Luye Pharma
绿叶制药

Luye Pharma Group Ltd.
绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

Stock Code: 2186

ANNUAL REPORT 2019

CONTENTS

COMPANY OVERVIEW

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China (''PRC'' or ''China''), the United States (''the U.S.''), Europe and other countries or districts, namely oncology, central nervous system (''CNS''), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets.

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2019. The Group's sales, marketing and distribution functions are conducted around 1,000 sales and marketing personnel, a network of approximately 1,650 distributors that collectively enabled the Group to sell its products to over 14,000 hospitals. For international markets, the business of the Group covers 80 countries including the U.S., and certain countries in Europe. The Group has set up commercial offices in the U.S., the United Kingdom, Switzerland, Japan, Hong Kong, Singapore and Malaysia. The Group also has strong sales partnerships with more than 50 partners throughout the world.

The Group's research and development ("R&D") activities are organised around four platforms in chemical drug sector — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. After completion of the acquisition of Shandong Boan Biological Technology Co., Ltd. (''Shandong Boan'') in February 2020, the Group has expanded its R&D capability to biological sectors that are supported by Shandong Boan's three cutting-edge platforms, namely Human Antibody Transgenic Mouse Technology, Highly Effective Phage Display Technology and Nanobody Platform. Besides, the Group has built wide collaboration with Chinese and multinational companies in the development of some new antibodies and cell therapies areas. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities.

As at 31 December 2019, the Group's R&D team consisted of 748 employees, including 80 Ph.D. degree holders and 338 Master's degree holders in medical, pharmaceutical and other related areas. After the completion of acquisition of Shandong Boan in February 2020, there were additional 135 R&D professionals. As at 31 December 2019, the Group had been granted over 220 patents and had over 79 pending patent applications in the PRC, as well as over 665 patents and over 118 pending patent applications overseas.

As at 31 December 2019, the Group had a pipeline of 42 PRC product candidates in various stages of development. These candidates included 16 oncology products, 8 cardiovascular and metabolism products, as well as 16 CNS products.

Also, the Group had a pipeline of 15 candidate products in the U.S., Europe and Japan in various stages of development.

Board of Directors

Executive Directors

Mr. LIU Dian Bo
(Executive Chairman and Chief Executive Officer)
Mr. YANG Rong Bing *(Vice Executive Chairman)*
Mr. YUAN Hui Xian
Ms. ZHU Yuan Yuan

Non-Executive Director

Mr. SONG Rui Lin

Independent Non-executive Directors

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Dr. CHOY Sze Chung Jojo

Company Secretary

Ms. LAI Siu Kuen

Authorized Representatives

Mr. YANG Rong Bing
Ms. ZHU Yuan Yuan

Audit Committee

Mr. LEUNG Man Kit *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

Remuneration Committee

Dr. CHOY Sze Chung Jojo *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

Nomination Committee

Professor LO Yuk Lam *(Chairman)*
Mr. ZHANG Hua Qiao
Dr. CHOY Sze Chung Jojo

Registered Office

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People's Republic of China

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No. 1036 Tianlin Road
Shanghai
People's Republic of China

Principal Place of Business in Hong Kong

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Central
Hong Kong

Principal Share Registrar and Transfer Office

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Bermuda

Hong Kong Share Registrar

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Central
Hong Kong

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Auditor

Ernst & Young
Certified Public Accountants
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1 Tim Mei Avenue
Central
Hong Kong

Stock Code

2186

Company's Website

www.luye.cn

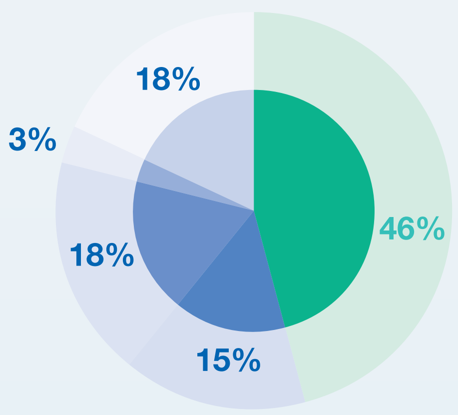
Principal Bankers

Bank of China Limited
China Everbright Bank
Industrial and Commercial Bank of China Limited
Citibank (China) Limited

- Revenue increased by RMB1,184.2 million or 22.9% to RMB6,357.6 million, as compared to the year ended 31 December 2018.
- EBITDA increased by RMB527.0 million or 26.9% to RMB2,488.3 million, as compared to the year ended 31 December 2018.
- Gross profit increased by RMB829.5 million or 20.5% to RMB4,878.9 million, as compared to the year ended 31 December 2018, and gross profit margin reached 76.7%.
- Net profit increased by RMB185.8 million or 14.2% to RMB1,491.8 million, as compared to the year ended 31 December 2018.
- Profit attributable to shareholders increased by RMB165.2 million or 12.7% to RMB1,468.6 million, as compared to the year ended 31 December 2018.
- Earnings per share was RMB45.84 cents compared to RMB40.62 cents for the year ended 31 December 2018. The board of directors proposed a final dividend of RMB0.054 (equivalent to HK$0.060) per share (equivalent to approximately RMB175,487,000) for the year ended 31 December 2019.

