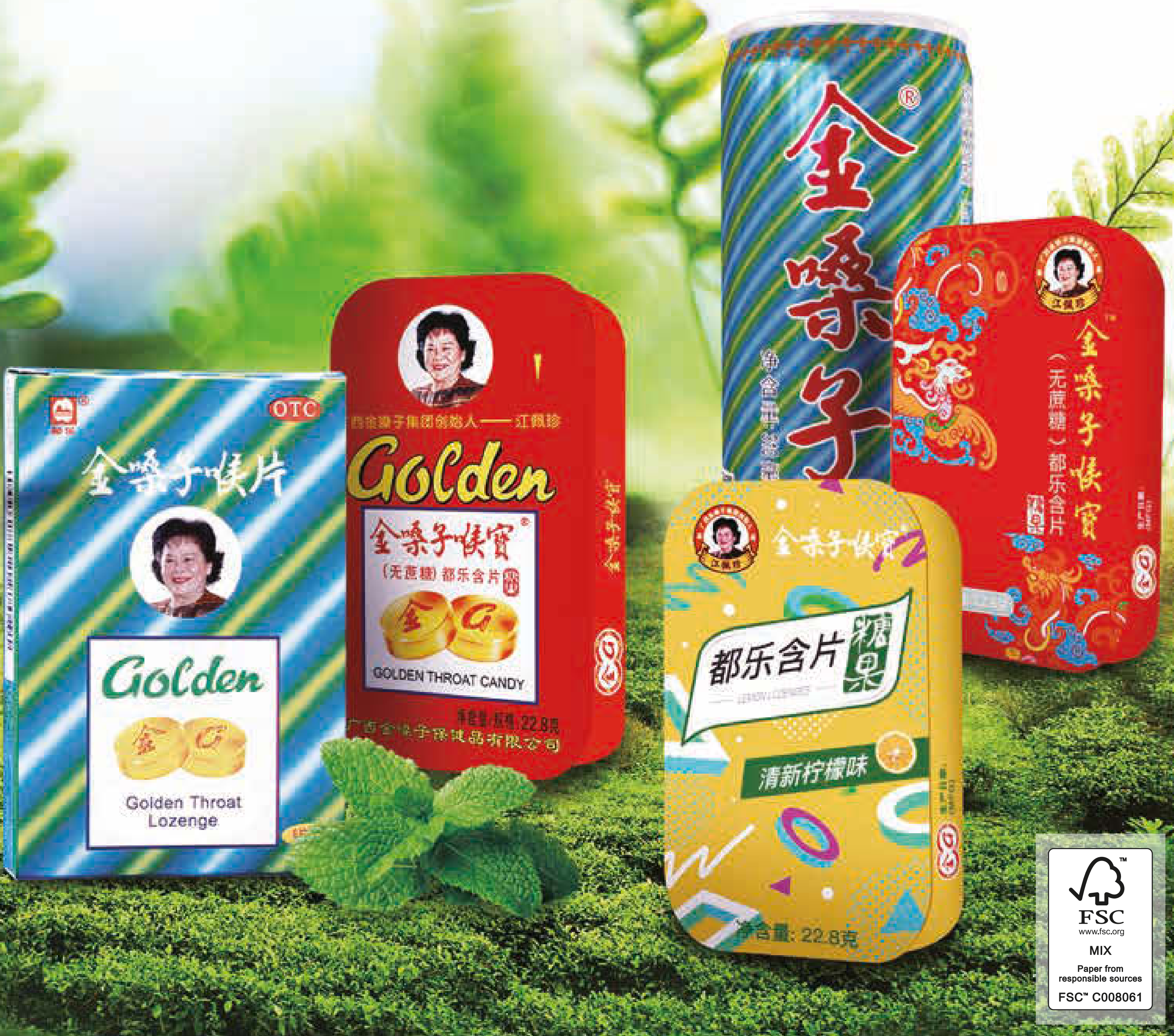
金嗓子控股集團有限公司

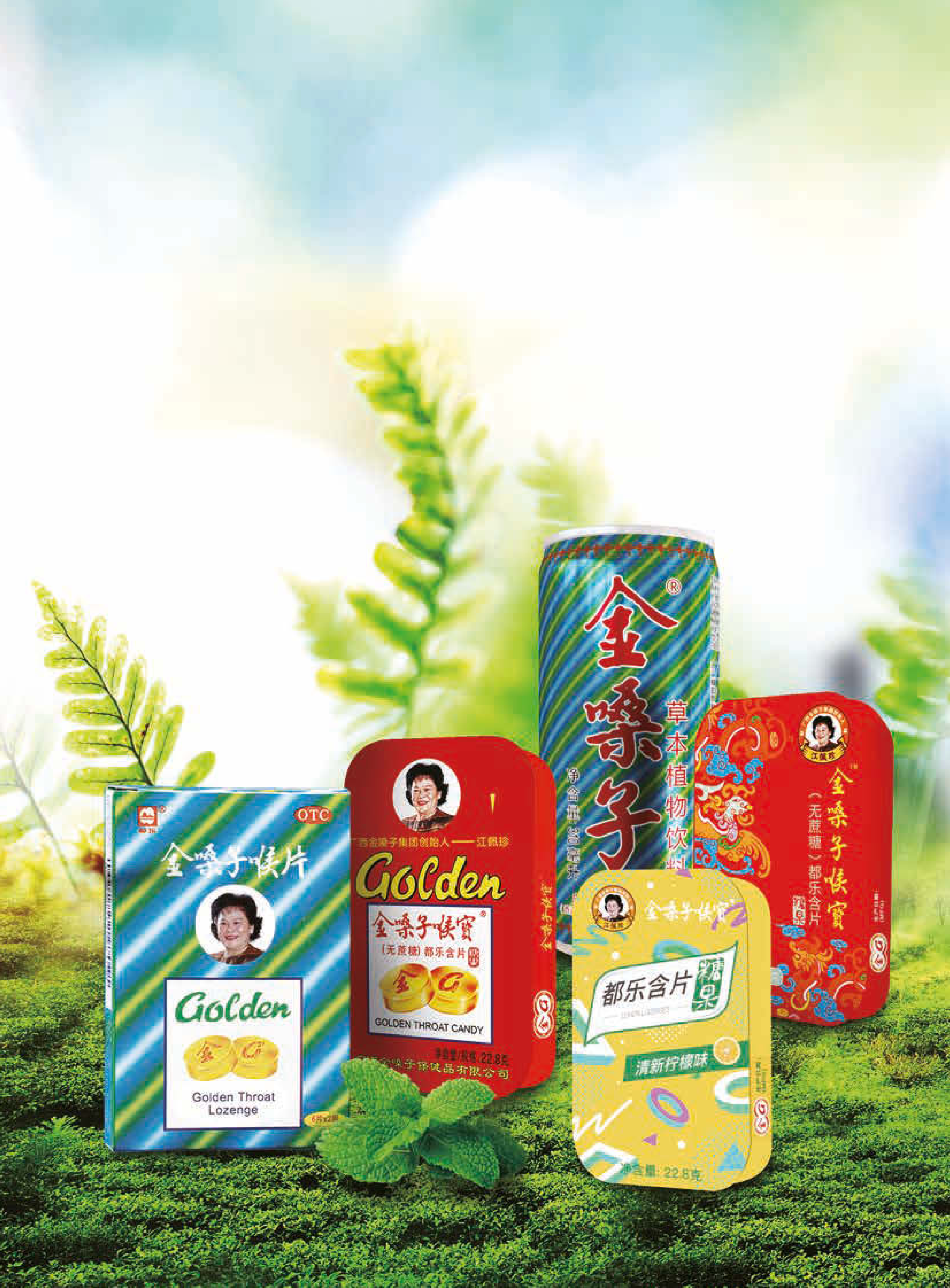
GOLDEN THROAT HOLDINGS GROUP COMPANY LIMITED

(Incorporated under the laws of the Cayman Islands with limited liability of its members)

Stock code: 06896

ANNUAL REPORT 2019




金嗓子喉片
OTC
Golden
Golden Throat Lozenge
Golden
金嗓子喉寶
(无蔗糖) 都乐含片
GOLDEN THROAT CANDY
金嗓子
草本植物饮料
金嗓子喉寶
(无蔗糖) 都乐含片
都乐含片
糖果
清新柠檬味
净含量: 22.8克

CONTENTS

COMPANY PROFILE

Golden Throat Holdings Group Company Limited (the "Company", together with its subsidiaries, the "Group") is a leading manufacturer of lozenges in China. The Group's history dates back to 1956 when Liuzhou No. 2 Sweet Factory (柳州市糖果二廠), the predecessor of Guangxi Golden Throat Co., Ltd. (an indirect wholly owned subsidiary of the Company), was established. Currently, the Group has developed into a comprehensive modern group mainly engaging in the manufacture and sale of lozenges and other pharmaceutical and food products.

The Company was incorporated in the Cayman Islands on 2 September 2014 as an exempted company with limited liability. The Company's Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 July 2015.

CORPORATE INFORMATION

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Ms. JIANG Peizhen

EXECUTIVE DIRECTORS

Mr. ZENG Yong
Mr. HUANG Jianping
Mr. ZENG Kexiong
Mr. LU Xinghong
Mr. HE Jinqiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Hua
Mr. ZHU Jierong
Mr. CHENG Yiqun

AUDIT COMMITTEE

Mr. ZHU Jierong *(Chairman)*
Mr. LI Hua
Mr. CHENG Yiqun

REMUNERATION COMMITTEE

Mr. LI Hua *(Chairman)*
Mr. CHENG Yiqun
Mr. HE Jinqiang

NOMINATION COMMITTEE

Ms. JIANG Peizhen *(Chairman)*
Mr. ZHU Jierong
Mr. CHENG Yiqun

COMPANY SECRETARY

Ms. NG Wing Shan

AUTHORISED REPRESENTATIVES

Mr. HE Jinqiang
Ms. NG Wing Shan

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 28, Yuejin Road Liuzhou
Guangxi Zhuang Autonomous Region
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor Sunlight Tower
No. 248 Queen's Road East
Wanchai Hong Kong

COMPANY'S WEBSITE

www.goldenthroat.com

STOCK CODE

06896

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

LEGAL ADVISER

Slaughter and May
47th Floor, Jardine House
One Connaught Place
Central, Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower, 1 Tim Mei Avenue
Central, Hong Kong

PRINCIPAL BANK

Agricultrual Bank of China Limited
Liuzhou Lixin Sub-branch
No. 33, Lixin Road
Liuzhou
Guangxi Zhuang Autonomous Region
China

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately RMB102.9 million or 14.8% to approximately RMB797.1 million, as compared to the year ended 31 December 2018.

- Gross profit increased by approximately RMB82.0 million or 15.9% to approximately RMB598.5 million, as compared to the year ended 31 December 2018.

- Earnings before interest, taxes, depreciation and amortisation increased by approximately RMB78.3 million or 48.7% to approximately RMB239.2 million, as compared to the year ended 31 December 2018.

- Profit attributable to equity holders of the Company increased by approximately RMB65.4 million or 64.0% to approximately RMB167.6 million, as compared to the year ended 31 December 2018.

- The Board recommends the payment of a final dividend of HK$0.12 per share for the year ended 31 December 2019 to the shareholders of the Company. The final dividend is subject to the approval of shareholders of the Company at the forthcoming annual general meeting and, if approved, is expected to be paid on or before 18 June 2020.

CHAIRMAN'S STATEMENT

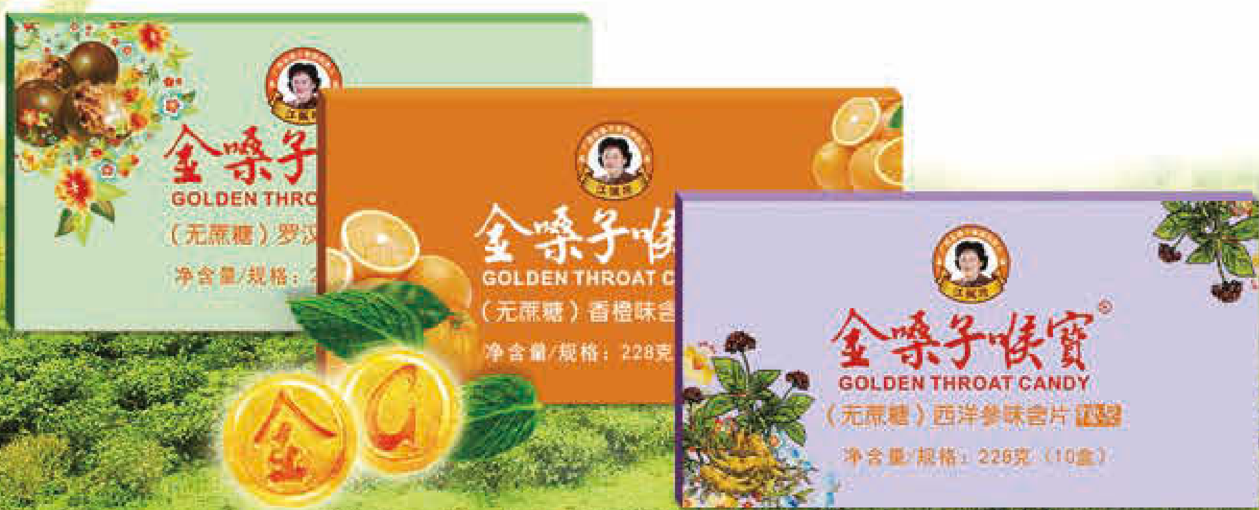
Dear Shareholders,

I would like to take this opportunity to report the Group's performance for the year ended 31 December 2020, and at the same time provide a brief outlook for the Group's operations in 2020.

The Group is a leading manufacturer of lozenges in China. In October 2019, in the 2019 overall statistical ranking of China nonprescription medicines enterprises and product brands, Golden Throat Lozenges stood out amongst many products and was awarded No. 1 amongst Chinese traditional medicines (Throat) by China Nonprescription Medicines Association.

2019 marked the year of Golden Throat Group's great development. With an increasing downward pressure on the economy, coupled with a slowdown in the growth of the pharmaceutical industry, Golden Throat Group showed no fear in times of challenges, overcame the difficulties with persistence, surged forward with courage and completed all economic indicators smoothly. The year has ended in perfection with both production and sales volume booming. In addition, we explored eight new export countries this year, namely Japan, United Kingdom, the Netherlands, Italy, Spain, Portugal, Mongolia and Germany, and the number of export countries of Golden Throat has reached 50. Japan is one of the countries imposing the strictest controls on food imports over the world. With 100% confidence in our product quality and the courage to explore the global market, the first batch of Golden Throat Lozenge Series Products exported to Japan has passed the indicator assessment and is now available for sale. Having a large population, there is a strong future growth potential in market in Japan. Golden Throat being available for sale in Japan and other overseas countries from the commercial perspective or with regard to brand awareness, has been of great significance! 2020 will be a year for continuous growth of the Group's export business, and we will actively expand the overseas markets and further enhance the international recognition of its products.

In 2019, the Group recorded an operating income of approximately RMB797 million, representing a year-on-year increase of approximately 14.8%; gross profit was approximately RMB598 million, representing a year-on-year increase of approximately 15.9%; profit attributable to shareholders in 2019 was approximately RMB168 million, representing a year-on-year increase of approximately 64%. The increase in net profit of the Group was mainly attributable to the increase in sales of Golden Throat Lozenges (OTC) products and Golden Throat Lozenge Series Products. Currently, the policy of "two-invoice system" is implemented for the pharmaceutical industry in China in accordance with the form of hospital, which has resulted in significant adjustments in the operation



model of pharmaceutical distribution companies, and the operation model of the wholesale business of nonprescription medicines has also changed at the same time. The existing three-tier distribution system of the Group is no longer applicable under this situation. By evaluating its experience in adjusting the operational policy in 2018, the Group further strengthed the restructuring of the national sales channel of Golden Throat Lozenges (OTC) in 2019, while the enhancement of the Group's channel has been successfully achieved.

As of 31 March 2020, certain plants of a new medicine production and research and development base of the Group located at Luowei Industrial Concentration Area, Liuzhou, Guangxi Zhuang Autonomous Region were completed and its commissioning of production line and trial production were carried out. After completion of inspection work such as Good Manufacturing Practice, it is expected that the overall relocation of the Group will be implemented in the second half of 2020. The new plants will initially solve the bottleneck problem in production after the relocation, the Group expects to have an increase in its annual production capacity of Golden Throat Lozenges (OTC), representing an increase of approximately 57% of the current capacity.

The Group is expected to enter into a stage of rapid development in 2020. In general, by adhering to the concept of healthy living and continuing to pursue the core value of benefiting human beings, the Group will continue to optimize the marketing strategies for over-the-counter (OTC) products and increase the market share of Golden Throat Lozenges (OTC). Meanwhile, the Group will increase its investment in the marketing channels of supermarkets and step up its efforts in advertising and promotional campaigns with a view to further expanding into the international and domestic market. In addition, the Group will seek to expand its market share of reserved medicines through cooperation with other market leaders to realize continuous growth of its main businesses.

In 2020, the Group will endeavour to accomplish breakthroughs in both pharmaceutical products and fast-moving consumer goods with the concerted efforts of staff at all levels and we are confident in the Group's ability in fulfilling this goal.

I, on behalf of Golden Throat Holdings Group Company Limited, would like to express my sincere gratitude to all our shareholders for their care and support!

JIANG Peizhen
Chairman
31 March 2020

Unless otherwise defined, capitalised terms in this report shall have the meanings ascribed to them below:

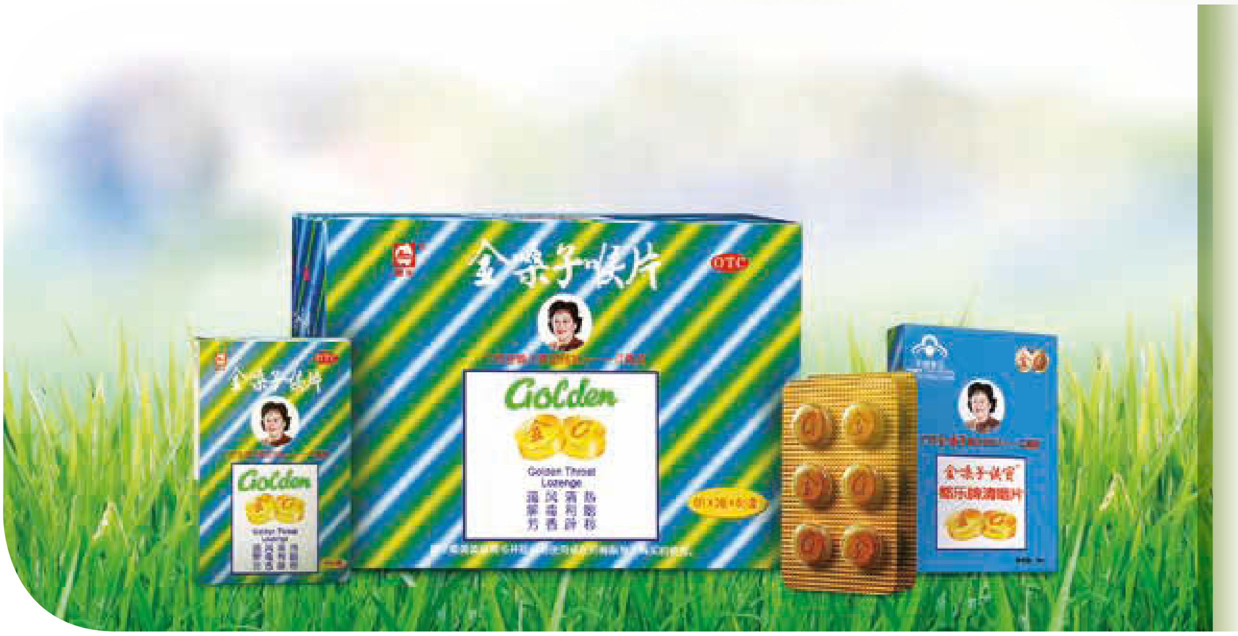
"ASEAN"	Association of Southeast Asian Nations.
"AGM"	the annual general meeting of the Company.
"Articles" or "Articles of Association"	the amended and restated articles of association of the Company, conditionally adopted by the Company on 24 June 2015, which became effective upon the Listing, and as amended from time to time.
"Audit Committee"	the audit committee of the Board.
"Board"	the board of Directors of the Company.
"Board Committees"	the Audit Committee, the Nomination Committee and the Remuneration Committee of the Board.
"Cayman Companies Law" or "Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised from time to time) of the Cayman Islands.
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules.
"Changbao"	Guangxi Changbao Biological Technology Co., Ltd (廣西常寶生物技術有限公司), previously known as Guangxi Weikete Biological Technology Co., Ltd. (廣西維科特生物技術有限公司), a company with limited liability established in China.
"Company", "we", "us" and "our"	Golden Throat Holdings Group Company Limited (金嗓子控股集團有限公司), an exempted company incorporated with limited liability in the Cayman Islands on 2 September 2014.
"Controlling Shareholders"	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Mr. ZENG Yong, the Family Trust, Jin Jiang Global and Golden Throat International.
"Director(s)"	the director(s) of the Company.
"ED"	the executive Director of the Company.

