; and seventh, optimizing human resource management in order to balance the talent strategy and business strategy.

Since the outbreak of the COVID-19 infection in 2020, TCM has deeply participated and played an important role in the prevention and treatment of this epidemic. During the epidemic, the accuracy, effectiveness, convenience and continuity of TCM use need to be guaranteed. The concentrated TCM granules have the advantages of rapid adjustment and precise dosage according to the TCM prescriptions in the treatment plans of various regions, no decoction and convenient to take, thus attracting more attention and application. With the scientific research data, production process and quality control system accumulated in the field of TCM pharmacy for many years, the Group will stimulate the vitality of the whole TCM industry chain and supply chain, promote the standardization construction of TCM industry, lead the healthy development of traditional Chinese medicine industry, and promote the overall improvement of the quality of TCM products.

FINANCIAL REVIEW

For revenue, cost of sales and gross profit analysis, please refer to section "Analysis of business segments".

Other income

For the twelve months ended 31 December 2019, the Group's other income was approximately RMB225,368,000, representing an increase of 56.1% from approximately RMB144,392,000 for the previous year. This was mainly because: (1) the Group received revenue in the form of a government grant of approximately RMB163,958,000 during the Period, representing an increase of 71.6% over the previous year; and (2) the Group strengthened centralized fund management and vigorously promoted the payment of bills during the Period, which increased the balance of funds and increased interest income by 18.5% over the previous year.

	Twelve months ended 31 December		
	2019	2018	Change
	RMB'000	RMB'000	
Interest income	**51,251**	43,246	18.5%
Government grants	**163,958**	95,553	71.6%
Rental income	**10,159**	5,593	81.6%
Total	**225,368**	144,392	56.1%

Other gains and losses and impairment losses, net of reversal

For the twelve months ended 31 December 2019, the Group's other losses were approximately RMB63,093,000 (twelve months ended 31 December 2018: other gains of approximately RMB43,440,000). During the Reporting Period, the reasons for the change in other gains and other losses are that: (1) there was a one-off exchange gain arising from the increase in share capital for the previous year; the total exchange gain of the Group last year was approximately RMB9,720,000, while the exchange loss during the Period was approximately RMB13,076,000; (2) during the Period, the Company carried out comprehensive works related to asset examination, and the provision made for diminution in value of inventory increased by approximately RMB24,576,000 compared to the previous year; and (3) the provision for impairment loss of goodwill during the Period was approximately RMB30,184,000.

In 2018, receivables with carrying amount of RMB107,608,000 were factoring without recourse, and reversed the credit impairment loss of receivables of approximately RMB92,449,000. In 2019, the Group made provision for the credit impairment loss of receivables of approximately RMB17,424,000 according to the credit impairment loss provision policy.

Selling and distribution costs

For the twelve months ended 31 December 2019, the Group's selling and distribution costs were approximately RMB5,109,153,000 (twelve months ended 31 December 2018: RMB3,417,195,000).

	Twelve months ended 31 December		
	2019	2018	Change
	RMB'000	RMB'000	
Advertising, promotion, channel expansion and travel expenses	**3,194,802**	1,830,850	74.5%
Salary expenses of sales and marketing staff	**727,410**	511,289	42.3%
Distribution costs	**247,935**	169,191	46.5%
Other selling and distribution costs	**939,006**	905,865	3.7%
Total	**5,109,153**	3,417,195	49.5%

During the Reporting Period, the Group's selling and distribution costs increased by 49.5% over the previous year and accounted for 35.7% of its revenue, 5.3 percentage points higher than 30.4% recorded for the same period last year. This was mainly because: (1) in order to adapt to market changes in concentrated TCM granules, investments in new markets were raised to further expand the promotion channels, and to strengthen the marketing research, consulting, services, promotion and channel services. Especially, the improved maintenance model of dispensing machine expanded the market coverage and enhanced the customer service level. The proportion of sales expenses for the Period increased by 6.4 percentage points compared with the previous year; (2) the sales expenses margin of Zhonglian Pharmaceutical, which has been consolidated into the Group's finished drugs business since October 2018, was higher than that of the original finished drugs business. (3) The TCM decoction pieces business strengthened the construction of self-built promotion team, and established the premium decoction piece department.

Administrative expenses

For the twelve months ended 31 December 2019, the Group's administrative expenses were approximately RMB686,189,000 (twelve months ended 31 December 2018: RMB552,294,000).

	Twelve months ended 31 December		
	2019	2018	Change
	RMB'000	RMB'000	
Salary	**338,647**	258,435	31.0%
Depreciation and amortisation	**78,940**	65,377	20.7%
Office rental and other expenses	**268,602**	228,482	17.6%
Total	**686,189**	552,294	24.2%

Administrative expenses increased by 24.2% over the same period last year. The change was mainly because: (1) in order to enhance management and implement the strategy, the Group hired intermediaries to carry out relevant management consulting, and at the same time to improve the allocation of management personnel, the management cost of the headquarters increased; (2) after 2018, the number of personnel in the acquisition and newly established enterprises increased, and the salary expenditure increased by about RMB30,000,000. In addition, the depreciation and amortization amount of office buildings and equipment assets for management has also increased since the new plants have been put into operation.

At the same time, the Group has enhanced the budget mangement during the Period, carried out special work to improve quality, reduce costs and increase efficiency, and effectively controled administrative expenses. Administrative expenses accounted for 4.8% of the revenue, decreasing by 0.1 percentage point compared with 4.9% for the same period last year.

Research and development expenses

For the twelve months ended 31 December 2019, the Group's research and development expenses amounted to approximately RMB463,996,000, representing an increase of 33.9% over approximately RMB346,539,000 for the previous year. Research and development expenses are mainly used to: (1) improve quality standards research, focusing on concentrated TCM granules standards; (2) improve future benefit research, focusing on research and development of new drugs and classical formula; and (3) improve future efficiency research, focusing on production process improvement and base construction research.

Profit from operations

For the twelve months ended 31 December 2019, the Group's profit from operations was approximately RMB2,460,716,000, representing an increase of 14.1% compared to approximately RMB2,156,025,000 for the previous year. The operating profit margin (defined as profit from operations divided by revenue) was 17.2%, a decrease of 1.9 percentage points from 19.1% for the previous year. The decrease in operating profit margin was due to the fact that (1) the local TCM integrated operation and the TCM healthcare complex segment were still in the preparation period or incubation period, the improvement in profitability has not yet been reflected, and the TCM decoction pieces business has been transformed and upgraded; (2) the Group has increased its investment in selling and distribution costs in order to seize the sales market; (3) investment costs and management costs rose correspondingly because of the rapid mergers and acquisitions and development; and (4) the recognized provision for asset impairment loss (including inventory depreciation loss) for the Period was approximately RMB70.43 million.

Finance costs

For the twelve months ended 31 December 2019, the Group's finance costs were approximately RMB301,047,000 (twelve months ended 31 December 2018: RMB292,300,000). The Group lowered the ratio of financial expenses accounted to revenue by adjusting financing products and strengthening the internal fund allocation. During the Reporting Period, capitalised finance costs of the Group were approximately RMB28,736,000. Bank and other loans held by the Group as at 31 December 2019 amounted to approximately RMB798,422,000, and corporate bonds of approximately RMB4,794,343,000 were also held. As compared to 31 December 2018, bank and other loans held by the Group amounted to approximately RMB1,643,443,000, and corporate bonds of approximately RMB4,490,065,000 were held.

During the Reporting Period, the Group's effective loan interest rate was 4.18% (twelve months ended 31 December 2018: 4.35%). The reasons for the decline in the effective interest rate during the Period were: (1) in 2019, the Group adjusted the issuance structure of the Panda bond and issued a Super & Short-term Commercial Paper with an aggregated amount of RMB2.8 billion in replacement of the medium-term notes, so that the financing costs decreased; and (2) the Group replaced some high-interest-rate bank loans. The Group will continue to monitor market interest rates and adjust its borrowing and fundraising mechanism as appropriate. The Group will refinance for its existing loans or secure new bank loans when good bargaining opportunities arise.

Share of results of associates

For the twelve months ended 31 December 2019, the Group shared loss attributable to associates of approximately RMB5,051,000, compared to approximately RMB7,028,000 for the previous year.

Earnings per share

For the twelve months ended 31 December 2019, earnings per share were RMB31.54 cents, representing an increase of 5.7% over RMB29.84 cents for the previous year. The increase in earnings per share was due to profit attributable to equity holders of the Company during the Reporting Period, which increased by 10.4% to approximately RMB1,588,114,000 (twelve months ended 31 December 2018: RMB1,439,018,000). In May last year, the Group issued 604,296,222 new shares to Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"), making the weighted average number of shares of 5,035,801,852 for the Period, compared to approximately 4,822,229,000 for the previous year. As such, the increase in earnings per share was lower than the increase in profit attributable to equity holders of the Company.

Liquidity and financial resources

As at 31 December 2019, the Group's current assets amounted to approximately RMB15,323,624,000 (31 December 2018: RMB14,485,694,000), which included cash, cash equivalents and deposits with banks of approximately RMB5,989,801,000 (31 December 2018: RMB6,438,522,000), from which the pledged bank deposits amounted to approximately RMB376,168,000 mainly for bills payable security (31 December 2018: RMB88,808,000). Trade and other receivables amounted to approximately RMB3,457,951,000 (31 December 2018: RMB3,467,084,000). Current liabilities amounted to approximately RMB11,147,012,000 (31 December 2018: RMB8,632,754,000). Net current assets aggregated to approximately RMB4,176,612,000 (31 December 2018: RMB5,852,940,000). The Group's current ratio was 1.4 (31 December 2018: 1.7). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to shareholders of the Company) decreased to 33.6% from 39.4% as at 31 December 2018. The decrease in gearing ratio was mainly due to the decrease in bank and other loans.

Bank and other borrowings and pledge of assets

As at 31 December 2019, the Group's balance of bank and other borrowings was approximately RMB798,422,000 (31 December 2018: RMB1,643,443,000), of which approximately RMB336,061,000 (31 December 2018: RMB408,074,000) was secured by the Group's assets with a carrying amount of approximately RMB377,768,000 (31 December 2018: RMB135,789,000). Out of the balance of bank and other borrowings, approximately RMB638,300,000 and RMB160,122,000, were repayable within one year and over one year respectively (31 December 2018: approximately RMB1,411,569,000 and RMB231,874,000, respectively).

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. In November 2019, the Group issued a Super & Short-term Commercial Paper with an aggregated amount of RMB2.8 billion to replace the mature three-year medium-term notes of RMB2.5 billion. Apart from that, the Group did not carry out major financing activities. To improve its working capital turnover, the Group increased the percentage of payment with notes in raw materials procurement and project construction during the Reporting Period. As of 31 December 2019, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB4,976,970,0000.

Capital expenditure

For the twelve months ended 31 December 2019, the Group's fixed asset investment expenditure was approximately RMB1,864,478,000 (including cash payments of approximately RMB1,173,340,000), compared to approximately RMB1,262,737,000 for the previous year. Capital expenditure during the Period was mainly used for the construction of the production bases for TCM decoction pieces and concentrated TCM granules.

Financing capacity

As of 31 December 2019, capital commitments which the Group has entered but are outstanding and not provided for in the financial statements were approximately RMB1,247,850,000 (31 December 2018: approximately RMB1,324,662,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, and investment payment. The Group is of the view that with available cash balances, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and its support from major financial institutions, it will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as of 31 December 2019 (31 December 2018: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As of 31 December 2019, the Group had Hong Kong Dollar bank borrowings of HK$470 million. As of 31 December 2019, the Group had not entered into any forward foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As of 31 December 2019, the Group had a total of 17,796 (31 December 2018: 14,169) employees, including directors of the Company, of which 7,411 were sales staff, 7,074 were manufacturing staff, and 3,311 were engaged in R&D, administration and senior management. Remuneration packages mainly consisted of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the Period under review was approximately RMB1,718,432,000 (twelve months ended 31 December 2018: RMB1,297,029,000).

SUBSEQUENT EVENTS

The pneumonia infected by novel coronavirus spread worldwide from January 2020, having a huge impact on the production and people's living across the world. As a central stated-owned and highly socially responsible pharmaceutical enterprise, the Company actively participated in the fight against the epidemic. As of the date of results announcement, the Company has donated medicines and materials with a total value of approximately RMB32.6206 million to medical institutions, administrative departments and social organizations in major regions of the country and overseas regions.

In the fight against the novel coronavirus epidemic, the concentrated TCM granules overcame the difficulties encountered by traditional TCM decoction pieces in quality stability, storage and application. It has the convenience and flexibility as those of finished drugs and TCM decoction piece syndrome differentiation respectively, and can be dispensed quickly and accurately according to the TCM prescriptions in the treatment scheme of various places. Therefore, many subsidiaries of the Group have undertaken the local task of formulating and producing TCM prescriptions, and supplied TCM products for prevention or treatment to hospitals in various places.

FINAL DIVIDEND

The Board recommended a final dividend of HK4.76 cents (approximately RMB4.34 cents) per share for the year ended 31 December 2019 (2018: HK5.51 cents (approximately RMB4.71 cents) per share). The final dividend for the year 2019 is subject to the approval by the shareholders at the forthcoming annual general meeting and is expected to be payable on 13 July 2020 to the shareholders on the register of members of the Company on 2 July 2020.

Report of the Directors

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2019, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Consolidated Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the financial position of the Company and the Group as at that date are set out in the consolidated financial statements on pages 83 to 206 of this report.

An interim dividend of HK5.72 cents (approximately RMB5.12 cents) per share for the six months ended 30 June 2019 was paid on 15 October 2019 (six months ended 30 June 2018: HK6.04 cents (approximately RMB5.28 cents) per share).

The Board recommended a final dividend of HK4.76 cents (approximately RMB4.34 cents) per share for the year ended 31 December 2019 (2018: HK5.51 cents (approximately RMB4.71 cents) per share). The total distribution for year ended 31 December 2019 is HK10.48 cents (approximately RMB9.46 cents) per share (2018: HK11.55 cents (approximately RMB9.99 cents) per share).

DIVIDEND POLICY

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

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

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

– capital commitment requirement;

– market environment and challenges;

– future development and investment opportunities; and

– any other factors that the Board deems appropriate.

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

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB1,588,114,000 (2018: RMB1,439,018,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

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

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 18 and 19 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 49 and the Consolidated Statement of Changes in Equity in the consolidated financial statements, respectively.

EQUITY-LINKED AGREEMENTS

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in notes 35 and 36 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2019 are set out in note 48 to the consolidated financial statements.

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

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

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. YANG Shanhua	
Ms. LI Ru	*(appointed on 18 February 2019)*
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. KUI Kaipin	
Ms. RONG Yan	*(resigned on 18 February 2019)*

Independent Non-executive Directors

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

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

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

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

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

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

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

In accordance with Article 101 of the Company's Articles of Association, Mr. YANG Wenming, Mr. WANG Kan, Mr. YU Tze Shan Hailson and Mr. QIN Ling shall retire by rotation at the annual general meeting (the "AGM") and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report are set out on pages 71 to 76 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

Mr. WANG Xiaochun renewed an appointment letter with the Company for a term of three years commencing from 3 April 2019.

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

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. YANG Shanhua renewed an appointment letter with the Company for a term of three years commencing from 28 March 2020.

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

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of three years commencing from 25 November 2019.

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

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

MANAGEMENT CONTRACTS

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

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB15,680,000.

DIRECTORS OF SUBSIDIARIES

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

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration and evaluation committee of the Company (the "Remuneration and Evaluation Committee") and the emoluments of the non-executive Directors and independent non-executive Directors are recommended by the Remuneration and Evaluation Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2019, the fee for the eligible independent non-executive Directors were fixed at HK$250,000 per annum.

PERMITTED INDEMNITY PROVISION

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

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

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company after the date of 2019 interim report is as follows:

– An emolument of Mr. WU Xian, an executive Director was RMB2,370,000 in 2019.

– An emolument of Mr. WANG Xiaochun, an executive Director was RMB2,240,000 in 2019.

– An emolument of Mr. YANG Wenming, an executive Director was RMB2,240,000 in 2019.

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

ALLOTMENT AND ISSUE OF NEW SHARES IN 2018

Utilisation of Net Proceeds from Subscription of new shares by Ping An Life Insurance

On 19 March 2018, the Company and Ping An Asset Management (Hong Kong) Company Limited (the investment manager appointed by Ping An Life Insurance (the "Subscriber")) entered into the subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for 604,296,222 shares ("Subscription Shares") at the total subscription price of HK$2,677,032,265. The total subscription price is payable in cash by the Subscriber to the Company at completion. The net proceeds from the subscription is approximately HK$2,674 million. As at 31 December 2019, the Company has fully utilised the net proceeds of the subscription.

The Company used the net proceeds of the subscription of HK$2,674 million for the following purposes:

Usage		Allocation amount RMB million	Remaining balance as of 31 December 2018 RMB million	Amount utilised as of 31 December 2019 RMB million	Remaining balance as of 31 December 2019 RMB million	Expected timeline of utilisation
The nationwide expansion of coverage of its TCM decoction pieces and concentrated TCM granules businesses	For the establishment of six TCM industrial parks and TCM intelligent distribution centres in different region	454.94	0.00	**N/A**	**N/A**	**N/A**
	For the expansion of production capacity for TCM decoction pieces and concentrated TCM granules	641.80	0.00	**N/A**	**N/A**	**N/A**
	For the acquisitions of suitable targets engaged in TCM decoction pieces and concentrated TCM granules businesses	121.86	0.00	**N/A**	**N/A**	**N/A**
Research and establishment of quality standards in concentrated TCM granules		81.24	9.94	**9.94**	**0.00**	**2019**
Research and development in classical TCM prescription		81.24	77.23	**77.23**	**0.00**	**2019**
Repayment of bank loans		365.58	0.00	**0.00**	**N/A**	**N/A**
The Group's general working capital	For the settlement of outstanding trade payables	243.72	0.00	**0.00**	**N/A**	**N/A**
	For the purchase of raw materials	81.24	0.00	**0.00**	**N/A**	**N/A**
	For the payment of other expenses	100.74	0.00	**0.00**	**N/A**	**N/A**
Total		2,172.36	87.17	**87.17**	**0.00**	

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

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

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
WANG Xiaochun	Interest of controlled corporation	270,001,042 (long position) *(Note 1)*	5.36%

Note:

1. The 270,001,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2019, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2019, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) *(Note 1)*	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) *(Note 1)*	32.46%
Ping An Life Insurance	Beneficial owner	604,296,222 (long position) *(Note 2)*	12.00%
Ping An	Interest of controlled corporations	604,296,222 (long position) *(Note 2)*	12.00%
Hanmax	Beneficial owner	270,001,042 (long position)	5.36%

Notes:

1. The 1,634,705,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.

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

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2019.

CONNECTED TRANSACTIONS

During the Reporting Period, the Company has not entered into any connected transactions agreements.

CONTINUING CONNECTED TRANSACTIONS

New Master Purchase Agreement and New Master Supply Agreement with CNPGC (2017-2019)

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

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

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

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

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

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

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

During the period from 1 January 2019 to 31 December 2019, the actual purchases of materials by the Group from CNPGC Group amounted to RMB10,764,000 (excluding value added tax) which was below the cap amount of RMB45,000,000 for the year ended 31 December 2019.

During the period from 1 January 2019 to 31 December 2019, the actual sales of products by the Group to CNPGC Group amounted to RMB827,244,000 (excluding value added tax) which was below the cap amount of RMB1,000,000,000 for the year ended 31 December 2019.

New Master Purchase Agreement and New Master Supply Agreement with CNPGC (2020-2022)

As the Master Purchase Agreement and the Master Supply Agreement and the respective annual caps would expire on 31 December 2019. On 20 November 2019, the Company entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ending 31 December 2020, 2021 and 2022.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase TCM and chemical materials ("Materials") and equipment to be supplied by the CNPGC Group during the period from 1 January 2020 to 31 December 2022. The value of the purchases shall not exceed the annual caps of RMB55 million RMB63 million and RMB70 million for each of the three financial years ending 31 December 2020, 2021 and 2022 respectively.

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the products to the CNPGC Group during the period from 1 January 2020 to 31 December 2022.

Pursuant to the New Master Supply Agreement, the Group agreed to supply the products to the CNPGC Group during the period from 1 January 2020 to 31 December 2022. Pursuant to the New Master Supply Agreement, the value of the sales shall not exceed the annual caps of RMB1,200 million, RMB1,450 million and RMB1,700 million for each of the three financial years ending 31 December 2020, 2021 and 2022 respectively.