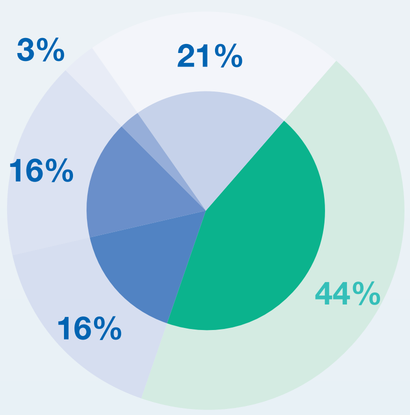
	2015 RMB Million	2016 RMB Million	2017 RMB Million	2018 RMB Million	**2019 RMB Million**
Revenue	2,563.1	2,917.8	3,814.8	5,173.4	**6,357.6**
Gross Profit	2,087.4	2,382.7	2,963.4	4,049.4	**4,878.9**
EBITDA	1,028.9	1,146.0	1,416.6	1,961.3	**2,488.3**
Net Profit	764.7	894.0	980.6	1,306.0	**1,491.8**
Profit attributable to owners of the Parent	754.5	891.5	981.4	1,303.4	**1,468.6**
Total Assets	7,052.9	9,205.8	10,760.4	17,538.8	**19,313.9**
Total Liability	1,253.4	2,643.8	3,864.5	10,737.8	**9,942.1**
Equity	5,799.5	6,562.0	6,895.9	7,934.0	**9,371.8**

2018



- Oncology
- Cardio vascular
- Alimentary tract and metabolism
- Other
- CNS

2019



- Oncology
- Cardio vascular
- Alimentary tract and metabolism
- Other
- CNS

CHAIRMAN'S STATEMENT

Dear shareholders,

I would like to report the annual performance of Luye Pharma as at and for the year ended 31 December 2019, as well as present a brief outlook of the Group in 2020.

As an international pharmaceutical enterprise, Luye Pharma is committed to the research, production and marketing of innovative drugs. Its business covers more than 80 countries and regions worldwide. Focusing on its core strength therapeutic areas of CNS and oncology, the Company has had a number of innovative drugs and innovative preparations that have made a significant progress in the U.S., Europe, Japan and other countries and regions in respect of its pipeline portfolio. The Company has established a GMP quality management and control system that is in line with international standards, and is committed to providing high-quality innovative drugs to patients worldwide through a global supply chain system.

In 2019, the Company promoted transformation and high-quality development by centering on strategic areas such as innovative R&D, marketing, mergers and acquisitions and cooperation, and achieved satisfactory performance returns. In 2019, the sales revenue of the Company amounted to RMB6.358 billion, representing a year-on-year increase of 22.9%; EBITDA reached RMB2.488 billion, representing a year-on-year increase of 26.9%; and normalised net profit attributable to shareholders amounted to RMB1.592 billion, representing a year-on-year increase of 19.4%.

In terms of R&D, the Company has a rich reserve of product candidates in the world, and the layout of antibody biological pipelines is also in its infancy. Among our self-developed small molecule/new preparations of new drugs under research: the innovative preparation LY03004 has entered the new drug application (NDA) stage in both China and the U.S., and also obtained the priority review status in China; the NDA declaration for the innovative small molecule drug LY03005 has also been accepted in the U.S.; another 2 new drug projects have commenced Phase III clinical trial in Europe and the U.S., 5 new drug projects have commenced Phase III clinical trial in China; and 3 new drug projects have applied for NDA in China. In addition, the Company has a solid layout in the field of antibody biopharmaceuticals, which leads to the formation of a complete industrial chain layout from R&D, production to commercialisation promptly.

For marketing, all core products have grown steadily, and the commercial layout centering on CNS is also advancing rapidly. Among the core products: Lipusu®, Xuezhikang®, Bei Xi®, Maitongna® and Seroquel® continued to grow by double digits, and another two exclusive products of CMNa® and Okai® have strong sales and are expected to become the new batch of the Company's largest single product with sales of over RMB100 million. In addition, as a strategic area that the Company focuses on, the global business integration for Seroquel® is being carried out efficiently. The Company has established a CNS team comprising over 100 employees in China to take over the distribution or promotion business of Seroquel® products in more than 10 countries and regions overseas, and has set up its own self-operated sales team in some overseas regions to vigorously expand the domestic and foreign markets of the products, and lay a solid foundation for the commercial operation of subsequent products in the CNS field.

The Company insists on the parallel development of both endogeny and extension, and strategically promotes the innovation, transformation and upgrading of the Company leveraging on external resources so as to enhance its market competitiveness. Following the smooth development of cooperation in Mainland China, the strategic cooperation between the Company and AstraZeneca has been continuously deepened to jointly promote the domestic and international process of Xuezhikang® Capsules. The Company introduced the innovative oncology drug Zepsyre® (Lurbinectedin) from PharmaMar, and has acquired the exclusive rights to develop and commercialise the drug in China. Zepsyre® has entered the NDA stage and obtained the priority review status in the U.S.. In addition, the Company has completed the acquisition of Shandong Boan, and acquired a series of assets such as all pipeline portfolio, antibody screening platform, intellectual property rights and antibody production platform, thus laying a more solid foundation for the in-depth layout of the biopharmaceutical field.