"Family Trust"	an irrevocable discretionary trust settled by Mr. ZENG Yong as the settlor pursuant to a trust arrangement dated 25 February 2015 in respect of the shares in Jin Jiang Global.
"Framework Agreement"	a framework agreement on strategic cooperation dated 15 February 2016 entered into between the Company and Jointown.
"GMP"	Good Manufacturing Practice.
"Golden Throat Company" or "Guangxi Golden Throat"	廣西金嗓子有限責任公司 (Guangxi Golden Throat Co., Ltd.), a company with limited liability established in China and a subsidiary of the Company.
"Golden Throat Health Food"	Guangxi Golden Throat Health Food Co., Ltd. (廣西金嗓子保健品有限公司), a company with limited liability incorporated in China and a subsidiary of the Company.
"Golden Throat Herbal Vegetable Beverages Series Products"	Golden Throat Herbal Vegetable Beverages Series Products (金嗓子草本植物飲料系列產品), a series type of the Group's pipeline products and approved as food product.
"Golden Throat International"	Golden Throat International Holdings Limited, a company incorporated in the British Virgin Islands and beneficially and wholly owned by Jin Jiang Global, and one of the Controlling Shareholders.
"Golden Throat Lozenges (OTC)"	Golden Throat Lozenge (金嗓子喉片), one of the Group's key products and approved as a type of over-the-counter medicine.
"Golden Throat Lozenge Series Products"	Golden Throat Lozenge Series Products (金嗓子喉寶系列產品), one of the Group's key products and approved as food products.
"Golden Throat Medical"	廣西金嗓子醫藥有限公司 (Guangxi Golden Throat Medical Co., Ltd.), a company with limited liability established in China and an indirect wholly-owned subsidiary of the Company.
"Golden Throat Pharmaceutical"	廣西金嗓子藥業股份有限公司 (Guangxi Golden Throat Pharmaceutical Corporation), a company with limited liability established in China and an indirect wholly-owned subsidiary of the Company.
"Group"	the Company and its subsidiaries.

"Herbal Vegetable Beverage"	Golden Throat Herbal Vegetable Beverage (金嗓子草本植物飲料), a series of products under Golden Throat Herbal Vegetable Beverages Series Products.
"HKD" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong.
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC.
"INED"	independent non-executive Director of the Company.
"IPO Proceeds"	the net proceeds from the listing of the Shares on the Stock Exchange.
"Jin Jiang Global"	Jin Jiang Global Investment Company Limited, a company incorporated in the British Virgin Islands and its issued shares are held by Sovereign Trust International Limited as trustee for the benefit of Mr. ZENG Yong and his children and descendants, and one of the Controlling Shareholders.
"Jointown"	九州通醫藥集團股份有限公司 (Jointown Pharmaceutical Group Co., Ltd.), a company listed on the Shanghai Stock Exchange (stock code: 600998) and an independent third party of the Group.
"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange.
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange, as amended from time to time.
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
"NED"	non-executive Director of the Company.
"NMPA"	National Medical Products Administration (國家藥品監督管理局), formerly known as China Food and Drug Administration (國家食品藥品監督管理總局)
"Nomination Committee"	the nomination committee of the Board.

"OTC"	relating to pharmaceutical products which may, upon receiving the NMPA approval, be sold over the counter in China at dispensers, pharmacies or retail outlets without requiring a prescription by a medical practitioner.
"Peizhen Investment"	廣西佩珍投資諮詢有限公司 (Guangxi Peizhen Investment Consulting Co., Ltd.), a company with limited liability established in China and controlled by Ms. JIANG Peizhen.
"PRC" or "China"	the People's Republic of China, for the purpose of this annual report only, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.
"Prospectus"	the prospectus of the Company dated 30 June 2015 in respect of the global offering of the Shares.
"Remuneration Committee"	the remuneration committee of the Board.
"Reporting Period"	As of 31 December 2018.
"RMB"	Renminbi, the lawful currency of the PRC.
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time.
"Shareholder(s)"	holder(s) of any Share(s).
"Share(s)"	ordinary shares in the capital of the Company with a nominal value of US$0.000025 each.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Well-known Trademark"	the trademark of "Golden Throat Lozenge (金嗓子喉寶)" with the registration number 1969118.

Unless otherwise specified, all numerical figures are rounded to one decimal place.



BUSINESS REVIEW

The Group is a leading manufacturer of lozenges in China. At the China Financial Market Awards 2019, Golden Throat stood out for its excellent performance in brand value, and was awarded the Best Brand Value Award. It also won the Huapu Award at the 13th China Brand Festival in August 2019. In October 2019, in the 2019 overall statistical ranking of China nonprescription medicines enterprises and product brands, Golden Throat Lozenges stood out amongst many products and was awarded No. 1 amongst Chinese traditional medicines (Throat) by China Nonprescription Medicines Association. It ranked 37th in the overall ranking of manufacturing enterprises. Currently, the Group has developed into a modern integrated group mainly engaging in the manufacture and sale of lozenges and other pharmaceutical and food products.

Key Products

The Group reports its revenue by three product categories, which include Golden Throat Lozenges (OTC), Golden Throat Lozenge Series Products and other products.

Golden Throat Lozenges (OTC) – over-the-counter medicine

The Group's flagship product is Golden Throat Lozenges (OTC), which was launched in 1994. It is a type of lozenge mainly designed to relieve symptoms of sore and dry throat and hoarse voice caused by acute pharyngitis. Golden Throat Lozenges (OTC) was approved as over-the-counter medicine by the NMPA, as such they can be purchased by the public in pharmacies without requiring the prescription of a qualified medical professional.

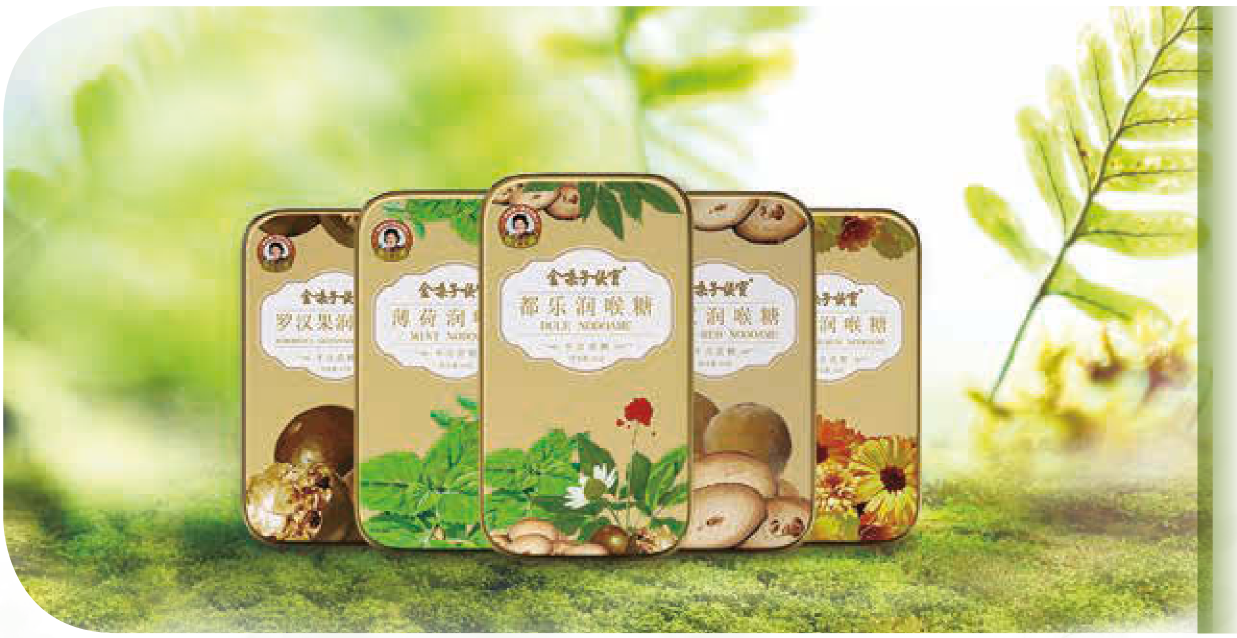
As of 31 December 2019, Golden Throat Lozenges (OTC) were exported to the United States, Canada, Russia, the European Union, Australia, Southeast Asia, Middle East, Mexico, Africa, and Mongolia, a newly explored export country in 2019, across five continents of the world.

As of 31 December 2019, the Group's revenue of Golden Throat Lozenges (OTC) accounted for approximately 90.5% of its total revenue for the year ended 31 December 2019.

Golden Throat Lozenge Series Products – Food

The Group's other key products are Golden Throat Lozenge Series Products, which include seven products comprising of Dule Lozenges (都樂含片), sugar-free Dule Lozenges and five other sugar-free flavours of this series, namely orange (香橙), fructus momordicae (羅漢果), chrysanthemum (桑菊), American ginseng (西洋參) and hawthorn (山楂). A major difference between Golden Throat Lozenges (OTC) and Golden Throat Lozenge Series Products is that the former is approved as over-the-counter medicine, whereas the latter is approved as food products. The sugar-free series of Golden Throat Lozenge Series Products was launched in 2013, which supplements the Group's original sales channel and provides consumers with more diversified choices in response to consumer differentiation.

In 2019, Golden Throat Lozenge Series Products was newly exported to Japan, United Kingdom, the Netherlands, Italy, Spain, Portugal and Germany. As of 31 December 2019, Golden Throat Lozenge Series Products were exported to 17 countries and regions.



As of 31 December 2019, the Group's revenue of Golden Throat Lozenges Series Products accounted for approximately 8.4% of its total revenue for the year ended 31 December 2019.

Other Products

As of 31 December 2019, the Group's revenue of other products accounted for approximately 1.1% of its total revenue for the year ended 31 December 2019. Two of the Group's other products are Yinxingye Tablet (銀杏葉片) and Herbal Vegetable Beverages. Yinxingye Tablet is mainly designed to facilitate blood circulation, remove blood stasis and dredge energy channels and was approved as a prescription medicine by the NMPA, while the main function of Herbal Vegetable Beverages is soothing voice and relieving sore throats.

Research and Development

The Group's business has significantly benefited from its strong track record in research and development. Since 1994, the Group has successfully developed 31 new products for which it has obtained manufacturing permits, amongst which, eight are pharmaceutical products (including Jinyin Sanqi Capsule (金銀三七膠囊)), 21 are food products, one is a health supplement and one is a medical apparatus product.

The Group's research and development activities are conducted both in-house and through collaborations with external research institutions, such as hospitals, institutes for drug research and other companies. As at 31 December 2019, the Group's research and development team consisted of approximately 270 people.

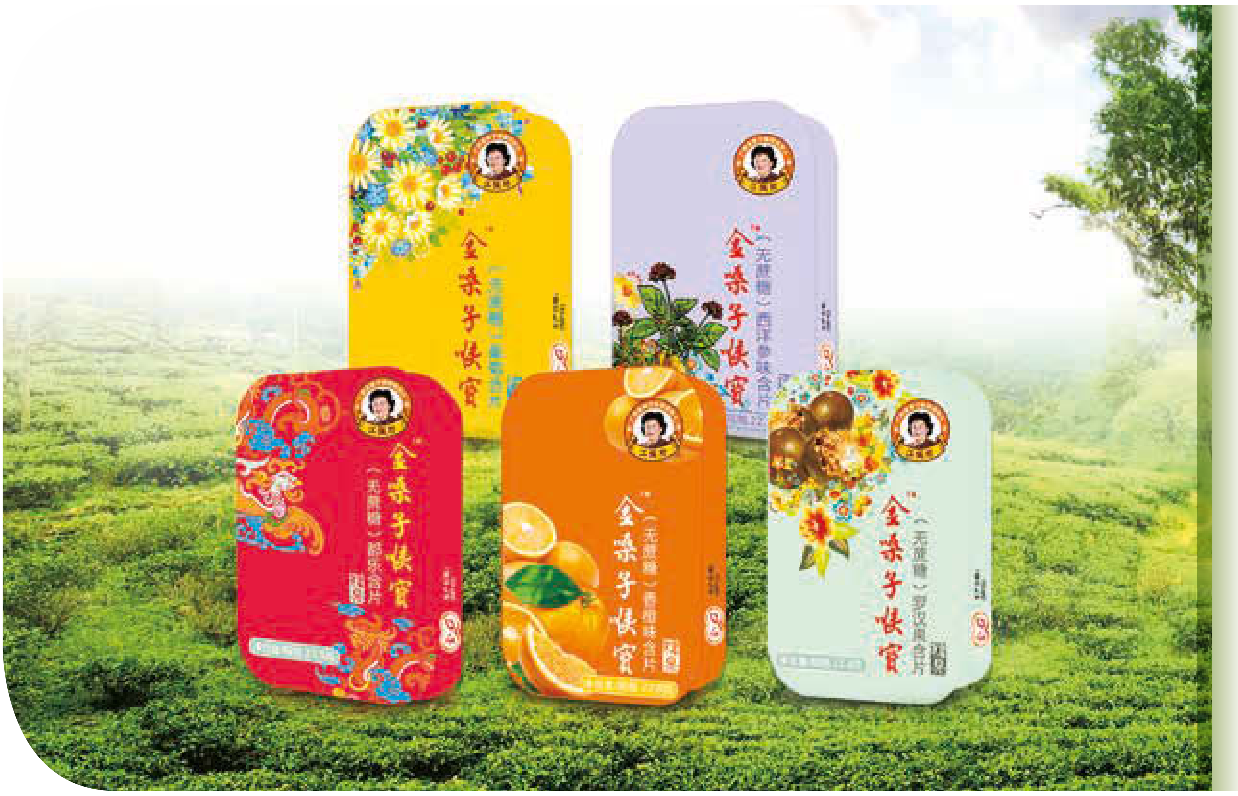
Sales, Marketing and Distribution

Branding

The Group believes that strong brand recognition and customer loyalty are key to the recognition of the "Golden Throat (金嗓子)" brand. In 2017, "Golden Throat (金嗓子)" brand was selected as a world famous brand by the China America Branding Strategy Forum and in the same year, the Company was ranked amongst the listed companies on the Forbes China Up-and-Comers List. At the China Financial Market Awards 2019, Golden Throat stood out for its excellent performance in brand value, and was awarded the Best Brand Value Award. It also won the Huapu Award at the 13th China Brand Festival in August 2019. In October 2019, in the 2019 overall statistical ranking of China nonprescription medicines enterprises and product brands, Golden Throat Lozenges stood out among many products and was awarded No. 1 amongst Chinese traditional medicines (Throat) by China Nonprescription Medicines Association. It ranked 37th in the overall ranking of manufacturing enterprises.

Distribution Network

The Group has established an extensive and structured sales and distribution network throughout China for its (i) over-the-counter medicines, (ii) food products and (iii) prescription medicines. As of 31 December 2019, substantially all of the Group's revenue was generated from sales to distributors.



As of 31 December 2019, the Group's distribution network had no substantial change, with over 550 distributors directly engaged by it and covering all the provinces, autonomous regions and municipal cities throughout China. In addition, the Group has also engaged promoters to further facilitate its product promotion and advertising, strengthen communication with its customers and monitor the activities of its distributors. The Group restructured its sales system since the first half of 2018. After reorganisation of the Group's distribution network and delineating distribution areas, the number of sub-distributors will be increased. The restructuring of the national channel of Golden Throat Lozenges (OTC) was further strengthened in 2019, and the enhancement of Golden Throat channel was further improved. As of 31 December 2019, the Group's secured orders increased as compared to the corresponding period in 2018.

As mentioned above, the Group also has a presence in various overseas markets for its products, including the United States, Canada, Russia, Japan, the European Union, Australia, Southeast Asia, Middle East, Mexico, and newly explored export countries in 2019 including Mongolia, Japan, United Kingdom, the Netherlands, Italy, Spain, Portugal and Germany across five continents of the world. The Group has actively responded to China's top-level strategy – the national "Belt and Road" initiative, of which 10 ASEAN countries play a vital role in its strategy. Up to now, the Company has successfully entered into agency agreements with all of the 10 ASEAN countries, and its products have exported to nine countries, except Laos.

The Group witnessed further growth of the Group's overseas export business in 2019, and Japan, the Group's new export country, is one of the countries imposing the strictest controls on food imports over the world. With 100% confidence in our product quality and the courage to explore the global market, the first batch of Golden Throat Lozenge Series Products exported to Japan has passed the indicator assessment and are now available for sale. Having a large population, there is a strong future growth potential in market in Japan. Golden Throat being available for sale, from the commercial perspective or with regard to brand awareness, has been of great significance.

As of 31 December 2019, the Group has exported its products to up to 50 countries. After more than ten years of overseas market expansion, Golden Throat has formed a solid strategic partnership with local distributors in export trade, and then gradually cultivated a large crowd of consumer groups overseas for the brand, establishing a diversified customer base for promoting "Made in China" to overseas. In October 2018, the Group established Golden Throat Lozenge Series Products flagship store on online platform Taobao Tmall, with the addition of online exclusive Golden Throat Lozenge Series Products, which include six products comprising of Golden Throat Lozenge Dule Lozenges and five other flavours (including mint, chrysanthemum, red tangerine (桔紅), fructus momordicae and American ginseng) and various fruit candies. In the future, the dual development of retail pharmacies and online sales will contribute to an efficient and comprehensive distribution system.

As disclosed in the Company's announcement dated 16 February 2016, the Company entered into the Framework Agreement on strategic cooperation on 15 February 2016 with Jointown based on both parties' intention for joint development. Pursuant to the Framework Agreement, the Company shall grant exclusive agency rights to Jointown for the sales and distribution of the Group's certain types of products within the mainland China through Jointown's pharmaceutical distribution network (subsidiaries of Jointown in 2019), but such rights shall not include Jointown's right to engage any sub-distributors outside of its distribution network. The term of the Framework Agreement is six years, commencing from 1 January 2016 till 31 December 2021.

Promoters

As of 31 December 2019, the Group has entered into certain products promotion cooperation agreements with 11 promoters. The primary reasons for engaging the promoters in certain regions are: (i) their knowledge of local markets and substantial experience in promoting products; and (ii) their familiarity with local municipal level agents and that the Group can benefit from their facilitation and ongoing feedback of such local markets.

Market Review

In recent years, as the global pharmaceutical market grow steadily with the growth of global population and the increasing level of ageing population, the demand for and the types of medical services and medicines have been rising. Besides, the rising living standard gives rise to the increasing awareness of health management among the citizens, which has fostered the steady development of the global pharmaceutical market. Given that the particulate matter 2.5 (PM2.5) has been at an unhealthy level in most of the major cities in China for a long time in recent years, air pollution is one of the main causes of respiratory infections, especially pharyngitis. In view of the air pollution problem, consumers are more concerned about protecting their throats, and the pharmaceutical and lozenge market in China is expected to grow continuously.

PRC consumers' health awareness has been increasing year by year, which resulted in higher spending on health related products including, amongst others, health food and medicines. Consumers nowadays care more about life quality and health than before, and are getting more familiar with many brands of OTC medicines. In addition, the inconvenience and time needed for seeing doctors due to shortage of medical resources also drive consumers to treat themselves at home by purchasing OTC medicines when they encounter common ailments or chronic diseases.