On 20 November 2019, Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. CNPGC is the parent company of Sinopharm Hongkong and therefore CNPGC is a connected person of the Company. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The principal business activities of the Group are the manufacture and sale of TCM and pharmaceutical products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

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

For details of these renewed continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2019 and 28 December 2019 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 17 January 2020.

Financial Services Framework Agreement with Sinopharm Group Finance

On 20 November 2019, the Company entered into the Financial Services Framework Agreement with Sinopharm Group Finance Co., Ltd. ("Sinopharm Group Finance"), and set the annual caps for the deposit services and the loan services (i.e. the maximum daily deposit balance and general credit limit) during the effective period of the Financial Services Framework Agreement (i.e. from 20 November 2019 to 19 November 2022).

Pursuant to the Financial Services Framework Agreement, the maximum daily deposit balance and general credit limit of the Group shall not exceed the annual caps of RMB600 million and RMB1,200 million during the period from 20 November 2019 to 19 November 2022 respectively.The Group expects the service fees payable to Sinopharm Group Finance for the Other Financial Services will not exceed HK$3 million for each of the three years ending 19 November 2020, 2021 and 2022.

On 20 November 2019, Sinopharm Hongkong is the controlling Shareholder holding 1,634,705,642 Shares, representing approximately 32.46% of the total number of issued Shares. Sinopharm Group Finance is owned as to 80% by CNPGC and as to 20% by Sinopharm Group Co., Ltd. (a subsidiary of CNPGC). CNPGC is the parent company of Sinopharm Hongkong and Sinopharm Group Finance. As such, both CNPGC and Sinopharm Group Finance are connected persons of the Company and the the procurement of the Financial Services constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Sinopharm Group Finance is a non-bank financial institution regulated by the People's Bank of China and China Banking Regulatory Commission ("CBRC"). Sinopharm Group Finance is principally engaged in the provision of financial services to the members of the CNPGC Group, including deposit taking, provision of loans, bills acceptance and discounting, finance lease, entrustment loans, settlement services as well as other financial services such as provision of credit certification, financial advisory and other advisory agency services, guarantee services and other services as may be approved by the CBRC.

The Board considers that the entering into of the Financial Services Framework Agreement is in the interest of the Group as it will provide more options to the Group in procuring financial services for its treasury management. In addition, it is expected that the application procedures for financial services from Sinopharm Group Finance are more efficient, convenient and flexible than the independent commercial banks given the Group's close relationship with the CNPGC Group, and the terms offered by Sinopharm Group Finance will be no less favourable than those offered by the independent commercial banks to the Group according to the Financial Services Framework Agreement.

For further details of the Financial Services Framework Agreement, please refer to the announcement of the Company dated 20 November 2019.

During the period from 20 November 2019 to 31 December 2019, the deposit balance by the Group from Sinopharm Group Finance amounted to RMB593,043,000 which was below the cap for the maximum daily deposit balance amount of RMB600 million for the year ended 31 December 2019. As the Group did not utilise the loan services of Sinopharm Group Finance and did not accrue the service fees payable to Sinopharm Group Finance for the Other Financial Services.

Research and Development Agreements with SIPI and SPERC

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

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

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

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

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

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

During the period from 1 January 2019 to 31 December 2019, there is no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2019 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

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

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

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

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. During 2019, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 47 of the audited consolidated financial statements of this report. Such related party transactions include the transactions as disclosed in the "CONNECTED TRANSACTIONS" and "CONTINUING CONNECTED TRANSACTIONS" of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditors

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

(i) have not been approved by the Board;

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

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

(iv) have exceeded the annual cap.

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

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

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

DEBENTURES ISSUED

For the year ended 31 December 2019, no debenture is issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

CONTROLLING SHAREHOLDERS'S INTEREST IN CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 5.8% and 14.1% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 5.8% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 4.9% and 10.5% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.2% of the Group's total purchases during the year.

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

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in note 38 to the financial statements.

AUDITORS

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

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2019 have been reviewed by the audit committee of the Company (the "Audit Committee"). Information relating to the terms of reference of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 50 to 70 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 50 to 70 of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

By Order of the Board

WU Xian
Chairman

Hong Kong, 30 March 2020

Corporate Governance Report

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. Save as disclosed in this report, the Company has applied the corporate governance practices and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2019.

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

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

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

Executive Directors:

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

Non-executive Directors:

Mr. YANG Shanhua	
Ms. LI Ru	*(appointed on 18 February 2019)*
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. KUI Kaipin	
Ms. RONG Yan	*(resigned on 18 February 2019)*

Independent Non-executive Directors:

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

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

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

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

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

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

Code Provision A.1.5 of the Corporate Governance Code stipulates that, among other things, the draft and final versions of minutes of board meetings and its committee meetings should be sent to all directors for their comments and record respectively. For the board meetings held during the year ended 31 December 2019, the Company had recorded the whole process of each meeting in digital format, arranged for the Directors to sign summary of board resolutions, and prepared board minutes which were signed off by the chairman of the meeting (the "Practice"). Given that a complete record of the board meetings in digital format would be maintained under the Practice, the Company did not consider there was a need to send the draft and final versions of the minutes to the directors for comments and record. While the Practice, in a technical and strict manner, had constituted a deviation from the language of Code Provision A.1.5, the Board believes that the purpose of the code provision is to ensure that the board minutes of a listed issuer shall at all times reflect accurately in all material aspects the discussions and views made by its directors at board meetings and that each director's views and concerns could be correctly recorded in the listed issuer's records (the "Purpose"), and that the Practice could serve the Purpose better and are in compliance with the spirit of Code Provision A.1.5 and in no circumstances had the interests of the Directors and the shareholders of the Company been impaired nor compromised.

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

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

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results;

– declaration and recommendation of the payment of dividend;

– appointment of new directors; and

– appointment and dismissal of senior management of the Company.

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

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 13 and 14 to the consolidated financial statements.

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2019 is set out below:

Remuneration Band (RMB'000)	**Number of persons**
1,401-1,600	5
1,601-2,200	2

For the year ended 31 December 2019, the Company had convened six Board meetings and the 2019 annual general meeting (the "2019 AGM"). The following table shows the details of Directors' attendance:

	Attendance/Number of Meetings	
Directors	**Board Meetings**	**2019 AGM**
Executive Directors:		
Mr. WU Xian *(Chairman)*	6/6	1/1
Mr. WANG Xiaochun *(Managing Director)*	6/6	1/1
Mr. YANG Wenming	5/6	1/1
Non-executive Directors:		
Mr. YANG Shanhua	6/6	1/1
Ms. LI Ru *(appointed on 18 February 2019)*	5/6	0/1
Mr. YANG Binghua	5/6	0/1
Mr. WANG Kan	6/6	0/1
Mr. KUI Kaipin	6/6	0/1
Ms. RONG Yan *(resigned on 18 February 2019)*	N/A	N/A
Independent Non-executive Directors:		
Mr. XIE Rong	5/6	0/1
Mr. YU Tze Shan Hailson	6/6	1/1
Mr. QIN Ling *(appointed on 18 February 2019)*	6/6	1/1
Mr. LI Weidong *(appointed on 18 February 2019)*	6/6	1/1
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	N/A	N/A
Mr. LO Wing Yat *(retired on 25 January 2019)*	N/A	N/A

Chairman and Managing Director

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

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

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

Appointment and Re-election of Directors

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

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

Continuous Professional Development of Directors

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

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

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

Directors	**Training Type**
Executive Directors:	
Mr. WU Xian *(Chairman)*	A
Mr. WANG Xiaochun *(Managing Director)*	A
Mr. YANG Wenming	A
Non-executive Directors:	
Mr. YANG Shanhua	A
Ms. LI Ru *(appointed on 18 February 2019)*	A
Mr. YANG Binghua	A
Mr. WANG Kan	A
Mr. KUI Kaipin	A
Ms. RONG Yan *(resigned on 18 February 2019)*	N/A
Independent Non-executive Directors:	
Mr. XIE Rong	A
Mr. YU Tze Shan Hailson	A
Mr. QIN Lin (appointed on 18 February 2019)	A
Mr. LI Weidong (appointed on 18 February 2019)	A
Mr. ZHOU Bajun (resigned on 28 January 2019)	N/A
Mr. LO Wing Yat (retired on 25 January 2019)	N/A

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

Nomination Committee

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

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

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

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

Members of the Nomination Committee	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. WU Xian *(Chairman)*	2/2
Mr. WANG Xiaochun	2/2
Mr. YANG Wenming	2/2
Independent Non-executive Directors:	
Mr. XIE Rong	2/2
Mr. YU Tze Shan Hailson	2/2
Mr. QIN Ling *(appointed on 18 February 2019)*	2/2
Mr. LI Weidong *(appointed on 18 February 2019)*	2/2
Mr. LO Wing Yat *(retired on 25 January 2019)*	N/A

Nomination Policy

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

– the procedure for selection, appointment and re-appointment of Directors which has been formally and carefully considered;

– the procedure for making recommendations to the shareholders on electing or re-electing any Directors at a general meeting; and

– the nomination criteria and nomination procedure for the shareholders to nominate new Directors.

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

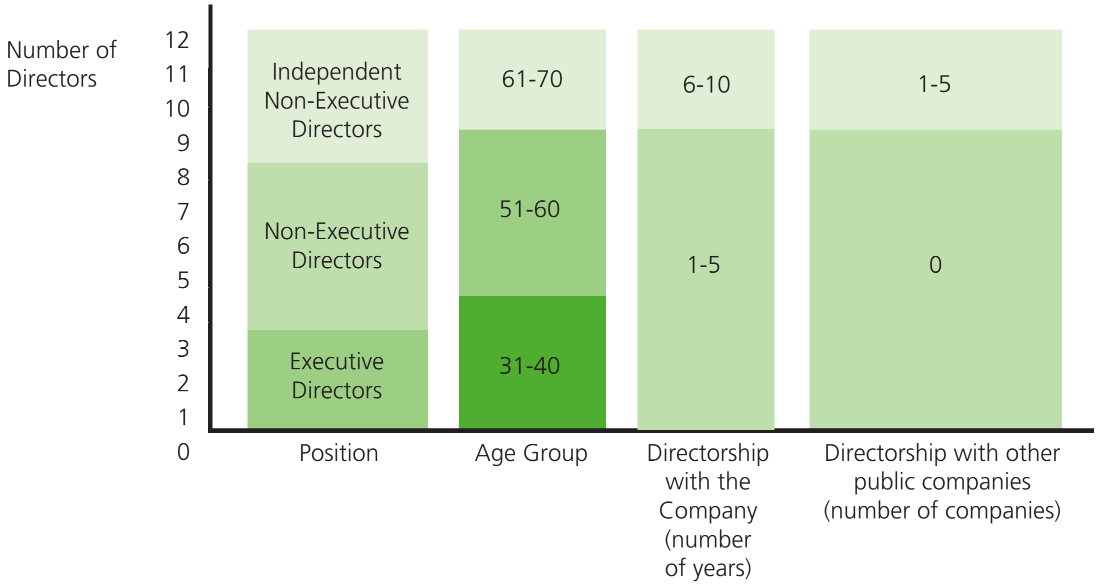
Board Diversity Policy

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

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

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

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



Audit Committee

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

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system, internal control procedures and reviewing risk management system; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

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

Members of the Audit Committee	Attendance/ Number of Meetings
Non-executive Director:	
Mr. YANG Shanhua	3/3
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	3/3
Mr. YU Tze Shan Hailson	3/3
Mr. QIN Ling *(appointed on 18 February 2019)*	3/3
Mr. LI Weidong *(appointed on 18 February 2019)*	3/3
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	N/A
Mr. LO Wing Yat *(retired on 25 January 2019)*	N/A

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2018 and the interim results and the interim report of the Group for the year 2019, as well as the effectiveness of the internal control and risk management system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration and Evaluation Committee

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

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

As at the date of this report, the Remuneration and Evaluation Committee comprises of one non-executive Director and four independent non-executive Directors. The main roles and functions of the Remuneration and Evaluation Committee are as follows:

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

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

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

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

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

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

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

The terms of reference of the Remuneration and Evaluation Committee were effective from 1 April 2012 and have been amended in 2015 and 2019. The revised terms of reference are available on the websites of the Company and the Stock Exchange.

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

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

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing basic remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

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

Members of the Remuneration and Evaluation Committee	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. WU Xian *(resigned as a member of the Remuneration and Evaluation Committee on 18 February 2019)*	N/A
Mr. YANG Wenming *(resigned as a member of the Remuneration and Evaluation Committee on 18 February 2019)*	N/A
Non-Executive Director:	
Mr. YANG Shanhua *(appointed as a member of the Remuneration and Evaluation Committee on 18 February 2019)*	4/4
Independent Non-executive Directors:	
Mr. XIE Rong	3/4
Mr. YU Tze Shan Hailson *(appointed as a member of the Remuneration and Evaluation Committee on 18 February 2019)*	4/4
Mr. QIN Ling *(Chairman) (appointed on 18 February 2019)*	4/4
Mr. LI Weidong *(appointed on 18 February 2019)*	4/4
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	N/A
Mr. LO Wing Yat *(retired on 25 January 2019)*	N/A

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

Strategic Committee

The Board set up a strategic committee ("Strategic Committee") in January 2014. As at the date of this report, the Strategic Committee comprises of the three executive Directors and two independent non-executive Directors including Mr. WU Xian, Mr. WANG Xiaochun, Mr. YANG Wenming, Mr. YU Tze Shan Hailson and Mr. QIN Ling. Mr. WU Xian was appointed as the chairman. During the year, two Strategic Committee meetings were held.

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

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

Strategic Committee	Attendance/ Number of Meetings
Executive Directors:	
Mr. WU Xian *(Chairman)*	2/2
Mr. WANG Xiaochun	2/2
Mr. YANG Wenming	2/2
Independent Non-executive Directors:	
Mr. YU Tze Shan Hailson	2/2
Mr. QIN Ling *(appointed on 18 February 2019)*	2/2
Mr. ZHOU Bajun *(resigned on 28 January 2019)*	N/A

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

For the year ended 31 December 2019, the Group has been complying with applicable laws and regulations applicable to the Group, including "Pharmaceutical Administration Law of the People's Republic of China" and its implementation regulations, "Regulations of the People's Republic of China on Traditional Chinese Medicine", "Regulations on Protection of Traditional Chinese Medicines", "Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers", "Law of the People's Republic of China on Traditional Chinese Medicine", "Trademark Law of the People's Republic of China", "Patent Law of the People's Republic of China" and its rules for implementation, "Environmental Protection Law of the People's Republic of China" and "Labor Contract Law of the People's Republic of China". The Group attaches great importance to product safety and conducts multiple quality inspection in the production process to ensure the compliance with the applicable quality regulations promulgated by the relevant authorities. The Group's production subsidiaries have obtained relevant drug production and operation permission.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has commenced preparation of the Company's environmental, social and governance report in accordance with the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange, which is planned to release in or before July 2020.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

The Group strives to take care of the interests of customers and maintain product safety. All production lines are GMP certified as required by laws and regulations. Regarding the research and development of new drugs, the Group would perform all research and development procedures in compliance with the regulations and requirements of regulatory authorities to ensure the passing of clinical tests and the successful registration of new drugs. Currently more than 10 new drugs are at different research and development stages and the Group possesses production approvals for more than 800 drugs.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

FINANCIAL REPORTING

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

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2019, the Directors have:

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

– selected and applied consistently appropriate accounting policies;

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

– prepared the accounts on a going concern basis.

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

AUDITORS' REMUNERATION

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

Services rendered	**Fee paid/ payable in 2019** RMB'000
Audit service	5,250
Non-audit service *(Note)*	1,300
Total	6,550

Note: Non-audit service mainly comprised review of the interim report of the Group during the year.

JOINT COMPANY SECRETARIES

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

INTERNAL CONTROLS

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

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

INSIDE INFORMATION DISCLOSURE POLICY

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

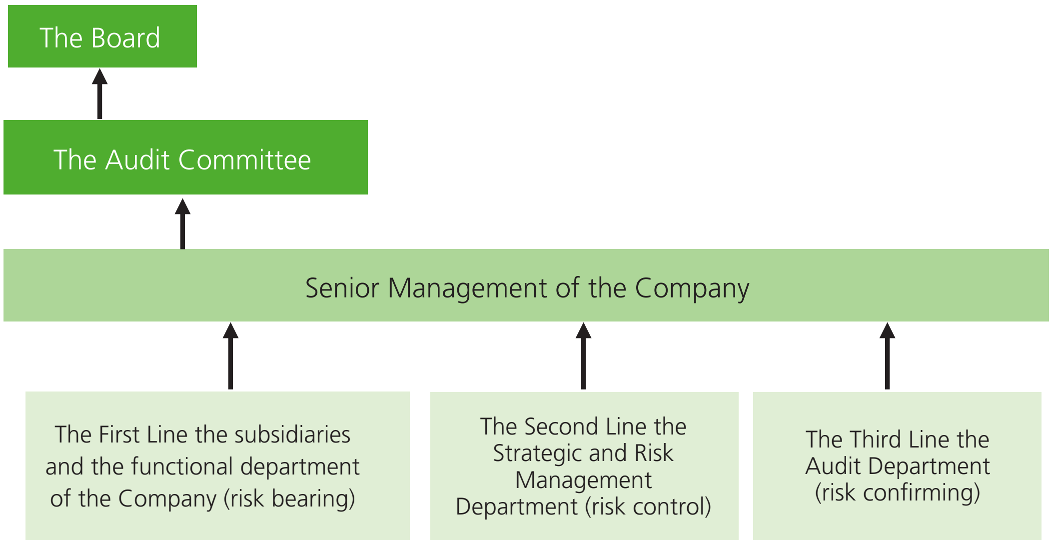
RISK MANAGEMENT

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

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

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

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



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

For internal controls, the Company drafted the "Internal Policy System Formulation Plan", and formulated and revised 117 new internal policies during the Reporting Period. In terms of the implementation of internal controls, the Company 1) strengthened the financial management and fully executed financial supervision; 2) strengthened management on investment, merger and acquisition, optimized resource allocation and improved the enterprise efficiency; 3) comprehensively rationalized and revised the procurement standards of Chinese medicinal herbs, optimized the approval procedure for new suppliers, reduced procurement costs and prevented the risks of out of stock; and 4) strengthened the production management and ensured the production safety, supply stability and quality; and strengthened sales audit and improved compliance and risk prevention. During the Reporting Period, the internal control department conducted 44 audit inspection projects for 34 subsidiaries, put forward 260 recommendations and issued 44 reports.

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

(e) general meetings; and

(f) meetings with investors and analysts.

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

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

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

ARTICLES OF ASSOCIATION

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

SHAREHOLDERS' RIGHTS

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

CONVENING OF GENERAL MEETING ON REQUEST

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

PUTTING FORWARD PROPOSALS AT ANNUAL GENERAL MEETING

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

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

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 59, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 30 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He was the director, general manager and deputy secretary to the Party Committee of China National Traditional Chinese Medicine Co., Ltd. (formerly named as China National Corp. of Traditional & Herbal Medicine) from August 2010 to December 2017. He was re-designated from deputy secretary of the Party Committee to secretary of the Party Committee since January 2018. He has been the executive director and general manager of China National Traditional Chinese Medicine Co., Ltd. since January 2019. He is currently the deputy secretary of the Party Committee of the Company.

Mr. WANG Xiaochun, aged 52, was appointed to the Board on 23 October 2013. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989. Mr. WANG has been the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. He has been a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He was appointed as a vice president of the Company in October 2013. He is currently the president of the Company.