For Luye Pharma, 2020 will be a year of both opportunities and challenges. The Company will actively carry out a series of reform initiatives to adapt to the changing environment, improve operational and management efficiency, continuously increase the market share of existing products, and strive to launch a number of new drugs in the international market as soon as possible. We are confident that, leveraging on the Company's competitive advantage in innovative products, extensive pipeline portfolio, global supply chain system and business operation strength, as well as precise M&A and collaboration capabilities, we have the capability to effectively ensure that our Company will continue to maintain a high-quality and healthy growth in the future.

Finally, on behalf of Luye Pharma Group Ltd., I give my sincerest thanks to our shareholders for your significant contributions to the Group.

Liu Dian Bo
Executive Chairman
Luye Pharma Group Ltd.

26 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe and other countries or districts, namely oncology, central nervous system ("CNS"), cardiovascular system, alimentary tract and metabolism. The Group has a portfolio of over 30 products, covering over 80 countries and regions around the world, including large pharmaceutical markets — China, the U.S., Europe and Japan, as well as fast growing emerging markets. In 2019, the Group's sales of innovative pharmaceutical products maintained a strong growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a strong revenue growth of 22.9% in 2019 as compared to 2018. The Group continually invests in research and development ("R&D") to maintain its competitiveness, and has a robust product pipeline including 42 China product candidates and 15 U.S., Europe and Japan product candidates. The R&D cost in 2019 increased by 18.0% in the reporting period when compared with that of year 2018.

Market Positioning

In China, the Group's key products are competitively positioned in four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, oncology-related pharmaceutical products constituted the second largest market in China for pharmaceutical products in 2019. The Group's portfolio of oncology products includes Lipusu, the best-selling domestic pharmaceutical product for cancer treatment in China in 2019 according to IQVIA, as well as CMNa, a Class I New Chemical Drug and the only China National Medical Products Administration (the "NMPA", formerly known as the China Food and Drug Administration) approved sensitiser for cancer radiotherapy in China. IQVIA data showed that cardiovascular system-related pharmaceutical products constituted the third largest market for pharmaceutical products in the PRC in 2019. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Natural medicine for the treatment of hypercholesterolaemia and the best-selling vasoprotective pharmaceutical product in China in 2019, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in 2019. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in 2019 by revenue. IQVIA data showed that central nervous system-related pharmaceutical products constituted the fourth largest market for pharmaceutical products in the PRC in 2019. The Group's key product Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in terms of sales in the PRC in 2019.

For international markets, the Group's products are mainly positioned in CNS therapeutic area, including Seroquel, Seroquel XR, Rivastigmine patches, Fentanyl patches and Buprenorphine patches.

For the year ended 31 December 2019, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, cardiovascular system products and CNS products increased to RMB2,811.5 million, RMB1,004.6 million, RMB1,043.2 million and RMB1,339.1 million respectively, representing a growth rate of 17.6%, 8.0%, 32.5% and 45.3% respectively as compared to the year ended 31 December 2018 for the respective therapeutic areas, while other products increased by 11.6% to RMB159.1 million.

Key Products

The Company believes that the Group's seven key products are competitively positioned for high prevalence medical conditions that are expected to grow stably globally.

Lipusu® (力撲素®)

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IQVIA, the market for oncology pharmaceutical products in the PRC was RMB102.4 billion in 2019 and by revenue, Lipusu was the most popular domestic pharmaceutical product for cancer treatment in China in 2019, as well as the most popular paclitaxel product in China in 2019. As of 31 December 2019, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

CMNa® (希美納®)

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only NMPA approved sensitiser for cancer radiotherapy in China. According to the National Medical Products Administration ("NMPA"), CMNa was the only radio sensitiser drug available for sale in 2019. An independent third party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang® (血脂康®)

Xuezhikang is the Group's proprietary natural medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the NMPA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2019. According to IQVIA, the market for pharmaceutical products indicated for hypercholesterolaemia and the lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB16.1 billion in 2019. According to IQVIA, Xuezhikang ranked as the most popular natural medicine for the treatment of hypercholesterolaemia in China in 2019

Maitongna® (麥通納®)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB3.4 billion in 2019. Maitongna was the best-selling sodium aescinate product in China in 2019 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2019.

Bei Xi® (貝希®)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the NMPA, the Group was the only manufacturer of acarbose in capsule form in 2019. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB4.9 billion in 2019 and Bei Xi ranked as the third most popular acarbose product in China in 2019. In June 2019, the Acarbose Capsules (product brand name "Bei Xi" (貝希)) was granted approval by the NMPA for passing the Consistency of Quality and Efficacy Evaluation of Generic Drugs.

Rivastigmine Transdermal Patches (the "Rivastigmine Patch")

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the Food and Drug Administration of the United States ("U.S. FDA") and is indicated for mild to moderate dementia of the Alzheimer's type and dementia due to Parkinson's disease.

Seroquel® (思瑞康®) and Seroquel XR® (思瑞康緩釋片®)

Seroquel (quetiapine fumarate, immediate release, IR) and Seroquel XR (extended release formulation) are atypical anti-psychotic medicines with antidepressant properties. The main indications for Seroquel are the treatment of schizophrenia and bipolar disorder. Seroquel XR is also approved in some markets for major depressive disorder and generalised anxiety disorder. According to IQVIA, Seroquel was the fourth largest product in schizophrenia therapeutic area and the largest quetiapine product in the PRC in 2019.