After the implementation of "two-invoice system" for the pharmaceutical industry in China, it requires the industry to strictly execute the unified management of purchase, sales and stock, and sell goods with invoice. This not only increases the operating cost of the pharmaceutical industry, which in turn requires pharmaceutical factories in the industry to bear the distribution cost of pharmaceutical products and manufacture products with higher profit margins, but at the same time causes the original marketing system no longer be able to adapt to new trend.

In this regard, the Group has adjusted its operation policy from 2018 to 2019. On the basis of the pilot project in three regions including Hebei, Taihe in Anhui and Guangdong in 2017, a new marketing model was launched nationwide in 2018, which mainly consists of (i) re-selection of primary distributors and sub-distributors, and (ii) price management and control for primary distributors, sub-distributors and terminal providers since 2018. The objective is to expand channels and increase types, number and profit of products to be sold, which aims to improve the distribution system.

Future Expansion and Upgrading Plan

In 2020, the Group will continue to strengthen its leading position in the lozenge market and continue to expand its market share in the PRC pharmaceutical and food markets.

The Group has commenced its strategic expansion into new geographic markets such as Qinghai, Jilin and Inner Mongolia through the Group's refined distribution network established back in 2013 and will continue both to expand into new markets and further penetrate its existing markets through the expansion of its sales team to provide more distribution and sales support to its distributors at the pharmacy level. In addition, by evaluating its experience in adjusting the operational policy in 2018, the Group further strengthened the restructuring of the national sales channel of Golden Throat Lozenges (OTC) in 2019, while the enhancement of the Group's channel has been successfully achieved.

To further enhance the popularity of its products and awareness of its brand and image in China, the Group will continue to maintain and promote its "Golden Throat (金嗓子) " brand with the goal of establishing it as a well-known household brand recognised for effective, safe and curative lozenge products in China. The Group plans to expand and enhance its media marketing and promotion efforts, which historically have mainly been advertising on television networks, by increasingly advertising via internet media that has a broader coverage. The Group's dedicated marketing team will continue to work closely with its distributors to design and carry out effective and targeted marketing campaigns and promotional activities.

The Group also intends to increase its production capacity by constructing a new production base to meet the market demand for its Golden Throat Lozenges (OTC). As of 31 March 2020, part of the external structures of plants of a new medicine production and research and development base of the Group located at Luowei Industrial Concentration Area, Liuzhou, Guangxi Zhuang Autonomous Region were completed and its commissioning of production line and trial production were being carried out. After completion of inspection work such as GMP, it is expected that the overall relocation of the Group will be implemented in the second half of 2020. After the expansion in 2020 as scheduled, the Group expects to have an increase in its annual production capacity of Golden Throat Lozenges (OTC) of approximately 57% of the current capacity.

In addition, the Group plans to convert its current headquarters at No. 28, Yuejin Road, Liuzhou, Guangxi Zhuang Autonomous Region into a food production plant, as well as a food research and development centre, in order to enhance its food business and capture more customers and sales. Its current base in Laibin, Guangxi Zhuang Autonomous Region will be used to establish a Chinese herbs processing base.

RISK FACTORS

We depend on distributors for most of our turnover. If we fail to maintain relationships with, or monitor the distribution by, our existing distributors or expand our distribution network, and our distributors fail to promote or sell our products, our business or results of operations could be adversely affected.

Changes in consumer preferences, perception of the effectiveness of our products or demand for herbal lozenges could adversely affect our reputation, revenues and profitability, including but not limited to the factors of a change in consumers' belief that lozenges based on Chinese herbal medicines may be effective in achieving their claimed benefit or a general decrease in preferences for Chinese herbal medicines-based lozenges.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue increased by approximately RMB102.9 million or 14.8% to approximately RMB797.1 million, as compared to approximately RMB694.2 million for the year ended 31 December 2018. The increase is mainly attributable to the increase in sales of Golden Throat Lozenges (OTC) and Golden Throat Lozenge Series Products.

For the year ended 31 December 2019, the Group's revenue generated from sales of Golden Throat Lozenges (OTC) was approximately RMB721.2 million, representing an increase of approximately RMB93.2 million or 14.8% as compared to approximately RMB628.0 million for the year ended 31 December 2018. The increase was mainly attributable to the fact that the Group further improved the restructuring of the national channel of Golden Throat Lozenges (OTC) in 2019, while the enhancement of the Company's channel has achieved good result. The Company's related sales revenue therefore increased in 2019.

For the year ended 31 December 2019, the Group's revenue from the sales of the Golden Throat Lozenge Series Products amounted to approximately RMB66.8 million as compared to approximately RMB54.1 million for the year ended 31 December 2018, representing an increase of approximately RMB12.7 million or 23.5%, which was mainly attributable to the Group's further strengthening of the marketing and distribution network of Golden Throat Lozenge Series Products.

For the year ended 31 December 2019, the Group's revenue from sales of other products amounted to approximately RMB9.1 million, which was decreased by approximately 24.8% as compared to approximately RMB12.1 million for the year ended 31 December 2018.

The table below sets forth, for the periods indicated, the sales volume, revenue, cost, gross margin, unit price and unit cost of the Group's key products.

	Year ended 31 December 2019					
	Sales boxes'000	Revenue RMB'000	Cost RMB'000	Gross margin %	Unit price RMB	Unit cost RMB
Golden Throat Lozenges (OTC)	**112,581**	**721,181**	**158,724**	**78.0**	**6.4**	**1.4**
Golden Throat Lozenge Series Products	**12,851**	**66,776**	**23,906**	**64.2**	**5.2**	**1.9**

	Year ended 31 December 2018					
	Sales boxes'000	Revenue RMB'000	Cost RMB'000	Gross margin %	Unit price RMB	Unit cost RMB
Golden Throat Lozenges (OTC)	103,978	627,994	144,421	77.0	6.0	1.4
Golden Throat Lozenge Series Products	10,356	54,108	21,744	59.8	5.2	2.1

Cost of Sales

The Group's cost of sales consists primarily of cost of packaging materials, labor costs, cost of raw materials, commission processing fee, write-down of inventories to net realisable value, depreciation and other costs relating to its production of Golden Throat Lozenges (OTC), Golden Throat Lozenge Series Products and other products.

The Group's cost of sales increased from approximately RMB177.7 million for the year ended 31 December 2018 to approximately RMB198.7 million for the year ended 31 December 2019, which represents approximately 24.9% of the Group's total revenue for the same period. The increase in cost of sales of the Group for the year ended 31 December 2019 was mainly attributable to the increase in the sales volume of Golden Throat Lozenges (OTC) and Golden Throat Lozenge Series Products.

The table below sets forth, for the periods indicated, the components of the cost of sales and each component as a percentage of total cost of sales.

	Year ended 31 December 2019		Year ended 31 December 2018	
	RMB'000	**% of total**	RMB'000	% of total
Packaging materials	**92,307**	**46.5%**	80,477	45.3%
Raw materials	**44,958**	**22.6%**	43,412	24.4%
Labor costs	**42,498**	**21.4%**	38,615	21.7%
Depreciation	**4,688**	**2.4%**	4,700	2.6%
Commission processing fee	**919**	**0.4%**	381	0.2%
Write-down of inventories to net realisable value	**924**	**0.5%**	192	0.1%
Other costs	**12,379**	**6.2%**	9,902	5.7%
Total	**198,673**	**100%**	177,679	100%

Gross Profit

Gross profit represents the excess of revenue over cost of sales.

The Group's gross profit for the year ended 31 December 2019 was approximately RMB598.5 million, as compared to approximately RMB516.5 million for the year ended 31 December 2018, representing an increase of approximately RMB82.0 million, or 15.9%. The increase in the Group's gross profit was mainly due to the increase in the Group's revenue. The Group's gross profit margin increased to 75.1% as of 31 December 2019 from 74.4% for the corresponding period in 2018.

Other Income and Gains

The Group's other income and gains mainly comprised government grants and interest income. For the year ended 31 December 2019, the Group's other income and gains increased to approximately RMB26.8 million, as compared to approximately RMB24.3 million for the year ended 31 December 2018, representing an increase of approximately RMB2.5 million. Other income and gains remained basically the same as compared to the corresponding period in 2018.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consisted of (i) advertising expenses, (ii) promotion expenses, (iii) transportation expenses, (iv) employee benefit expenses, (v) travel and office expenses, (vi) marketing expenses, and (vii) other miscellaneous expenses. For the year ended 31 December 2019, the Group's selling and distribution expenses amounted to approximately RMB308.4 million, as compared to approximately RMB290.0 million for the year ended 31 December 2018, representing an increase of approximately RMB18.4 million, or 6.3%. Such increase was mainly attributable to the increase in sales expenses paid by the Group in relation to the in-depth implementation of the enhancement of the Group's channel for the year ended 31 December 2019.

Administrative Expenses

The Group's administrative expenses primarily consisted of (i) salary and welfare expenses for management and administrative personnel, (ii) travel and office expenses, (iii) research and development costs, (iv) depreciation and amortisation costs relating to its office equipment, (v) amortisation of right-of-use assets, (vi) professional services fees incurred for legal, tax and other services, (vii) impairment loss for assets, and (viii) other miscellaneous expenses. For the year ended 31 December 2019, the Group's administrative expenses amounted to approximately RMB77.5 million, as compared to approximately RMB65.9 million for the year ended 31 December 2018, representing an increase of approximately RMB11.6 million, or 17.6%. The increase was mainly attributable to the increase in salary for management and administrative personnel of the Group for the year.

Other Expenses

Other expenses of the Group mainly include (i) litigation fee and (ii) exchange losses. For the year ended 31 December 2019, the Group's other expenses amounted to approximately RMB9.6 million, as compared to approximately RMB30.2 million for the year ended 31 December 2018, representing a decrease of approximately RMB20.6 million. The decrease was mainly attributable to a decrease in exchange loss arising from the effect of the Group's exchange rate fluctuations for the year.

Finance Costs

For the year ended 31 December 2019, the Group's finance costs amounted to approximately RMB9.8 million, as compared to approximately RMB5.2 million for the year ended 31 December 2018, representing an increase of approximately RMB4.6 million, or 88.5%. The increase was mainly attributable to the increase in average interest-bearing bank borrowings.

Income Tax Expense

For the year ended 31 December 2019, the Group's income tax expense amounted to approximately RMB52.3 million, as compared to approximately RMB47.3 million for the year ended 31 December 2018, representing an increase of approximately RMB5.0 million, or 10.6%. The effective tax rate for the year ended 31 December 2019 and the corresponding period in 2018 was 23.8% and 31.6%, respectively. The decrease in effective tax rate was mainly attributable to the reduction in tax adjustment.

Net Profit

For the year ended 31 December 2019, the Group's net profit increased to approximately RMB167.6 million, as compared to approximately RMB102.2 million for the year ended 31 December 2018, representing an increase of approximately RMB65.4 million, or 64.0%. The increase in the Group's net profit was mainly attributable to the increase in the Group's revenue. For the reasons of increase in the Group's revenue, please refer to the section headed "Revenue" above.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

As of 31 December 2019, the Group had net current assets of approximately RMB677.0 million, as compared to approximately RMB758.4 million as of 31 December 2018. The current ratio of the Group decreased to approximately 2.5 as at 31 December 2019 from 2.8 as at 31 December 2018. The decrease in net current assets was mainly attributable to the increase in the Group's capital used in the construction of a new medicines production and research and development base in Luowei Industrial Concentration Area.

Borrowings and the Pledge of Assets

As of 31 December 2019, the Group had an aggregate interest-bearing bank borrowings and other borrowings of approximately RMB96.1 million, as compared to approximately RMB96.0 million as of 31 December 2018. All the bank borrowings are repayable within one year. Bank borrowings and other borrowings remained basically the same as compared with 31 December 2018.

As of 31 December 2019, all of the Group's bank borrowings were at fixed interest rates. For details of such borrowings, please refer to Note 21 of the Group's consolidated financial statements.

The Group continues to manage its financial position and capital structure with a solid equity base, adequate working capital and credit facilities. The Group has various policies governing accounting control, as well as credit and foreign exchange risks and treasury management. The Group has also been paying close attention to asset and liability management, including liquidity risks and currency risks.

As at 31 December 2019, the Group had certain bank loans and collaterals:

(i) Certain of the Group's bank loans are secured by the pledge of the Group's deposits amounting to RMB70,103,000 (2018: Nil) at the end of the reporting period;

(ii) No building (2018: RMB1,545,000) was pledged to secure bank loan facilities granted to the Group at the end of the reporting period; and

(iii) No leasehold land (2018: RMB14,932,000) was pledged to secure bank loan facilities granted to the Group at the end of the reporting period.

Gearing Ratio

As of 31 December 2019, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to approximately 8.3% from approximately 9.1% as of 31 December 2018. The decrease was mainly attributable to the increase in total equity from RMB1,057.2 million as at 31 December 2018 to RMB1,154.1 million as at 31 December 2019.

CONTINGENT LIABILITIES

For details of the contingent liabilities of the Group as at 31 December 2019, please refer to Note 27 of the Group's consolidated financial statements.

FOREIGN EXCHANGE RISK

The Group's transactions are mainly denominated and settled in RMB. The Group had certain amounts of deposits in HKD and USD, amounting to approximately HK$9.2 million and US$5.5 million as of 31 December 2019, respectively. The Group has exposure to foreign exchange risk that arises from fluctuations in the exchange rates of HKD to RMB and USD to RMB.

As at 31 December 2019, the Group did not use any financial instruments to hedge its foreign exchange risk.

EMPLOYEES AND EMOLUMENTS POLICY

As at 31 December 2019, the Group employed a total of 903 full-time employees, as compared to a total of 839 full-time employees as at 31 December 2018. The staff costs, including Directors' emoluments but excluding any contributions to pension scheme, were approximately RMB69.1 million for the year ended 31 December 2019 as compared to approximately RMB62.1 million for the corresponding period in 2018. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end bonuses are offered to those staffs with outstanding performances to attract and retain capable employees of the Group. With respect to trainings, the Company proactively arranges its employees to study the newly-promulgated laws and regulations in the PRC so as to ensure that products produced by the Group are in compliance with the laws and regulations. The Group also organises various training programmes targeting employees from different business departments and functions. For example, there are training programmes in relation to knowledge of Chinese medicinal herbs and Chinese medicine decoction pieces as well as the trainings in relation to production quality standard of pharmaceutical products, equipment maintenance and repair and so forth. All of these are designed to provide support to the technological development and team building of the Group.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

For the year ended 31 December 2019, the Group did not hold any significant investments or make any material acquisitions or disposals of subsidiaries, associates or joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

For the year ended 31 December 2019, the Group committed to investing approximately RMB69.6 million for the purpose of constructing a new medicines production and research and development base in Luowei Industrial Concentration Area, Liuzhou, Guangxi Zhuang Autonomous Region. Such investment will be funded by the IPO Proceeds as set out in the section headed "Use of net proceeds from listing" below. Save as disclosed above, the Group currently does not have other plans for material investments or capital assets.

PROSPECTS

The Group will continue to seek to strengthen its leading position in the lozenge market and continue to expand its market share in the PRC pharmaceutical and food markets. Moreover, the Group will aim to increase its production capacities, expand its product portfolio and strengthen its research and development capabilities. It will enhance its food and other pharmaceutical businesses and promote synergies across different product segments. The Group will aim to enhance its brand recognition through effective and targeted marketing efforts, and will continue to expand its distribution network, to refine associated infrastructure and to leverage on its existing distribution network to promote different products.

USE OF NET PROCEEDS FROM LISTING

The IPO Proceeds (including those shares issued pursuant to the partial exercise of the over-allotment options), after deducting underwriting fees and related expenses, amounted to approximately HK$909.6 million, which are intended to be applied in the manner disclosed in the Prospectus. Details of the use of the IPO Proceeds are set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2019, there was no change to the intended use of the IPO Proceeds as disclosed in the Prospectus.

From the Listing Date to 31 December 2019, the Group had utilised approximately HK$604.04 million, representing approximately 66.41% of the IPO Proceeds. Set out below is a summary of the utilisation of the IPO Proceeds:

Use of IPO Proceeds

	Utilised	
	HK$'000	% of IPO Proceeds
Construction in Luowei Industrial Concentration Area	202,873	22.30
Conversion of headquarters	–	–
Market expansion	286,685	31.52
Product development	17,057	1.88
Establishment of Chinese herbs processing base	–	–
Refinement and Upgrade of electronic code system	6,467	0.71
General working capital	90,960	10.00

AN OVERVIEW OF DIRECTORS AND SENIOR MANAGEMENT

As at 31 March 2020, the Board of Directors of the Company consists of nine Directors, comprising five executive Directors, one non-executive Director and three independent non- executive Directors.

The table below sets forth certain information in respect of the Directors and our senior management as at 31 March 2020.

Name	Age	Position	Date of appointment	Relationship with other Directors or senior management
DIRECTOR				
Ms. JIANG Peizhen (江佩珍)	74	Chairman and Non-executive Director	10 February 2015	Mother of Mr. ZENG Yong
Mr. ZENG Yong (曾勇)	46	Vice Chairman of the Board, Executive Director and General Manager	10 February 2015	Son of Ms. JIANG Peizhen
Mr. HUANG Jianping (黃建平)	57	Executive Director, Deputy General Manager and President of Labour Union	10 February 2015	None
Mr. ZENG Kexiong (曾克雄)	55	Executive Director and Deputy General Manager	10 February 2015	None
Mr. LU Xinghong (呂興鴻)	63	Executive Director and Deputy General Manager	10 February 2015	None
Mr. HE Jinqiang (何錦強)	50	Executive Director and Deputy General Manager	10 February 2015	None
Mr. LI Hua (李驊)	48	INED	10 February 2015	None
Mr. ZHU Jierong (朱頡榕)	71	INED	10 February 2015	None
Mr. CHENG Yiqun (程益群)	50	INED	10 February 2015	None
SENIOR MANAGEMENT				
Mr. CHENG Qiang (程強)	50	Assistant to General Manager	December 2018	None
Ms. LI Qing (李慶)	50	Assistant to General Manager	January 2014	None
Mr. WU Dong (吳東)	51	Assistant to General Manager	February 2015	None

DIRECTORS

Non-Executive Director

Ms. JIANG Peizhen (江佩珍), aged 74, is the Chairman of the Board and a non-executive Director. Ms. JIANG was appointed as a Director on 10 February 2015 and is primarily responsible for formulating the overall development strategies and business plan of the Group. Ms. JIANG is also a director of Guangxi Golden Throat and Golden Throat Medical. From 1956 to 1998, Ms. JIANG had been working as a staff worker, workshop director, vice president, president and party secretary of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠). Ms. JIANG obtained a Diploma degree in journalism from Beijing Humanities University (北京人文大學) in Beijing, China in May 1987 and a Pharmaceutical Diploma from Guangxi School of Chinese Medicine (廣西中醫學院) (now known as Guangxi University of Chinese Medicine (廣西中醫藥大學)) in Nanning, Guangxi Zhuang Autonomous Region, China, in January 2001. Ms. JIANG obtained the qualification certificate of senior economist conferred by the Bureau of Scientific and Technological Personnel, Guangxi Zhuang Autonomous Region (廣西壯族自治區科技幹部局) in 1992. Ms. JIANG is the mother of Mr. ZENG Yong.

Executive Directors

Mr. ZENG Yong (曾勇), aged 46, is the Vice Chairman of the Board and an executive Director and General Manager. Mr. ZENG was appointed as a Director on 10 February 2015 and is primarily responsible for overseeing the management and strategic development of the Group. Mr. ZENG is also a director of Guangxi Golden Throat and Golden Throat Pharmaceutical. Mr. ZENG joined Guangxi Golden Throat in March 1995 and has gained over 18 years of experience in sales management. Prior to joining the Group, Mr. ZENG worked at the International Affairs Department of the Bank of Communications Guangxi Liuzhou Branch (交通銀行廣西柳州分行) from August 1994 to September 1995. From October 1995 to September 1998, Mr. ZENG also worked at the Advertising Department of the Guangxi Liuzhou Cable TV Network (廣西柳州市有線電視台). Mr. ZENG obtained a Diploma's degree in English from Guangxi Teachers Education University (廣西師範學院) in Nanning, Guangxi Zhuang Autonomous Region, China in June 1994. Mr. ZENG is the son of Ms. JIANG Peizhen.