Mr. YANG Wenming, aged 56, was appointed to the Board on 24 December 2018. Mr. YANG graduated from Zhejiang University majoring in Biological and Medical Instruments and obtained a bachelor degree of Engineering in 1985. Mr. YANG Wenming also has the senior engineer professional qualification. He was previously a staff member of the quality standard department, a senior staff member, a principal staff member, the deputy department head of the external cooperation department, the assistant of general manager and the department head of the external cooperation department and the assistant of general manager of China National Medical Equipment Industry Corporation from August 1985 to March 1999 and the assistant of the department head of the Medical Equipment Administration Department and the deputy director of the Medical Equipment Products Examination and Registration Centre of the State Medicine Administrative Bureau of China from January 1997 to January 1998. He was previously an office manager, manager of the information department, manager of the discipline inspection and supervision office, manager of the audit department, deputy secretary of discipline inspection committee, vice president of labour union and the staff supervisor of China National Pharmaceutical Group Corporation (中國醫藥集團總公司) (currently known as China National Pharmaceutical Group Co., Ltd., "CNPGC"), and deputy general manager, deputy secretary of the Party Committee and secretary of discipline inspection committee, president of labour union of China National Pharmaceutical Industry Company Limited from March 1999 to April 2017; the deputy secretary of the Party Committee, secretary of discipline inspection committee and president of labour union of Shanghai Shyndec Pharmaceutical Co., Ltd. from November 2016 to December 2018. He is currently the secretary of the Party Committee and vice president of the Company.

NON-EXECUTIVE DIRECTORS

Mr. YANG Shanhua, aged 53, was appointed to the Board on 28 March 2018. Mr. YANG graduated from Southwestern University of Finance and Economics in 1993, with a master degree in accounting major and he obtained a doctoral degree in accounting from Chinese Academy of Fiscal Science in 2005. He is a senior accountant and a qualified Certified Public Accountant of Chinese Institute of Certified Public Accountants. Mr. YANG was chief financial officer of Beijing Oriental Yuhong Waterproof Technology Co., Ltd., chief accountant in China National Biotec Group Company Limited, and deputy general manager in CNPGC successively, from June 2000 to May 2017. He is currently the chief accountant of CNPGC.

Ms. LI Ru, aged 40, was appointed to the Board on 18 February 2019. Ms. LI graduated from pharmaceutical preparations at Shenyang Pharmaceutical University in 2001. She was product manager, regional sales manager and divisional sales manager of the narcotics department at China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600511) successively from September 2001 to January 2010, and market manager of Nycomed Pharma AS (奈科明製藥有限公司) from January 2010 to January 2012. From January 2012 until the present, she has acted as deputy director and director of the risk and operation management department and director of the legal and risk management department of CNPGC successively. Ms. LI is currently the director of the legal and risk management department of CNPGC.

Mr. YANG Binghua, aged 39, was appointed to the Board on 24 December 2018. Mr. YANG obtained a bachelor degree in Politics and Administration of Public Administration from China Youth University for Political Sciences in 2004 and obtained a master degree in Public Administration from School of Government of Peking University in 2011. He was previously a staff member, a senior staff member and a principal staff member of the information research office of the State Council State-owned Assets Supervision and Administration Commission ("SASAC") Office from July 2004 to December 2013; person-incharge of the basic training programme of Daqing Oilfield production plant No.2 from April 2010 to March 2011; person-in-charge of the basic training programme of the governmental and enterprises customers division of China Telecom from August 2012 to December 2013; the deputy department head of the second secretarial department, a deputy director of the department party committee office, the deputy department head of the promotional department of the department party committee and the department head of the promotional department of the department party committee of the State Council SASAC Office from December 2013 to March 2017. In which, he served as a staff member of the management enhancement group office of asset committee authorities from July 2012 to August 2014. He was previously a deputy director of department of party-people relationship and a deputy director of department of party-people relationship (incharge of the department) of CNPGC from March 2017 to May 2018. He is currently a principal staff of department of party-masses relationship of CNPGC.

Mr. WANG Kan, aged 35, was appointed to the Board on 24 December 2018. Mr. WANG obtained a bachelor degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center in 2007, a master degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center and double bachelor degree of Economics from China Center for Economic Research of Peking University in 2009. Mr. WANG was a staff member of planning development and industrial management department of China National Pharmaceutical Industry Company Limited from August 2009 to May 2010; a staff member of the investment management department and securities department of China National Biotech Group Company Limited from May 2010 to November 2014; and a senior business executive and assistant of manager of the investment management department of CNPGC from November 2014 to January 2018. He has also been a director of Suzhou Capsugel Co., Ltd. in March 2018. He is currently the deputy manager of the investment management department of CNPGC.

Mr. KUI Kaipin, aged 34, was appointed to the Board on 30 May 2018. Mr. KUI graduated from the School of International Liberal Studies of Waseda University with a bachelor's degree in International Liberal Studies in 2008. He obtained a master's degree in International Relation from the Graduate School of Asia-Pacific Studies of Waseda University in 2010. Mr. KUI joined Ping An in 2012 and has served various positions in the Ping An Group. He is currently a managing director of the private equity department of China Ping An Insurance Overseas (Holdings) Limited responsible for overseas private equity investments and strategic investments. He is also a director of Ping An Japan Investment Co., Ltd. managing Ping An Group's investments in Japan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XIE Rong, aged 67, was appointed to the Board on 5 February 2013. Mr. XIE obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. Mr. XIE has over 50 years of working experience. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002 respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) from April 2003 to May 2018 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) and Shanghai Baosight Software Co., Ltd. (a company listed on the Shanghai Stock Exchange) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014, from August 2007 to September 2014 and from April 2010 to April 2016 respectively. Mr. XIE was a professor of the Shanghai National Accounting Institute from October 2002 to November 2017 and was also the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012. Mr. XIE has been an independent non-executive director of each of China Everbright Bank Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Shenwan Hongyuan Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Shanghai Bairun Investment Holding Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange) since January 2013, January 2015, June 2015 and June 2018, respectively.

Mr. YU Tze Shan Hailson, aged 63, was appointed to the Board on 25 November 2013. Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a chartered engineer and a fellow of the Institution of Engineering and Technology, Hong Kong Institution of Engineers, the Institute of Arbitrators of the United Kingdom and Hong Kong Institute of Arbitrators.

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

Mr. QIN Ling, aged 61, was appointed to the Board on 18 February 2019. He graduated from the Basic Medical and Life Sciences in Physical Education Faculty of the Beijing Sport University in 1982 and received his PhD in Exercise Science from the German Sports University, Cologne, Germany in 1992. He completed a post-doctoral research relating to osteoporosis in the AO Research Institute in 1992. He was the laboratory director of the Department of Trauma & Reconstructive Surgery, School of Medicine, Free University of Berlin, Germany from July 1993 to August 1994, and director of the research laboratory in the Department of Orthopaedics & Traumatology, director of the Bone Quality and Health Centre and director of Innovative Orthopaedic Biomaterial and Drug Translational Research Laboratory, Li Ka Shing Institute of Health Sciences, Faculty of Medicine, the Chinese University of Hong Kong from September 1994 until the present. Mr. QIN is currently a professor of Orthopaedics and director of laboratory in the Faculty of Medicine and doctorate and post-doctorate supervisor at the Chinese University of Hong Kong.

Mr. LI Weidong, aged 52, was appointed to the Board on 18 February 2019. Mr. LI graduated from Nanjing University with bachelor's degrees in science and law in 1992 and obtained a doctor of philosophy in law from the City University of Hong Kong in 2004. Mr. LI acted as a professional lawyer of Nanjing Zhongshan Law firm from September 1992 to January 1994 and as a professional lawyer of Jiangsu Jingwei Law Firm from February 1994 to April 1997. He is currently a director of Haipei Law Firm (Shenzhen and Hong Kong), an independent director of MYS Group Co. Ltd. (formerly known as Shenzhen MYS Environmental Protection & Technology Company Limited (深圳市美盈森環保科技股份有限公司)) (a company listed on the Shenzhen Stock Exchange, stock code: 002303), an independent non-executive director of Ocean Line Port Development Limited (a company listed on the Stock Exchange, stock code: 8502), an independent director of Avic Sanxin Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002163) and an independent director of Shenzhen Liantronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300269).

SENIOR MANAGEMNET

Mr. ZHANG Qingsheng, aged 59, was appointed as a vice president of the Company in July 2013. Mr. ZHANG graduated from Traditional Chinese Medicine in Harbin University of Commerce (formerly known as Heilongjiang College of Commerce) in 1982. Mr. ZHANG has the senior economist professional qualification. He has over 30 years of experience in the Chinese medicine industry. Mr. ZHANG has served as several positions including director, vice president, deputy secretary of the Party Committee, chairman of the labor union and secretary of the board of directors of China National Corp. of Traditional & Herbal Medicines (currently known as China National Traditional Chinese Medicine Co., Ltd.) from 1982 to 2013.

Mr. LAN Qingshan, aged 55, was appointed as a vice president on 24 December 2018. Mr. LAN was graduated from Jiangxi University of Traditional Chinese Medicine with a bachelor degree of Traditional Chinese Medicine in 1985 and a master degree of Traditional Chinese Medicine in 1990, and completed the EMBA programme from Peking University in 2000. Mr. LAN has the professional qualifications of university teacher certification, practicing physician, practicing pharmacist and chief pharmacist. He was a teaching assistant, house physician and lecturer of Jiangxi University of Traditional Chinese Medicine from July 1985 to September 1992. He was previously a sales staff, provincial manager, regional manager, sales manager of Jiangzhong (Pharmaceutical) Group Co., Ltd., the deputy general manager of Jiangxi Dongfeng Pharmaceutical Co., Ltd., the general manager of Jiangzhong Pharmaceutical Trading Co., Ltd., the deputy general manager of Jiangzhong Pharmaceutical Co., Ltd., the general manager of Jiangxi Shangao Pharmaceutical Co., Ltd., the general manager of Jiangxi Hengseng Food Company, person-incharge of the new products research and development department of Jiangzhong Group and the general manager of Jiang Zhong Xiao Zhou Medicine Trading Limited Company from October 1992 to December 2009. In which, he was the Deputy County Chief of Duchang County People's Government of Jiangxi in a temporary basis from April to December 2009. He was the deputy general manager and a senior staff of Medicinal Resources Industry Centre and the president of the Chinese Medicine Research Institute of China National Traditional Chinese Medicine Co., Ltd. from January 2010 to December 2018.

Mr. CHEN Yinglong, aged 48, was appointed as a vice president on 24 December 2018. Mr. CHEN was graduated from Heilongjiang University with a bachelor degree of English majoring in English Literature in 1993 and obtained a master degree in Management Engineering from School of Management of Harbin Institute of Technology in 1999. Mr. CHEN has the professional qualification of senior economist. He was the business manager of the first business department of Harbin Metals and Minerals Import and Export Corporation from August 1993 to September 1994; the first representative of Harbin branch of Eisenberg Group United Development Co., Ltd. from September 1994 to October 1999; the general manager of Harbin Runhe Technology Development Co., Ltd. from October 1999 to February 2005; a director and general manager of Harbin Baida Pharmaceutical Co., Ltd. from February 2005 to November 2009; manager of the raw material department and successively manager of the safety and environmental protection department of China National Pharmaceutical Industry Company Limited from November 2009 to August 2010; the deputy general manager and secretary of the board of directors of China National Traditional Chinese Medicine Co., Ltd. from August 2010 to April 2018. He is currently the member of the Standing Committee and the deputy mayor of Baishan City of Jilin Province.

Mr. ZHAO Dongji, aged 52, has been appointed as a vice president, joint company secretary and chief legal advisor since 5 June 2017, 21 July 2017 and 14 October 2019 respectively. Mr. ZHAO was a non-executive director and an executive director of the Company from February 2013 to June 2017 and from June 2017 to December 2018 respectively. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 30 years of related working experience, including over 20 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager, the chief investment officer and the deputy general manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) from 2011 to July 2017.

Mr. WANG Xingkai, aged 40, was appointed as a chief financial officer on 24 December 2018. Mr. WANG was graduated from Dongbei University of Finance and Economics with a bachelor degree in Accounting in 2002. Mr. WANG was an auditor of Beijing Zhonghui Accounting Firm from July 2002 to October 2003; a senior auditor in SHINEWING CPA from October 2003 to May 2007; an accounting supervisor, manager assistant, deputy manager and manager of the finance department of China National Pharmaceutical Foreign Trade Corporation from May 2007 to June 2012. He was previously the financial controller and deputy general manager of China Medical Equipment Co., Ltd. from June 2012 to October 2015. He was the financial controller of China Medical Equipment Co., Ltd. and the financial controller of China National Scientific Instruments and Materials Co., Ltd. from November 2015 to December 2018.

Mr. CHENG Xueren, aged 56, was appointed as a vice president on 24 December 2018. Mr. CHENG was graduated from Anhui Institute of Traditional Chinese Medicine (currently known as Anhui University of Traditional Chinese Medicine) with a bachelor degree in Traditional Chinese Medicine in 1985, and obtained a master degree from Guangzhou University of Chinese Medicine in Basic Theory of Integrated Chinese and Western Medicine in 1992. Mr. CHENG has the professional qualifications of chief pharmacist and physician. He was a physician of Anhui Chuzhou People's Hospital from July 1985 to August 1989; a doctor of Guangdong Second Hospital of Traditional Chinese Medicine from July 1992 to March 1993; a deputy manager of production, the deputy manager of sale and general manager of Guangdong Yifang Pharmaceutical Co., Ltd. from March 1993 to November 2017. In which, he was the vice director of Guangdong Institute of Traditional Chinese Medicine from March 1993 to May 2015. He is currently the general manager and secretary of the Party Committee of Guangdong Yifang Pharmaceutical Co., Ltd. and the secretary of Party General Branch.

Mr. HUANG Zhangxin, aged 52, was appointed as a vice president in 15 October 2019. Mr. HUANG was graduated from Shanghai Medical University (currently knowns as Fudan University Shanghai Medical College) majoring in Medicinal Chemistry in Department of Pharmacy and obtained a master degree in Economics and Management from Party School of the Guangdong Provincial Committee of CPC in July 2001. Mr. HUANG has professional qualifications of pharmaceutical engineer and senior pharmaceutical R&D engineer. Mr. HUANG served as officer in Rongqi Government in Shunde, Foshan, Guangdong from August 1991 to January 1996; deputy general manager in Shunde Nanfang Bio-Pharmaceutical Co., Ltd. (順德南方生物製藥有限公司) from January 1996 to January 2001; deputy general manager of the Company's subsidiary, Guangdong Medi-World Pharmaceutical Co., Ltd., and director of R&D, assistant to general manager and deputy general manager of Winteam Pharmaceutical Group Limited from January 2001 to October 2013; and deputy secretary of the Party Committee, vice president, general engineer and director of production, safety and environmental protection department of the Company from October 2013 to September 2019.

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 83 to 206, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment on goodwill and other intangible assets	
We identified the annual impairment assessment of goodwill and other intangible assets allocated to the cash-generating units ("CGUs") including, as defined in note 22, to the consolidated financial statements, Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang as a key audit matter due to significant judgements exercised and assumptions used by the management in the impairment assessment. As disclosed in notes 4 and 22 to the consolidated financial statements, in determining whether goodwill and other intangible assets are impaired requires an estimation of the recoverable amounts (i.e. the value in use) of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the corresponding CGUs, with key assumptions including the growth rates, budgeted sales and gross profit margin, and suitable discount rates. The carrying amounts of goodwill and other intangible assets allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate of RMB3,329,809,000 and RMB4,117,940,000, respectively, at 31 December 2019. The management has determined that there were no impairment identified on those goodwill and other intangible assets.	Our procedures in relation to evaluating the appropriateness of impairment assessment of goodwill and other intangible assets allocated to the CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang included: • Understanding key controls on how the management performed the impairment assessment; • Evaluating the valuation methodology, the valuation model, the mathematical accuracy of the value in use calculations of the CGUs prepared by the management; • Assessing the reasonableness of the key assumptions used by the management in determining the value in use of the CGUs including growth rates, budgeted sales, gross profit margin and discount rate; • Evaluating the historical accuracy of the cash flow forecasts by comparing that the historical cash flow forecasts with the actual performance of the CGUs; and • Performing sensitivity analysis on the significant assumptions including discount rates and growth rates to evaluate the potential impacts on the recoverable amounts of the CGUs.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of significant judgments and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2019, the Group's net trade receivables amounting to RMB2,946,453,000, which represented approximately 9% of total assets of the Group. As disclosed in note 44 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit-impaired are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 44 to the consolidated financial statements, the Group's lifetime ECL on trade receivables as at 31 December 2019 amounted to RMB55,173,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2019, including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 4, 25 and 44 to the consolidated financial statements; and • Testing subsequent settlements of trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional 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.

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yuen Wing Hang.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**14,320,949**	11,258,941
Cost of sales		**(5,745,161)**	(5,065,368)
Gross profit		**8,575,788**	6,193,573
Other income	7	**225,368**	144,392
Other gains and losses	8	**(63,093)**	43,440
Impairment losses under expected credit loss model, net of reversal	9	**(18,009)**	90,648
Selling and distribution expenses		**(5,109,153)**	(3,417,195)
Administrative expenses		**(686,189)**	(552,294)
Research and development expenses		**(463,996)**	(346,539)
Profit from operations		**2,460,716**	2,156,025
Finance costs	10	**(301,047)**	(292,300)
Share of results of associates	23	**(5,051)**	(7,028)
Profit before tax		**2,154,618**	1,856,697
Income tax expense	11	**(381,321)**	(289,669)
Profit for the year	12	**1,773,297**	1,567,028
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
– Fair value (loss) gain on debt instruments measured at fair value through other comprehensive income		**(16,609)**	1,570
– Impairment (reversal of) loss for debt instruments at fair value through other comprehensive income included in profit or loss		**1,575**	(141)
– Income tax relating to items that may be reclassified subsequently		**2,148**	(176)
Other comprehensive (expense) income for the year, net of income tax		**(12,886)**	1,253
Total comprehensive income for the year		**1,760,411**	1,568,281
Profit for the year attributable to:			
Owners of the Company		**1,588,114**	1,439,018
Non-controlling interests		**185,183**	128,010
		1,773,297	1,567,028
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,576,413**	1,440,296
Non-controlling interests		**183,998**	127,985
		1,760,411	1,568,281
EARNINGS PER SHARE			
Basic (RMB cents)	16	**31.54**	29.84

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**5,370,318**	4,298,440
Right-of-use assets	19	**1,231,228**	–
Prepaid lease payments	20	**–**	814,718
Investment properties	18	**72,859**	42,016
Goodwill	17	**3,538,800**	3,568,984
Other intangible assets	21	**6,456,090**	6,612,833
Interests in associates	23	**24,359**	11,788
Deposits and prepayments	24	**304,810**	326,105
Deferred tax assets	34	**151,637**	126,812
		17,150,101	15,801,696
CURRENT ASSETS			
Inventories	27	**4,691,753**	4,482,732
Trade and other receivables	25	**3,457,951**	3,467,084
Prepaid lease payments	20	**–**	29,461
Financial assets at fair value through profit or loss ("FVTPL")	28	**72,800**	1,076
Debt instruments at fair value through other comprehensive income ("FVTOCI")	29	**1,111,319**	66,819
Pledged bank deposits	30(a)	**376,168**	88,808
Bank balances and cash	30(b)	**5,613,633**	6,349,714
		15,323,624	14,485,694
CURRENT LIABILITIES			
Trade and other payables	31	**5,355,025**	4,147,800
Lease liabilities	40	**12,013**	–
Contract liabilities	32	**223,106**	356,956
Bank and other borrowings	35	**638,300**	1,411,569
Unsecured notes-due within one year	36	**4,794,343**	2,497,330
Tax liabilities		**124,225**	219,099
		11,147,012	8,632,754
NET CURRENT ASSETS		**4,176,612**	5,852,940
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,326,713**	21,654,636

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants	*33*	**265,181**	182,558
Deferred tax liabilities	*34*	**1,748,580**	1,736,898
Unsecured notes-due after one year	*36*	**–**	1,992,735
Bank and other borrowings	*35*	**160,122**	231,874
Lease liabilities	*40*	**102,105**	–
		2,275,988	4,144,065
NET ASSETS		**19,050,725**	17,510,571
CAPITAL AND RESERVES			
Share capital	*37*	**11,982,474**	11,982,474
Reserves		**4,640,941**	3,568,959
Equity attributable to owners of the Company		**16,623,415**	15,551,433
Non-controlling interests		**2,427,310**	1,959,138
TOTAL EQUITY		**19,050,725**	17,510,571

The consolidated financial statements on pages 83 to 206 were approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