Research and Development

The Group's R&D activities are organised around four platforms in chemical drug sector — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. After completion of the acquisition of Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan") in February 2020, the Group has expanded its R&D capability to biological sectors supported by Shandong Boan's three cutting-edge platforms, namely Human Antibody Transgenic Mouse Technology, Highly Effective Phage Display Technology and Nanobody Platform. Besides, the Group has built wide collaboration with Chinese and multinational companies in the development of some new antibodies and cell therapies areas. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development. As at 31 December 2019, the Group's R&D team consisted of 748 employees, including 80 Ph.D. degree holders and 338 Master's degree holders in medical, pharmaceutical and other related areas. After the completion of acquisition of Shandong Boan in February 2020, the Group's R&D team further expanded with 135 additional R&D professionals. As at 31 December 2019, the Group had been granted over 220 patents and had over 79 pending patent applications in the PRC, as well as over 665 patents and over 118 pending patent applications overseas.

Through the Group's seven platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology, cardiovascular and alimentary tract and metabolism, but also expands into the CNS therapeutic area. As at 31 December 2019, the Group had a pipeline of 42 PRC product candidates in various stages of development. These candidates included 16 oncology products, 8 cardiovascular and metabolism products, as well as 16 CNS products.

Also, the Group has a pipeline of 15 candidate products in the U.S., Europe and Japan in various stages of development. In the U.S., one product candidate (LY03004) has filed New Drug Application ("NDA") and passed a Pre-Approval Inspection ("PAI") with no FDA-483, Inspection Observation; five candidates (LY03003, LY03005, LY01005, LY03010, LY02404) are in different clinical stages. In Europe, one product candidate (LY30410) has completed pivotal study in Germany. In Japan, two products (LY03003 and LY03005) have commenced clinical trials and several products are targeting to commence application.

In March 2019, the Group successfully submitted a NDA to the U.S. FDA for LY03004, the Risperidone Extended-Release Microspheres for Injection. To the Group's knowledge, this is the first NDA submission of a new formulation drug to the U.S. FDA by a Chinese pharmaceutical company.

In November 2019, the manufacturing facility of the Group located in Yantai, China (for the manufacturing of LY03004) successfully passed a PAI with no FDA-483, Inspection Observation. In January 2020, the Group received a complete response letter (CRL) from U.S. FDA regarding the NDA for LY03004, requesting additional information and the satisfactory resolution of Inspection Issues of the active pharmaceutical ingredient ("API") manufacturing facility before this application may be approved. With regard to the progress of LY03004 in China, in November 2019, the NDA for Risperidone Extended-release Microspheres for Injection (LY03004) was accepted by China Center for Drug Evaluation of National Medical Products Administration ("CDE, NMPA"). The NDA has been granted priority review status by CDE, NMPA in December 2019.

On overseas R&D progress:

In March 2019, the Rotigotine Extended Release Microspheres for Injection (LY03003) began phase I clinical trial in Japan.

In May 2019, the pivotal study of Rivastigmine Multi-day Transdermal Patch (LY30410), an innovative delivery system drug for the treatment of Alzheimer's disease, was completed in Germany.

In July 2019, the Rivastigmine once a day Transdermal Patch in dosage strength 13.3mg/24h, which was submitted as a line extension to the existing Marketing Authorisations for its lower dosage strengths (4.6 and 9.5mg/24h), was approved under the Decentralised Procedures (DCP) by the German Federal Institute for Drugs and Medical Devices ("BfArM").

In August 2019, the Group submitted the clinical trial application in Japan for Ansofaxine Hydrochloride Extended Release Tablets (LY03005), a New Chemical Drug for the treatment of major depressive disorder. The Phase I clinical trials commenced in December 2019.

In September 2019, the Goserelin Acetate Extended-release Microspheres for Injection (LY01005) completed human pharmacokinetic study in the U.S..

In December 2019, the Group successfully submitted the NDA to the U.S. FDA for LY03005, a new chemical drug for the treatment of major depressive disorder. The NDA was formally accepted by the U.S. FDA in March 2020.

On China R&D progress:

In March 2019, Recombinant Human Vascular Endothelial Growth Factor Receptor-antibody Fusion Protein Ophthalmic Injection (LY09004) was approved by the NMPA to initiate clinical trials in China.

In April 2019, Recombinant Anti-RANKL Human Monoclonal Antibody Injection (LY06006) commenced Phase III clinical trial in China.

In April 2019, the registration application of Pramipexole Dihydrochloride Extended Release Tablets was accepted by NMPA in China.

In September 2019, Xuezhikang Tablets (LY02404), a new dosage form with higher active pharmaceutical ingredients, was approved by the NMPA to initiate clinical trials in China.

In November 2019, recombinant anti-VEGF humanized monoclonal antibody injection (LY01008), biosimilar to Avastin completed its primary endpoint observation for Phase III clinical trial in China.

In December 2019, Triptorelin Acetate Extended-release Microspheres for Injection (LY01007) completed Phase I clinical trial in China.