Mr. HUANG Jianping (黃建平), aged 57, is an executive Director, the Deputy General Manager and President of Labour Union. Mr. HUANG was appointed as a Director on 10 February 2015 and is primarily responsible for providing strategic advice and guidance on the employee union related matter of the Group. Mr. HUANG is also a director of Guangxi Golden Throat and Golden Throat Pharmaceutical. Mr. HUANG joined the Group in August 1985 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1985 to 1998, Mr. HUANG worked as a staff worker, communist party vice secretary and office chief of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Guangxi Golden Throat. He graduated from Guangxi Light Industry Technician College (廣西輕工學校) in sugar refinery in Nanning, Guangxi Zhuang Autonomous Region, China in July 1985. Mr. HUANG obtained the qualification certificate of assistant engineer issued by the Liuzhou Municipal Qualification Reform Office (柳州市職稱工作改革辦公室) in 1994.

Mr. ZENG Kexiong (曾克雄), aged 55, is an executive Director and Deputy General Manager. Mr. ZENG was appointed as a Director on 10 February 2015 and is primarily responsible for production, technology and quality inspection related matters of the Group. Mr. ZENG is also a director of Guangxi Golden Throat and Golden Throat Pharmaceutical. Mr. ZENG joined the Group in August 1984 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1984 to 1998, Mr. ZENG worked as a staff worker and department chief of Production and Technology Department of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Guangxi Golden Throat. He graduated from Guangxi Light Industry Technician College (廣西輕工學校) in sugar refinery in Nanning, Guangxi Zhuang Autonomous Region, China in July 1984. Mr. ZENG obtained the qualification certificate of engineer conferred by the Liuzhou Municipal Leading Group of Qualification Reform (柳州市職改領導小組) in 1996.

Mr. LU Xinghong (呂興鴻), aged 63, is an executive Director and Deputy General Manager. Mr. LU was appointed as a Director on 10 February 2015 and is primarily responsible for power plants related matters of the Group. Mr. LU is also a director of Guangxi Golden Throat and Golden Throat Pharmaceutical. He joined the Group in October 1988 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1988 to 1998, Mr. LU worked as a staff worker and department chief of Power Plants Department of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Guangxi Golden Throat. He obtained a Bachelor's degree in mechanical maintenance from Guangxi University (廣西大學) in Nanning, Guangxi Zhuang Autonomous Region, China in August 1982. Mr. LU obtained the qualification certificate of senior engineer issued by the Personnel Department of Guangxi Zhuang Autonomous Region (廣西壯族自治區人事廳) in 1996.

Mr. HE Jinqiang (何錦強), aged 50, is an executive Director and Deputy General Manager. Mr. HE was appointed as a Director on 10 February 2015 and is primarily responsible for labour, personnel and warehouse related matters of the Group. Mr. HE is also a director of Guangxi Golden Throat, Golden Throat Health Food and Golden Throat Pharmaceutical. Mr. HE joined the Group in August 1991 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1991 to 1998, Mr. HE worked as a staff worker of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Guangxi Golden Throat. He obtained a Bachelor's degree in food science from Guangxi University (廣西大學) in Nanning, Guangxi Zhuang Autonomous Region, China in July 1991. Mr. HE obtained the qualification certificate of engineer conferred by the Liuzhou Municipal Leading Group of Qualification Reform (柳州市職改領導小組) in 1996.

Independent Non-Executive Directors

Mr. LI Hua (李驊), aged 48, is an independent non-executive Director. Mr. LI was appointed as a Director on 10 February 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. LI has over 25 years experience in the auditing and accounting in various industries. Since 2005, Mr. LI has been acting as the chairman of Guangxi Tianhua Certified Public Accountants Co., Ltd. (廣西天華會計師事務所有限責任公司). Prior to this, Mr. LI served as the chief account of Guangxi Zhengze Certified Public Accountants (廣西正則會計師事務所) from 1999 to 2004. Mr. LI also concurrently serves as an independent director of Liuzhou Iron & Steel Co., Ltd. (柳州鋼鐵股份有限公司) (Shanghai Stock Exchange, Stock Code: 601003), standing director of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會), standing director of Guangxi Accounting Society (廣西會計學會), vice president of Liuzhou Accounting Society (柳州會計學會) and chairman of professional advisory committee of Guangxi Institute of Certified Public Accountants (廣西註冊會計師協會專業諮詢委員會). Mr. LI is a Chinese certified public accountant recognised by the Certified Accountants Examination Committee of the Ministry of Finance in May 1995, certified public valuer recognised by the Ministry of Finance in April 1997 and certified tax agent jointly recognised by the Ministry of Human Resources and Social Security of the PRC and the SAT in 1999. Mr. LI obtained a Bachelor's degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, China in July 1993.

Mr. ZHU Jierong (朱頡榕), aged 71, is an independent non-executive Director. Mr. ZHU was appointed as a Director on 10 February 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. ZHU has over 20 years experience in engineering and management. From 2002 to 2012, Mr. ZHU has been acting as deputy general manager of Zhejiang Shibao Company Limited (浙江世寶股份有限公司) (Stock Code: 1057) and has been acting as a director thereof from June 2004 to June 2018. Prior to this, Mr. ZHU worked as deputy technical director, deputy chief engineer and the head of Technical Audit Department in automotive steering plant of Zhejiang Wanda Group Corporation (浙江萬達集團) and other entities from 1990 to 2002. Mr. ZHU is a fellow member of the Hong Kong Institute of Directors since October 2014, and obtained the certificates of independent director qualification of listed companies issued by the Shenzhen Stock Exchange in June 2017. Mr. ZHU graduated from Management Institute of Automotive Technology (汽車工業管理幹部學院) (now known as Hubei University of Automotive Technology (湖北汽車工業學院)) in Wuhan, Hubei Province, China in August1987.

Mr. CHENG Yiqun (程益群), aged 50, is an independent non-executive Director. Mr. CHENG was appointed as a Director on 10 February 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. CHENG has over 18 years experience in providing legal services. Mr. CHENG joined Commerce & Finance Law Offices in 2001 and has been a partner since 2009. Mr. CHENG was appointed as a Non-executive Director of Tianli Education International Holdings Limited (天立教育國際控股有限公司) in August 2009. Mr. CHENG is a PRC practising lawyer recognised by the Ministry of Justice of the PRC in August 2009. Mr. CHENG obtained a Bachelor's degree in laws from Wuhan University in Wuhan, Hubei Province, China in July 1997.

SENIOR MANAGEMENT

Mr. CHENG Qiang (程強), aged 50, is the Assistant to General Manager and the Chief Financial Officer and minister of the Group. He was appointed as the Head of Finance and the Assistant to General Manager in June 2018 and December 2018, respectively, and is primarily responsible for the financial audit, accounting and financial management related matters of the Group. Mr. CHENG joined the Group in August 1990 and has gained over 29 years of experience in financial management. From 1990 to 2018, Mr. CHENG worked as financial management staff in Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Guangxi Golden Throat, as well as the Head of Information Center, the Minister of Security Department and the Head of Finance. He obtained a Professional Diploma's degree in corporate finance and accounting as well as Qualified Accounting certificate from Guangxi School of Finance and Economics (now known as Guangxi University of Finance and Economics (廣西財經學院)) in Guangxi Zhuang Autonomous Region, China in 1990.

Ms. LI Qing (李慶), aged 50, is the Assistant to General Manager and Deputy Head of our Manufacturing Technology Department of the Group. She was appointed as the Assistant to General Manager and Deputy Head of our Manufacturing Technology Department in January 2014 and April 2010, respectively, and is primarily responsible for the development and manufacturing related matters of the Group. Ms. LI joined the Group in August 1991 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1991 to 1998, Ms. LI worked as a technology management staff in Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Guangxi Golden Throat. She obtained a Bachelor's degree in food science from Chengdu University of Science and Technology (成都科技大學) (now a part of Sichuan University (四川大學)) in Chengdu, Sichuan Province, China in 1991, and a professional part-time Diploma's degree in pharmacy from Guangxi School of Chinese Medicine (廣西中醫學院) (now known as Guangxi University of Chinese Medicine (廣西中醫藥大學)) in Nanning, Guangxi Zhuang Autonomous Region, China, in 2001. Ms. LI obtained the qualification certificate of engineer conferred by the Liuzhou Municipal Leading Group of Qualification Reform (柳州市職改領導小組) in 1996 and obtained the qualification certificate of licensed pharmacist conferred by the MOH in 2002.

Mr. WU Dong (吳東), aged 51, is the Assistant to General Manager. He was appointed as the Assistant to the General Manager in February 2015 and is primarily responsible for promotion related matters of the Group. Mr. WU joined the Group in July 1990 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1990 to 1998, Mr. WU worked as a staff worker of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and from 1998 to 2014, Mr. WU worked as the first deputy director of the General Manager Office of Guangxi Golden Throat. He obtained a Diploma's degree in administrative management from Guangxi School of Industry (廣西工學院) (now known as Guangxi University of Science and Technology (廣西科技大學)) in Liuzhou, Guangxi Zhuang Autonomous Region, China in 1990. Mr. WU obtained the qualification certificate of assistant professional for political work (助理政工師) conferred by the Office of the Leading Group of Qualification Conference of Political Work in Enterprises in Guangxi Zhuang Autonomous Region (廣西壯族自治區企業思想政治工作人員專業職務評定工作領導小組辦公室) in 1999.

DIRECTORS' REPORT

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

CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 2 September 2014 as an exempted company with limited liability under the Cayman Companies Law. The Company's Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 July 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in the manufacture and sale of pharmaceutical, healthcare food and other products. There were no significant changes in the nature of the principal activities of the Group during the year ended 31 December 2019.

RESULTS

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the financial statements on pages 79 to 163.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.12 per Share for the year ended 31 December 2019 to the Shareholders. The final dividend is subject to the approval of Shareholders at the forthcoming annual general meeting (the "AGM") of the Company to be held on 28 May 2020 and, if approved, will be paid on or before 18 June 2020 to the Shareholders whose names appear on the register of members of the Company on 10 June 2020.

CLOSURE OF REGISTER OF SHAREHOLDERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from 22 May 2020 to 28 May 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer of Shares accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 21 May 2020. For determining the entitlement to the final dividend, the register of members of the Company will be closed on 10 June 2020, during which period no transfer of Shares will be registered.

In order to qualify for the proposed final dividend, all transfer of Shares accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 9 June 2020.

BUSINESS REVIEW

A review of the Group's business during the year ended 31 December 2019 and a discussion on the Group's future business development, particulars of important events affecting the Group that have occurred since the end of the year ended 31 December 2019, and possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 6 to 8 and Management Discussion and Analysis on pages 13 to 28 of this report.

The financial risk management objectives and policies of the Group are shown in note 32 to the Group's financial statements in this report.

An analysis of the Group's performance during the year ended 31 December 2019 using financial key performance indicators is provided in the Financial Highlights on page 5, Chairman's Statement on pages 6 to 8, and Management Discussion and Analysis on pages 13 to 28 of this report.

In addition, discussions on the Group's environmental policies, compliance with relevant laws and regulations which have a significant impact on the Group and relationships with its key stakeholders are contained in the Corporate Governance Report on pages 71 and 72 of this report.

The other sections in this annual report referred to above form part of this directors' report.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 164 of this report. That summary does not form part of the audited consolidated financial statements.

DIVIDEND POLICY

The Company adopts a dividend policy of providing shareholders with stable dividends. The prospectus dividend growth, however, remains dependent upon the financial performance and future funding needs of the Company.

USE OF NET PROCEEDS FROM LISTING

As at 31 December 2019, there was no change to the intended use of the IPO Proceeds as disclosed in the Prospectus.

As at 31 December 2019, the Group had utilised approximately HK$604.04 million, representing approximately 66.41% of the IPO Proceeds. Details of the use of net proceeds from listing during the year ended 31 December 2019 are set out on page 28 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

Revenue from sales to the Group's five largest customers accounted for approximately 29.9% of the Group's total revenue from sales for the year ended 31 December 2019 and revenue from sales to the Group's largest customer amounted to 9.8% of the Group's total revenue from sales for the year.

Purchases from the Group's five largest suppliers accounted for approximately 63.2% of the Group's total purchase for the year ended 31 December 2019 and purchases from the Group's largest supplier amounted to 28.6% of the Group's total purchase for the year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued shares) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the Group's financial statements in this report.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in note 34 to the Group's financial statements and the consolidated statement of changes in equity on pages 83 to 84 of this report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately RMB668.5 million (as at 31 December 2018: RMB658.0 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in note 21 to the Group's financial statements in this report.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the article 164 of the Articles of Association and subject to the all applicable statues, rules and regulations, every Director and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution or holding of his/her office or otherwise in relation thereto, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

For details about insurance cover for the Directors, please refer to the Corporate Governance Report of this report.

DIRECTORS

The Directors for the year ended 31 December 2019 and up to the date of this report were:

Executive Directors:

Mr. ZENG Yong *(Vice Chairman and General Manager)* *(appointed on 10 February 2015)*
Mr. HUANG Jianping *(appointed on 10 February 2015)*
Mr. ZENG Kexiong *(appointed on 10 February 2015)*
Mr. LU Xinghong *(appointed on 10 February 2015)*
Mr. HE Jinqiang *(appointed on 10 February 2015)*

Non-Executive Director:

Ms. JIANG Peizhen *(Chairman)* *(appointed on 10 February 2015)*

Independent non-executive Directors:

Mr. LI Hua *(appointed on 10 February 2015)*
Mr. ZHU Jierong *(appointed on 10 February 2015)*
Mr. CHENG Yiqun *(appointed on 10 February 2015)*

In accordance with article 84 of the Articles of Association, every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years and shall be eligible for re-election.

Ms. JIANG Peizhen, Mr. ZENG Yong, Mr. HUANG Jianping, Mr. ZENG Kexiong, Mr. LU Xinghong, Mr. HE Jinqiang, Mr. LI Hua, Mr. ZHU Jierong and Mr. CHENG Yiqun retired and re-elected as Directers at the annual general meeting held on 15 May 2019.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 29 to 33 of this report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the independent non-executive Directors has renewed the appointment contract with the Company for an initial term of three years commencing from 10 February 2018 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has or is proposed to enter into any service contract that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below, no Director nor any entity connected with the Director had any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year of 2019 or at any time during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 8 June 2017. Since the date of the adoption, no share option had been granted, exercised, cancelled or lapsed under the Share Option Scheme and there are no outstanding share options. Terms used in this section headed "Share Option Scheme" have the meanings prescribed to them in the circular of the Company dated 28 April 2017. Set out below is a summary of the principal terms of the Share Option Scheme:

1. PURPOSE

The purpose of the Share Option Scheme is to enable the Board to grant Options to selected Participants as incentives or rewards for their contribution or potential contribution to the development and growth of the Group.

2. WHO MAY JOIN AND BASIS OF ELIGIBILITY

The Board may offer to grant an Option to any Participant who has had contribution to the Group to subscribe for such number of Shares at the Option Price, subject always to any limits and restrictions specified in the Rules.

3. PAYMENT ON ACCEPTANCE OF OPTION OFFER

A Participant shall pay the Company HK$1.00 for the grant of an Option on acceptance of an Option offer within 21 days after the Offer Date.

4. TERMS OF OPTIONS

Options granted under the Share Option Scheme are subject to such terms and conditions as may be determined by the Board at its absolute discretion and specified in the offer of an Option, which terms and conditions may include, among others:

4.1 vesting conditions which must be satisfied before an Option-Holder's Option shall become vested and capable of being exercised; and

4.2 the Board may, in its absolute discretion, specify performance conditions that must be achieved before an Option can be exercised and/or the minimum period for which an Option must be held before it can be exercised.

These provisions will give the Board flexibility to impose conditions suitable for fulfilling the various purposes of the Share Option Scheme. Apart from this general discretion of the Board, the Rules do not contain specific provisions on the minimum period for which an Option must be held before exercise or on performance targets applicable to Options.

Under the Share Option Scheme, the Directors have discretion to set a minimum period for which an option must be held before the exercise of the subscription rights attaching thereto. This discretion allows the Directors to provide incentive to eligible Participants to remain as eligible Participants and thereby enable the Group to continue to benefit from the services and contributions of the eligible Participants. This discretion, coupled with the power of the Directors to impose any performance target or other restrictions as they consider appropriate before the option can be exercised, enable the Group to provide incentives to the Participants to use their best endeavours in assisting the growth and development of the Group. Although the Share Option Scheme does not provide for the granting of options with rights to subscribe for Shares at a discount to the trading prices of the Shares on the Stock Exchange, the Directors are of the view that the flexibility given to the Directors in granting Options to the Participants and to impose minimum period for which the options can be exercised will place the Group in a better position to attract talents that are valuable to the growth and development of the Group as a whole.

5. OPTION PRICE

The Option Price will be determined by the Board at its absolute discretion and notified to an Option-holder. The minimum Option Price shall not be less than the highest of:

5.1 the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date;

5.2 the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the Offer Date; and

5.3 the nominal value of the Shares.

6. MAXIMUM NUMBER OF SHARES SUBJECT TO THE SHARE OPTION SCHEME

6.1 The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any options to be granted under any Other Schemes must not in aggregate exceed 10% (i.e. 73,930,200 Shares) of the aggregate of the Shares in issue as at the date of approval of the Share Option Scheme, representing 10% of the Shares in issue as at the date of this annual report.

Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes will not be counted for the purpose of calculating the 10% limit in this paragraph 6.1.

6.2 With the approval of the Shareholders in general meeting, the Board may "refresh" the 10% limit under paragraph 6.1 (and may further refresh such limit in accordance with this paragraph), provided that the total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and any Other Schemes under the limit as "refreshed" shall not exceed 10% of the Shares in issue as at the date on which the Shareholders approve the "refreshed" limit.

Options granted under the Share Option Scheme and options granted under any Other Schemes previously (including those outstanding, cancelled and lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

6.3 The Board may, with the approval of the Shareholders in general meeting, grant Options in excess of the 10% limit to Participants specifically identified. In such situation, the Company will send a circular to the Shareholders containing, amongst others, a generic description of the specified Participants who may be granted such Options, the number and terms of such Options to be granted and the purpose of granting such Options to the specified Participants with an explanation of how the terms of the Options will serve the purpose.

6.4 The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and all outstanding Options granted and yet to be exercised under any Other Schemes shall not exceed 30% of the Shares in issue from time to time. No Options may be granted under the Share Option Scheme and no options may be granted under any Other Schemes if this will result in the limit being exceeded.

7 MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

The Board shall not grant any Options to any Participant which, if exercised, would result in such Participant becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all Options granted to him (including those options exercised or outstanding) in any 12-month period exceed 1% of the Shares in issue at such date.

The Board may grant Options to any Participant in excess of the individual limit of 1% in any 12-month period with the approval of the Shareholders in general meeting (with such Participant and his/her close associates (or his associates if the Participant is a connected person) abstaining from voting). In such situation, the Company will send a circular to the Shareholders and the circular must disclose, amongst others, the identity of the Participant, the number and terms of the options to be granted (and previously granted to such Participant).

8 TIME OF EXERCISE OF OPTIONS

An Option under the Share Option Scheme which is vested and has not lapsed may be exercised at any time during such period notified by the Board as not exceeding 10 years from the Offer Date. The exercise of Options may also be subject to any conditions imposed by the Board at the time of Offer. The Share Option Scheme has a life of 10 years since 8 June 2017.

EMOLUMENT POLICY

The Remuneration Committee was set up to develop the Company's emolument policy and structure for remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the Group's financial statements in this report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this report, for the year ended 31 December 2019, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules.