WU Xian
Executive Director

WANG Xiaochun
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity owners of the Company								
	Share capital RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (note a)	FVTOCI reserve RMB'000	Other reserves RMB'000 (note b)	Accumulated profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	9,809,935	(165,183)	311,388	(1,885)	(53,039)	2,507,360	12,408,576	1,377,306	13,785,882
Profit for the year	–	–	–	–	–	1,439,018	1,439,018	128,010	1,567,028
Other comprehensive income (expense) for the year	–	–	–	1,278	–	–	1,278	(25)	1,253
Total comprehensive income for the year	–	–	–	1,278	–	1,439,018	1,440,296	127,985	1,568,281
Shares issued	2,175,026	–	–	–	–	–	2,175,026	–	2,175,026
Transaction costs attributable to issue of shares	(2,487)	–	–	–	–	–	(2,487)	–	(2,487)
Acquisition of subsidiaries	–	–	–	–	–	–	–	425,953	425,953
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	(73,670)	(73,670)
Dividend paid	–	–	–	–	–	(475,135)	(475,135)	–	(475,135)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	122,654	122,654
Acquisition of additional interests in non-controlling interests	–	–	–	–	5,157	–	5,157	(21,090)	(15,933)
Transfer to statutory surplus reserve	–	–	217,049	–	–	(217,049)	–	–	–
At 1 January 2019	11,982,474	(165,183)	528,437	(607)	(47,882)	3,254,194	15,551,433	1,959,138	17,510,571
Profit for the year	–	–	–	–	–	1,588,114	1,588,114	185,183	1,773,297
Other comprehensive expense for the year	–	–	–	(11,701)	–	–	(11,701)	(1,185)	(12,886)
Total comprehensive (expense) income for the year	–	–	–	(11,701)	–	1,588,114	1,576,413	183,998	1,760,411
Acquisitions of subsidiaries (note 39)	–	–	–	–	–	–	–	53,182	53,182
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	(76,110)	(76,110)
Dividend paid	–	–	–	–	–	(502,506)	(502,506)	–	(502,506)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	321,879	321,879
Acquisition of additional interests in non-controlling interests	–	–	–	–	(1,925)	–	(1,925)	(14,777)	(16,702)
Transfer to statutory surplus reserve	–	–	978	–	–	(978)	–	–	–
At 31 December 2019	11,982,474	(165,183)	529,415	(12,308)	(49,807)	4,338,824	16,623,415	2,427,310	19,050,725

Notes:

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

(b) The amounts represent the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from the non-controlling interests.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Operating activities		
Profit before tax	**2,154,618**	1,856,697
Adjustments for:		
Depreciation and amortisation	**590,826**	509,662
Release of prepaid lease payments	**–**	19,510
Amortisation of deferred government grants	**(31,151)**	(28,509)
Impairment losses recognised (reversed) in respect of		
– goodwill	**30,184**	–
– other intangible assets	**1,779**	–
– trade receivables	**17,424**	(92,449)
– other receivables	**182**	2,911
– other items subject to ECL	**403**	(1,110)
Write down of inventories	**38,861**	14,605
Finance costs	**301,047**	292,300
Interest income	**(51,251)**	(43,246)
Loss on disposal of property, plant and equipment	**7,386**	3,353
Gain on disposal of right-of-use assets	**(32,086)**	–
Fair value changes of financial assets at FVTPL	**(4)**	(385)
Net foreign exchange loss (gain)	**13,076**	(9,720)
Loss (gain) on disposal of an associate	**128**	(6,090)
Share of results of associates	**5,051**	7,028
Operating cash flows before movements in working capital	**3,046,473**	2,524,557
Increase in inventories	**(247,829)**	(640,213)
Increase in trade and other receivables	**(198,321)**	(62,284)
Increase (decrease) in trade and other payables	**650,311**	(549,975)
(Decrease) increase in contract liabilities	**(133,850)**	146,369
(Increase) decrease in debt instrument at FVTOCI	**(1,044,500)**	68,170
Cash generated from operations	**2,072,284**	1,486,624
PRC Enterprise Income Tax paid	**(487,190)**	(296,133)
Net cash from operating activities	**1,585,094**	1,190,491

	NOTE	2019 RMB'000	2018 RMB'000
Investing activities			
Acquisitions of subsidiaries, net of cash acquired	*39*	**2,147**	(386,488)
Cash consideration paid for the prior year acquisition of subsidiaries		**(1,242)**	(11,242)
Deposits paid for acquisition for subsidiaries		**(40,600)**	–
Purchase of financial assets at FVTPL		**(1,414,900)**	(2,711,100)
Proceeds from disposal of financial assets at FVTPL		**1,343,180**	2,718,100
Purchase of property, plant and equipment		**(928,190)**	(961,186)
Payments for right-of-use assets		**(234,715)**	–
Proceeds from disposal of property, plant and equipment		**3,063**	7,573
Proceeds on disposal of an interest in an associate		**–**	90,600
Proceeds on disposal of right-of-use assets		**37,400**	–
Proceeds on disposal of investment properties		**50**	–
Purchase of prepaid lease payments		**–**	(296,545)
Purchase of other intangible assets		**(10,435)**	(5,006)
Assets-related government grants received		**113,774**	65,560
Capital contribution to an associate		**(17,750)**	(10,750)
Increase in pledged bank deposits		**(287,360)**	(88,808)
Interest received		**51,251**	43,246
Net cash used in investing activities		**(1,384,327)**	(1,546,046)
Financing activities			
Proceeds from issue of unsecured notes		**2,800,000**	–
Proceeds from issue of shares		**–**	2,175,026
Expenses on issue of shares		**–**	(2,487)
New bank borrowings raised		**1,176,376**	1,869,754
Repayment of unsecured notes		**(2,500,000)**	–
Repayment of bank borrowings		**(2,030,609)**	(1,470,849)
Repayment of lease liabilities		**(17,504)**	–
Dividend paid		**(502,460)**	(479,669)
Interest paid		**(312,685)**	(283,165)
Dividend paid to non-controlling interests of a subsidiary		**(35,880)**	(26,504)
Acquisition of additional interests in non-controlling interests		**(16,702)**	(15,933)
Capital injection from non-controlling interests		**311,879**	122,654
Increase in restricted bank deposits		**–**	(373,889)
Decrease in restricted bank deposits		**–**	257,304
Net cash (used in) from financing activities		**(1,127,585)**	1,772,242
Net (decrease) increase in cash and cash equivalents		**(926,818)**	1,416,687
Cash and cash equivalents at beginning of the year		**5,975,825**	4,530,477
Effect of foreign exchange rate changes		**(2,983)**	28,661
Cash and cash equivalents at end of the year, represented by bank balances and cash		**5,046,024**	5,975,825

1. GENERAL

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

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

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

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

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

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

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

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

2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

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

2.1 HKFRS 16 Leases (continued)

As a lessee (continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.75%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	59,523
Lease liabilities discounted at relevant incremental borrowing rates	49,256
Less: Recognition exemption – short-term leases	(6,121)
Recognition exemption – low value assets	(92)
Lease liabilities at 1 January 2019 relating to operating leases recognised upon application of HKFRS 16	43,043
Analysed as	
Current	12,459
Non-current	30,584
	43,043

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		47,145
Reclassified from prepaid lease payments	*(a)*	844,179
Adjustments on rental deposits at 1 January 2019	*(b)*	94
		891,418
By class:		
Leasehold lands		844,179
Land and buildings		47,239
		891,418

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

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

2.1 HKFRS 16 Leases (continued)

As a lessee (continued)

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB29,461,000 and RMB814,718,000 respectively were reclassified to right-of-use assets.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied as other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB94,000 was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(c) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(d) Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

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

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

2.1 HKFRS 16 Leases (continued)

As a lessor (continued)

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current assets			
Prepaid lease payments	814,718	(814,718)	–
Right-of-use assets	–	891,418	891,418
Other receivables			
– Rental deposits	3,530	(94)	3,436
– Prepayment for rental	5,268	(4,102)	1,166
Current assets			
Prepaid lease payments	29,461	(29,461)	–
Current liabilities			
Lease liabilities	–	(12,459)	(12,459)
Non-current liabilities			
Lease liabilities	–	(30,584)	(30,584)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

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

Amendments to HKAS 1 and HKAS 8 Definition of Material (continued)

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Business combinations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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

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

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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

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

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

Acquisition of a subsidiary not constituting a business

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

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

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

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and dormitories that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Right-of-use assets (continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the relate lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessee (prior to 1 January 2019)

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

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

The Group as a lessor (continued)

Classification and measurement of leases (continued)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

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

Government grants

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

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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

Property, plant and equipment

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

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

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

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

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

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

Intangible assets

Internally-generated intangible assets-research and development expenditure

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

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

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

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

Intangible assets acquired in a business combination

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

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

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

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

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is held for trading if:

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

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

(i) Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Debt instruments classified as at FVTOCI

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

(iii) Financial assets at FVTPL

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

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

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

(i) Significant increase in credit risk

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

(ii) *Definition of default*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

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

Critical judgements in applying accounting policies (continued)

Business model assessment of trade receivables and bills receivables

Classification and measurement of financial assets including trade receivables and bills receivables depends on the results of the solely payments of principal and interest on the principal amount outstanding ("SPPI") and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Normally the Group will hold the trade and bills receivables till their maturity to receive the contractual cash flow which fulfilled SPPI criterion. However, as part of the credit risk management, the Group may sometimes factor a portfolio of trade and bills receivables arising from sales transactions with certain specific customers on a non-recourse basis prior to their original maturity which results in derecognition of the financial assets prior to their maturity. As at 31 December 2019, the Group's trade receivables and bills receivables with a carrying amount of RMB1,111,319,000 (2018: RMB66,819,000) that were held under the "held to collect and sell" business model were measured at fair value through other comprehensive income. The remaining trade receivables and bills receivables with an aggregate carrying amount of RMB2,946,453,000 (2018: RMB3,089,267,000) were held under the "held to collect" business model and were measured at amortised cost.

Key sources of estimation uncertainty

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

Impairment assessment of goodwill and other intangible assets with indefinite useful life allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang (as defined in note 22)

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

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

Key sources of estimation uncertainty (continued)

Impairment assessment of goodwill and other intangible assets with indefinite useful life allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang (as defined in note 22) (continued)

At 31 December 2019, the carrying amounts of goodwill and other intangible assets allocated to Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate RMB3,329,809,000 (2018: RMB3,329,809,000) and RMB4,117,940,000 (2018: RMB4,117,940,000) respectively. Details of the definitions and recoverable amounts are disclosed in note 22.

Impairment assessment of other intangible assets with finite useful lives

The Group assesses annually whether other intangible assets with finite useful lives have any indication of impairment, in accordance with the relevant accounting policies. Other intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable at the end of each reporting period. In the opinion of directors of the Company, there is no indicator of impairment (including adverse changes on financial performance such as profit margin, adverse changes on continuing customer portfolios etc.) identified for other intangible assets at 31 December 2019.

At 31 December 2019, the carrying amount of other intangible assets with finite useful lives was in aggregate RMB2,333,113,000 (2018: RMB2,489,856,000). Details of the recoverable amounts are disclosed in note 21.

Provision of ECL for trade receivables

The management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that are credit-impaired are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 44 and 25 respectively.

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

Key sources of estimation uncertainty (continued)

Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and also consider technical or commercial obsolescence of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned. Changes in these estimations may have a material impact on the results of the Group. At 31 December 2019, the carrying amount of property, plant and equipment excluding construction in progress was RMB 4,233,693,000 (2018: RMB3,699,523,000) as disclosed in note 18.

Amortisation of other intangible assets with finite useful lives

Other intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives of the assets. The Group determines the estimated useful lives of other intangible assets on initial recognition in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives are determined taking into account the factors including expected changes in market demands for the Group's products, the Group's historical experience with similar assets, the useful lives of similar intangible assets in certain comparable transactions, historical customer data, anticipated technological changes, legal or similar limits on the use of other intangible assets and management's experience and industry knowledge. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates. The Group has performed an annual review of the amortisation period and the amortisation method for other intangible assets with finite useful life and has concluded that the expected useful life of the assets is not different from previous estimates, and there has not been a change in the expected pattern of consumption of the future economic benefits embodied in the assets. At 31 December 2019, the carrying amount of other intangible assets with finite useful lives was RMB 2,333,113,000 (2018: RMB2,489,856,000) as disclosed in note 21.

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

Key sources of estimation uncertainty (continued)

Assessment of the indefinite useful lives of the trademarks (including brand names) and product protection rights arising from the acquisition of Jiangyin Tianjiang Group (defined in note 22)

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

The Group has performed an annual review of the useful life of these intangible assets and has concluded there is no foreseeable limit to the period over which the assets are expected to generate net cash flows for the Group and so these assets continue to have indefinite useful life. The carrying amount of the trademarks (including brand names) and product protection rights with infinite useful lives were RMB1,594,548,000 and RMB2,166,163,000 respectively at 31 December 2019 (2018: RMB1,594,548,000 and RMB2,166,163,000).

Impairment of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place. At 31 December 2019, the carrying amount of inventories, net of allowance for slow-moving and obsolete inventories, were RMB4,691,753,000 (2018: RMB4,482,732,000) as disclosed in note 27.

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

Key sources of estimation uncertainty (continued)

Recognition of deferred tax assets

As at 31 December 2019, deferred tax assets of RMB151,637,000 (2018: RMB126,812,000) have been recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Besides, no deferred tax assets has been recognised in respect of certain deductible tax losses of RMB244,902,000 (2018: RMB110,670,000) due to the unpredictability of future profits streams, details of which are set out in note 34. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which such a situation take place.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2019					
Segments	**Finished drugs RMB'000**	**Concentrated TCM granules RMB'000**	**TCM decoction pieces RMB'000**	**TCM healthcare complex RMB'000**	**Local TCM integrated operation RMB'000**	**Total RMB'000**
Types of goods or services						
Goods						
Sales of finished drugs	3,453,629	–	–	–	–	3,453,629
Sales of concentrated TCM granules						
Concentrated TCM granules	–	9,187,798	–	–	36,753	9,224,551
Sales of TCM decoction pieces						
Decoction pieces	24,461	37,643	1,290,607	–	165,516	1,518,227
Services						
TCM healthcare complex						
Healthcare complex	–	–	–	89,661	–	89,661
Others	26,566	1,873	6,346	–	96	34,881
Total	3,504,656	9,227,314	1,296,953	89,661	202,365	14,320,949

5. REVENUE (CONTINUED)

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

	For the year ended 31 December 2019					
Segments	**Finished drugs RMB'000**	**Concentrated TCM granules RMB'000**	**TCM decoction pieces RMB'000**	**TCM healthcare complex RMB'000**	**Local TCM integrated operation RMB'000**	**Total RMB'000**
Geographical markets						
Mainland China	**3,503,982**	**9,127,277**	**1,296,953**	**89,661**	**202,365**	**14,220,238**
Hong Kong	**674**	**36,806**	**–**	**–**	**–**	**37,480**
Overseas and others	**–**	**63,231**	**–**	**–**	**–**	**63,231**
Total	**3,504,656**	**9,227,314**	**1,296,953**	**89,661**	**202,365**	**14,320,949**
Timing of revenue recognition						
A point in time	**3,504,656**	**9,227,314**	**1,296,953**	**89,661**	**202,365**	**14,320,949**

	For the year ended 31 December 2018 (restated)					
Segments	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM integrated operation RMB'000	Total RMB'000
Types of goods or services						
Goods						
Sales of finished drugs	2,771,021	–	–	–	–	2,771,021
Sales of concentrated TCM granules						
Concentrated TCM granules	–	7,136,743	–	–	–	7,136,743
Sales of TCM decoction pieces						
Decoction pieces	–	–	1,274,829	–	13,819	1,288,648
Services						
TCM healthcare complex						
Healthcare complex	–	–	–	62,529	–	62,529
Total	2,771,021	7,136,743	1,274,829	62,529	13,819	11,258,941

5. REVENUE (CONTINUED)

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

	For the year ended 31 December 2018 (restated)					
Segments	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM integrated operation RMB'000	Total RMB'000
Geographical markets						
Mainland China	2,770,764	7,043,481	1,274,829	62,529	13,819	11,165,422
Hong Kong	257	32,022	–	–	–	32,279
Overseas and others	–	61,240	–	–	–	61,240
Total	2,771,021	7,136,743	1,274,829	62,529	13,819	11,258,941
Timing of revenue recognition						
A point in time	2,771,021	7,136,743	1,274,829	62,529	13,819	11,258,941

(ii) Performance obligations for contracts with customers

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

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

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

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

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

The Group regularly reviews the estimates and accordingly adjusts provisions.

5. REVENUE (CONTINUED)

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

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

The Group provides medical diagnosis and health examination services.

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

6. OPERATING SEGMENTS

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

In prior year, there were four reportable and operating segments, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; and (iv) TCM healthcare complex.

In recent years, the Group began to undertake an expansion of its strategic presence in major authentic medicinal herb producing provinces in the PRC and the establishment of "local TCM integrated operation" companies which produce concentrated TCM granules and decoction pieces and conduct local primary processing and trading of medicinal herbs and decoction. During the current year, due to the rapid growing size of local TCM integrated operation, the CODM revised the organisation of the concentrated TCM granules segment that were used to allocate resources and assess performance in previous years, and changed its analysis to (i) concentrated TCM granules and (ii) local TCM integrated operation, which is currently the basis used for the purpose of allocating resources and assessing their performance, and also the basis of organisation of the Group for managing the business operations. Other than this change, the CODM continues to review the performance of finished drugs, TCM decoction pieces and TCM healthcare complex on a similar basis as prior years.

Accordingly, there are five reportable and operating segments in the current year, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; (iv) TCM healthcare complex, and (v) local TCM integrated operation.

Consequently, the comparative segment information for the year ended 31 December 2018 or as at 31 December 2018 have been restated in order to conform with the presentation adopted in the current year. The changes in the segment information do not have any impact on the Group's consolidated financial statements.

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

6. OPERATING SEGMENTS (CONTINUED)

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. During the year ended 31 December 2019, CODM has allocated head office and corporate expenses to individual segments with reference to revenues generated by each individual segments in order to allocate resources to segments and to assess their performances in more accurate way.

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

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

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

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

6. OPERATING SEGMENTS (CONTINUED)

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

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM integrated operation RMB'000	Total RMB'000
For the year ended 31 December 2019						
Reportable segment revenue	3,570,856	9,337,614	2,011,895	89,712	312,227	15,322,304
Eliminated of inter-segment revenue	(66,200)	(110,300)	(714,942)	(51)	(109,862)	(1,001,355)
Revenue from external customers	3,504,656	9,227,314	1,296,953	89,661	202,365	14,320,949
Reportable segment profit (loss) (adjusted EBITDA)	555,678	2,384,324	77,814	(1,011)	(13,473)	3,003,332
Interest income	155,038	146,696	3,190	137	2,188	307,249
Eliminated of inter-segment interest income	(135,067)	(120,137)	(742)	–	(52)	(255,998)
Interest income from third parties	19,971	26,559	2,448	137	2,136	51,251
Finance costs	149,460	379,891	15,956	1,999	9,739	557,045
Eliminated of inter-segment finance costs	(93,384)	(146,882)	(7,957)	(188)	(7,587)	(255,998)
Finance costs from third parties	56,076	233,009	7,999	1,811	2,152	301,047
Depreciation and amortisation	159,939	326,219	62,106	14,788	27,774	590,826
As at 31 December 2019						
Reportable segment assets	10,487,759	21,510,726	3,520,895	240,220	2,482,060	38,241,660
Reportable segment liabilities	5,781,392	7,984,077	2,352,609	56,880	915,842	17,090,800

6. OPERATING SEGMENTS (CONTINUED)

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

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM integrated operation RMB'000	Total RMB'000
For the year ended 31 December 2018 (restated)						
Reportable segment revenue	2,822,008	7,177,422	1,450,339	62,529	25,151	11,537,449
Eliminated of inter-segment revenue	(50,987)	(40,679)	(175,510)	–	(11,332)	(278,508)
Revenue from external customers	2,771,021	7,136,743	1,274,829	62,529	13,819	11,258,941
Reportable segment profit (loss) (adjusted EBITDA)	610,035	1,935,580	128,138	5,531	(29,925)	2,649,359
Interest income	123,519	127,636	2,153	38	1,007	254,353
Eliminated of inter-segment interest income	(102,249)	(108,458)	(400)	–	–	(211,107)
Interest income from third parties	21,270	19,178	1,753	38	1,007	43,246
Finance costs	202,399	292,573	8,032	181	222	503,407
Eliminated of inter-segment finance costs	(99,076)	(109,513)	(2,518)	–	–	(211,107)
Finance costs from third parties	103,323	183,060	5,514	181	222	292,300
Depreciation and amortisation	154,717	291,074	59,407	7,859	16,115	529,172
As at 31 December 2018 (restated)						
Reportable segment assets	11,169,348	21,338,729	2,782,764	208,193	977,828	36,476,862
Reportable segment liabilities	4,663,013	9,772,852	1,888,996	17,126	299,853	16,641,840

6. OPERATING SEGMENTS (CONTINUED)

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

	2019 **RMB'000**	2018 RMB'000
Reportable segment profit (adjusted EBITDA)	**3,003,332**	2,649,359
Depreciation and amortisation	**(590,826)**	(509,662)
Release of prepaid lease payments	**–**	(19,510)
Interest income	**51,251**	43,246
Finance costs	**(301,047)**	(292,300)
Rental income	**10,159**	5,593
Fair value changes on financial assets at FVTPL	**4**	385
Net exchange (loss) gain	**(13,076)**	9,720
(Loss) gain on disposal of an associate	**(128)**	6,090
Share of results of associates	**(5,051)**	(7,028)
Head office and corporate expenses	**–**	(29,196)
Consolidated profit before tax	**2,154,618**	1,856,697

	2019 **RMB'000**	2018 RMB'000
Assets		
Reportable segment assets	**38,241,660**	36,476,862
Elimination of inter-segment receivables	**(6,005,871)**	(6,400,990)
	32,235,789	30,075,872
Financial assets at FVTPL	**72,800**	1,076
Deferred tax assets	**151,637**	126,812
Unallocated head office and corporate assets	**13,499**	83,630
Consolidated total assets	**32,473,725**	30,287,390
Liabilities		
Reportable segment liabilities	**17,090,800**	16,641,840
Elimination of inter-segment payables	**(6,005,871)**	(6,400,990)
	11,084,929	10,240,850
Tax liabilities	**124,225**	219,099
Deferred tax liabilities	**1,748,580**	1,736,898
Unallocated head office and corporate liabilities	**465,266**	579,972
Consolidated total liabilities	**13,423,000**	12,776,819

6. OPERATING SEGMENTS (CONTINUED)

(iii) Geographical information and information about major customers

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

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both 2019 and 2018.