In March 2020, the clinical trial application of the Group's Class 1 new drug LPM3480392 injection product (LY03014) received formal acceptance from CDE, NMPA

Sales, Marketing and Distribution

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2019. The Group's sales, marketing and distribution functions are conducted through around 1,000 sales and marketing personnel, a network of approximately 1,650 distributors that collectively enabled the Group to sell its products to over 14,000 hospitals, which comprised approximately 1,500 or approximately 78.0% of all Class III hospitals, approximately 4,100 or approximately 58.0% of all Class II hospitals and approximately 8,500 or approximately 48.0% of all Class I and other hospitals and medical institutions, in the PRC in the year of 2019. The Group believes that its sales and marketing model and extensive coverage of hospitals with other medical institutions represent a significant competitive advantage and a culmination of both academic promotion by the Group's in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

In June 2019, Bei Xi was granted approval by the NMPA for passing the Consistency of Quality and Efficacy Evaluation of Generic Drugs. Bei Xi was one of the two successful tenders during the 2020 national volume-based procurement. Given that the market share of Bei Xi in Acarbose market in China was only 6.4% in 2019, the directors of the Company (the "Directors") expect that the successful tender will significantly increase its market share and facilitate the product's entry into new provincial markets.

For international markets, the business of the Group covers 80 countries including the U.S., and certain countries in Europe. The Group has commercial offices in the U.S., the United Kingdom, Switzerland, Japan, Hong Kong, Singapore and Malaysia. The Group also has strong sales partnerships with more than 50 partners throughout the world.

In March 2019, the Group and AstraZeneca signed a Memorandum of Understanding (MOU) for intent to form a new strategic partnership jointly exploring opportunities for Xuezhikang Capsules in the global markets other than China, further boosting the internationalisation of Xuezhikang Capsules. In August 2019, the Group entered into an agreement with AstraZeneca to grant it the exclusive promotion rights of Lipascor® Capsules, the registered brand name of Xuezhikang Capsules in Singapore.

In February 2020, the Group granted Cipla Medpro South Africa (Pty) Limited the exclusive distribution and marketing rights for Seroquel® and Seroquel XR® in South Africa, Namibia and Botswana.

Merger & Acquisition ("M&A") and Collaborations

In January 2019, the Group entered into an agreement with AstraZeneca, pursuant to which, AstraZeneca is granted the right to promote the Group's Xuezhikang Capsules in China. Under the agreement, AstraZeneca is responsible for the promotion of Xuezhikang capsules in the Mainland China on an exclusive basis, while the Group continues to hold rights, such as asset rights, the right to sell, registration permit, all intellectual property rights and rights other than the promotion, of the product. Under the agreement, both parties agreed that the sales of Xuezhikang Capsule in China shall be maintained at a double digits compound annual growth rate ("CAGR") in the next ten years, significantly higher than the average growth rate of the market for the treatment of hypercholesterolaemia in China. Besides, both parties agreed to discuss potential registration and commercialisation opportunities of Xuezhikang Capsules in other markets around the world (including but not limited to the U.S., Europe and other emerging markets) and to explore opportunities for closer ties of cooperation to enhance each other's future business development. In August 2019, Luye Pharma (Singapore) Pte Ltd entered into an agreement with AstraZeneca Singapore Pte Ltd, pursuant to which, AstraZeneca is granted the right to promote the Group's Lipascor® Capsules in Singapore. Lipascor® is the registered brand name of Xuezhikang Capsules in Singapore.

In April 2019, the Group and Pharma Mar S.A. ("PharmaMar") entered into a license development and commercialisation agreement with respect to a Phase III new innovative anticancer drug Lurbinectedin (Lurbinectedin) (the "Agreement"). Pursuant to the terms of the Agreement, the Company will have the exclusive rights to develop and commercialise Lurbinectedin for Small Cell Lung Cancer and all other indications in China. In addition, the Company will also have the right to request the transfer of the technology with respect the manufacturing of Lurbinectedin to the Company in China during the term of the Agreement.

Lurbinectedin (PM1183) is a compound under clinical investigation. It is an inhibitor of RNA polymerase II. This enzyme is essential for the transcription process that is over-activated in tumors with transcription addiction. Lurbinectedin has been granted Orphan Drug Designation from the FDA for the treatment of patients with Small Cell Lung Cancer. In May 2019, the abstract titled "Efficacy and safety profile of Lurbinectedin in second-line SCLC patients: results from a Phase II single-agent trial" was elected for that year's "Best of ASCO" (American Society of Clinical Oncology) meeting. In December 2019, PharmaMar filed the NDA for lurbinectedin, in monotherapy in the U.S., for the treatment of relapsed Small Cell Lung Cancer (SCLC), under the "accelerated approval" regulations. The drug was also granted Orphan Drug Designation in European Union and Switzerland for the treatment of patients with Small Cell Lung Cancer.

In December 2019, the Group has entered into a sale and purchase agreement with respect to the acquisition of 98.0% equity interest in Shandong Boan. The acquisition was completed in February 2020. Shandong Boan is a biotechnology company that develops biopharmaceutical products (including biosimilar and innovative drugs) with a focus on oncology, CNS, diabetes and immune diseases. Through the strategic acquisition of Shandong Boan, a company with a proven track record in the R&D of biosimilars and innovative drugs, the Group hopes to not only further expand and diversify its pipeline portfolio, but also further accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

The Board believes that Shandong Boan's portfolio of biosimilar and innovative products is highly complementary to the Group's existing core strengths and this acquisition will assist the Group in maintaining its position as a leading pharmaceutical player in China. In addition, Shandong Boan's novel antibody products have the potential to provide the Group with numerous excellent growth opportunities in the longer term.