DIRECTORS' AND THE GENERAL MANAGER'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and the general manager 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 SFO), which were recorded in the register kept by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in the Shares, underlying Shares and debentures of the Company:

Name of Director	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares
Mr. ZENG Yong[(4)]	Founder of a discretionary trust	511,963,200	
	Beneficial owner	4,050,500	
		516,013,700	69.79%
Ms. JIANG Peizhen[(5)]	Interest through controlled corporation[(4)]	58,937,400	7.97%
Mr. HUANG Jianping[(6)]	Beneficiary of a trust	17,100,000	2.31%
Mr. ZENG Kexiong[(7)]	Beneficiary of a trust	17,100,000	2.31%
Mr. LU Xinghong[(8)]	Beneficiary of a trust	17,100,000	2.31%
Mr. HE Jinqiang[(9)]	Beneficiary of a trust	17,100,000	2.31%

Notes:

(1) Unless the context otherwise requires, terms used in these notes have the meanings prescribed to them in the Prospectus.

(2) The calculation is based on the total number of 739,302,000 Shares in issue as at 31 December 2019.

(3) The Senior Management Trust and the Employees Trust were combined on 10 July 2017, and the Employees Trust has been replaced.

(4) The Family Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of Mr. ZENG Yong and his children and descendants with Sovereign Trust International Limited acting as the trustee, holds the entire issued share capital of Golden Throat International through Jin Jiang Global. As a result, Mr. ZENG Yong is deemed to be interested in 453,025,800 Shares held by Golden Throat International (which is 100% owned by Jin Jiang Global). Mr. ZENG is also the settlor of the Senior Management Trust which holds the 7.97% of the issued share capital of the Company immediately after the completion of the global offering and the partial exercise of the over-allotment option. Furthermore, for so long as Jin Chen Employee Holdings Limited holds or controls shares in the Company, all voting rights attaching to such shares shall be exercised by an investment review panel consisting of Ms. JIANG Peizhen and/or such other person(s) as they may wish to appoint. Mr. ZENG Yong also holds 4,050,500 Shares, as a result, Mr. ZENG is deemed to be interested in all the 516,013,700 Shares.

(5) Ms. JIANG Peizhen is the protector of the Senior Management Trust. For so long as Jin Chen Employee Holdings Limited holds or controls shares in the Company, all voting rights attaching to such shares shall be exercised by an investment review panel consisting of Ms. JIANG Peizhen and/or such other person(s) as they may wish to appoint. As a result, Ms. JIANG Peizhen is deemed to be interested in 58,937,400 Shares of the Company.

(6) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Guangxi Golden Throat and their dependents including Mr. HUANG Jianping, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global. Accordingly, Mr. HUANG Jianping is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

(7) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Guangxi Golden Throat and their dependents including Mr. ZENG Kexiong, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global. Accordingly, Mr. ZENG Kexiong is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

(8) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Guangxi Golden Throat and their dependents including Mr. LU Xinghong, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global. Accordingly, Mr. LU Xinghong is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

(9) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Guangxi Golden Throat and their dependents including Mr. HE Jinqiang, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global. Accordingly, Mr. HE Jinqiang is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

Save as disclosed above, as at 31 December 2019, so far as is known to any Director or the general manager of the Company, none of the Directors or the general manager of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register kept by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

No rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted by the Company to any Director or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate during the year ended 31 December 2019.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, to the knowledge of the Directors, the interests or short positions of the following persons (excluding the Directors or the general manager of the Company, whose interests are disclosed on pages 43 to 44 above) in the Shares or underlying Shares of the Company, which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares
Family Trust(4)	Interest of controlled corporation	453,025,800	61.28%
Sovereign Trust International Limited(4)	Trustee of a discretionary trust	453,025,800	61.28%
Jin Jiang Global(4)	Interest of controlled corporation	453,025,800	61.28%
Golden Throat International	Beneficial owner	453,025,800	61.28%
Senior Management Trust(5)	Interest of controlled corporation	58,937,400	7.97%
Jin Chen Employee Holdings Limited(6)	Trustee of a discretionary trust	58,937,400	7.97%
Jin Chen Global	Beneficial owner	41,837,400	5.66%

Notes:

(1) Terms used in these notes have the meanings prescribed to them in the Prospectus.

(2) All interests stated are long positions.

(3) The calculation is based on the total number of 739,302,000 Shares in issue as at 31 December 2019.

(4) The Family Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of Mr. ZENG Yong and his children and descendants. Sovereign Trust International Limited is the trustee of the Family Trust and holds 100% issued share capital of Jin Jiang Global, which then holds 100% issued share capital of Golden Throat International, thus the Family Trust, Sovereign Trust International Limited and Jin Jiang Global are each deemed to be interested in the 453,025,800 Shares held by Golden Throat International, which represents 61.28% of the issued share capital of the Company.

(5) The Senior Management Trust and the Employees Trust were combined on 10 July 2017, and the Employees Trust has been replaced.

(6) Jin Chen Employee Holdings Limited is the trustee of the Senior Management Trust and holds 100% of issued share capital of Jin Chen Global and Jin Qing Global, which holds, in aggregate, 58,937,400 Shares of the Company. As a result, Jin Chen Employee Holdings Limited is deemed to be interested in 7.97% of the issued share capital of the Company.

Save as disclosed above, as at 31 December 2019, the Directors of the Company are not aware of any other person (excluding the Directors or the general manager of the Company, whose interests are disclosed on pages 43 to 44 above) who has interests or short positions in the Shares or underlying Shares of the Company, which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

DIRECTOR'S AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESS

A non-competition agreement dated 24 June 2015 (the "Non-competition Agreement") was entered into between the Company and the Controlling Shareholders.

Under the Non-competition Agreement, the Controlling Shareholders have undertaken to the Company that, they will not, and will procure any of their associates not to, engage or participate in whatever manner in any business that competes or may compete directly or indirectly with the Group's current or future core businesses subject to certain exceptions. Details of the Non-competition Agreement were contained in the Prospectus.

The Controlling Shareholders have confirmed to the Company their compliance with the Non-Competition Agreement during the year ended 31 December 2019 for disclosure in this report.

The independent non-executive Directors have reviewed the Non-Competition Agreement and assessed whether the Controlling Shareholders have abided by the Non-Competition Agreement. The independent non-executive Directors confirmed that the Controlling Shareholder have not been in breach of the Non-Competition Agreement during the year ended 31 December 2019.

During the year ended 31 December 2019, none of the Directors or their respective associates had engaged in or had any interest in any business, other than the Group, which competes or is likely to compete with the businesses of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the transactions described below were entered into between the Company and its connected persons (as defined in the Listing Rules). Under the Listing Rules, the following persons and entities, amongst others, are regarded as connected persons of the Company:

Ms. JIANG Peizhen

Ms. JIANG Peizhen is a non-executive Director of the Company. Each of Ms. JIANG Peizhen and her associates therefore constitutes a connected person of the Company under the Listing Rules.

Guangxi Changbao Biological Technology Co., Ltd (previously named Guangxi Weikete Biological Technology Co., Ltd.)

Changbao is an associate of Ms. JIANG Peizhen. Ms. JIANG Peizhen holds 51.2% interest in Liuzhou Jinqing Equity Investment Centre (LLP) and 51.0% equity interest in Liuzhou Jingui Equity Investment Centre (LLP), which in turn in aggregate hold 95.6% equity interest in Changbao, and the remaining 4.4% equity interest in Changbao is held by Mr. ZENG Yong. Changbao therefore constitutes a connected person of the Company under the Listing Rules.

Guangxi Peizhen Investment Consulting Co., Ltd.

Peizhen Investment is an associate of Ms. JIANG Peizhen. Ms. JIANG Peizhen holds 70% and her daughter, Ms. ZENG Jun (曾軍), holds 30% equity interest in Peizhen Investment. Peizhen Investment therefore constitutes a connected person of the Company under the Listing Rules.

The Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules.

Set out below is a summary of the continuing connected transactions between the Group and the connected persons of the Company and the actual transaction amount incurred in 2019:

Item	Transaction	Annual Cap for the year ended 31 December 2019 (RMB thousand) (Note 1)	Actual transaction amount for the year ended 31 December 2019 (RMB thousand) (Note 1)
A.	**Continuing Connected Transaction with Changbao**		
	1 Procurement of raw materials from Changbao to the Group	12,413	3,246
B.	**Continuing Connected Transaction with Peizhen Investment**		
	2 Licensing of trademarks from Peizhen Investment to the Group (Note 2)	N/A	N/A
C.	**Continuing Connected Transaction with Ms. JIANG Peizhen**		
	3 Licensing of portrait rights from Ms. JIANG Peizhen to the Group (Note 2)	N/A	N/A

Notes:

(1) All the figures in the table are rounded up to the nearest RMB thousand and include tax.

(2) Nil consideration is payable under each of these transactions. Under Rule 14A.76 of the Listing Rules, as each of the percentage ratios (other than the profits ratio) for the year ended 31 December 2019 was less than 0.1%, the transaction is fully exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS EXEMPTED FROM SHAREHOLDERS' APPROVAL

Procurement of raw materials from Changbao

Description of Transactions and Principal Terms

The Company and Changbao entered into a framework agreement dated 24 June 2015, under which Changbao agreed to provide raw materials, namely isomalt ("Isomalt"), isomaltulose syrup ("Syrup", together with Isomalt as "Sugar Substitute Raw Materials") to the Group (the "Procurement Framework Agreement").

Pursuant to the Procurement Framework Agreement, the Company and/or any of its subsidiaries and Changbao will enter into a written agreement in respect of each individual connected transaction between them in relation to the procurement of Sugar Substitute Raw Materials.

Under the Procurement Framework Agreement, Changbao has undertaken that:

(A) it will not provide Sugar Substitute Raw Materials to any independent third party unless it has satisfied the Group's needs for Sugar Substitute Raw Materials;

(B) if it cannot satisfy the Group's needs for Sugar Substitute Raw Materials or if independent third parties can offer terms more favourable than those offered by it, the Group is entitled to obtain Sugar Substitute Raw Materials from independent third parties;

(C) it is entitled to provide Sugar Substitute Raw Materials to independent third parties provided that this will not affect its supply of Sugar Substitute Raw Materials to the Group;

(D) it will not, and will procure its subsidiaries (if applicable) not to, provide Sugar Substitute Raw Materials to the Group on terms which are less favourable than those offered to independent third parties; and

(E) the Procurement Framework Agreement will not affect the Group's right to choose its counterparty for transactions or enter into transactions with third parties.

The Procurement Framework Agreement expired on 31 December 2017, and therefore on 12 February 2018, the Company and Changbao renewed the agreement in relation to the procurement of Sugar Substitute Raw Materials during the period from 1 January 2018 to 31 December 2020 (the "Renewed Procurement Framework Agreement").

The Directors believe that it is in the Group's interests to procure the Sugar Substitute Raw Materials from Changbao, one of few manufacturers of Sugar Substitute Raw Materials in China, on terms acceptable to it for the Group's lozenges production and confirm that the transactions contemplated under the above written agreements will be conducted in the ordinary course of business and on normal commercial terms after arm's length negotiation.

Price Determination

Isomalt

Under the Renewed Procurement Framework Agreement, the parties have agreed for the sale and purchase of Isomalt at a unit price of RMB25.00 per kg or price paid to independent third parties by the Group from time to time. Such price has been determined by comparing the price offered by Changbao with those offered by two other independent third parties on Alibaba's procurement and wholesale website for the same type of raw materials (such as Isomalt) in the same quantity.

Syrup

Under the Renewed Procurement Framework Agreement, the parties have agreed for the sale and purchase of Syrup to be priced at cost, being RMB5.5 per kg. Such cost is based on the lower of the actual cost and reasonable cost for providing the Syrup (including but not limited to cost of raw materials and any processing costs). Changbao has confirmed to the Group that it would not supply Syrup to other parties at more favourable terms.

The above pricing policies, together with the undertakings provided by Changbao under the Renewed Procurement Framework Agreement referred to above, ensure that the pricing terms offered by Changbao are fair and reasonable and no less favourable than those offered by or to independent third parties.

Term

The effective period of the Renewed Procurement Framework Agreement is for a term of three years, from 1 January 2018 to 31 December 2020. The Renewed Procurement Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company which are exempted from the independent shareholders' approval requirement, but are subject to the reporting and announcement requirements under the Listing Rules. Please refer to the announcement of the Company dated 12 February 2018 for further details in relation to the Renewed Procurement Framework Agreement and the transactions contemplated thereunder.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Trademarks Licensing Agreement

Description of Transactions and Principal Terms

Peizhen Investment, the Company and Guangxi Golden Throat entered into a trademark licensing agreement on 24 June 2015 (the "Trademark Licensing Agreement"). Peizhen Investment has agreed to license to the Group the right to use the Well-known Trademark and its related trademarks (the "Licensed Trademarks") on an exclusive basis for free.

The Group is entitled to transfer or sub-lease the Licensed Trademarks to any third party, provided that it provides 15 days' written notice to Peizhen Investment. The Group has undertaken to use the Licensed Trademarks within the scope specified.

Peizhen Investment has undertaken that:

(A) it will be responsible for the timely renewal and payment of fees for maintaining effective registration of the Licensed Trademarks;

(B) it will not use the Licensed Trademarks in any manner to engage or participate in any business which competes or will potentially compete with the business of the Group;

(C) it will not license any of the Licensed Trademarks to any third party;

(D) it will not transfer the rights to use the Licensed Trademarks to any third party without the Group's consent; and

(E) it will not create any charge against the rights to use the Licensed Trademarks for the purpose of securing any loan or providing any guarantee for the benefit of itself or any third party.

Furthermore, all parties have undertaken that they will not do anything that will affect the goodwill or reputation of the Licensed Trademarks or cause material adverse effect on the Group's business.

Consideration

Nil consideration is payable under the Trademark Licensing Agreement.

Term and Termination

The Trademark Licensing Agreement became effective upon signing, but the term of the Trademark Licensing Agreement is deemed to have commenced on 1 November 2014 and will remain effective for a term of 50 years (subject to the relevant Licensed Trademark's effective period of registration (including the effective period as extended by renewal of registration)). Every time upon expiry of the term, provided that the Group does not object to this, the term may be automatically renewed for a further period of 50 years on terms no less favourable than the current terms. No party can unilaterally terminate the Trademark Licensing Agreement without all parties' consent.

The Company considers that a term exceeding three years is required for the Trademark Licensing Agreement as the Licensed Trademarks form an intricate part of the Group's daily business and it is normal business practice for contracts of this type to be of such duration.

Ms. JIANG Peizhen's Portrait Licensing Agreement

Description of Transactions and Principal Terms

Ms. JIANG Peizhen, the Company and Guangxi Golden Throat entered into a portrait licensing agreement on 24 June 2015 (the "Portrait Licensing Agreement"), under which Ms. JIANG Peizhen has agreed to grant the Group the right to use Ms. JIANG Peizhen's portrait (the "Jiang's Portrait") on an exclusive basis for free on its products.

The Group is entitled to use the Jiang's Portrait at any time within the term of authorisation and for any business purpose (profit or non-profit) without the need to notify Ms. JIANG Peizhen or obtain Ms. JIANG Peizhen's consent. Moreover, the Company or any other member of the Group is entitled to register a trademark based on the Jiang's Portrait and all rights under such trademark belong to the Company or any other member of the Group.

Ms. JIANG Peizhen has agreed that she and her lawful heirs or successors cannot interfere with or prevent the use of the Jiang's Portrait by the Company or any other member of the Group and cannot at any time or by any means enforce any rights or demand any financial compensation from the Company or any other member of the Group under the Portrait Licensing Agreement.

Moreover, Ms. JIANG Peizhen has undertaken (i) not to use the Jiang's Portrait to conduct any business which is or will be in competition with the Group's business and (ii) not to authorise or transfer the right to use the Jiang's Portrait to any third party.

Consideration

Nil consideration is payable under the Portrait Licensing Agreement.

Term and Termination

The Portrait Licensing Agreement became effective upon signing, but the term of the Portrait Licensing Agreement is deemed to have commenced on 1 November 2014 and will remain effective for a term of 50 years. Every time upon expiry of the term, provided that the Group does not object to this, the term may be automatically renewed for a further period of 50 years on terms no less favourable than the current terms. No party (including their lawful heirs or successors) can unilaterally terminate the Portrait Licensing Agreement without all parties' consent.

The Company considers that a term exceeding three years is required for the Portrait Licensing Agreement as the Jiang's Portrait will form an intricate part of the Group's daily business and it is normal business practice for contracts of this type to be of such duration.

Other than Ms. JIANG Peizhen, who is also the indirect controlling shareholder of Changbao and Peizhen Investment, none of the Directors has a material interest in the aforementioned continuing connected transactions.

The Company's INEDs have reviewed the aforementioned continuing connected transactions and confirmed that these transactions have been entered into:

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

(2) on normal commercial terms or better; and

(3) in accordance with the terms of the agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's auditor was engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their conclusion in respect of the continuing connected transactions disclosed by the Company on pages 47 to 50 of this report confirming the matters set out in Rule 14A.56 of the Listing Rules. A copy of such letter has been provided by the Company to the Stock Exchange.

During the year, the Group entered into certain transactions with parties regarded as related parties under the applicable accounting standards. A summary of the related party transactions entered into by the Group during the year ended 31 December 2019, which also constitute continuing connected transactions or connected transactions under Chapter 14A of the Listing Rules, is contained in Note 29(a) to the financial statements of this report. The transactions with Changbao constitutes continuing connected transactions while the transaction with Guangxi Golden Throat Travel Co., Ltd. constitutes a connected transaction. The Group confirms that the related party transactions have complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

POST BALANCE SHEET EVENTS

Subsequent to the end of the reporting period, the outbreak of novel coronavirus ("COVID-19") has inevitably caused certain impact on both the overall markets and business performance of the Group, mainly due to travel restrictions and other precaution measures imposed by relevant local authorities that resulted in delays in commencement for work production in manufacturing plants, temporary closure for business of suppliers and distributors, and the overall decline in market demand during the outbreak period.

The Group estimates that the degree of COVID-19 impact will be dependent on the duration of epidemic and the outcome of preventive measures undertaken by respective local authorities. The Group is closely monitoring the market development and continuously evaluating the impact of COVID-19 situation on the Group's operational and financial performance. Given the dynamic circumstances and uncertainties of COVID-19 situation, the Group's 2020 financial performance would inevitably be affected by the COVID-19 situation. The overall financial impact could not be reasonably estimated at this stage, and it will be reflected in the Group's 2020 interim and annual financial statements.

AUDIT COMMITTEE

The Audit Committee has reviewed together with the management and external auditor of the Company the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices.

Information on the corporate governance practices adopted by the Company and details of the compliance by the Company with the CG Code are set out in the Corporate Governance Report on pages 56 to 72 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1) of the Listing Rules requires that at least 25% of an issuer's total number of issued shares must at all times be held by the public. Based on the information that is publicly available to the Company and to the knowledge of the Directors at the date of this report, there was a sufficient prescribed public float of the issued shares of the Company throughout the year ended 31 December 2019 and as at the date of this report.

AUDITOR

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2019. Since the listing date (i.e. 15 July 2015) of the Company and up to now, there is no change of the auditor of the Company.

Ernst & Young shall retire in the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming AGM.

PROFESSIONAL TAX ADVICE RECOMMENDED

If any shareholder is unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, it is advised to consult an expert.

On behalf of the Board
JIANG Peizhen
Chairman

Guangxi, the PRC
31 March 2020

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance. Except as disclosed below, the Company has complied with all the applicable code provisions set out in the CG Code for the year ended 31 December 2019.

Under code provision A.1.8 of the CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its Directors. According to the CG Code, where an issuer considers a more suitable alternative to a code provision exists, it should adopt it and give reasons. The Company did not arrange any insurance cover in this respect. The Board believes that with regular and timely communications among the Directors and the management of the Group, potential claims and legal actions against the Directors can be handled effectively without the need for insurance to be maintained. The Board will regularly review the procedures in handling potential claims and legal actions and take into account the requirements of the Directors and will monitor the need for making such an arrangement. The key corporate governance principles and practices of the Company are outlined below in this report.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors its business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board Committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Board Composition

As at the date of this report, the Board comprises nine members, consisting of five executive Directors, one non-executive Director and three independent non-executive Directors as set out below:

Executive Directors:

Mr. ZENG Yong *(Vice Chairman and General Manager)*
Mr. HUANG Jianping
Mr. ZENG Kexiong
Mr. LU Xinghong
Mr. HE Jinqiang

Non-executive Director:

Ms. JIANG Peizhen *(Chairman)*

Independent non-executive Directors:

Mr. LI Hua
Mr. ZHU Jierong
Mr. CHENG Yiqun

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this report.