7. OTHER INCOME

	2019 **RMB'000**	2018 RMB'000
Government grants		
– Unconditional subsidies (note)	**132,807**	67,044
– Conditional subsidies	**31,151**	28,509
Interest income on bank deposits	**51,251**	43,246
Rental income from investment properties	**10,159**	5,593
	225,368	144,392

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

8. OTHER GAINS AND LOSSES

	2019 **RMB'000**	2018 RMB'000
Impairment loss recognised in respect of		
– goodwill (note 17)	**(30,184)**	–
– other intangible assets (note 21)	**(1,779)**	–
Gain on disposal of right-of-use assets	**32,086**	–
Loss on disposal of property, plant and equipment	**(7,386)**	(3,353)
Loss (gain) on disposal of an associate (note 23)	**(128)**	6,090
Fair value changes on financial assets at FVTPL	**4**	385
Net foreign exchange (loss) gain	**(13,076)**	9,720
Others	**(42,630)**	30,598
	(63,093)	43,440

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019 **RMB'000**	2018 RMB'000
Impairment losses (recognised) reversed in respect of		
– trade receivables	**(17,424)**	92,449
– other receivables	**(182)**	(2,911)
– bills receivables	**1,172**	1,251
– debt instruments at FVTOCI	**(1,575)**	(141)
	(18,009)	90,648

Details of impairment assessment for the year ended 31 December 2019 are set out in note 44.

10. FINANCE COSTS

	2019 **RMB'000**	2018 RMB'000
Interest expense:		
– Interest on bank borrowings	**44,658**	36,971
– Effective interest expense on unsecured notes	**203,212**	192,707
– Factoring of trade receivables	**76,858**	77,274
– Interest on lease liabilities	**5,055**	–
Total borrowing costs	**329,783**	306,952
Less: amounts capitalised in the cost of qualifying assets	**(28,736)**	(14,652)
	301,047	292,300

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.16% (2018:4.39%) per annum to expenditure on qualifying assets.

11. INCOME TAX EXPENSE

	2019	2018
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**381,226**	317,263
Under (over) provision in prior years	**11,090**	(3,539)
	392,316	313,724
Deferred tax credit (note 34)	**(10,995)**	(24,055)
	381,321	289,669

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, except for the following group entities. The definition of entities listed below other than those being defined are set out in note 22.

(1) Feng Liao Xing, Dezhong, Foshan Dezhong Pharmaceutical Machinery Co., Ltd. ("Dezhong Yaoji"), Guangdong Medi-World, Jiangyin Tianjiang, Guangdong Yifang Pharmaceutical Co., Ltd. ("GD Yifang"), Huayi, Jingfang, Anhui Tianxiang Pharmaceutical Co., Ltd. ("Tianxiang") and Anhui Fengliaoxing were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for the year ended 31 December 2019 (2018: The PRC Enterprise Income Tax rate applicable to Feng Liao Xing, Dezhong, Dezhong Yaoji, Guangdong Medi-World, Jiangyin Tianjiang, GD Yifang, Huayi, Jingfang and Tianxiang was 15%) pursuant to relevant documents issued by local government authorities;

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

11. INCOME TAX EXPENSE (CONTINUED)

(3) Jiangsu Jiangkang Pharmaceutical Co., Ltd. ("Jiangkang Pharmaceutical"), Shandong Fengliaoxing Herbal Co., Ltd. ("Shandong Fengliaoxing"), Taixing Tianjiang Pharmaceutical Co., Ltd. (Taixing Tianjiang), Tongjitang Herbal, Longxixian Feng Liao Xing Herbal Co., Ltd. ("Longxixian Fengliaoxing"), Sichuan Tianxiong, Anhui Fengliaoxing, Beijing Huamiao and Sichuan Jiangyou, being qualified enterprise with operation of medicinal plants primary processing business in the PRC, enjoy a full enterprise income tax exemption during 2019 pursuant to the EIT Law, Order of the President [2007] No. 63 (2018: Fujian Chengtian Jinling Pharmaceutical Co., Ltd. ("Fujian Chengtian Pharmaceutical"), Jiangkang Pharmaceutical, Shandong Fengliaoxing, Taixing Tianjiang, Longxixian Fengliaoxing, Sichuan Tianxiong, Anhui Fengliaoxing, Beijing Huamiao and Sichuan Jiangyou);

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

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

	2019 **RMB'000**	2018 RMB'000
Profit before tax	**2,154,618**	1,856,697
Tax at the domestic income tax rate of 25%	**538,655**	464,174
Tax effect of expenses not deductible for tax purposes	**11,932**	8,137
Tax effect of income not taxable for tax purposes	**(7,289)**	(3,973)
Income tax at concessionary rate	**(223,325)**	(235,482)
Effect of tax exemptions granted to PRC subsidiaries	**(28,546)**	(1,913)
Under (over) provision in respect of prior years	**11,090**	(3,539)
Tax effect of tax losses not recognised	**37,535**	23,446
Utilisation of tax losses previously not recognised	**(3,977)**	(1,051)
Withholding tax on interest income from PRC entities	**10,960**	13,620
Withholding tax on distributable profits of PRC entities	**34,286**	26,250
Income tax expense for the year	**381,321**	289,669

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

12. PROFIT FOR THE YEAR

	2019 **RMB'000**	2018 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration	**8,273**	7,074
Other staff costs		
Salaries, wages and other benefits	**1,611,974**	1,204,983
Contributions to defined contribution retirement plans	**98,185**	84,972
	1,710,159	1,289,955
Auditor's remuneration	**5,250**	5,640
Depreciation		
– investment properties	**5,567**	1,068
– property, plant and equipment	**379,412**	329,032
– right-of-use assets	**39,929**	–
Amortisation of other intangible assets	**165,918**	179,562
Total depreciation and amortisation	**590,826**	509,662
Release of prepaid lease payments	**–**	19,510
Gross rental income from investment properties	**(10,159)**	(5,593)
Less: direct operating expenses incurred for investment properties	**1,253**	398
	(8,906)	(5,195)

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	2019				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	1,222	1,220	92	2,534
Wang Xiaochun	–	1,050	1,190	48	2,288
Yang Wenming	–	1,122	1,190	80	2,392
Non-executive directors					
Yang Shanhua	–	–	–	–	–
Li Ru (note a)	–	–	–	–	–
Yang Binghua	–	–	–	–	–
Wang Kan	–	–	–	–	–
Kui Kaipin	–	–	–	–	–
Rong Yan (note b)	–	–	–	–	–
Independent non-executive directors					
Xie Rong	220	44	–	–	264
Yu Tze Shan Hailson	220	53	–	–	273
Qin Ling (note c)	192	53	–	–	245
Li Weidong (note c)	192	53	–	–	245
Zhou Bajun (note d)	17	–	–	–	17
Lo Wing Yat (note e)	15	–	–	–	15
	856	3,597	3,600	220	8,273

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

	2018				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	–	–	–	–
Wang Xiaochun	–	726	1,380	54	2,160
Yang Wenming (note f)	–	–	–	–	–
Zhao Dongji (note g)	–	488	920	124	1,532
Huang He (note g)	–	488	1,410	124	2,022
Non-executive directors					
Yang Shanhua (note h)	–	–	–	–	–
Rong Yan (note i)	–	–	–	–	–
Yang Binghua (note i)	–	–	–	–	–
Wang Kan (note i)	–	–	–	–	–
Kui Kaipin (note j)	128	18	–	–	146
Liu Cunzhou (note k)	207	34	–	–	241
Dong Zenghe (note l)	–	–	–	–	–
Tang Hua (note k)	–	–	–	–	–
Independent non-executive directors					
Zhou Bajun	211	43	–	–	254
Xie Rong	211	43	–	–	254
Yu Tze Shan Hailson	211	43	–	–	254
Lo Wing Yat	211	–	–	–	211
	1,179	1,883	3,710	302	7,074

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

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

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

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

Notes:

(a) Appointed as a non-executive director on 18 February 2019.

(b) Resigned as a non-executive director on 18 February 2019.

(c) Appointed as an independent non-executive director on 18 February 2019.

(d) Resigned as an independent non-executive director on 28 January 2019.

(e) Retired as an independent non-executive director on 25 January 2019.

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

(g) Resigned as an executive director on 24 December 2018.

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

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

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

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

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

Some directors were also the employees of the CNPGC and their remuneration were paid and borne by CNPGC and there is no reasonable basis to allocate the emoluments relating to services provided to the Group during the years ended 31 December 2019 and 2018.

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

During the year ended 31 December 2019, Mr. Kui Kaipin, an non-executive director of the Company, decided to waive the whole amount of director's remuneration entitled to him for the services rendered in 2019 and 2018 and has repaid the amount of remuneration received back to the Group.

Neither the Chief Executive Officer nor any of the Directors waived any emoluments, compensation loss and inducement to join or upon joining the Group during the years ended 31 December 2019 and 2018.

14. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2018: three director), details of whose remuneration are set out in note 13 above. Details of the remuneration for the year of the remaining two (2018: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and allowances	**1,642**	1,304
Discretionary bonuses	**2,760**	2,279
Retirement benefits	**91**	88
	4,493	3,671

14. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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

	2019 Number of individuals	2018 Number of individuals
HK$		
Nil-1,000,000	**–**	–
1,000,001-1,500,000	**–**	–
1,500,001-2,000,000	**–**	1
2,000,001-2,500,000	**1**	1
2,500,001-3,000,000	**1**	–

15. DIVIDENDS

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

	2019 RMB'000	2018 RMB'000
2019 Interim – HK5.72 cents (2018: 2018 interim dividend HK6.04 cents) per share	**258,413**	268,545
2018 final of HK5.51 cents (2018: 2017 final dividend HK4.96 cents) per share	**244,093**	206,590
	502,506	475,135

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2019 of HK4.76 cents per share has been proposed by the directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. The total amount of the proposed final dividend amounting to HK$239,704,000, calculated based on the Company's number of shares issued at the date of issuance of these consolidated financial statements, is not recognised as a liability in the consolidated statement of financial position.

16. EARNINGS PER SHARE

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

	2019 **RMB'000**	2018 RMB'000
Profit attributable to the owners of the Company	**1,588,114**	1,439,018

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,035,801**	4,822,229

No diluted earnings per share for both 2019 and 2018 were presented as there were no potential ordinary shares in issue for both 2019 and 2018.

17. GOODWILL

	RMB'000
COST	
At 1 January 2018	3,486,372
Arising on acquisition of subsidiaries (note 39)	82,612
At 31 December 2018 and 2019	3,568,984
IMPAIRMENT	
At 1 January 2018 and 31 December 2018	–
Impairment loss recognised in the year	30,184
At 31 December 2019	30,184
CARRYING VALUES	
At 31 December 2019	3,538,800
At 31 December 2018	3,568,984

Particulars regarding to the carrying amount of goodwill and impairment testing on goodwill are disclosed in note 22.

18. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Owned properties RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
COST								
At 1 January 2018	1,549,036	875,884	38,875	316,211	307,938	3,087,944	12,138	3,100,082
Additions	61,168	180,955	7,039	728,825	73,360	1,051,347	–	1,051,347
Acquisitions of subsidiaries	1,039,894	132,311	4,581	23,080	16,949	1,216,815	19,553	1,236,368
Transfer from construction in progress	289,283	114,234	–	(469,199)	65,682	–	–	–
Transfer to investment properties	(20,230)	–	–	–	–	(20,230)	20,230	–
Disposals	(4,212)	(22,024)	(5,792)	–	(8,254)	(40,282)	–	(40,282)
At 31 December 2018	2,914,939	1,281,360	44,703	598,917	455,675	5,295,594	51,921	5,347,515
Additions	82,322	88,473	5,946	1,194,634	126,422	1,497,797	–	1,497,797
Acquisitions of subsidiaries (note 39)	–	330	–	66	6	402	–	402
Transfer from construction in progress	481,294	113,550	357	(656,992)	61,791	–	–	–
Transfer to investment properties	(37,502)	–	–	–	–	(37,502)	37,502	–
Disposals	(4,170)	(33,386)	(11,634)	–	(22,618)	(71,808)	(4,251)	(76,059)
At 31 December 2019	3,436,883	1,450,327	39,372	1,136,625	621,276	6,684,483	85,172	6,769,655
ACCUMULATED DEPRECIATION								
At 1 January 2018	215,159	349,816	18,506	–	117,536	701,017	5,298	706,315
Charge for the year	122,041	145,069	6,354	–	55,568	329,032	1,068	330,100
Transfer to investment properties	(3,539)	–	–	–	–	(3,539)	3,539	–
Written back on disposals	(2,532)	(14,803)	(4,861)	–	(7,160)	(29,356)	–	(29,356)
At 31 December 2018	331,129	480,082	19,999	–	165,944	997,154	9,905	1,007,059
Charge for the year	170,344	134,087	6,836	–	68,145	379,412	5,567	384,979
Transfer to investment properties	(1,042)	–	–	–	–	(1,042)	1,042	–
Written back on disposals	(2,235)	(28,662)	(10,960)	–	(19,502)	(61,359)	(4,201)	(65,560)
At 31 December 2019	498,196	585,507	15,875	–	214,587	1,314,165	12,313	1,326,478
CARRYING VALUES								
At 31 December 2019	2,938,687	864,820	23,497	1,136,625	406,689	5,370,318	72,859	5,443,177
At 31 December 2018	2,583,810	801,278	24,704	598,917	289,731	4,298,440	42,016	4,340,456

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

(a) For investment properties, the Group leases out various offices and warehouses under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 5 years, with no unilateral rights to extend the lease beyond initial period.

(b) The Group is not exposed to foreign currency risk for investment properties as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

(d) All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2019 was RMB106,429,000 (2018: RMB75,682,000). The fair value of the investment properties as at 31 December 2019 and 31 December 2018 has been arrived at based on a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent valuer not connected with the Group.

The fair value of the investment properties as at 31 December 2019 was determined based on the market approach (direct comparison approach) assuming sale of the property interests in their existing states with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market. There has been no change from the valuation technique used in the prior year.

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

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

	2019		2018	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Commercial property units	**431**	**2,990**	459	2,990
Office units	**30,279**	**52,642**	32,308	52,642
Plant units	**42,149**	**50,797**	9,249	20,050
	72,859	**106,429**	42,016	75,682

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

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

Owned properties	20 to 50 years
Plant, machinery and equipment	3 to 15 years
Motor vehicles	4 to 10 years
Office equipment and others	3 to 10 years
Investment properties	Over the term of the lease

(f) Certain of the Group's buildings with carrying values of RMB341,214,000 (2018: RMB97,250,000) were pledged to secure certain bank borrowings granted to the Group.

(g) The Group has not yet obtained the building ownership certificates for buildings situated in the PRC with an aggregate carrying values of RMB1,064,565,000 (2018: RMB577,467,000). The buildings are currently in use and in the opinion of directors, there is no material legal impediment for the Group to obtain the building ownership certificates.

19. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	**844,179**	**47,239**	**891,418**
As at 31 December 2019			
Carrying amount	**1,135,333**	**95,895**	**1,231,228**
For the year ended 31 December 2019			
Depreciation charge	**25,485**	**14,444**	**39,929**
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16			**12,048**
Expense relating to leases of low-value assets, excluding short-term leases of low value assets			**160**
Total cash outflow for leases			**264,427**
Additions to right-of-use assets			**385,053**

19. RIGHT-OF-USE ASSETS (CONTINUED)

For both years, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 12 months to 20 years, with no extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

Certain of the Group's right-of-use assets with carrying values of RMB36,554,000 (2018: prepaid lease payments of RMB13,084,000) were pledged to secure certain bank borrowings granted to the Group.

20. PREPAID LEASE PAYMENTS

	2018 RMB'000
Analysed for reporting purposes as:	
Current asset	29,461
Non-current asset	814,718
At the end of the year	844,179

21. OTHER INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Licenses and franchises RMB'000	Total RMB'000
COST							
At 1 January 2018	2,825,693	2,006,280	59,000	11,695	2,245,552	100,799	7,249,019
Acquisition of subsidiaries	331	–	–	174	–	83,098	83,603
Additions	1,282	–	–	3,724	–	–	5,006
At 31 December 2018	2,827,306	2,006,280	59,000	15,593	2,245,552	183,897	7,337,628
Acquisition of subsidiaries (note 39)	–	–	–	519	–	–	519
Additions	6,403	55	–	3,977	–	–	10,435
At 31 December 2019	2,833,709	2,006,335	59,000	20,089	2,245,552	183,897	7,348,582
AMORTISATION AND IMPAIRMENT							
At 1 January 2018	193,420	18,982	52,608	2,747	271,611	5,865	545,233
Amortisation for the year	39,166	1,005	5,900	4,036	116,233	13,222	179,562
At 31 December 2018	232,586	19,987	58,508	6,783	387,844	19,087	724,795
Amortisation for the year	32,047	988	492	3,230	116,233	12,928	165,918
Impairment loss recognised in profit or loss	1,779	–	–	–	–	–	1,779
At 31 December 2019	266,412	20,975	59,000	10,013	504,077	32,015	892,492
CARRYING VALUES							
At 31 December 2019	2,567,297	1,985,360	–	10,076	1,741,475	151,882	6,456,090
At 31 December 2018	2,594,720	1,986,293	492	8,810	1,857,708	164,810	6,612,833

21. OTHER INTANGIBLE ASSETS (CONTINUED)

At 31 December 2019, the carrying amount of other intangible assets with finite useful lives was RMB2,333,113,000 (2018: RMB2,489,856,000). Other intangible assets with finite useful lives are amortised on a straight-line basis over the following periods:

		2019 **RMB'000**	2018 RMB'000
Product protection rights	5 to 25 years	**401,134**	428,557
Trademarks	10 to 44 years	**28,546**	29,479
Distribution network	10 years	**–**	492
Software	5 to 10 years	**10,076**	8,810
Customer relationship	5 to 21 years	**1,741,475**	1,857,708
Licenses and franchises	12 to 20 years	**151,882**	164,810
		2,333,113	2,489,856

The amortisation charge for the year is mainly included in "cost of sales" line item in the consolidated statement of profit or loss and other comprehensive income.