In February 2020, Luye Hong Kong Limited ("Luye Hong Kong"), a wholly-owned subsidiary of the Group, signed an exclusive distribution and marketing service agreement with Cipla Medpro South Africa (Pty) Limited ("Cipla Medpro"), a wholly-owned subsidiary of Cipla Limited, India ("Cipla") for Seroquel® and Seroquel XR® in South Africa, Namibia and Botswana.

Industry Risk

In November 2018, PRC governmental authorities launched the national pilot scheme for drugs centralized tendering with minimum procurement quantities in the 4+7 cities. The manufacturers and importers of 31 drugs are invited to bid to supply the drugs to public medical institutions. In January 2019, additional detailed measures were published in relation to the implementation of the Pilot Scheme, with minimum procurement quantities in the 4+7 cities. The new pilot scheme stipulates an intended quantity commitment for each specific drug, and public hospitals must prioritise their purchases from the successful bidder until the quantity commitment has been satisfied.

The policies under the Pilot Scheme could impose downward pressure to price levels. For instance, in the past two years, the National Healthcare Security Administration ("NHSA") has organised three rounds of volume-based procurement. In the first round of "4+7" volume-based procurement, 25 drugs won the bid with an average price cut of 51%. In the second round of volume-based procurement in the "Alliance area", the 25 products cut price 24% on average compared with "4+7" round. While in the third round of 2020 national volume-based procurement in 31 provinces and cities, another 32 drugs won the bid with an average price cut of 55%.

The Group's major product Beixi was included in the third round of 2020 national volume-based procurement with a price cut of approximately 60%. Even if the volume will significantly increase, there still be an uncertainty of its sales value growth. As of the latest practicable date of this annual report, other than the aforementioned impacts on Bei Xi, currently the Group's operations are not affected by the Pilot Scheme for pharmaceutical tendering in any material respect.

With the further advancement of medical reform, volume-based procurement will become the core task of NHSA. It is generally believed that the drug volume-based procurement is expected to be fully implemented and become the standard practice in China. We will continue to closely monitor the policy changes in procurement reform, and continuously assess the potential impacts on our business and financial performance across our product portfolio.

For the National Drug Reimbursement List (NDRL), a yearly dynamic management has becoming the new normal. On 20 August 2019, NHSA announced the regular 2019 New Drug Reimbursement List, which clarifies that no province could add any drugs to the list or adjust reimbursement standards. Particularly, class B drugs that were previously added to the provincial drug reimbursement list (PDRL) should be removed in three years; and those in "Drug list under National Key Monitoring for Rational Use", also known as "adjuvant drug list", should be removed on priority.

Furthermore, the short-term volatility effects on the industry caused by the pandemic of COVID-19 is inevitable.

Outlook

Due to policy and market factors, the Chinese pharmaceutical industry remains at low growth rate in 2019. According to IQVIA, the growth rate of the Chinese pharmaceutical market was 9.4% in 2019, compared to 3.4% in 2018. The Group outperformed the market in both of these two years with growth rate of 21.5% and 30.2%, respectively.

However, since it is a highly competitive industry, inevitably all the pharmaceutical companies are facing intense competition from other market participants. Furthermore, the industry is highly constrained by government policies, which may cause a significant degree of uncertainty during the pharmaceutical companies' development. In recent years, policies such as volume-based procurement and reimbursement have been creating significant impacts to the industry.

During the 2020 national volume-based procurement, the Group's major product Bei Xi was one of the two successful tenders. Given that the market share of Bei Xi in Acarbose market in China was only 6.4% in 2019, the successful tender is expected to significantly increase its market share and facilitate the product's entry into more new provincial markets.

The Group also put a lot of effort on the academic studies of the marketed products. The Group's major product Lipusu has been included as a first-line drug in 2019 Chinese Society of Clinical Oncology Guidelines on Diagnosis and Treatment of Primary Lung Cancer since April 2019. In addition, Lipusu and CMNa have also been recommended by 2019 Guidelines on Radiotherapy of Esophageal Cancer in August 2019. The Group believes that the inclusion of Lipusu and CMNa in the Guidelines represents a high recognition of their clinical value, which will significantly increase their penetration into the relevant indications, and will inject momentum into their long-term growth.

For the year 2020, the Group will continue to introduce measures to improve its profitability and enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency and to continuously upgrade its production facilities. In addition, the Group intends to further strengthen its R&D capabilities and develop its product candidates.

As described above, for the year 2019, the Group had made remarkable progresses in R&D fields. In China, the NDA of LY03004 has been accepted and granted priority review status by CDE, NMPA; the registration application of Pramipexole Dihydrochloride Extended Release Tablets has been accepted by NMPA; LY01008 has completed its primary endpoint observation for Phase III clinical trials; LY06006 has commenced Phase III clinical trial; LY09004, LY02404 and LY01007 have commenced Phase I clinical trial; the clinical trial application of LY03014 was accepted by CDE. Internationally, LY03004 has successfully submitted NDA to the U.S. FDA and passed PAI with no FDA-483 Inspection Observation; LY03005 has submitted NDA to the U.S. FDA and the NDA has been formally accepted by the U.S. FDA; LY01005 has completed human pharmacokinetic study in the U.S.; LY30410 has completed the pivotal study in Germany; the Rivastigmine once a day Transdermal Patch in dosage strength 13.3mg/24h has been approved under the Decentralised Procedures (DCP) by the BfArM; LY03003 and LY03005 have commenced phase I clinical trial in Japan.