As of the date of this report, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise.

The Company also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

Ms. JIANG Peizhen, a non-executive Director and chairman of the Board, is the mother of Mr. ZENG Yong, an executive Director, vice chairman of the Board and the general manager of the Company. Save as disclosed above, there are no financial, business, familial or other material relationships among other members of the Board.

With regards to the code provision of the CG Code requiring directors to disclose to the Company at the time of appointment and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments as well as their identities and the time involved (the "Commitments"), the Directors have disclosed their Commitments to the Company at the time of their appointments and agreed to disclose their Commitments to the Company in a timely manner.

Induction and Continuous Professional Development

The Directors were provided with the relevant training to ensure that they have a proper understanding of the business and operations of the Company and that they are fully aware of their responsibilities and obligations as a Director of a listed company as well as the compliance practice under the Listing Rules.

For the year ended 31 December 2019, the attendance record of professional training received by the Directors is as follows:

Director	Date of attendance of directors' training
Ms. JIANG Peizhen	18 January 2019
Mr. ZENG Yong	18 January 2019
Mr. HUANG Jianping	18 January 2019
Mr. ZENG Kexiong	18 January 2019
Mr. LU Xinghong	18 January 2019
Mr. HE Jinqiang	18 January 2019
Mr. LI Hua	25 February 2019
Mr. ZHU Jierong	25 February 2019
Mr. CHENG Yiqun	25 February 2019

Through the Directors' training, each of the Directors has enhanced their knowledge on the Listing Rules, conduct of the Directors and the relevant business of listed companies.

Chairman and General Manager

As required by code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

The chairman of the Board and the general manager of the Company are currently two separate positions held by Ms. JIANG Peizhen and Mr. ZENG Yong respectively with distinct responsibilities. The chairman of the Board is responsible for the management and leadership of the Board to formulate overall strategies and business development directions for the Company, to ensure that adequate, complete and reliable information is provided to all Directors in a timely manner, and to ensure that the issues raised at Board meetings are explained appropriately. The general manager of the Company is responsible for the management of the business of the Company and implementation of the policies, business objectives and plans set by the Board and is accountable to the Board for the overall operation of the Company.

Non-executive Directors – Term of Appointment

None of the non-executive Directors is appointed for a specific term of longer than three years.

Directors' Service Contracts

Each of the independent non-executive Directors has renewed the appointment contract with the Company for an initial term of three years commencing from 10 February 2018 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has entered into any service contract that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

None of the Directors has or is proposed to enter into a service contract with the Group which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay or make other payments equivalent to more than one year's emoluments.

The rules and procedures governing the appointment, retirement, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board structure, size and composition and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors.

Nomination, appointment, retirement and re-election

In accordance with article 84 of the Articles of Association, every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years and shall be eligible for re-election. In accordance with article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting of the Company after his appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Meetings

The Board intends to hold board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular board meetings to provide all Directors with an opportunity to attend and include matters to be discussed in the agenda for regular Board meetings.

For other Board and Board Committees meetings, reasonable notice will generally be given by the Company. The agenda and accompanying Board papers are dispatched to the Directors or Board Committees members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or Board Committees members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and Board Committees meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors and Board Committees members. Draft minutes of each Board meeting and Board Committees meeting are/will be sent to the Directors and Board Committees members for comments within a reasonable time after the date on which the meeting is held.

The Company held four Board meetings and one annual general meeting during the year ended 31 December 2019 and the attendance of the Directors at these meetings is set out in the table below:

Name of Director	Category	AGM Attended/Eligible to Attend	Board Meeting Attended/Eligible to Attend
Ms. JIANG Peizhen	NED	1/1	4/4
Mr. ZENG Yong	ED	1/1	4/4
Mr. HUANG Jianping	ED	1/1	4/4
Mr. ZENG Kexiong	ED	1/1	4/4
Mr. LU Xinghong	ED	1/1	4/4
Mr. HE Jinqiang	ED	1/1	4/4
Mr. LI Hua	INED	1/1	3/4
Mr. ZHU Jierong	INED	1/1	3/4
Mr. CHENG Yiqun	INED	1/1	3/4

In addition to the Board meetings listed above, the Chairman also held a meeting with the independent non-executive Directors without the executive Directors present.

During the year ended 31 December 2019, the Company convened one annual general meeting. The members of the Board, including Ms. JIANG Peizhen (non-executive Director), Mr. ZENG Yong, Mr. HUANG Jianping, Mr. ZENG Kexiong, Mr. LU Xinghong and Mr. HE Jinqiang (all being executive Directors), and Mr. LI Hua, Mr. ZHU Jierong and Mr. CHENG Yiqun (all being independent non-executive Directors), attended this AGM. The annual general meeting was held at Room 1, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on 28 May 2019 at 10:00 a.m.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry to all Directors, the Company confirms that all Directors complied with the required standards set out in the Model Code during the year ended 31 December 2019.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management of the Company. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management of the Company.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors which includes:

(a) to develop and review the Company's policies and practices on corporate governance;

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

(c) to review and monitor the Company'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 Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

As at the date of this report, the Board, through the Audit Committee, executed the corporate governance function and had reviewed this corporate governance report.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee comprises three members, namely Ms. JIANG Peizhen (NED), Mr. ZHU Jierong (INED) and Mr. CHENG Yiqun (INED), the majority of whom are independent non-executive Directors. Ms. JIANG Peizhen has been appointed as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include the following (without limitation):

– reviewing the structure, size and composition of the Board and making recommendations regarding any proposed changes;

– reviewing the board diversity policy of the Company (the "Board Diversity Policy") regularly (including any measurable objectives that the Board has set for implementing the Board Diversity Policy and the progress on achieving those objectives);

– identifying, nominating and recommending qualified candidates for appointment as Directors;

– assessing the independence of independent non-executive Directors;

– making recommendations to the Board on the appointment or re-appointment of and succession planning for Directors; and

– reviewing and monitoring the training and continuous professional development of Directors and senior management of the Company.

The Nomination Committee undertakes that the selection of Director candidates shall be based on a range of diversity perspectives, with reference to the Company's business model and specific needs, including but not limited to gender, race, age, language, cultural background, educational background, industry experience and professional experience.

The Nomination Committee will also ensure that the recruitment and selection of Director candidates are conducted in accordance with appropriate framework procedures so that candidates with diverse backgrounds can be engaged by the Company.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2019, the Nomination Committee convened one committee meeting. The Nomination Committee had assessed the independence of INEDs; reviewed the Board Diversity Policy; reviewed the Board composition and considered that the existing Board was appropriately structured. Attendance of each Nomination Committee member is set out in the table below:

Name of Member	Attended/Eligible to attend
Ms. JIANG Peizhen *(Chairman)*	1/1
Mr. ZHU Jierong	1/1
Mr. CHENG Yiqun	1/1

Board Diversity Policy

The Company views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. To that end, the Company has adopted the Board Diversity Policy to set out the approach to achieve diversity on the Board taking into consideration factors such as diversity of skills, professional and industry experience, cultural and educational background, ethnicity, length of service, gender and age. Under the Board Diversity Policy, the Nomination Committee would monitor the implementation of the Board Diversity Policy and give adequate consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board. The Board will regularly review the Board Diversity Policy and make appropriate revisions to ensure the effectiveness of the Board Diversity Policy.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

1. at least one-third of the members of the Board shall be independent non–executive Directors;

2. at least one of the members of the Board shall have obtained accounting or other professional qualifications; and

3. at least one of the members of the Board shall be female.

Currently, the composition of the Board has achieved the measurable objectives in the Board Diversity Policy.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. LI Hua (INED), Mr. CHENG Yiqun (INED) and Mr. HE Jinqiang (ED). Mr. LI Hua has been appointed as the chairman of the Remuneration Committee.

The principal duties of the Remuneration Committee include the following (without limitation):

– making recommendations to the Board for approval of the remuneration policy and structure and remuneration packages of the Directors and the senior management of the Company;

– determining the remuneration packages of the executive Directors and the senior management of the Company;

– making recommendations to the Board on the remuneration of non-executive Directors; and

– ensuring that no Director or any of his/her associates will be involved in deciding his/her own remuneration. The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2019, the Remuneration Committee convened one committee meeting to assess the performance of the Directors and reviewed the Company's remuneration policy and structure for all Directors and senior management. Attendance of each Remuneration Committee member is set out in the table below:

Name of Member	Attended/Eligible to attend
Mr. LI Hua *(Chairman)*	1/1
Mr. CHENG Yiqun	1/1
Mr. HE Jinqiang	1/1

Audit Committee

The Audit Committee comprises three members, namely Mr. ZHU Jierong (INED), Mr. LI Hua (INED) and Mr. CHENG Yiqun (INED). Mr. ZHU Jierong has been appointed as the chairman of the Audit Committee, and is the INED with the appropriate professional qualifications.

The principal duties of the Audit Committee include the following (but without limitation):

- reviewing the financial information of the Company including financial statements and annual and interim reports and accounts before submission to the Board;

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;

- reviewing and monitoring the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standards and discussing with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

- reviewing the Company's financial controls, risk management and internal control systems;

- reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, staff training programmes and their budget of the Company's accounting and financial reporting function;

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;

- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;

- considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings; and

- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2019, the Audit Committee convened two committee meetings to review the annual results and financial statements of the Company and its subsidiaries for the year ended 31 December 2018, the interim results and financial statements of the Company and its subsidiaries for the six months ended 30 June 2019, the effectiveness of the Group's risk management and internal control systems, and the effectiveness of the Group's internal audit function. There are also proper arrangements for employees to raise concerns about possible improprieties in financial reporting, internal control and other matters. On 31 March 2020, the Audit Committee also reviewed the annual results and the financial statements for the year ended 31 December 2019 and the re-appointment of the external auditor. The Audit Committee's reviews also covered all material controls, including financial, operational and compliance controls and risk management and internal control functions of the Group. The Group's internal audit department has produced a report on the Group's internal control, financial control and risk management systems, which was presented to and reviewed by the Audit Committee and the Board. Attendance of each Audit Committee member is set out in the table below:

Name of Member	**Attended/Eligible to attend**
Mr. ZHU Jierong *(Chairman)*	2/2
Mr. LI Hua	2/2
Mr. CHENG Yiqun	2/2

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2019 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The Company's management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 76 of this report.

DIRECTORS' LIABILITY INSURANCE

The Company did not arrange any insurance cover in respect of legal action against its Directors. The Board believes that with regular and timely communications among the Directors and the management of the Group, potential claims and legal actions against the Directors can be handled effectively without the need for insurance to be maintained. The Board will regularly review the procedures in handling potential claims and legal actions and take into account the requirements of the Directors and will monitor the need for making such an arrangement.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board to maintain adequate risk management and internal control systems to safeguard Shareholders' investments and the Company's assets and review the effectiveness of such systems on an ongoing basis, at least annually.

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group. The Group's risk management and internal control systems are designed to ensure the achievement of business objectives in operations, financial reporting integrity and compliance with applicable laws and regulations. Such systems of risk management and internal control are designed to manage, rather than completely eliminate, risks impacting the Company's ability to achieve its business objectives. Accordingly, such systems can only provide reasonable but not absolute assurance that the financial statements do not contain a material misstatement or loss.

With the assistance of the Company's management team, the Board identifies, evaluates, and manages the significant risks faced by the Company. The Company implements the Board's policies and procedures to mitigate such risks by (i) identifying and assessing the risks the Group faces and (ii) designing, operating and monitoring the Group's risk management and internal control systems to mitigate and control such risks.

In addition, the disclosure policy which contains the procedures and internal controls for the handling and dissemination of inside information was in place. The policy contains the Company's disclosure obligations, procedures for the handling of inside information, and procedures for the specified disclosure requirements, to assist the Group in identifying the inside information and stating the steps to be taken according to the provisions of the Listing Rules or the SFO.

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems and considers such systems in place as of 31 December 2019 and as of the date of this report, to be effective and adequate.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the total remuneration paid or payable to the Company's auditor, Ernst & Young, for annual audit services totalled RMB2,380,000.

For the year ended 31 December 2019, no non-audit service was provided by the external auditor of the Company.

An analysis of the remuneration paid or payable to Ernst & Young is set out below:

Items of auditor's services	Amount (RMB'000)
Audit services:	
Annual audit services	2,380

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the external auditor of the Company for 2019 and the proposal will be submitted for approval at the forthcoming AGM of the Company.

COMPANY SECRETARY

Ms. NG Wing Shan was appointed as the company secretary of the Company on 13 February 2015. Ms. NG is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited and her primary contact person of the Company is Mr. HE Jinqiang, an executive Director of the Company. During the year ended 31 December 2019, Ms. NG has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors and the five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules have been set out in Notes 8 and 9 to the financial statements.

For the year ended 31 December 2019, the remuneration paid to the top 3 senior management, other than Directors, is listed as below by band:

Band of remuneration	No. of person
Nil to RMB1,000,000	3

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make informed investment decisions.

To promote effective communication with its Shareholders and encourage their participation in general meetings, the Company has established a shareholders' communication policy and maintains a website at www.goldenthroat.com, where up-to-date information on the Company's business operations and developments is available.

The annual general meetings of the Company provide opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company will attend the annual general meetings of the Company to answer Shareholders' questions. The external auditor of the Company will also attend the annual general meetings of the Company to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

SHAREHOLDERS' RIGHTS

The Company intends to avoid bundling of resolutions at general meetings such that a separate resolution shall be proposed for each substantially separate issue at general meetings.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

In accordance with the Articles of Association, one or more Shareholders of the Company may convene an extraordinary general meeting provided that they deposit a written requisition to the Board or the company secretary and such requisitioning Shareholders hold as at the date of deposit of such requisition not less than one-tenth of the paid up capital of the Company which carries voting rights at general meetings of the Company.

Shareholders may put forward proposals for consideration at a general meeting under the Companies Law and the Articles of Association. Any written requisitions and proposals should be sent to the principal place of business of the Company in the PRC at 28, Yuejin Road, Liuzhou, Guangxi Zhuang. Autonomous Region, China.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board should email their enquiries to the Company at gt6896@163.com.

CHANGE IN CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2019, there was no significant change in the Articles of Association of the Company.

ENVIRONMENTAL POLICIES

The Group is committed to protecting the environment. The Group implemented a comprehensive set of environmental protection measures to treat emissions generated during its production process to minimise impact on the environment and to prevent industrial pollution. These measures include having treatment and control systems for solid waste, waste water, waste gas and noise. The Group has dedicated staff members responsible for environmental protection measures. Furthermore, to minimise the impact on the environment, the Group has installed environmental protection equipment and facilities to treat and, where possible, recycle waste materials. The Group is also constantly seeking to improve its environmental protection measures, for example, by reducing its use of water and production of waste water and by not burning coal as fuel to reduce carbon emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

An ESG report of the Group for 2019 will be issued and published on the Company's website and the Stock Exchange's website no later than 3 months after the publication of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with the applicable rules and regulations. During the year ended 31 December 2019, the Group has complied with the Company Law of the PRC, the Tax Law of the People's Republic of China, the Drug Administration Law and the Food Safety Law. As far as the Company is aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company understands the importance of maintaining a good relationship with its employees, customers and suppliers. During the year ended 31 December 2019, there were no material and significant disputes between the Group and its employees, customers and suppliers.

Employees – The Group provides various internal and external training programmes to its employees with a view to improving staff knowledge. The Group also seeks to motivate and retain its employees by maintaining a merit-based compensation and promotion system. The Group has not experienced any major disputes with its employees and the Company believes that the Group maintains a good working relationship with its employees.

Customers – The Group's distributors are its direct customers. As of 31 December 2019, the Group's distribution network comprised over 550 distributors which were directly engaged by it covering all the provinces, autonomous regions and municipal cities throughout China. The Company believes that its distribution network is not easily replicable because it is the accumulation of a process of over a decade of searching for, identifying, negotiating with and selecting qualified distributors in different regions across the country. Over the years, the Group has also developed pricing strategies, which ensure that the profit margins of its products remain attractive to its distributors. In addition, the Group's market leading position of its lozenge products helps retain its distributors. For further details, please refer the section headed "Distribution Network" in the Management Discussion and Analysis of this report.

Suppliers – The Group has established relationships with an average duration of more than three years with most of its major suppliers. The Group carefully selects its suppliers based on various factors, including their product quality, stability, timeliness of delivery, market reputation, creditworthiness and track record. The Group has not experienced significant difficulties in maintaining reliable sources of supplies, and it expects to be able to maintain adequate sources of quality supplies in the future.

GOING CONCERN

The Directors have a reasonable expectation that the Group will have adequate resources to continue in operation for the foreseeable future for a period that is not less than 12 months from the date of this report (for detailed assessment, please see the corresponding note in the financial statements). The Group therefore continues to adopt the going concern basis in preparing the financial statements.