The following other intangible assets, trademarks (including brand names) and product protection rights acquired through business combinations, are assessed to have indefinite useful lives. The product protection rights and trademarks have a legal life of 5 years and 10 years respectively but are renewable at minimal cost. The directors of the Company are of the opinion that the Group could renew the product protection rights and maintain the trademarks (including brand names) continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks (including brand names) and product protection rights have no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademarks (including brand names) and product protection rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks (including brand names) and product protection rights will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 22.

21. OTHER INTANGIBLE ASSETS (CONTINUED)

	Trademarks		Product protection rights	
	2019 **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000
Tongjitang Group				
– Tongjitang Pharmaceutical	**209,047**	209,047	**–**	–
– Jingfang	**37,779**	37,779	**–**	–
– Pulante	**5,037**	5,037	**–**	–
– Shanghai Tongjitang	**110,403**	110,403	**–**	–
Jiangyin Tianjiang Group	**1,594,548**	1,594,548	**2,166,163**	2,166,163
	1,956,814	1,956,814	**2,166,163**	2,166,163

22. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill, trademarks (including brand names) and product protection rights with indefinite useful lives set out in notes 17 and 21 have been allocated to individual cash generating units (CGUs) as below:

	Goodwill		Trademarks		Product protection rights	
	2019 **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000
Manufacture and sale of pharmaceutical products						
Dezhong	**100,391**	100,391	**–**	–	**–**	–
Feng Liao Xing	**–**	23,664	**–**	–	**–**	–
Guangdong Medi-World	**26,055**	26,055	**–**	–	**–**	–
Luya	**11,221**	11,221	**–**	–	**–**	–
Tongjitang Group*						
– Tongjitang Pharmaceutical	**770,153**	770,153	**209,047**	209,047	**–**	–
– Jingfang	**139,184**	139,184	**37,779**	37,779	**–**	–
– Pulante	**18,558**	18,558	**5,037**	5,037	**–**	–
Jiangyin Tianjiang Group	**2,208,980**	2,208,980	**1,594,548**	1,594,548	**2,166,163**	2,166,163
Huayi	**5,852**	9,774	**–**	–	**–**	–
Shanghai Tongjitang	**111,101**	111,101	**110,403**	110,403	**–**	–
Tongjitang Herbal	**29,433**	29,433	**–**	–	**–**	–
Beijing Huamiao	**11,447**	11,447	**–**	–	**–**	–
Anhui Fengliaoxing	**–**	2,598	**–**	–	**–**	–
Zhonglian Pharmaceutical	**68,567**	68,567	**–**	–	**–**	–
Sale of pharmaceutical products						
Feng Liao Xing Material & Slices	**2,449**	2,449	**–**	–	**–**	–
Guizhou Tongjitang Pharmacy Chain	**30,019**	30,019	**–**	–	**–**	–
Winteam Sales	**5,390**	5,390	**–**	–	**–**	–
	3,538,800	3,568,984	**1,956,814**	1,956,814	**2,166,163**	2,166,163

22. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The names of the entities referred to the above table are defined as:

- Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. ("Dezhong"),
- Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing"),
- Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"),
- Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. ("Luya"),
- Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical")*,
- Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. ("Jingfang")*,
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")*,
- Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang Group"),
- Huayi Pharmaceutical Co., Ltd. ("Huayi"),
- Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"),
- Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal"),
- Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices"),
- Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain"),
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales"),
- Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"),
- Anhui Fengliaoxing TCM Decoction Pieces Technology Co., Ltd.(" ("Anhui Fengliaoxing"), and
- Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical").

* Tongitang Pharmaceutical, Jingfang and Pulante are collectively referred to as Tongjitang Group.

22. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

During the year ended 31 December 2019, the management of the Group has recognised impairment loss of RMB30,184,000 in relation to goodwill in the CGUs of Feng Liao Xing, Huayi and Anhui Fengliaoxing (2018: nil). The impairment loss has been included in profit or loss in the other gains and losses line item.

In the opinion of the directors, no additional impairment loss of any of other CGUs apart from Feng Liao Xing, Huayi and Anhui Fengliaoxing containing goodwill, trademarks (including brand names) or product protection rights with indefinite useful lives is identified during the year ended 31 December 2019 (2018: nil).

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The recoverable amounts of the CGUs as at 31 December 2019 has been arrived at on the basis of valuation carried out on the respective date by an independent qualified professional valuers. The key assumptions used in the valuations are those regarding the suitable discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGUs. The Group determined the value-in-use by preparing cash flow projections of these CGUs derived from the most recent financial forecast approved by the management covering a five-year period with an average sales growth rate as mentioned below. Cash flows beyond the fifth year are extrapolated using an estimated growth rate as mentioned below. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate reflects specific risks relating to the relevant CGUs.

22. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

	Jiangyin Tianjing Group	Dezhong	Tongjitang Pharmaceutical	Jingfang	Shanghai Tongjitang	Others
Average growth rate for five-year period						
2019	15.73%	4.22%	11.10%	10.26%	5.35%	5.7%-22.55%
2018	11.30%	20.60%	12.30%	13.81%	6.77%	7.10%-22.70%
Growth rate beyond the fifth year						
2019	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
2018	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Pre-tax discount rates						
2019	17.71%	15.56%	15.76%	16.26%	15.12%	14.19%-19.69%
2018	18.38%	15.91%	15.53%	16.59%	15.01%	13.00%-17.42%

As at 31 December 2019, the recoverable amount of the above CGUs exceeds their carrying amount by 4% to 45% (2018: 4% to 38%).

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the above CGUs that contain goodwill and other intangible assets to exceed their recoverable amounts.

23. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Cost of investments in associates, unlisted	**30,441**	12,894
Share of post-acquisition losses and other comprehensive expense	**(6,082)**	(1,106)
	24,359	11,788

23. INTERESTS IN ASSOCIATES (CONTINUED)

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Country of establishment and principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting power held		Principal activities
		2019	2018	**2019**	2018	
Foshan Shunde Cili Biological Technology Company Limited ("Foshan Cili")	The PRC	**–**	40%	**–**	40%	Catering
Mianyang Anju District Feishui Town Tiantai Mountain Chinese Medicine Herbs Planting Professional Cooperatives	The PRC	**37.6%**	37.6%	**37.6%**	37.6%	Chinese Medicine Herbs planting
An District Feishui Town Tianfu Fuzi Professional Cooperatives	The PRC	**37.5%**	37.5%	**37.5%**	37.5%	Fuzi planting
Guangdong Baobaobao Healthy Soup Co., Ltd. ("Guangdong Baobaobao")	The PRC	**49%**	49%	**49%**	49%	Healthy soup production
Guangdong Haisikanger Rehabilitation Medical Co., Ltd ("Guangdong Haisikanger")	The PRC	**40%**	–	**40%**	–	Rehabilitation service

Note: In March 2019, Foshan Cili cancelled its registration. This transaction has resulted in the recognition of a loss in profit or loss of RMB128,000 as disclosed in note 8.

In August 2019, Guangdong Haisikanger was established by the Group and other independent third party, among which the Group injected capital contribution of RMB4,000,000 and has a 40% equity interest.

23. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

Guizhou Zhongtai Biological Technological Company and its subsidiaries ("Guizhou Zhongtai") which was disposed of on 9 October 2018, was the most material associate to the Group and it is accounted for using the equity method up to the date of disposal in these consolidated financial statements. Details of the disposal are set out below.

	2018 RMB'000
Revenue for the period	67,390
Loss and total comprehensive expense for the period	(25,735)

Note: Revenue, loss and total comprehensive expense for 2018 represented accumulated amounts from 1 January to 9 October 2018 (date of disposal).

In October 2018, the Group disposed of its 20% interest in Guizhou Zhongtai to Chengdu Rongsheng Pharmaceutical Co., Ltd., which is an indirect subsidiary of CNPGC for a consideration of RMB90,600,000. This transaction has resulted in the recognition of a gain in profit or loss, calculated as follows.

	RMB'000
Proceeds of disposal	90,600
Less: carrying amount of the 20% investment on the date of loss of significant influence	(84,510)
Gain recognised	6,090

Aggregate information of associates that are not individually material

	2019 **RMB'000**	2018 RMB'000
The Group's share of losses and total comprehensive expense	**(5,051)**	(1,881)
Aggregate carrying amount of the Group's interest in associates	**24,359**	11,788

24. DEPOSITS AND PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Prepayments for property, plant and equipment	**170,210**	232,105
Deposit paid for acquisition of subsidiaries	**40,600**	–
Deposit paid for acquisition of property, plant and equipment (note)	**94,000**	94,000
	304,810	326,105

Note: The amount represents the Group's deposit paid for the property development project in Foshan City, Guangdong Province of the PRC. Pursuant to the agreement, the amount paid by the Group is fixed at RMB94,000,000 and the other independent third party is responsible for the remaining property project cost. The Group would be entitled to certain ownership percentage or area of the relevant buildings in this project after completion which is based on the proportion of RMB94,000,000 to the total project construction costs.

25. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**3,001,626**	2,532,688
Less: allowance for credit losses	**(55,173)**	(49,221)
	2,946,453	2,483,467
Bills receivables	**–**	606,972
Less: allowance for credit losses	**–**	(1,172)
	–	605,800
Deposits and prepayments	**155,447**	111,293
Advance tax payments	**232,016**	140,884
Other receivables	**152,331**	156,167
Less: allowance for credit losses	**(28,296)**	(30,527)
	124,035	125,640
	3,457,951	3,467,084

Rental deposits paid and prepayment for rental were adjusted upon the initial application of HKFRS16. Details of the adjustments are set out in Note 2.

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB1,758,258,000.

The Group allows a credit period ranging from 180 to 365 days to trade customers including distributors, hospitals and primary health care institutions.

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

The aged analysis of the Group's trade receivables based on invoice date at the end of each reporting period are as follows:

	2019 **RMB'000**	2018 RMB'000
0-90 days	**2,071,360**	1,790,175
91-180 days	**445,385**	371,157
181-365 days	**426,727**	332,017
Over 365 days	**58,154**	39,339
	3,001,626	2,532,688

The aged analysis of the Group's bills receivables based on issue date at the end of each reporting period is as follows:

	2019 **RMB'000**	2018 RMB'000
0-90 days	**–**	425,377
91-180 days	**–**	170,604
181-365 days	**–**	10,991
	–	606,972

During the past few years, the Group endorsed certain bills receivables issued and guaranteed by the reputable PRC banks with high credit rating for the settlement of trade and other payables and also discounted these bills receivables to banks for raising of working capital. During the current year, the Group changed its business model in holding these bills receivables that could be sold by way of endorsing or discounting when necessary and accordingly, all the bills receivables have been classified as debt instrument at FVTOCI (note 29).

Included in trade and other receivables are RMB16,128,000 (2018: RMB8,452,000) and RMB11,092,000 (2018: RMB38,019,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currency of the relevant group entities:

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 are set out in note 44.

26. TRANSFERS OF FINANCIAL ASSETS

At 31 December 2018, the Group had financial assets that were transferred to banks by discounting those receivables on full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables. These financial assets are carried at their carrying amounts in the Group's consolidated financial statements and associated liabilities have been recognised and included in liabilities for these trade and bills receivables discounted with recourse.

	Bills receivables discounted to banks with full recourse	
	2019	2018
	RMB'000	RMB'000
Carrying amount of transferred assets	**–**	1,455
Carrying amount of associated liabilities	**–**	(1,455)
Net position	**–**	–

27. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Inventories comprise:		
Raw materials	**1,346,297**	1,439,768
Work in progress	**1,713,268**	1,329,852
Finished goods	**1,632,188**	1,713,112
	4,691,753	4,482,732

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

	2019	2018
	RMB'000	RMB'000
Carrying amount of inventories sold	**5,706,300**	5,050,763
Write down of inventories	**38,861**	14,605
	5,745,161	5,065,368

Certain of the Group's inventories with carrying value of nil (2018: RMB24,000,000) were pledged to secure certain bank borrowings granted to the Group.

28. FINANCIAL ASSETS AT FVTPL

	2019 **RMB'000**	2018 RMB'000
Equity securities listed in Hong Kong	**–**	1,076
Structured bank deposits	**72,800**	–
	72,800	1,076

During the year ended 31 December 2019, the Group entered into several contracts of structured deposits with banks in the PRC. The structured bank deposits of RMB32,800,000 earn minimum return of 1.35% to 3.35% per annum with maturity date on 20 January 2020 and the principal was guaranteed by the relevant banks as at 31 December 2019 while remaining of RMB40,000,000 earn minimum return of 2.3% to 3.5% per annum and can be redeemable on demand and the principal was not guaranteed by the relevant banks as at 31 December 2019.

29. DEBT INSTRUMENTS AT FVTOCI

	2019 **RMB'000**	2018 RMB'000
Bills receivables	**1,111,319**	66,819

The aged analysis of the Group's bills receivables based on invoice date at the end of each reporting period are as follows:

	2019 **RMB'000**	2018 RMB'000
0-90 days	**355,655**	52,900
91-180 days	**711,344**	13,919
181-365 days	**44,320**	–
	1,111,319	66,819

Details of impairment assessment are set out in note 44.

30. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

The amounts represent the guarantee deposits for bills payables and carry interest at market rates ranging from 0.3% to 0.35% per annum (2018: 0.3% to 0.35%).

(b) Bank balances and cash

Included in bank balances and cash is RMB5,046,024,000 (2018: RMB5,975,825,000) which represents cash held by the Group and short-term deposits and carried interest at prevailing market rates ranging from 0.30% to 0.35% per annum (2018: 0.30% to 0.35% per annum) with original maturity of three months or less.

The remaining of bank balances and cash is RMB567,609,000 (2018: RMB373,889,000) which represents the settlement of trade receivables under the non-recourse factoring arrangement.

Included in pledged bank deposits/bank balances and cash are RMB15,346,000 (2018: RMB18,476,000) and RMB591,000 (2018:nil), which are denominated in HK$ and US$ respectively, the currencies other than functional currency of the relevant group entities.

Details of impairment assessment of pledged bank deposits are set out in note 44.

31. TRADE AND OTHER PAYABLES

	2019 **RMB'000**	2018 RMB'000
Trade payables	**1,684,157**	1,804,551
Deposits received	**900,153**	561,995
Advances of government grants (note a)	**31,151**	23,068
Salaries and welfare payables	**321,986**	226,416
Other tax payables	**189,274**	132,210
Accruals of operating expenses	**555,241**	546,526
Bills payables	**802,874**	84,640
Interest payable	**75,293**	67,528
Dividend payable	**118,958**	78,682
Consideration payable for acquisition of subsidiaries	**35,518**	36,760
Other payables (note b)	**640,420**	585,424
	5,355,025	4,147,800

31. TRADE AND OTHER PAYABLES (CONTINUED)

Notes:

(a) As at 31 December 2019 and 2018, advances of government grants to the Group mainly included various conditional government grants to compensate the Group's research and development projects of new or existing pharmaceutical products. Such government grants are recognised as income in the period when the recognition criterion are met in accordance to the Group's accounting policy.

(b) Included in other payables is RMB567,609,000 (2018: RMB373,889,000) which represents the payables arising from settlement of trade receivables under the non-recourse factoring arrangement as the Group is required to repay to the parties that the factoring arrangement the Group has entered with.

The aged analysis of the Group's trade and bills payables based on invoice date at the end of each reporting period are as follows:

	2019 **RMB'000**	2018 RMB'000
0-90 days	**2,009,949**	1,243,657
91-180 days	**306,583**	271,002
181-365 days	**46,069**	216,598
Over 365 days	**124,430**	157,934
	2,487,031	1,889,191

Included in trade and other payables is RMB2,338,000 (2018: RMB7,000), which is denominated in HK$, the currency other than functional currency of the relevant group entities:

32. CONTRACT LIABILITIES

	2019 **RMB'000**	2018 RMB'000
Amounts received in advance of delivery products	**223,106**	356,956

As at 1 January 2018, contract liabilities amounted to RMB194,429,000.

Contract liabilities as at 1 January 2019 and 2018 were fully recognised as revenue for the year ended 31 December 2019 and 2018, respectively.

33. DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under non-current liabilities are as follows:

	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**182,558**	145,507
Additions	**113,774**	65,560
Credited to profit or loss (note 7)	**(31,151)**	(28,509)
At the end of the year	**265,181**	182,558

As at 31 December 2019, deferred government grants of the Group mainly includes various conditional government grants relating to purchase of property, plant and equipment. Such deferred government grants will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

34. DEFERRED TAXATION

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

	2019	2018
	RMB'000	RMB'000
Deferred tax assets	**(151,637)**	(126,812)
Deferred tax liabilities	**1,748,580**	1,736,898
	1,596,943	1,610,086

34. DEFERRED TAXATION (CONTINUED)

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

	Excess of fair value over the carrying amounts for intangible assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	ECL provision RMB'000	Fair value changes of debt instruments at FVTOCI RMB'000	Withholding tax on distributable profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	1,662,576	41,107	(50,688)	(381)	11,015	(28,649)	(5,373)	(61,359)	1,568,248
Acquisition of subsidiaries	20,827	47,569	(373)	–	–	–	–	(2,306)	65,717
(Credited) charged to profit or loss	(37,405)	(3,568)	20,803	98	26,250	(3,907)	(969)	6,116	7,418
Charge to other comprehensive income	–	–	–	176	–	–	–	–	176
Release upon dividend declared	–	–	–	–	(31,473)	–	–	–	(31,473)
At 31 December 2018	1,645,998	85,108	(30,258)	(107)	5,792	(32,556)	(6,342)	(57,549)	1,610,086
(Credited) charged to profit or loss	(29,067)	6,941	(2,909)	(279)	34,286	(16,640)	(6,085)	3,236	(10,517)
Credit to other comprehensive income	–	–	–	(2,148)	–	–	–	–	(2,148)
Release upon dividend declared	–	–	–	–	(478)	–	–	–	(478)
At 31 December 2019	1,616,931	92,049	(33,167)	(2,534)	39,600	(49,196)	(12,427)	(54,313)	1,596,943

At the end of the reporting period, the Group had unused tax losses of RMB 294,610,000 (2018: RMB136,038,000) available for offset against future profits. A deferred tax asset of RMB12,427,000 (2018: RMB6,342,000) has been recognised in respect of RMB49,708,000 (2018: RMB25,368,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB244,902,000 (2018: RMB110,670,000) due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB5,287,580,000 (2018: RMB4,020,660,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

35. BANK AND OTHER BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank loans	**753,174**	1,641,988
Other loans (note)	**45,248**	1,455
	798,422	1,643,443
Secured	**336,061**	408,074
Unsecured	**462,361**	1,235,369
	798,422	1,643,443

	2019 RMB'000	2018 RMB'000
Carrying amounts of the above borrowings are repayable:		
Within one year	**638,300**	1,411,569
More than one year, but not exceeding two years	**43,026**	112,000
More than two year, but not exceeding five years	**80,778**	68,000
More than five years	**36,318**	51,874
	798,422	1,643,443
Less: Amounts due within one year shown under current liabilities	**(638,300)**	(1,411,569)
Amounts shown under non-current liabilities	**160,122**	231,874

Note: Other loans represented loans from non-controlling interests and discounting of bills receivables with recourse, amounting to RMB12,248,000 (2018: nil) and nil (2018: RMB1,455,000) respectively, which were repayable within one year.

The details of pledged assets to secure certain bank borrowings granted to the Group are disclosed in notes 18 and 19.

	2019 RMB'000	2018 RMB'000
Fixed rate borrowings	**377,396**	1,231,629
Floating rate borrowings	**421,026**	411,814
	798,422	1,643,443

The Group's floating rate borrowings carried interest at Hong Kong Inter-bank Offered Rate ("HIBOR") plus 1.2%.

35. BANK AND OTHER BORROWINGS (CONTINUED)

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2019	2018
Effective interest rate		
– Fixed rate borrowings	**0.29%-6.41%**	0.29%-6.41%
– Floating rate borrowings	**2.61%-4.03%**	2.32%-3.99%

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

	2019 RMB'000	2018 RMB'000
Floating rate		
– expiring beyond one year	**–**	5,000
Fixed rate		
– expiring within one year	**4,070,879**	2,137,700
– expiring beyond one year	**906,091**	95,509
	4,976,970	2,238,209

Included in bank borrowings is RMB 421,026,000 (2018: RMB411,814,000), which is denominated in HK$, the currency other than the functional currency of the relevant group entities.