For M&A, the acquisition of Shandong Boan is expected to not only expand and diversify the Group's pipeline portfolio, but also accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

The collaboration with AstraZeneca on Xuezhikang's promotion rights in mainland China will expand its sales network, accelerate its growth and improve its profitability. Besides, AstraZeneca and the Group will discuss potential registration and commercialisation opportunities of Xuezhikang Capsules in other markets around the world.

The license in the exclusive rights to develop and commercialize Lurbinectedin for Small Cell Lung Cancer and all other indications in China is expected to enrich the Group's innovative product portfolio and leverage its sales and marketing capability in oncology therapeutic area.

For sales and distribution, the penetration into lower-tier hospitals is deepening. Backed by sales of Seroquel and Seroquel XR and the upcoming rivastigmine patch and LY03004, the Group has built a CNS sales team of over 100 representatives. The collaboration with AstraZeneca on Xuezhikang enabled the Group to leverage AstraZeneca's cardiovascular team of 3,000 representatives and accelerate the growth of the product.

For manufacturing, the Group is working on establishing a global quality control and quality assurance system as well as information platform to ensure the successful integration of the Group's global manufacturing facility system. The new oncology drug injection facility in Nanjing site has finished construction and obtained the Good Manufacture Practice ("GMP") certificate by NMPA. The new transdermal patch facility in Yantai has finished construction and was put into pilot production. The manufacturing site for transdermal patches in Miesbach, Germany, attained compliance with the Falsified Medicines Directive (Directive 2011/62/EC) of the European Union (also known as serialisation requirement) in February 2019. A total of 9 inspections and audits by government authorities and customers during the year of 2019 underlined the compliance with GMP standards in Germany.

Management of the Group is confident that, with the Group's strong, competitive positions of its innovative products, its strong pipeline of product candidates, its proven R&D capabilities and its sales and marketing networks, as well as its capabilities to execute strategic acquisitions, the Group is well positioned to enter a new business phase.

Financial Review

Revenue

For the year ended 31 December 2019, the Group's revenue amounted to approximately RMB6,357.6 million, as compared to RMB5,173.4 million for the year ended 31 December 2018, representing an increase of approximately RMB1,184.2 million, or 22.9%. The increase is mainly attributable to the full year sales from newly acquired product Seroquel and sales growth of the Group's key products.

For the year ended 31 December 2019, the Group's revenue from sales of oncology products increased to RMB2,811.5 million, as compared to RMB2,391.3 million for the year ended 31 December 2018, representing an increase of approximately RMB420.2 million, or 17.6%, primarily attributable to the increase in sales volume of various key oncology products of the Group.

For the year ended 31 December 2019, revenue from sales of cardiovascular system products increased to RMB1,043.2 million, as compared to RMB787.1 million for the year ended 31 December 2018, representing an increase of approximately RMB256.1 million, or 32.5%, primarily attributable to the increase in sales volume of various cardiovascular system products of the Group.

For the year ended 31 December 2019, revenue from sales of alimentary tract and metabolism products increased to RMB1,004.6 million, as compared to RMB930.5 million for the year ended 31 December 2018, representing an increase of approximately RMB74.1 million, or 8.0%, primarily attributable to the increase in sales volume of various alimentary tract and metabolism products of the Group.

For the year ended 31 December 2019, revenue from sales of CNS products increased to RMB1,339.1 million, as compared to RMB921.9 million for the year ended 31 December 2018, representing a increase of approximately RMB417.2 million or 45.3%, primarily attributable to full year sales of from newly acquired product Seroquel.

For the year ended 31 December 2019, revenue from sales of other products increased to RMB159.1 million, as compared to RMB142.6 million for the year ended 31 December 2018, representing an increase of approximately RMB16.5 million, or 11.6%, primarily attributable to the increase in sales volume of various other products of the Group.

Cost of Sales

The Group's cost of sales increased from RMB1,124.0 million for the year ended 31 December 2018 to approximately RMB1,478.7 million for the year ended 31 December 2019, which accounted for approximately 23.3% of the Group's total revenue for the same year. The Group's increase in cost of sales was in line with the increase in sales volumes for the year ended 31 December 2019, as compared to year 2018.

Gross Profit

For the year ended 31 December 2019, the Group's gross profit increased to RMB4,878.9 million, as compared to RMB4,049.4 million for the year ended 31 December 2018, representing an increase of approximately RMB829.5 million, or 20.5%. The gross profit margin of 76.7%, as compared to 78.3% for the year ended 31 December 2018 decreased slightly mainly due to higher sales of slightly lower margin products.