EY 安永

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To the shareholders of Golden Throat Holdings Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Golden Throat Holdings Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 79 to 163, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
As at 31 December 2019, the net carrying value of the Group's trade receivable amounted to RMB104,559,000 after netting off with an impairment provision of RMB7,265,000, which represented 6.4% of the Group's total assets. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. Upon the adoption of HKFRS 9, impairment of trade receivables was assessed based on the expected credit loss model which requires significant judgements and estimates from the management. In assessing the expected credit loss of the trade receivables, management considered various factors such as the age of the balance, existence of disputes, recent historical payment patterns and influence from macroeconomy. The assessment is highly judgmental. The Group's disclosures about trade receivables are included in notes 2.4, 3 and 16 to the financial statements, which also explain the accounting policies, management's accounting estimates and the related expected credit losses.	We evaluated management's assessment on the recoverability of the trade receivables by reviewing the detailed analyses of the ageing of the receivables and testing, on a sample basis, payments received subsequent to the year end, historical payment patterns, and any disputes between the parties involved. We also evaluated the expected credit loss provision methodology used by the Group and the estimates used to determine the expected credit losses by considering cash collection performance against historical trends.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of long-lived assets	
As the carrying amount of the net assets of the Group was higher than the market capitalisation of the Company as at 31 December 2019, the Group performed an impairment test of the cash-generating unit ("CGU"). The impairment test involved significant estimation and judgements around assumptions used, including expectation for sales, unit selling price of products, unit purchase price of raw materials, budgeted gross margin, growth rate, discount rate and overall market and economic conditions. Management determined that no provision for impairment of non-financial assets was required. The Group's disclosures about impairment of assets are included in notes 2.4 and 3 to the financial statements, which also explain the accounting policies and management's accounting estimates.	We evaluated management's identification of indicators of impairment. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan and external forecast and analysis on the industry. We also performed sensitivity analysis on the forecasts. We involved our internal valuation specialists to assist us in evaluating the methodology used and the underlying assumptions and key valuation parameters such as the discount rate and the terminal growth rate used in the forecasted cash flows.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Directors' Report and the Corporate Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Statement, the Directors' Report and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**797,129**	694,194
Cost of sales		**(198,673)**	(177,679)
Gross profit		**598,456**	516,515
Other income and gains	5	**26,814**	24,254
Selling and distribution expenses		**(308,447)**	(290,027)
Administrative expenses		**(77,540)**	(65,877)
Other expenses		**(9,556)**	(30,242)
Finance costs	7	**(9,807)**	(5,169)
PROFIT BEFORE TAX	6	**219,920**	149,454
Income tax expense	10	**(52,307)**	(47,268)
PROFIT FOR THE YEAR		**167,613**	102,186
Attributable to:			
Owners of the parent		**167,613**	102,186
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		**RMB22.67 cents**	RMB13.82 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**167,613**	102,186
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**7,906**	48,546
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**7,906**	48,546
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**7,906**	48,546
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**175,519**	150,732
Attributable to:		
Owners of the parent	**175,519**	150,732

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**412,292**	216,325
Advance payments for property, plant and equipment		**4,537**	28,739
Right-of-use assets	14(b)	**53,426**	–
Prepaid land lease payments	14(a)	**–**	37,809
Prepayments, other receivables and other assets	17	**2**	14,940
Deferred tax assets	23	**16,893**	15,372
Total non-current assets		**487,150**	313,185
CURRENT ASSETS			
Inventories	15	**36,488**	47,006
Trade and bills receivables	16	**416,451**	433,105
Prepayments, other receivables and other assets	17	**38,841**	56,820
Due from related parties	29(b)	**587**	565
Restricted cash	18	**–**	1,084
Pledged deposits	18	**70,103**	–
Cash and cash equivalents	18	**577,333**	634,194
Total current assets		**1,139,803**	1,172,774
CURRENT LIABILITIES			
Trade payables	19	**15,212**	34,458
Other payables and accruals	20	**273,006**	228,419
Interest-bearing bank and other borrowings	21	**96,123**	96,000
Due to a director	29(b)	**237**	232
Tax payable		**77,900**	54,857
Government grants	22	**366**	366
Total current liabilities		**462,844**	414,332
NET CURRENT ASSETS		**676,959**	758,442
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,164,109**	1,071,627

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,164,109**	1,071,627
NON-CURRENT LIABILITIES			
Other payables and accruals	20	**816**	1,070
Government grants	22	**998**	1,364
Deferred tax liabilities	23	**8,166**	11,981
Total non-current liabilities		**9,980**	14,415
Net assets		**1,154,129**	1,057,212
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	**113**	113
Share premium	24	**675,410**	675,410
Reserves	25	**478,606**	381,689
Total equity		**1,154,129**	1,057,212

Jiang Peizhen
Director

Zeng Yong
Director

	Attributable to owners of the parent							
	Share capital RMB'000 (note 24)	Share premium account RMB'000 (note 24)	Capital reserves RMB'000 (note 25)	Statutory and other surplus reserves RMB'000 (note 25)	Other reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2018	113	675,410	8,952	133,100	(24)	12,840	114,062	944,453
Profit for the year	–	–	–	–	–	–	102,186	102,186
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	–	48,546	–	48,546
Total comprehensive income for the year	–	–	–	–	–	48,546	102,186	150,732
Final 2017 dividend declared	–	–	–	–	–	–	(37,973)	(37,973)
Transfer from retained profits	–	–	–	50,394	–	–	(50,394)	–
At 31 December 2018	113	675,410	8,952*	183,494*	(24)*	61,386*	127,881*	1,057,212

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2019

	Attributable to owners of the parent							
	Share capital RMB'000 (note 24)	Share premium account RMB'000 (note 24)	Capital reserves RMB'000 (note 25)	Statutory and other surplus reserves RMB'000 (note 25)	Other reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2019	113	675,410	8,952	183,494	(24)	61,386	127,881	1,057,212
Profit for the year	–	–	–	–	–	–	167,613	167,613
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	–	7,906	–	7,906
Total comprehensive income for the year	–	–	–	–	–	7,906	167,613	175,519
Final 2018 dividend declared	–	–	–	–	–	–	(78,602)	(78,602)
Transfer from retained profits	–	–	–	16,891	–	–	(16,891)	–
At 31 December 2019	113	675,410	8,952*	200,385*	(24)*	69,292*	200,001*	1,154,129

* These reserve accounts comprise the consolidated reserves of RMB478,606,000 (2018: RMB381,689,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**219,920**	149,454
Adjustments for:			
Depreciation of items of property, plant and equipment	13	**5,695**	5,319
Depreciation of right-of-use assets/recognition of prepaid land lease payments	14(a),14(b)	**3,818**	1,003
Recognition of government grants	22	**(366)**	(366)
Gains on disposal of items of property, plant and equipment	5	**(7)**	(624)
Investment income from financial assets at fair value through profit or loss	5	**(969)**	(2,803)
Foreign exchange losses, net		**3,399**	28,748
Bank interest income	5	**(12,449)**	(9,675)
Finance costs	7	**9,807**	5,169
Impairment of trade receivables	16	**918**	6,187
Impairment of other receivables	17	**7,826**	417
Write-down of inventories to net realisable value	6	**924**	192
		238,516	183,021
Decrease in trade and bills receivables		**15,736**	7,066
Decrease in prepayments, other receivables and other assets		**6,877**	12,547
Decrease/(increase) in inventories		**9,594**	(3,765)
Decrease in amounts due from related parties		**2**	2,977
(Decrease)/increase in trade payables		**(19,246)**	13,494
(Decrease)/increase in other payables and accruals		**(3,811)**	7,683
Cash generated from operations		**247,668**	223,023
Interest received		**12,329**	9,925
Interest paid		**(9,807)**	(5,169)
Income tax paid		**(34,600)**	(38,571)
Net cash flows from operating activities		**215,590**	189,208

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(129,348)**	(121,766)
Purchases of financial assets at fair value through profit or loss		**(240,000)**	(415,000)
Proceeds from disposal of financial assets at fair value through profit or loss		**240,969**	417,827
Proceeds from disposal of items of property, plant and equipment		**39**	862
Net cash flows used in investing activities		**(128,340)**	(118,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(320,476)**	(127,000)
New bank loans		**320,229**	137,000
Principal portion of lease payments	26(b)	**(371)**	–
Dividends paid to shareholders		**(78,602)**	(75,052)
Increase in pledged deposits		**(70,103)**	–
Net cash flows used in financing activities		**(149,323)**	(65,052)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(62,073)**	6,079
Effect of foreign exchange rate changes, net		**4,128**	18,957
Cash and cash equivalents at beginning of year		**635,278**	610,242
CASH AND CASH EQUIVALENTS AT END OF YEAR		**577,333**	635,278
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**549,011**	425,602
Non-pledged time deposits with original maturity of less than three months when acquired	18	**28,322**	209,676
Cash and cash equivalents as stated in the statement of financial position	18	**577,333**	635,278
Cash and cash equivalents as stated in the statement of cash flows		**577,333**	635,278

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 2 September 2014. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Group was principally involved in the manufacture and sale of pharmaceutical, healthcare food and other products.

On 15 July 2015, the Company achieved a successful listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors, the holding company of the Company is Golden Throat International Holdings Limited, which was incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Golden Throat Industrial Holdings Limited 金嗓子實業集團有限公司	Hong Kong	HKD1	100%	–	Investment holding
Guangxi Golden Throat Investment Consulting Co., Ltd.* 廣西金嗓子投資諮詢有限公司	People's Republic of China (the "PRC")/ Mainland China	USD100,000,000	–	100%	Investment holding
Guangxi Golden Throat Co., Ltd.** ("Golden Throat Company") 廣西金嗓子有限責任公司	PRC/Mainland China	RMB250,265,000	–	100%	Manufacture and sale of pharmaceutical and healthcare food products
Guangxi Golden Throat Health Food Co., Ltd.** 廣西金嗓子保健品有限公司	PRC/Mainland China	RMB3,200,000	–	100%	Manufacture and sale of pharmaceutical and healthcare food products

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangxi Golden Throat Medical Co., Ltd.** ("Golden Throat Medical") 廣西金嗓子醫藥有限公司	PRC/Mainland China	RMB5,000,000	–	100%	Trading of pharmaceutical and healthcare food products
Guangxi Golden Throat Pharmaceutical Corporation** ("Golden Throat Pharmaceutical") 廣西金嗓子藥業股份有限公司	PRC/Mainland China	RMB30,000,000	–	100%	Manufacture and sale of pharmaceutical and healthcare food products
Guangxi Golden Throat Import & Export Trading Co., Ltd.** ("Golden Throat Import & Export") 廣西金嗓子進出口貿易有限公司	PRC/Mainland China	RMB2,100,000	–	100%	Import and export trading of goods
Guangxi Golden Throat Biological Technology Co., Ltd.** 廣西金嗓子生物科技有限公司	PRC/Mainland China	RMB2,000,000	–	100%	Development and sale of food and beverages
Guangxi Golden Throat Food Co., Ltd.** 廣西金嗓子食品有限公司	PRC/Mainland China	RMB2,000,000	–	100%	Development and sale of food and beverages

* This entity is a wholly-foreign-owned enterprise established under PRC law.

** These entities are limited liability enterprises established under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for land, office and warehouse rental. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	56,884
Decrease in prepaid land lease payments	(37,809)
Decrease in prepayments, other receivables and other assets	(18,334)
Increase in total assets	741
Liabilities	
Increase in interest-bearing bank and other borrowings	741
Increase in total liabilities	741

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

Financial impact at 1 January 2019 *(continued)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	1,140
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(383)
	757
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	741
Lease liabilities as at 1 January 2019	741

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 And HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures financial instruments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Machinery and equipment	9.50%
Computer and office equipment	19.00%
Motor vehicles	23.75%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, and machinery and equipment under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost is the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Leasehold office and warehouse	2 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. 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, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Operating leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

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

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

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The subsequent measurement of financial liabilities as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

The interest reduction based on the rate lower than the market interest rate for the bank borrowings in accordance with *the Notice for the Preferential Interest Rates of Loans for National Trade and Manufacturing of National Special Products* issued by the People's Bank of China and the State Ethnic Affairs Commission of the People's Republic of China is recognised as income when received.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of products provide customers with volume rebates. The rights of volume rebates give rise to variable consideration.

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract.

The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfer the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company and certain subsidiaries incorporated outside Mainland China is HKD and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. As at 31 December 2019, the Company's market capitalisation was lower than the Group's net assets value which is an indicator of impairment for non-financial assets. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used in the expected future cash flows calculations include appropriate discount rate, expected future sales and cost of sales of products, budgeted growth margin and growth rate. Where the expectation is different from the original estimates, the carrying value and provision for such non-financial assets in the period in which such estimates are changed will be adjusted accordingly.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns such as by customer type.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised deductible temporary differences at 31 December 2019 was RMB16,893,000 (2018: RMB15,372,000). Further details are contained in note 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Income tax

The Group is subject to income taxes in various regions. As certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income tax. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions over the period in which the differences are realised. Further details are disclosed in note 10 to the financial statements.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customer

	2019 RMB'000	2018 RMB'000
Mainland China	**788,901**	686,594
Other countries/regions	**8,228**	7,600
	797,129	694,194

The revenue information is based on the location of the customers.

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	**455,009**	282,873
Hong Kong	**15,246**	14,913
	470,255	297,786

The non-current asset information above is based on the location of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's total revenue during the year (2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**796,992**	694,036
Revenue from other sources		
Gross rental income	**137**	158
	797,129	694,194

All of the Group's revenue generated from the sale of goods was recognised at a point in time during the year.

	2019 RMB'000	2018 RMB'000
Other income		
Government grants	**13,380**	10,758
Bank interest income	**12,449**	9,675
Investment income from financial assets at fair value through profit or loss	**969**	2,803
Others	**9**	394
	26,807	23,630
Gains		
Gains on disposal of items of property, plant and equipment	**7**	624
	26,814	24,254

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**198,673**	177,679
Depreciation of property, plant and equipment	13	**5,695**	5,319
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	14(a),14(b)	**3,818**	1,003
Research and development costs		**2,894**	2,195
Minimum lease payments under operating leases		**–**	2,781
Lease payments not included in the measurement of lease liabilities	14(d)	**298**	–
Auditor's remuneration		**2,560**	2,278
Government grants		**(13,380)**	(10,758)
Bank interest income		**(12,449)**	(9,675)
Investment income from financial assets at fair value through profit or loss		**(969)**	(2,803)
Foreign exchange losses, net		**3,399**	28,748
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**48,755**	47,943
Pension scheme contributions		**10,099**	8,059
Staff welfare expenses		**13,471**	10,502
		72,325	66,504
Gains on disposal of items of property, plant and equipment		**(7)**	(624)
Impairment of trade receivables	16	**918**	6,187
Impairment of other receivables	17	**7,826**	417
Write-down of inventories to net realisable value		**924**	192

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans	**9,009**	5,169
Interest on discounted bills receivable	**775**	–
Interest on lease liabilities	**23**	–
	9,807	5,169

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	**360**	360
Other emoluments:		
Salaries, allowances and benefits in kind	**7,625**	3,834
Performance related bonuses	**6,302**	5,862
Pension scheme contributions	**350**	365
	14,277	10,061
	14,637	10,421

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Li Hua	**120**	120
Cheng Yiqun	**120**	120
Zhu Jierong	**120**	120
	360	360

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors and a non-executive director

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019				
Executive directors:				
Zeng Yong	**3,335**	**2,103**	**70**	**5,508**
Lu Xinghong	**553**	**32**	**–**	**585**
Zeng Kexiong	**240**	**420**	**70**	**730**
Huang Jianping	**332**	**328**	**70**	**730**
He Jinqiang	**331**	**329**	**70**	**730**
	4,791	**3,212**	**280**	**8,283**
Non-executive director:				
Jiang Peizhen	**2,834**	**3,090**	**70**	**5,994**
	7,625	**6,302**	**350**	**14,277**

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director *(continued)*

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018				
Executive directors:				
Zeng Yong	662	2,041	73	2,776
Lu Xinghong	549	32	–	581
Zeng Kexiong	389	266	73	728
Huang Jianping	389	266	73	728
He Jinqiang	388	266	73	727
	2,377	2,871	292	5,540
Non-executive director:				
Jiang Peizhen	1,457	2,991	73	4,521
	3,834	5,862	365	10,061

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No emoluments were paid by the Group to any of the above directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

The Group did not appoint a chief executive, and the duty of a chief executive was performed by the general manager.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2018: five directors), details of whose remuneration are set out in note 8 above.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax. The Group's subsidiary incorporated in Hong Kong is not liable for profits tax as it did not have any assessable profits arising in Hong Kong during the year.

The provision for Mainland China income tax has been made at the applicable income tax rate of 25% on the assessable profits of certain PRC subsidiaries of the Group in accordance with the PRC Corporate Income Tax Law. Golden Throat Company and Golden Throat Pharmaceutical are qualified as companies under the development strategy of China western region and were subject to tax at a preferential income tax rate of 15% for the year (2018: 15%). Golden Throat Import & Export and Golden Throat Medical were entitled to a preferential income tax rate of 20% for small and micro enterprises with the first RMB1.0 million of annual taxable income eligible for 75% reduction and the income between RMB1.0 million and RMB3.0 million eligible for 50% reduction.

The income tax expense of the Group for the years ended 31 December 2019 and 2018 is analysed as follows:

	2019 **RMB'000**	2018 RMB'000
Current tax:		
Charge for the year	**45,652**	37,447
Deferred tax (note 23)	**6,655**	9,821
Total tax charge for the year	**52,307**	47,268

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2019 **RMB'000**	2018 RMB'000
Profit before tax	**219,920**	149,454
At the PRC's statutory income tax rate of 25%	**54,980**	37,364
Lower tax rates for specific provinces or enacted by local authority	**(17,907)**	(9,713)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**8,176**	11,981
Expenses not deductible for tax	**3,802**	6,307
Income not subject to tax	**(13)**	(72)
Additional deductible allowance for the payroll of disabled employees	**(691)**	(777)
Tax losses not recognised	**3,960**	2,178
Tax charge at the Group's effective rate	**52,307**	47,268

11. DIVIDENDS

	2019 **RMB'000**	2018 RMB'000
Proposed final – HK12 cents (2018: HK12 cents) per ordinary share	**79,470**	77,733
	79,470	77,733

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 739,302,000 (2018: 739,302,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculation of basic earnings per share is based on:

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**167,613**	102,186

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**739,302,000**	739,302,000

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 31 December 2018 and 1 January 2019:						
Cost	51,901	78,396	2,963	5,856	188,460	327,576
Accumulated depreciation	(45,491)	(58,543)	(2,787)	(4,430)	–	(111,251)
Net carrying amount	6,410	19,853	176	1,426	188,460	216,325
At 1 January 2019, net of accumulated depreciation	6,410	19,853	176	1,426	188,460	216,325
Additions	549	1,320	521	438	198,866	201,694
Disposals	–	(32)	–	–	–	(32)
Depreciation provided during the year (note 6)	(1,468)	(3,488)	(93)	(646)	–	(5,695)
Transfers	48,165	417	2,125	–	(50,707)	–
At 31 December 2019, net of accumulated depreciation	53,656	18,070	2,729	1,218	336,619	412,292
At 31 December 2019:						
Cost	100,615	79,489	5,604	6,294	336,619	528,621
Accumulated depreciation	(46,959)	(61,419)	(2,875)	(5,076)	–	(116,329)
Net carrying amount	53,656	18,070	2,729	1,218	336,619	412,292

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017and 1 January 2018:						
Cost	52,047	77,555	2,963	7,079	75,360	215,004
Accumulated depreciation	(44,223)	(55,155)	(2,755)	(5,540)	–	(107,673)
Net carrying amount	7,824	22,400	208	1,539	75,360	107,331
At 1 January 2018, net of accumulated depreciation	7,824	22,400	208	1,539	75,360	107,331
Additions	–	940	–	511	113,100	114,551
Disposals	(146)	(5)	–	(87)	–	(238)
Depreciation provided during the year (note 6)	(1,268)	(3,482)	(32)	(537)	–	(5,319)
At 31 December 2018, net of accumulated depreciation	6,410	19,853	176	1,426	188,460	216,325
At 31 December 2018:						
Cost	51,901	78,396	2,963	5,856	188,460	327,576
Accumulated depreciation	(45,491)	(58,543)	(2,787)	(4,430)	–	(111,251)
Net carrying amount	6,410	19,853	176	1,426	188,460	216,325

At 31 December 2019, no buildings (2018: RMB1,545,000) were pledged to secure bank loan facilities granted to the Group (note 21).

14. LEASES

The Group as a lessee

The Group has lease contracts for land, office and warehouse. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office and warehouse generally have lease terms between 2 and 10 years.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	39,815
Recognised in profit or loss during the year	(1,003)
Carrying amount at 31 December 2018	38,812

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land	**Office and warehouse**	**Total**
As at 1 January 2019	38,812	18,072	56,884
Depreciation charge	(1,003)	(2,815)	(3,818)
Exchange realignment	–	360	360
As at 31 December 2019	37,809	15,617	53,426

At 31 December 2019, no leasehold land (2018: RMB14,932,000) was pledged to secure bank loan facilities granted to the Group (note 21).

14. LEASES *(continued)*

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January	**741**
Accretion of interest recognised during the year	**23**
Payments	**(394)**
Carrying amount at 31 December	**370**
Analysed into:	
Current portion	**370**
Non-current portion	**–**

The maturity analysis of lease liabilities is disclosed in note 32 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	**23**
Depreciation charge of right-of-use assets	**3,818**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	**298**
Total amount recognised in profit or loss	**4,139**

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 26(c) and 28, respectively, to the financial statements.

15. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Raw materials	**19,712**	21,013
Work in progress	**4,322**	4,343
Finished goods	**16,104**	24,376
	40,138	49,732
Write-down of inventories to net realisable value	**(3,650)**	(2,726)
	36,488	47,006

16. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Trade receivables	**111,824**	72,759
Bills receivable	**311,892**	366,693
	423,716	439,452
Impairment	**(7,265)**	(6,347)
	416,451	433,105

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

16. TRADE AND BILLS RECEIVABLES *(continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Less than 3 months	**100,595**	60,806
3 to 6 months	**1,467**	3,317
6 to 12 months	**1,929**	2,025
1 to 2 years	**512**	133
Over 2 years	**56**	131
	104,559	66,412

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**6,347**	935
Impairment losses, net (note 6)	**918**	6,187
Amount written off as uncollectible	**–**	(775)
At end of year	**7,265**	6,347

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on aging for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

16. TRADE AND BILLS RECEIVABLES *(continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	As at 31 December 2019		
	Amount RMB'000	**Expected loss rate**	**Impairment RMB'000**
Default receivables	**6,039**	**100.00%**	**6,039**
Other trade receivables aged:			
Less than 1 year	**104,540**	**0.52%**	**548**
Between 1 and 2 years	**778**	**34.18%**	**266**
Between 2 and 3 years	**108**	**48.57%**	**53**
Over 3 years	**359**	**100.00%**	**359**
	111,824	**6.50%**	**7,265**

As at 31 December 2018

	As at 31 December 2018		
	Amount RMB'000	Expected loss rate	Impairment RMB'000
Default receivables	6,039	100.00%	6,039
Other trade receivables aged:			
Less than 1 year	66,186	0.06%	38
Between 1 and 2 years	165	19.50%	32
Between 2 and 3 years	198	34.00%	67
Over 3 years	171	100.00%	171
	72,759	8.72%	6,347

16. TRADE AND BILLS RECEIVABLES *(continued)*

Bills receivable of RMB311,892,000 (2018: RMB366,693,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these bills receivable at fair value through other comprehensive income were insignificant.