36. UNSECURED NOTES

	2019 RMB'000	2018 RMB'000
Carrying amount repayable:		
Within one year	**4,794,343**	2,497,330
More than one year but not exceeding two years	**–**	1,992,735
	4,794,343	4,490,065
Less: Amounts due within one year shown under current liabilities	**(4,794,343)**	(2,497,330)
Amounts shown under non-current liabilities	**–**	1,992,735

36. UNSECURED NOTES (CONTINUED)

In November 2016, the Company registered medium-term notes in an aggregate amount of RMB4,500,000,000 and the notes could be issued by the Company in multiple tranches within two years from 9 November 2016. On 16 November 2016, the Company completed the issuance of the first tranche of notes in an aggregate amount of RMB2,500,000,000, with a maturity of three years and coupon rate of 3.4% per annum. On 13 November 2019, the company fully repaid the first tranche of notes. On 13 June 2017, the Company completed the issuance of the second tranche of notes in an aggregate amount of RMB2,000,000,000, with a maturity of three years and coupon rate of 4.98% per annum.

In October 2019, the Company issued the short-term commercial papers in an aggregate amount of RMB2,800,000,000, with a maturity of 270 days and coupon rate of 3.19% per annum.

As at 31 December 2019, an aggregate amount of arrangement fee totaling RMB5,657,000 (2018: RMB9,935,000) was included in the balance of unsecured notes, and is released to profit or loss as finance cost using the effective interest method over the period of the unsecured notes.

37. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2019	2018	**2019**	2018
	'000	'000	**'000**	'000
Issued and fully paid				
At beginning of the year	**5,035,801**	4,431,505	**11,982,474**	9,809,935
New shares issued	**–**	604,296	**–**	2,172,539
At end of the year	**5,035,801**	5,035,801	**11,982,474**	11,982,474

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.

38. RETIREMENT BENEFITS PLANS

Hong Kong

The Group participates in a defined contribution scheme under a Mandatory Provident Fund Scheme ("MPF Scheme"). For members of the MPF Scheme, both the Group and the employee contribute 5% of the employee's relevant income to the MPF Scheme according to the Hong Kong Mandatory Provident Fund Schemes Ordinance.

PRC

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of RMB98,405,000 (2018: RMB85,274,000) for the year ended 31 December 2019, represents contributions paid to the retirement benefits scheme by the Group.

39. ACQUISITIONS OF SUBSIDIARIES AND ASSETS

2019

(a) Acquisition of Longxiyifang Pharmaceutical

On 28 February 2019, the Group acquired 100% of the equity interest of Longxiyifang Pharmaceutical Co., Ltd. ("Longxiyifang Pharmaceutical ") at a cash consideration of RMB3,767,000 from an independent third party. The Group entered into equity transfer agreement with the then shareholders on 18 January 2019, and obtained control of Longxiyifang Pharmaceutical on 28 February 2019. Longxiyifang Pharmaceutical principally engaged in wholesale of traditional Chinese medicine with GSP certificate. This acquisition has been accounted for using the purchase method.

Consideration transferred

	RMB'000
Cash	3,767

39. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2019 (continued)

(a) Acquisition of Longxiyifang Pharmaceutical (continued)

Consideration transferred (continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	66
Other intangible assets	497
Inventories	33
Trade and other receivables	14
Bank balances and cash	3,381
Trade and other payables	(224)
	3,767
Consideration transferred	3,767
Less: Fair value of identifiable net assets acquired	(3,767)
Goodwill arising on acquisition	–

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	3,767
Less: Bank balances and cash acquired	(3,381)
	386

Acquisition-related costs are not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

39. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2019 (continued)

(a) Acquisition of Longxiyifang Pharmaceutical (continued)

Impact of acquisition on the results of the Group

During the year ended 31 December 2019, Longxiyifang Pharmaceutical contributed RMB11,653,000 and RMB312,000 to the Group's revenue and profits, respectively.

The acquisition of Longxiyifang Pharmaceutical was completed on 28 February 2019. The impact to the Group's revenue and profit are insignificant had the acquisition of Longxiyifang Pharmaceutical been completed on 1 January 2019.

(b) Acquisition of Shanxi Guoxin

On 17 October 2019, the Group acquired 51% of the equity interest of Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd. ("Shanxi Guoxin ") at a cash consideration of RMB55,348,000 from an independent third party. On the date of acquisition, Shanxi Guoxin did not engage in any business activities but only have leasehold land which is located in Shanxi Province of the PRC. The Group intended to use of the leasehold land to expand the pharmaceutical business.

In the opinion of the directors of the Company, the acquisition does not constitute business combination in accordance with HKFRS 3 "Business Combinations" and as such, the acquisition has been accounted for as acquisition of assets.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	336
Right-of-use assets	65,320
Other intangible assets	22
Inventories	20
Trade and other receivables	6,359
Bank balances and cash	57,881
Trade and other payables	(21,408)
	108,530
Capital injection	55,348
Plus: Non-controlling interests	53,182
	108,530

39. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2019 (continued)

(b) Acquisition of Shanxi Guoxin (continued)

Net cash outflow arising on acquisition

	RMB'000
Capital injection	55,348
Less: Bank balances and cash acquired	(57,881)
	(2,533)

2018

(a) First Batch Entities

On 5 January 2018, the Group acquired 100% of the equity interest of the entities (hereinafter collectively referred to as the "First Batch Entities") listed below for a total cash consideration of RMB499,237,000 from China National Traditional Chinese Medicine Co., Ltd, a subsidiary of CNPGC and also the Company's intermediate holding company.

List of the First Batch Entities:

Beijing Huamiao
Heilongjiang Sinopharm Medicinal Materials Co., Limited
Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Beijing Huatai")
Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou")

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB11,447,000. The Group recognised provisional amounts of the fair value of identifiable assets acquired, iabilities assumed and goodwill in its consolidated financial statements for the year ended 31 December 2018. During the current year (i.e. end of the measurement year), the directors of the Company have finalised the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

39. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2018 (continued)

(b) Second Batch Entities

During the year 2018, the Group acquired 6 entities (hereinafter collectively referred to as the "Second Batch Entities") from independent third parties for an aggregated cash consideration of RMB255,858,000. The consideration consists of two parts, (i) acquired the equity interests of entities from the ex-shareholders in cash of RMB57,367,000; (ii) injection of capital for an aggregate sum of RMB198,491,000 to certain entities by way of capital increase.

List of the Second Batch Entities:

Name of entity	Date of acquisition	% of equity interest acquired
Heilongjiang Shuanglanxing Pharmaceutical Co., Ltd. ("Shuanglanxing Pharmaceutical")	21 March 2018	51%
Jiangkang Pharmaceutical	23 March 2018	51%
Sichuan Sinopharm Pharmaceutical Co., Ltd. ("Sichuan Sinopharm Pharmaceutical")	20 April 2018	51%
Fujian Chengtian Pharmaceutical	23 April 2018	51%
Bozhou Hongda	22 June 2018	51%
Fujian Chengtian Jinling Medicine Co., Ltd. ("Fujian Chengtian Medicine")	30 October 2018	100%

The acquisition of the Second Batch Entities have been accounted for using the purchase method. The amount of goodwill which was determined provisionally, arising as a result of these acquisitions was RMB2,598,000. The Group recognised provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill in its consolidated financial statements for the year ended 31 December 2018. During the current year (i.e. end of the measurement year), the directors of the Company have finalised the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

39. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

2018 (continued)

(c) Zhonglian Pharmaceutical

On 26 September 2018, the Group acquired 51% of the equity interest of Zhonglian Pharmaceutical for a consideration of RMB261,842,000. The consideration consists of two parts, (i) acquired the 0.71% equity interest of Zhonglian Pharmaceutical from the ex-shareholder in cash of RMB1,813,000; (ii) injection of capital RMB260,029,000 to Zhonglian Pharmaceutical by way of capital increase. Before the acquisition, Zhonglian Pharmaceutical was 96.95%-owned by Shanghai Shyndec Pharmaceutical Co., Ltd. which in turn is ultimately controlled by CNPGC. This acquisition has been accounted for using the purchase method.

The amount of goodwill which was determined provisionally, arising as a result of the acquisition was RMB68,567,000. The Group recognised provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill in its consolidated financial statements for the year ended 31 December 2018. During the current year (i.e. end of the measurement year), the directors of the Company have finalised the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

(d) Golden Footwear

In July 2018, the Group acquired 100% of the equity interest of Foshan Nanhai Golden Footwear Co., Ltd. ("Golden Footwear") for a consideration of RMB53,950,000 from an independent third party (the "Golden Footwear Acquisition"). On the date of acquisition, Golden Footwear did not engage in any business activities other than leasing out certain land and buildings, which are located in Guangdong Province of the PRC, to the Group. The Group intended to use of the land and buildings to expand the pharmaceutical business.

In the opinion of the directors of the Company, Golden Footwear Acquisition does not constitute business combination in accordance with HKFRS 3 "Business Combinations" and as such, the Golden Footwear Acquisition has been accounted for as acquisition of assets.

40. LEASE LIABILITIES

	2019 **RMB'000**
Lease liabilities payable:	
Within one year	**12,013**
Within a period of more than one year but not more than two years	**12,180**
Within a period of more than two years but not more than five years	**47,959**
Within a period of more than five years	**41,966**
	114,118
Less: Amount due for settlement with 12 months shown under current liabilities	**12,013**
Amount due for settlement after 12 months shown under non-current liabilities non-current liabilities	**102,105**

41. OPERATING LEASES

The Group as lessee

	2018 RMB'000
Minimum lease payments paid under operating leases during the year	24,605

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000
Within one year	21,300
In the second to fifth year inclusive	21,352
After fifth year	16,871
	59,523

41. OPERATING LEASES (CONTINUED)

The Group as lessor

All of the properties and machineries held for rental purposes have committed lessees for the next 1 and 4 years respectively.

Minimum lease payments receivable on leases are as follows:

	2019 **RMB'000**
Within one year	**620**
In the second year	**121**
In the third year	**96**
In the forth year	**96**
	933

The Group had contracted with leasees for the following future minimum lease payments:

	2018 RMB'000
Within one year	6,577
In the second to fifth year inclusive	15,075
After fifth year	9,508
	31,160

42. CAPITAL COMMITMENTS

	2019 **RMB'000**	2018 RMB'000
Contracted but not provided for in the consolidated financial statements		
– Investments in PRC entities (note a)	**640,000**	640,000
– Acquisition of a subsidiary (note b)	**100,490**	–
– Acquisition of property, plant and equipment	**507,360**	684,662
	1,247,850	1,324,662

Notes:

(a) Pursuant to the cooperation agreement entered into by the Group, Foshan Health Development Co., Ltd. and Foshan Geriatric Hospital of Traditional Chinese Medicines Co., Ltd. on 13 January 2016, and a subsequent agreement entered by the Group and Baoli Huanan Industrial Co., Ltd. on 29 December 2016, the parties agreed to form two companies which are principally engaged in the provision of general hospital services, investments in medical industry and provision of hospital management consultancy services. The registered capital of these companies has not yet been paid up to the date of the consolidated financial statements of the Group.

(b) Pursuant to the investment agreements entered into by the Group and甘肅省中醫院("Gansu Provincial Hospital of traditional Chinese medicine"), the shareholder of甘肅隴中藥業有限責任公司("Longzhong Pharmaceutical Co., Ltd.") on 30 December 2019, the Group would acquire the 51% equity interest of Longzhong Pharmaceutical Co., Ltd. at a consideration of RMB138,710,000. The Group has already paid the deposit of RMB40,000,000 as at 31 December 2019 and the relevant regulatory approval procedures are still in progress.

43. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt, which includes bank and other borrowings and unsecured notes disclosed in notes 35 and 36 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity.

The adjusted debt-to-equity ratios at 31 December 2019 and 2018 are as follows:

	2019 **RMB'000**	2018 RMB'000
Current liabilities:		
Bank and other borrowings	**638,300**	1,411,569
Unsecured notes-due within one year	**4,794,343**	2,497,330
	5,432,643	3,908,899
Non-current liabilities:		
Bank and other borrowings	**160,122**	231,874
Unsecured notes-due after one year	**–**	1,992,735
	160,122	2,224,609
Total debt	**5,592,765**	6,133,508
Less: Cash and cash equivalents	**(5,046,024)**	(5,975,825)
Adjusted net debt	**546,741**	157,683
Total equity	**19,050,725**	17,510,571
Adjusted net debt-to-equity ratio	**3%**	1%

The Group is not subject to externally imposed capital requirements except for financial covenants relating to certain of the banking facilities of the Group. The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

44. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets at FVTPL	**72,800**	1,076
Financial assets at amortised cost	**9,060,289**	9,653,429
Debt instruments at FVTOCI	**1,111,319**	66,819
Financial liabilities		
Amortised cost	**9,964,256**	9,353,088

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, debt instruments at FVTOCI, pledged bank deposits, bank balances and cash, trade and other payables, lease liabilities, unsecured notes and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than RMB, which are mainly other receivables, bank balances and cash, other payables, and bank and other borrowings of the Group, at the end of the reporting period are as follows:

	2019		2018	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
HK$	**31,474**	**(423,364)**	26,928	(411,821)
US$	**11,683**	**–**	38,019	–

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group manage the foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have a foreign exchange hedging policy. Management will consider hedging foreign currency exposure should the need arise.

Sensitivity analysis

The sensitivity analysis includes outstanding HK$ and US$ denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in foreign currency rates. If the RMB strengthens/weakens 5% (2018: 5%) against HK$ and US$, the post-tax profit of the Group would decrease/increase by RMB19,715,000 and increase/decrease by RMB503,000, respectively (2018: RMB19,245,000 and RMB1,865,000).

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and unsecured notes. The Group is exposed to cash flow interest rate risk in relation to the floating rate borrowings. The Group does not have any interest rate hedging policy. However, the management monitors the related interest rate risk exposure closely and will consider hedging the interest rate risk exposure should the need arise.

The Group's pledged bank deposits and bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate. The management considers the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are mainly within short maturity period.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's borrowings denominated in HK$.

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate profile

The following table details the interest rate profile of the Group's total bank borrowings and unsecured notes at the end of the reporting period.

	2019		2018	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Fixed rate borrowings:				
Bank and other borrowings	**3.92%**	**377,396**	4.55%	1,231,629
Unsecured notes	**4.03%**	**4,794,343**	4.42%	4,490,065
		5,171,739		5,721,694
Floating rate borrowings:				
Bank and other borrowings	**3.68%**	**421,026**	3.14%	411,814
Total bank and other borrowings and unsecured note		**5,592,765**		6,133,508
Net fixed rate borrowings as a percentage of total bank borrowings and unsecured notes		**92.5%**		93.3%

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and floating rate borrowings. The analysis is prepared assuming that those balances outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis point increase or decrease which represents the management's assessment of the reasonably possible charge in interest rates is used.

If the interest rate on floating rate borrowings had been 50 basis points (2018:10 basis points) higher/lower and all other variables were held constant, the post-tax profit of the Group would decrease/increase by RMB2,105,000 (2018: decrease/increase by RMB412,000) for the year ended 31 December 2019.

If interest rates on floating rate bank balances had been 10 basis points higher/lower and all other variables were held constant, post-tax profit of the Group would increase/decrease by RMB4,933,000 (2018: increase/decrease by RMB5,175,000) for the year ended 31 December 2019.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk and impairment assessment

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and settlement of contingent liabilities.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Before accepting any new customer, the management of the Group carries out researches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant. In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. The Group performs impairment test assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix.

The credit risk on liquid funds is limited because the counterparties are state-owned banks and banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and different regions of the PRC.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	The counterparty has a relatively high risk of default or repays after due date but usually settle in full within the year	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL –credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's trade and bills receivables and other receivables, which are subject to ECL assessment:

	Notes	Internal credit rating	12-month or lifetime ECL	2019 Gross carrying amount		2018 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Debt instruments at FVTOCI							
Bills receivables	29	note ii	Lifetime ECL (not credit-impaired)	1,111,319	1,111,319	66,819	66,819
Financial assets at amortised cost							
Other receivables	25	note i	12-month ECL	128,335		128,777	
			Lifetime ECL (credit-impaired)	23,996	152,331	27,390	156,167
Trade receivables	25	note ii	Lifetime ECL (provision matrix)	2,994,116		2,516,953	
			Lifetime ECL (credit-impaired)	7,510	3,001,626	15,735	2,532,688
Bills receivables	25	note ii	Lifetime ECL (provision matrix)	–	–	606,972	606,972

Notes:

i. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. The Group considered the other receivables as credit-impaired on the reporting date once they are past due.

	2019			2018		
	Past due RMB'000	**Not past due RMB'000**	**Total RMB'000**	Past due RMB'000	Not past due RMB'000	Total RMB'000
Other receivables	**23,996**	**128,335**	**152,331**	27,390	128,777	156,167

ii. For trade receivables and bills receivables, debt instruments at FVTOCI, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

For bank balances and cash and pledged bank deposits, the management considered the credit risk has not increased significantly since the initial recognition. According to the historical observed default rates of these debtors, the average loss rate is negligible.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk and loss allowance for trade and bills receivables which are assessed collectively based on provision matrix as at 31 December 2019 within lifetime ECL (not credit-impaired). As at 31 December 2019, the credit-impaired debtors with gross carrying amounts of RMB7,510,000 (2018: RMB15,735,000) were assessed individually.

	2019			2018		
Internal credit rating	**Average loss rate**	**Gross carrying amount RMB'000**	**Impairment loss allowance RMB'000**	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Low risk	**0.48%**	**2,155,032**	**10,289**	0.43%	2,539,319	10,080
Watch list	**3.27%**	**786,592**	**25,742**	2.24%	732,871	16,395
Doubtful	**22.15%**	**52,492**	**11,632**	25.79%	31,735	8,183
		2,994,116	**47,663**		3,123,925	34,658

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

There is no change in estimation techniques or significant assumptions made in relation to the measurement of expected credit loss during the current year.

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade and bills receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	32,099	113,092	145,191
– Transfer to credit-impaired	(1,118)	1,118	–
– Impairment losses reversed	(30,617)	(97,377)	(127,994)
– Write-offs*	–	(1,098)	(1,098)
New financial assets originated			
– Impairment losses recognised	34,294	–	34,294
As at 31 December 2018	34,658	15,735	50,393
– Transfer to credit-impaired	(3,247)	3,247	–
– Impairment losses recognised	15,625	–	15,625
– Impairment losses reversed	(22,250)	–	(22,250)
– Write-offs*	–	(11,472)	(11,472)
New financial assets originated			
– Impairment losses recognised	22,877	–	22,877
At 31 December 2019	47,663	7,510	55,173

* The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following tables shows reconciliation of loss allowances that has been recognised for other receivables

	12-month ECL RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	1,967	25,649	27,616
– Impairment losses recognised	688	1,741	2,429
New financial assets originated			
– Impairment losses recognised	482	–	482
As at 31 December 2018	3,137	27,390	30,527
– Impairment losses recognised	308	–	308
– Impairment losses reversed	–	(981)	(981)
– Write-offs	–	(2,413)	(2,413)
New financial assets originated			
– Impairment losses recognised	855	–	855
At 31 December 2019	4,300	23,996	28,296

The following tables shows reconciliation of loss allowances that has been recognised for debt instruments at FVTOCI.

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

	Lifetime ECL (not-credit-impaired) RMB'000
As at 1 January 2018	56
– Impairment losses recognised	21
New financial assets originated	
– Impairment losses recognised	120
As at 31 December 2018	197
– Impairment losses reversed	(197)
New financial assets originated	
– Impairment losses recognised	1,772
At 31 December 2019	1,772

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

44. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average effective interest rate RMB'000	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total undiscounted cash flows RMB'000**	**Total carrying amount RMB'000**
31 December 2019						
Trade and other payables	**–**	**4,257,373**	**–**	**–**	**4,257,373**	**4,257,373**
Floating rate bank borrowings	**3.68%**	**427,667**	**–**	**–**	**427,667**	**421,026**
Fixed rate bank borrowings	**3.92%**	**228,798**	**137,100**	**39,523**	**405,421**	**377,396**
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum	**5.21%**	**2,069,443**	**–**	**–**	**2,069,443**	**1,997,314**
RMB2,800,000,000 notes carries fixed coupon rate of 3.19% per annum	**3.40%**	**2,847,141**	**–**	**–**	**2,847,141**	**2,797,029**
Lease liabilities	**4.90%**	**16,985**	**65,784**	**58,282**	**141,051**	**114,118**
		9,847,407	**202,884**	**97,805**	**10,148,096**	**9,964,256**

	Weighted average effective interest rate RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
31 December 2018						
Trade and other payables	–	3,219,580	–	–	3,219,580	3,219,580
Floating rate bank borrowings	3.14%	419,022	–	–	419,022	411,814
Fixed rate bank borrowings	4.55%	1,022,644	197,518	57,181	1,277,343	1,231,629
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum	3.62%	2,574,375	–	–	2,574,375	2,497,330
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum	5.21%	99,600	2,069,443	–	2,169,043	1,992,735
		7,335,221	2,266,961	57,181	9,659,363	9,353,088

45. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value 2019 RMB'000	Fair value 2018 RMB'000	Fair value hierarchy	Valuation techniques(s) and key input(s)
Financial assets at FVTPL				
Listed equity securities	–	**1,076**	Level 1	Quoted bid prices in active markets
Structured bank deposits	**72,800**	–	Level 3	Expected yields of underlying investments in and commodities, bonds and funds invested by bank at a discount rate that reflects the credit risk of the bank
Financial assets at FVTOCI				
Bills receivables	**1,111,319**	**66,819**	Level 3	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period

There were no transfers between Level 1 and 3 during both years.

Except as disclosed below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

Unsecured notes

	2019 RMB'000	2018 RMB'000
Carrying amount	**4,794,343**	4,490,065
Fair value under level 2 fair value hierarchy	**4,816,885**	4,520,579

The fair values of the financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Company.

46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities	Bank and other borrowings	Unsecured notes	Interest payable	Dividend payable	Dividend payable to non-controling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	–	671,697	4,481,958	66,500	5,900	30,150	5,256,205
Financing cash flows	–	398,905	–	(283,165)	(479,669)	(26,504)	(390,433)
Acquired on acquisition of a subsidiary	–	553,900	–	–	–	–	553,900
Net foreign exchange loss	–	18,941	–	–	–	–	18,941
Dividend paid	–	–	–	–	475,135	73,670	548,805
Other changes	–	–	8,107	284,193	–	–	292,300
At 31 December 2018	–	1,643,443	4,490,065	67,528	1,366	77,316	6,279,718
Adjustments upon application of HKFRS 16	43,043	–	–	–	–	–	43,043
At 1 January 2019 (restated)	**43,043**	**1,643,443**	**4,490,065**	**67,528**	**1,366**	**77,316**	**6,322,761**
Financing cash flows	**(17,504)**	**(854,233)**	**300,000**	**(312,685)**	**(502,460)**	**(35,880)**	**(1,422,762)**
Net foreign exchange loss	**–**	**9,212**	**–**	**–**	**–**	**–**	**9,212**
Dividend paid	**–**	**–**	**–**	**–**	**502,506**	**76,110**	**578,616**
New leases entered	**88,579**	**–**	**–**	**–**	**–**	**–**	**88,579**
Other changes	**–**	**–**	**4,278**	**320,450**	**–**	**–**	**324,728**
At 31 December 2019	**114,118**	**798,422**	**4,794,343**	**75,293**	**1,412**	**117,546**	**5,901,134**

Other changes represents interest expenses on bank and other borrowings and unsecured notes recognised, and dividends distributed to non-controlling interests or the owners of the Group.

47. RELATED PARTY TRANSACTIONS

Key management remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employees as disclosed in notes 13 and 14, is as follows:

	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**12,455**	10,355
Post-employments benefits	**311**	390
	12,766	10,745

Other related party transactions

Name of related party	**Relationship**
CNPGC	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

	2019	2018
	RMB'000	RMB'000
(i) Sales of finished goods to CNPGC's subsidiaries other than the Group	**827,244**	678,795

	2019	2018
	RMB'000	RMB'000
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	**10,764**	22,767

	2019	2018
	RMB'000	RMB'000
(iii) Rental income from CNPGC's subsidiaries other than the Group	**2,354**	2,116

	RMB'000	RMB'000
(iv) interest income from CNPGC's subsidiaries other than the Group	**2,215**	–

47. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

Particulars of significant balances between the Group and the related parties are as follows:

	2019 **RMB'000**	2018 RMB'000
(i) Trade and other receivable balances due from CNPGC's subsidiaries other than the Group as included in trade and other receivable balances set out in note 25	**342,788**	848,885

	2019 **RMB'000**	2018 RMB'000
(ii) Trade and other payable balances due to CNPGC's subsidiaries other than the Group as included in trade and other payable balances set out in note 31	**9,014**	129,170
(iii) Bank deposits placed in CNPGC's subsidiaries other than the Group as included in bank balances and cash set out in note 30	**593,043**	–

The above related party transactions (i), (ii) and related party balances (iii) constitute connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Continuing connected transactions" of the section headed "Report of the Directors" of the annual report.

Transactions/balances with other state-controlled entities

The Group itself is part of a large group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("stated-controlled entities") in the ordinary course of business. The directors of the Company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counterparty is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current year in which the directors of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) General information of subsidiaries

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2019	2018	**2019**	2018	
Directly held the Company						
Jiangyin Tiangjiang#	The PRC	**RMB394,555,556**	RMB394,555,556	**87.3%**	87.3%	Development, manufacture and sale of TCM granules
Indirectly held the Company						
Dezhong#	The PRC	**USD6,460,000**	USD6,460,000	**98.3%**	98.3%	Development, manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing Pharmaceutical Company Limited#	The PRC	**USD7,526,100**	USD7,526,100	**98%**	98%	Development, manufacture and sale of Chinese pharmaceutical products
Guangdong Medi- World*	The PRC	**USD172,640,000**	USD172,640,000	**100%**	100%	Development, manufacture and sale of pharmaceutical products and investment holding
Luya#	The PRC	**RMB24,529,300**	RMB24,529,300	**100%**	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices^	The PRC	**RMB595,000,000**	RMB595,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Feng Liao Xing Zhongshan Pharmaceutical Company Limited^%	The PRC	**RMB10,000,000**	–	**100%**	–	Retail of pharmaceuticals and decoction
Feng Liao Xing Pharmaceutical Equipment Company Limited^%	The PRC	**RMB1,000,000**	–	**55%**	–	Maintenance, manufacture, and sale of TCM equipment

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2019	2018	**2019**	2018	
Indirectly held the Company (continued)						
Winteam Sales^	The PRC	**RMB260,000,000**	RMB260,000,000	**100%**	100%	Trading of pharmaceutical products
Sinopharm Group Feng Liao Xing Traditional Chinese Medicine Health Industry Company Limited^	The PRC	**RMB47,000,000**	RMB40,000,000	**100%**	100%	Investment of the TCM health industry
Guizhou Tongjitang Pharmacy Chain^	The PRC	**RMB5,000,000**	RMB5,000,000	**60%**	60%	Retail of pharmaceuticals
Huayi^	The PRC	**RMB139,000,000**	RMB139,000,000	**100%**	100%	Development, manufacture, and sale of TCM products
Shanxi Huamiao^%	The PRC	**RMB2,000,000**	–	**100%**	–	Manufacture and sale of TCM decoction products
Jilin Baiqi Pharmaceutical Company Limited^	The PRC	**RMB180,450,000**	RMB66,000,000	**65%**	65%	Development, manufacture, and sale of TCM products
Shanghai Tongjitang^	The PRC	**RMB80,000,000**	RMB80,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Tongjitang Herbal^	The PRC	**RMB60,000,000**	RMB60,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Shandong Zhongping Pharmaceutical Company Limited^%~	The PRC	**RMB188,000,000**	–	**44.5%**	–	Manufacture of TCM products
Liaoning Tianjiang Yifang Pharmaceutical Company Limited^%	The PRC	**RMB2,000,000**	–	**87.3%**	–	Development, manufacture, and sale of TCM products
Shanxi Guoxin Pharmaceutical Company Limited^@~	The PRC	**RMB 102,040,800**	–	**44.5%**	–	Development, manufacture, and sale of TCM products

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2019	2018	**2019**	2018	
Indirectly held the Company (continued)						
Lixian Dahuang Technology and Science Company Limited[^%]	The PRC	**RMB 49,978,500**	–	**74.2%**	–	Development, manufacture and sale of TCM decoction products
Xihebanxia Technology and Science Company Limited[^%~]	The PRC	**RMB 99,870,000**	–	**44.5%**	–	Development, manufacture and sale of TCM decoction products
Jiangxi Yifang Tianjiang Pharmaceutical Company Limited[^]	The PRC	**RMB139,000,000**	RMB60,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM
Jiangxi Fanglian Pharmaceutical Company Limited[^%]	The PRC	**RMB2,000,000**	–	**52.4%**	–	Sale of TCM products
Heilongjiang Sinopharm Group Tianjiang Pharmaceutical Company Limited[^]	The PRC	**RMB60,000,000**	RMB60,000,000	**52.4%**	52.4%	Manufacture and sale of TCM
Jingfang[^]	The PRC	**RMB39,000,000**	RMB39,000,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
Pulante[^]	The PRC	**RMB27,520,000**	RMB27,520,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
GD Yifang[^]	The PRC	**RMB364,491,680**	RMB364,491,680	**87.3%**	87.3%	Development, manufacture, and sale of TCM granules
Longxi Yifang[^]	The PRC	**RMB30,000,000**	RMB30,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2019	2018	**2019**	2018	
Indirectly held the Company (continued)						
Longxi Yifang Pharmaceutical Company Limited^@	The PRC	**RMB4,290,000**	–	**87.3%**	–	Sale of TCM products
Tianxiang^	The PRC	**RMB110,000,000**	RMB110,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Jiangyin Tianjiang Chinese Medical Clinics Ltd. ("TCM Clinics")^ ~	The PRC	**RMB11,500,000**	RMB11,500,000	**44.5%**	44.5%	Retail of pharmaceuticals and provision of TCM consultation services
Chongqing Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB190,000,000**	RMB60,000,000	**87.3%**	52.4%	Development, manufacture and sale of TCM products
Yunnan Tianjiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB194,000,000**	RMB85,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM products
Sichuan Tianxiong^	The PRC	**RMB150,500,000**	RMB74,120,000	**66.2%**	44.5%	Manufacture, and sale of TCM products
Longxixian Fengliaoxing^	The PRC	**RMB50,000,000**	RMB50,000,000	**100%**	100%	Manufacture and sale of TCM decoction product
Shandong Yifang Pharmaceutical Company Limited^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Zhejiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Shaanxi Yifang Pingkang Pharmaceutical Company Limited^~	The PRC	**RMB150,000,000**	RMB60,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM products

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2019	2018	**2019**	2018	
Indirectly held the Company (continued)						
Shaanxi Jitaining[^%~]	The PRC	**RMB30,000**	–	**44.5%**	–	Sale of TCM products
Hunan Yifang Tianjiang Pharmaceutical Company Limited[^]	The PRC	**RMB200,000,000**	RMB60,000,000	**78.6%**	61.1%	Development, manufacture and sale of TCM products
Changde Yifan Pharmaceutical Company Limited[^%]	The PRC	**RMB3,000,000**	–	**78.6%**	–	Sale of TCM products
Sichuan Tianhao[^]	The PRC	**RMB10,000,000**	RMB10,000,000	**66.2%**	44.5%	Manufacture and sale of TCM products
Guangxi Yifang Tianjiang Pharmaceutical Company Limited[^~]	The PRC	**RMB133,150,000**	RMB100,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Beijing Huamiao[^]	The PRC	**RMB174,383,898**	RMB55,940,636	**100%**	100%	Manufacture and sale of TCM decoction products
Beijing Huatai[^]	The PRC	**–**	RMB118,443,261	**–**	100%	Manufacture and sale of TCM decoction products
Heilongjiang Sinopharm[^]	The PRC	**RMB16,000,000**	RMB16,000,000	**100%**	100%	Sale of medical herbs
Sichuan Jiangyou[^]	The PRC	**RMB54,200,000**	RMB54,200,000	**100%**	100%	Manufacture and sale of TCM decoction products
Anhui Fengliaoxing[^]	The PRC	**RMB28,595,300**	RMB28,595,300	**51%**	51%	Manufacture and sale of TCM decoction products
Jiangkang Pharmaceutical[^~]	The PRC	**RMB70,000,000**	RMB70,000,000	**44.5%**	44.5%	Manufacture and sale of TCM products
Sichuan Sinopharm Pharmaceucital[^~]	The PRC	**RMB153,061,200**	RMB153,061,200	**44.5%**	44.5%	Development, manufacture and sale of TCM

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2019	2018	**2019**	2018	
Indirectly held the Company (continued)						
Fujian Chengtian Pharmaceucital^~	The PRC	**RMB136,500,000**	RMB136,500,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Shuanglanxing Pharmaceucital^~	The PRC	**RMB89,981,200**	RMB89,981,200	**44.5%**	44.5%	Development, manufacture and sale of TCM
Guangdong Jiuan Pharmaceutical Marketing Service^	The PRC	**RMB30,000,000**	RMB30,000,000	**100%**	100%	Marketing, advertising and consulting of TCM
Tongjitang Pharmaceutical*	The PRC	**RMB249,759,458**	RMB249,759,458	**100%**	100%	Development, manufacture, marketing and sale of TCM products
Zhonglian Pharmaceutical^~	The PRC	**RMB622,280,661**	RMB622,280,661	**44.5%**	44.5%	Development, manufacture and sale of TCM
Anhui Zhongping Warehouse Logistics Co., Ltd.^	The PRC	**RMB100,000,000**	RMB100,000,000	**100%**	100%	Provide logistics and warehouse services
Golden Footwear^	The PRC	**RMB137,690,000**	RMB137,690,000	**100%**	100%	Property leasing

* These companies were established in the PRC in the form of wholly Foreign-owned Enterprises.
# These companies were established in the PRC in the form of sino-foreign Equity Joint Ventures.
^ These companies were established in the PRC in the form of domestic enterprises.
@ Acquired by the Group during the year.
% Established by the Group during the year.
~ 51% directly or indirectly controlled by Jiangyin Tiangjiang which is a 87.3% owned subsidiary of the Group.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Jiangyin Tianjiang Group (note)	The PRC	**12.7%**	12.7%	**181,373**	125,821	**2,206,284**	1,789,643
Individually immaterial subsidiaries with non-controlling interests				**3,810**	2,189	**221,026**	169,495
				185,183	128,010	**2,427,310**	1,959,138

Note: The amounts have been adjusted for inter group elimination which primarily represent the goodwill and other intangible assets arising from the acquisition of the Jiangying Tianjiang Group.

Summarised consolidated financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below.

The following table lists out the information relating to Jiangyin Tianjiang Group, the only sub-group of the Group which has material non-controlling interest as at 31 December 2019.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

Jiangyin Tianjiang Group

	2019 **RMB'000**	2018 RMB'000
Current assets	**11,534,104**	13,705,824
Non-current assets	**9,975,793**	8,745,906
Current liabilities	**(5,215,273)**	(10,267,210)
Non-current liabilities	**(4,483,174)**	(1,768,337)
Net equity (Note)	**11,811,450**	10,416,183
Equity attributable to owners of Jiangyin Tianjiang Group	**11,002,481**	9,881,489
Non-controlling interests of Jiangyin Tianjiang Group	**808,969**	534,694

Note: The net equity includes fair value adjustments on properties, intangible assets and related deferred taxation arising from business combination amounting to RMB4,044,482,000 (2018: RMB4,155,575,000).

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

Jiangyin Tianjiang Group (continued)

	2019 RMB'000	2018 RMB'000
Revenue	**10,100,832**	7,293,774
Expenses	**(8,491,477)**	(6,076,404)
Profit and total comprehensive income for the year (Note)	**1,609,355**	1,217,370
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group	**1,635,718**	1,250,343
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang Group	**(26,363)**	(32,973)
Total comprehensive income for the year	**1,609,355**	1,217,370
Dividends declared to non-controlling interests	**65,938**	73,670
Net cash inflow from operating activities	**1,411,601**	50,041
Net cash outflow from investing activities	**(553,979)**	(825,186)
Net cash (outflow) inflow from financing activities	**(1,573,558)**	1,451,797
Net cash (outflow) inflow	**(715,936)**	676,652

Note: The profit for the year includes adjustments for depreciation on properties and amortisation on intangible assets recognised upon the business combination amounting to RMB111,093,000 (2018: RMB110,627,000).

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**13,604,506**	13,604,506
Loans to subsidiaries (note a)	**4,687,822**	3,890,932
Property, plant and equipment	**4**	8
	18,292,332	17,495,446
CURRENT ASSETS		
Other receivables	**136**	105
Amounts due from subsidiaries (note b)	**1,358,735**	1,175,899
Bank balances and cash	**13,359**	79,550
	1,372,230	1,255,554
CURRENT LIABILITIES		
Trade and other payables	**131,140**	135,630
Amounts due to subsidiaries	**1,248,185**	643,676
Bank borrowings	**421,026**	411,814
Unsecured notes-due within one year	**4,794,343**	2,497,330
	6,594,694	3,688,450
NET CURRENT LIABILITIES	**(5,222,464)**	(2,432,896)
TOTAL ASSETS LESS CURRENT LIABILITIES	**13,069,868**	15,062,550
NON-CURRENT LIABILITY		
Unsecured notes-due after one year	**–**	1,992,735
Deferred tax liabilities	**21,049**	–
	21,049	1,992,735
NET ASSETS	**13,048,819**	13,069,815
CAPITAL AND RESERVES		
Share capital	**11,982,474**	11,982,474
Reserves (note c)	**1,066,345**	1,087,341
TOTAL EQUITY	**13,048,819**	13,069,815

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

WU Xian
Executive Director

WANG Xiaochun
Executive Director

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note a: The amounts are unsecured, interest bearing at 4.35% per annum (2018: 4.35%) and repayable in 1 to 3 years.

Note b: The amounts are unsecured, interest free and repayable on demand.

Note c: Movements in the Company's reserves

	Translation reserve RMB'000	**Accumulated profits** RMB'000	**Total** RMB'000
At 1 January 2018	813,199	182,581	995,780
Profit and total comprehensive income for the year	–	566,696	566,696
Dividends paid (note 15)	–	(475,135)	(475,135)
At 31 December 2018	813,199	274,142	1,087,341
Profit and total comprehensive income for the year	–	481,510	481,510
Dividends paid (note 15)	–	(502,506)	(502,506)
At 31 December 2019	813,199	253,146	1,066,345

All of the Company's accumulated profits is available for distribution to equity shareholders.

50. MAJOR NON-CASH TRANSACTION

During the current year, bills received by the Group from its customers with an aggregate amount of RMB174,213,000 (2018: RMB97,382,000) were endorsed for the settlement of payables for acquisition of property, plant and equipment.

51. CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivables for the settlement of trade and other payables; and (ii) discounted certain bills receivables to banks for raising of working capital. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivables, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivables is low because all endorsed and discounted bills receivables are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

51. CONTINGENT LIABILITIES (CONTINUED)

	2019 RMB'000	2018 RMB'000
Settlement of trade and other payables	**226,174**	55,628
Discounted bills for raising of working capital	**–**	44,195
Outstanding endorsed and discounted bills receivables with recourse	**226,174**	99,823

The outstanding endorsed and discounted bills receivables are aged within 180 days at the end of the reporting period. The directors of the Company consider that the carrying amounts of the endorsed and discounted bills receivables approximate their fair values.

52. EVENT AFTER THE REPORTING PERIOD

The outbreak of coronavirus disease ("COVID-19")

(i) The nature of the events

The outbreak of COVID-19 in various countries has affected many businesses to different extent. As the Group's business are all in various locations in the mainland where different precautious measures were imposed by local governments, all at once or implemented at different stages depending on the latest development, the Group's ability to serve its customers may be largely depending on various government measures and continuous supply from its suppliers and the availability of workforce, which may be affected by the temporary suspension of supplier's goods and/or travel restrictions and home quarantine requirements. Due to the inherent unpredictable nature and rapid development relating to the novel coronavirus and its pervasive impact, the Group has taken action to negotiate with its major suppliers and employees to confirm continuous and adequate supply of goods and manpower.

52. EVENT AFTER THE REPORTING PERIOD (CONTINUED)

(ii) an estimate of its financial effect, or a statement that such an estimate cannot be made

Given the dynamic nature of these circumstances and unpredictability of future development, the directors of the Company consider that the financial effects on the Group's consolidated financial statements cannot be reasonably estimated as at the date these financial statements are authorised for issue, but will be reflected in the Group's future financial statements.