At 31 December 2019, the Group endorsed certain bills receivable accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB46,968,000 (2018: RMB52,711,000) (the "Endorsement"). In addition, the Group discounted certain bills receivable accepted by certain banks in the PRC (the "Discounted Notes") with a carrying amount in aggregate of RMB41,722,000 (2018: Nil) (the "Discount"). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain of the Endorsed Notes and Discounted Notes accepted by large and reputable banks with amounts of RMB21,673,000 (2018: RMB20,929,000) and RMB40,759,000 (2018: Nil), respectively (the "Derecognised Notes"). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables settled by the Endorsed Notes.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

At 31 December 2019, the Group continued to recognise the full carrying amounts of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB25,295,000 (2018: RMB31,782,000) and to recognise the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB963,000 (2018: Nil) as short-term loans because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement and the Discount have been made evenly during the year.

The Group's bills receivable were all aged within six months and were neither past due nor impaired.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Other receivables	**17,507**	20,688
Prepayments for material costs	**2,324**	2,377
Interest receivable	**251**	131
Prepaid land lease payments (note 14(a))	**–**	1,003
Prepaid expenses	**27,016**	47,990
	47,098	72,189
Impairment allowance	**(8,255)**	(429)
	38,843	71,760
Less: Other receivables, non-current portion	**(2)**	(27)
Prepaid expenses, non-current portion	**–**	(14,913)
	38,841	56,820

An impairment analysis is performed at each reporting date by considering the probability of default. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment.

Included in the prepayments, other receivables and other assets are prepayments of RMB949,000 (2018: Nil) due from a related party controlled by a director of the Group.

The movements in provision for impairment of other receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**429**	12
Impairment losses, net (note 6)	**7,826**	417
At end of year	**8,255**	429

18. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND DEPOSITS

	Note	2019 RMB'000	2018 RMB'000
Cash and bank balances		**549,011**	425,602
Time deposits		**98,425**	209,676
		647,436	635,278
Less:			
Pledged for bank loans	21	**(70,103)**	–
Restricted cash		**–**	(1,084)
		577,333	634,194

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB600,978,000 (2018: RMB409,474,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one month to two months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

At the end of the reporting period, no cash and bank balances were restricted to use due to lawsuit (2018: RMB1,084,000).

19. TRADE PAYABLES

	2019 **RMB'000**	2018 RMB'000
Trade payables	**15,212**	34,458

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 **RMB'000**	2018 RMB'000
Less than 3 months	**11,460**	32,278
3 to 6 months	**1,497**	510
6 to 12 months	**1,051**	453
1 to 2 years	**1**	3
Over 2 years	**1,203**	1,214
	15,212	34,458

No trade payables included in the trade payables (2018: RMB351,000) are due to a related party controlled by a director of the Group which are repayable within 30 days, which represents credit terms similar to those offered by the related party to its major customers.

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

20. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Other payables	**98,479**	63,584
Refund liabilities	**32,078**	38,190
Accrued liabilities	**95,204**	82,673
Accrued employee benefits	**12,551**	3,833
Contract liabilities	**14,564**	24,368
Taxes payable other than corporate income tax	**20,946**	16,841
	273,822	229,489
Less: Accrued employee benefits, non-current portion	**(816)**	(1,070)
	273,006	228,419

Contract liabilities include short-term advances received to deliver products.

Other payables are non-interest-bearing and have an average payment term of three months.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Current					
Lease liabilities (notes 14(c))	4.75	Within 1 year	370	–	–
Bank loans – secured	3.25-4.35	Within 1 year	65,753	36,000	36,000
Bank loans – unsecured	4.35	Within 1 year	30,000	60,000	60,000
			96,123	96,000	96,000
Non-current					
Lease liabilities (notes 14(c))	4.75	2020	–	741	–
			96,123	96,741	96,000
Analysed into:					
Bank loans repayable:					
Within one year or on demand			95,753	96,000	96,000
Other borrowings repayable:					
Within one year or on demand			370	–	–
In the second year			–	741	–
			96,123	96,741	96,000

Notes:

(i) Certain of the Group's bank loans are secured by the pledge of the Group's deposits amounting to RMB70,103,000 (2018: Nil) at the end of the reporting period (note 18);

(ii) No building (2018: RMB1,545,000) was pledged to secure bank loan facilities granted to the Group at the end of the reporting period (note 13); and

(iii) No leasehold land (2018: RMB14,932,000) was pledged to secure bank loan facilities granted to the Group at the end of the reporting period (note 14).

22. GOVERNMENT GRANTS

	2019 RMB'000	2018 RMB'000
At beginning of year	**1,730**	2,096
Recognised as income during the year	**(366)**	(366)
At end of year	**1,364**	1,730
Current	**366**	366
Non-current	**998**	1,364
	1,364	1,730

The Group received government funding for several government-sponsored projects focusing on the development of manufacturing facilities of the Group. Upon completion of the related projects, the grants related to assets were released to the statement of profit or loss over the expected useful lives of the relevant assets.

23. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Deferred tax assets								Deferred tax liabilities		
	Advertising expenses	Impairment of receivables	Impairment of inventories	Accrued expenses	Accrued employee benefits	Unrealised profit attributable to the intra-group transactions	Government grants	Deferred tax assets total	Withholding taxes	Deferred tax liabilities total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	943	2	265	11,441	73	174	314	13,212	(4,095)	(4,095)	9,117
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 10)	237	106	84	1,901	26	(140)	(54)	2,160	(11,981)	(11,981)	(9,821)
Deferred tax realised during the year	–	–	–	–	–	–	–	–	4,095	4,095	4,095
At 31 December 2018 and 1 January 2019	1,180	108	349	13,342	99	34	260	15,372	(11,981)	(11,981)	3,391
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 10)	(1,180)	1,358	182	1,113	(7)	110	(55)	1,521	(8,176)	(8,176)	(6,655)
Deferred tax realised during the year	–	–	–	–	–	–	–	–	11,991	11,991	11,991
At 31 December 2019	–	1,466	531	14,455	92	144	205	16,893	(8,166)	(8,166)	8,727

23. DEFERRED TAX *(continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, deferred tax of RMB8,176,000 (2018: RMB11,981,000) has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB231,892,000 at 31 December 2019 (2018: RMB132,515,000).

The Group has tax losses arising in Mainland China of RMB26,701,000 (2018: RMB22,741,000) that are available indefinitely for offsetting against future taxable profits of the subsidiaries in which the temporary differences arose.

Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have loss-making and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
194,532,000 (2018: 194,532,000) ordinary shares	**29**	29
Issued but not paid:		
544,770,000 (2018: 544,770,000) ordinary shares	**84**	84
	113	113

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	739,302,000	113	675,410	675,523

25. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 83 to 84 of the financial statements.

Statutory and other surplus reserves

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Other surplus reserve was appropriated from net profit in accordance with a prescribed percentage approved in a general meeting of the shareholders. Other surplus reserve may be used to offset accumulated losses or increase capital. Where an enterprise satisfies the stipulated conditions, other surplus reserve can also be used to distribute cash dividends.

Capital reserves

Capital reserves represent the aggregated amount of the paid-up capital of those companies comprising the Group prior to the incorporation of the Company.

26. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had no non-cash additions to right-of-use assets and lease liabilities in respect of lease arrangements for warehouse (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 31 December 2018	**96,000**	**–**
Effect of adoption of HKFRS 16	**–**	**741**
At 1 January 2019 (restated)	**96,000**	**741**
Changes from financing cash flows	**(247)**	**(371)**
Interest expense	**–**	**23**
Interest paid classified as operating cash flows	**–**	**(23)**
At 31 December 2019	**95,753**	**370**

2018

	Bank and other loans RMB'000
At 1 January 2018	86,000
Changes from financing cash flows	10,000
At 31 December 2018	96,000

26. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	**298**
Within financing activities	**394**
	692

27. CONTINGENT LIABILITIES

(a) A subsidiary of the Group is currently a defendant in a lawsuit brought by a promotion service provider, Beijing Haitian Net Company Co., Ltd. ("Beijing Haitian"), alleging that the subsidiary breached the contract by delaying the payment of a promotion fee charged for the marketing and promotion services provided to the Group. The estimated claims of marketing and promotion services and late charges fee were RMB1,721,000 and RMB602,000, respectively. The trial took place in August 2018 and the claims made by Beijing Haitian were rejected by the court. Beijing Haitian appealed against the first instance decision in November 2018. The higher court ordered for retrial in January 2020 and the retrial date has not yet been set. Therefore, it is not practicable to state the timing of the payment, if any. The directors, based on the advice from the Group's PRC legal counsel and the current circumstances known to them, have grounds to believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation.

(b) On 25 January 2018, Qi Feng Food Science and Technology (Beijing) Co., Ltd. ("Qi Feng") commenced an arbitration action against the subsidiary of the Group. The arbitration claim seeks orders that (i) the distribution agreement signed on 1 March 2016 is terminated; (ii) the subsidiary pay the marketing and promotion fee of RMB13,860,000 which was paid on behalf of the subsidiary by Qi Feng; and (iii) the subsidiary pay a compensation fee of RMB5,000,000 and the related legal fee for breach of the distribution agreement. In January 2020, Qi Feng appealed to withdraw the arbitration order made in November 2019. The directors, based on the advice from the Group's PRC legal counsel and the current circumstances known to them, have grounds to believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the arbitration.

28. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	RMB'000	RMB'000
Contracted, but not provided for:		
Buildings	**55,384**	64,854
Plant and machinery	**14,179**	–
	69,563	64,854

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office and warehouse rental under operating lease arrangements. Leases were negotiated for terms ranging from one to ten years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	RMB'000
Within one year	762
In the second to fifth years, inclusive	378
	1,140

29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	2019 RMB'000	2018 RMB'000
An entity ultimately controlled by a director:			
Guangxi Changbao Biological Technology Co., Ltd. ("Changbao")			
Purchases of products	(i)	**2,854**	4,192
An entity ultimately controlled by a director:			
Guangxi Golden Throat Travel Co., Ltd.			
Purchases of services	(i)	**250**	–

Note:

(i) The purchases from related parties were made according to the published prices and conditions offered by the related party to their major customers.

(b) Outstanding balances with related parties:

(i) The Group had an outstanding balance due from related parties of RMB587,000 (2018: RMB565,000) as at the end of the reporting period. The outstanding balance is unsecured, non-interest-bearing and payable on demand.

(ii) The Group had an outstanding balance due to a director of RMB237,000 (2018: RMB232,000) as at the end of the reporting period. The balance is unsecured, non-interest-bearing and repayable on demand.

(iii) Details of the Group's trade balances with its related party as at the end of the reporting period are disclosed in notes 17 and 19 to the financial statements.

29. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation of key management personnel of the Group:

	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**15,036**	10,805
Pension scheme contributions	**538**	553
Total compensation paid to key management personnel	**15,574**	11,358

Further details of directors' remuneration are included in note 8 to the financial statements.

The related party transactions in respect of purchases of services from Guangxi Golden Throat Travel Co., Ltd. and purchases of products from Changbao above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2019

	Financial assets at fair value through other comprehensive income		
	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	311,892	104,559	416,451
Financial assets included in prepayments, other receivables and other assets	–	9,503	9,503
Due from related parties	–	587	587
Pledged deposits	–	70,103	70,103
Cash and cash equivalents	–	577,333	577,333
	311,892	762,085	1,073,977

30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial assets *(continued)*

2018

	Financial assets at fair value through other comprehensive income		
	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	366,693	66,412	433,105
Financial assets included in prepayments, other receivables and other assets	–	20,390	20,390
Due from related parties	–	565	565
Restricted cash	–	1,084	1,084
Cash and cash equivalents	–	634,194	634,194
	366,693	722,645	1,089,338

Financial liabilities at amortised cost

	2019 RMB'000	2018 RMB'000
Trade payables	**15,212**	34,458
Financial liabilities included in other payables and accruals	**225,761**	146,257
Interest-bearing bank and other borrowings	**96,123**	96,000
Due to a director	**237**	232
	337,333	276,947

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, time deposits, restricted cash, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals and amounts due to a director and due from related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments. The fair values of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the fixed interest rates of these instruments or the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the finance manager. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance manager. The valuation process and results are discussed with the directors once a year for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices. The Group's own non-performance risk for these investments was assessed to be insignificant.

The fair values of the bills receivable classified as financial assets at fair value through other comprehensive income under HKFRS 9 have been calculated by discounting the expected future cash flows, which are the par values of the bills receivable. In addition, the bills receivable will mature within one year, and thus their fair values approximate to their carrying values.

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Bills receivable	–	311,892	–	311,892

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Bills receivable	–	366,693	–	366,693

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 (2018: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar and the United States dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in rate of foreign currency	**Increase/ (decrease) in profit before tax**
	%	RMB'000
2019		
If RMB weakens against the Hong Kong dollar	**5**	**(11,423)**
If RMB strengthens against the Hong Kong dollar	**(5)**	**11,423**
If RMB weakens against the United States dollar	**5**	**27**
If RMB strengthens against the United States dollar	**(5)**	**(27)**
2018		
If RMB weakens against the Hong Kong dollar	5	(9,764)
If RMB strengthens against the Hong Kong dollar	(5)	9,764
If RMB weakens against the United States dollar	5	10,648
If RMB strengthens against the United States dollar	(5)	(10,648)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	104,559	104,559
Bills receivable**	311,892	–	–	–	311,892
Financial assets included in prepayments, other receivables and other assets					
– Normal**	9,503	–	–	–	9,503
Due from related parties					
– Normal**	587	–	–	–	587
Pledged deposits					
– Not yet past due	70,103	–	–	–	70,103
Cash and cash equivalents					
– Not yet past due	577,333	–	–	–	577,333
	969,418	–	–	104,559	1,073,977

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Maximum exposure and year-end staging *(continued)*

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	66,412	66,412
Bills receivable**	366,693	–	–	–	366,693
Financial assets included in prepayments, other receivables and other assets					
– Normal**	20,390	–	–	–	20,390
Due from related parties					
– Normal**	565	–	–	–	565
Restricted cash					
– Not yet past due	1,084	–	–	–	1,084
Cash and cash equivalents					
– Not yet past due	634,194	–	–	–	634,194
	1,022,926	–	–	66,412	1,089,338

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 to the financial statements.

** The credit quality of the bills receivable, financial assets included in prepayments, other receivables and other assets and amounts due from related parties is considered to be "normal" when they are not past due and there is no information indication that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 16 and 17 to the financial statements.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2019

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	31,142	66,116	–	–	97,258
Lease liabilities	–	95	275	–	–	370
Trade payables	3,752	11,460	–	–	–	15,212
Financial liabilities included in other payables and accruals	67,902	150,389	7,470	–	–	225,761
Due to a director	237	–	–	–	–	237
	71,891	193,086	73,861	–	–	338,838

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Liquidity risk *(continued)*

2018

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	60,172	36,824	–	–	96,996
Trade payables	2,180	32,278	–	–	–	34,458
Financial liabilities included in other payables and accruals	33,429	106,228	6,600	–	–	146,257
Due to a director	232	–	–	–	–	232
	35,841	198,678	43,424	–	–	277,943

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals and an amount due to a director, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

	31 December 2019 RMB'000	1 January 2019 RMB'000 (note)	31 December 2018 RMB'000
Interest-bearing bank and other borrowings (note 21)	96,123	96,741	96,000
Trade payables	15,212	34,458	34,458
Other payables and accruals	273,006	228,419	228,419
Due to a director	237	232	232
Less: Cash and cash equivalents	(577,333)	(634,194)	(634,194)
Restricted cash	–	(1,084)	(1,084)
Net cash	(192,755)	(275,428)	(276,169)
Equity attributable to owners of the parent	1,154,129	1,057,212	1,057,212
Capital and net cash	961,374	781,784	781,043
Gearing ratio	N/A	N/A	N/A

Note: The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018.

33. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the outbreak of novel coronavirus ("COVID-19") has inevitably caused certain impact on both the overall markets and business performance of the Group, mainly due to travel restrictions and other precaution measures imposed by relevant local authorities that resulted in delays in commencement for work production in manufacturing plants, temporary closure for business of suppliers and distributors, and the overall decline in market demand during the outbreak period.

The Group estimates that the degree of COVID-19 impact will be dependent on the duration of epidemic and the outcome of preventive measures undertaken by respective local authorities. The Group is closely monitoring the market development and continuously evaluating the impact of COVID-19 situation on the Group's operational and financial performance. Given the dynamic circumstances and uncertainties of COVID-19 situation, the Group's 2020 financial performance would inevitably be affected by the COVID-19 situation. The overall financial impact could not be reasonably estimated at this stage, and it will be reflected in the Group's 2020 interim and annual financial statements.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the year is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	–*	–*
Right-of-use assets	15,246	–
Prepayments, other receivables and other assets	–	14,913
Total non-current assets	15,246	14,913
CURRENT ASSETS		
Prepayments, other receivables and other assets	132	2,734
Due from a subsidiary	663,652	494,325
Due from related parties	245	220
Cash and cash equivalents	82,652	222,733
Total current assets	746,681	720,012
CURRENT LIABILITIES		
Other payables and accruals	345	428
Due to the holding company	88	86
Total current liabilities	433	514
NET CURRENT ASSETS	746,248	719,498
TOTAL ASSETS LESS CURRENT LIABILITIES	761,494	734,411
Net assets	761,494	734,411
EQUITY		
Share capital	113	113
Share premium (note)	675,410	675,410
Reserves (note)	85,971	58,888
Total equity	761,494	734,411

* Amounts less than RMB1,000

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	**Exchange fluctuation reserve** RMB'000	**Retained profits/ (accumulated losses)** RMB'000	**Total** RMB'000
Balance at 1 January 2018	675,410	42,137	422	717,969
Profit for the year	–	–	20,094	20,094
Other comprehensive income for the year:				
Exchange differences on translation of foreign operations	–	34,208	–	34,208
Total comprehensive income for the year	–	34,208	20,094	54,302
Final 2017 dividend declared	–	–	(37,973)	(37,973)
At 31 December 2018 and 1 January 2019	675,410	76,345	(17,457)	734,298
Profit for the year	–	–	89,150	89,150
Other comprehensive income for the year:				
Exchange differences on translation of foreign operations	–	16,535	–	16,535
Total comprehensive income for the year	–	16,535	89,150	105,685
Final 2018 dividend declared	–	–	(78,602)	(78,602)
At 31 December 2019	675,410	92,880	(6,909)	761,381

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**797,129**	694,194	624,084	768,171	706,922
Cost of sales	**(198,673)**	(177,679)	(188,495)	(213,231)	(184,818)
Gross profit	**598,456**	516,515	435,589	554,940	522,104
PROFIT BEFORE TAX	**219,920**	149,454	94,200	175,301	202,423
Income tax expense	**(52,307)**	(47,268)	(32,820)	(72,389)	(47,805)
PROFIT FOR THE YEAR	**167,613**	102,186	61,380	102,912	154,618
Attributable to:					
Owners of the parent	**167,613**	102,186	61,380	102,912	154,618
Non-controlling interests	**–**	–	–	–	–
	167,613	102,186	61,380	102,912	154,618

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,626,953**	1,485,959	1,362,145	1,432,412	1,301,440
TOTAL LIABILITIES	**(472,824)**	(428,747)	(417,692)	(445,655)	(332,995)
NON-CONTROLLING INTERESTS	**–**	–	–	–	–
	1,154,129	1,057,212	944,453	986,757	968,445