Other Income and Gains

The Group's other income and gains mainly comprised of government grants, interest income and investment income. For the year ended 31 December 2019, the Group's other income and gains increased to RMB315.7 million, as compared to RMB220.7 million for the year ended 31 December 2018, representing an increase of approximately RMB95.0 million, or 43.0%. The increase is mainly attributable to higher government grant recognised during the year and higher interest income.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the year ended 31 December 2019, the Group's selling and distribution expenses amounted to RMB2,034.8 million, as compared to RMB1,685.9 million for the year ended 31 December 2018, representing an increase of RMB348.9 million, or 20.7%. The increase was mainly attributable to increased promotional activities for the Group's products, staff cost and conference expenses. On the other hand, as a percentage of revenue, the Group's selling and distribution expenses are consistent with the year ended 31 December 2018.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2019, the Group's administrative expenses amounted to approximately RMB525.9 million, as compared to RMB441.4 million for the year ended 31 December 2018, representing an increase of approximately RMB84.5 million, or 19.1%. The slight increase was mainly due to higher staff cost and other administrative costs/expenses during the year.

Other Expenses

The Group's other expenses primarily consisted of R&D costs, foreign exchange losses, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the year ended 31 December 2019, the Group's other expenses amounted to approximately RMB588.8 million, as compared to RMB499.6 million for the year ended 31 December 2018, representing an increase of approximately RMB89.2 million, or 17.9%. The increase was mainly due to increase in R&D costs during the year.

Finance Costs

For the year ended 31 December 2019, the Group's finance costs amounted to RMB274.6 million, as compared to RMB170.6 million for the year ended 31 December 2018, representing an increase of approximately RMB104.0 million, or 61.0%. The increase was mainly due to the issuance of convertible bonds and the higher level of monthly average outstanding bank borrowings for the year ended 31 December 2019 as compared to the corresponding year ended 31 December 2018.

Income Tax Expense

For the year ended 31 December 2019, the Group's income tax expense amounted to RMB279.8 million, as compared to RMB167.5 million for the year ended 31 December 2018, representing an increase of RMB112.3 million, or 67.0%. The effective tax rate for the year ended 31 December 2019 is 15.8% as compared to 11.4% for the year ended 31 December 2018.

Net Profit

The Group's net profit for the year ended 31 December 2019 was approximately RMB1,491.8 million, as compared to RMB1,306.0 million for the year ended 31 December 2018, representing an increase of approximately RMB185.8 million, or 14.2%.

Liquidity, Financial and Capital Resources

Net Current Assets

As at 31 December 2019, the Group had net current assets of approximately RMB3,813.4 million, as compared to approximately RMB472.4 million as at 31 December 2018. The current ratio of the Group increased slightly to approximately 1.7 as at 31 December 2019 from approximately 1.1 as at 31 December 2018. The increase in net current assets was mainly attributable to lower level of loans and borrowings in current liability.

Borrowings and Pledge of Assets

As at 31 December 2019, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB6,232.7 million, as compared to approximately RMB6,138.1 million as at 31 December 2018. Amongst the loans and borrowings, approximately RMB3,943.6 million are repayable within one year, and approximately RMB2,289.1 million are repayable after one year. RMB1,696.0 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowings is mainly for working capital of the Group. The bank loans were secured by the Group's time deposits, property, plant and equipment and notes receivable. As at 31 December 2019, the Group's borrowings were primarily denominated in RMB, Euro, HK dollar and U.S. dollar, and the cash and cash equivalents were primarily denominated in RMB and U.S. dollars.

Gearing Ratio

As at 31 December 2019, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, decreased to 66.5% from 77.4% as at 31 December 2018. The decrease was primarily due to a decrease in the Group's total borrowings taken during the reporting period.

Contingent Liabilities

As at the date of this announcement, a subsidiary of the Group, was involved in arbitration proceedings commenced by the previous distributor of Seroquel in Mainland China disputing the subsidiary's basis of terminating the distribution agreement with such distributor. The Directors, based on information currently available to the Group and preliminary assessment taking into account the advice from the Group's relevant legal counsel in relation to the arbitration proceedings, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the arbitration, other than for the related legal and other costs.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 31 December 2019. The directors of the Company (the "Directors") expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Convertible Bonds

On 9 July 2019, the Company issued 1.50 per cent convertible bonds with an aggregate principal amount of US$300,000,000. There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The conversion price of the bonds was adjusted from HK$8.15 per Share to HK$8.05 per Share with effect from 14 September 2019 as a result of the declaration of the interim dividend for the six months ended 30 June 2019. The bonds are redeemable at the option of the bondholders at a 3.75 per cent gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent of its principal amount together with accrued but unpaid interest thereon. The bonds carry interest at a rate of 1.50 per cent per annum, which is payable semi-annually in arrears on 9 January and 9 July. The Board considers that the issue of the convertible bonds represents an opportunity to improve the liquidity position of the Group and to replace certain short term loans of the Group.

The net proceeds from the convertible bonds, after deducting all the related costs and expenses, was approximately US$296,430,000. As of 31 December 2019, the proceeds have been used for refinancing onshore and offshore indebtedness and general corporate purposes, as disclosed in the announcement dated 24 June 2019.

- Use of proceeds of the Bonds

  The net proceeds from the Bonds (after deduction of commissions and other related expenses) are approximately US$296,430,000. The Group intends to apply the net proceeds from the issue of the Bonds for refinancing the Group's indebtedness and general corporate purposes. As of 31 December 2019, RMB1,343,900,000 (approximately US$194,810,500) of the net proceeds of the Bonds were allocated or applied to repaying loans and other general corporate purposes. The Group currently expects to apply the balance of the net proceeds of approximately US$101,619,500 for repayment of loans and other general corporate purposes by the end of 2020.

- Conversion price and shares to be issued upon full conversion

  The initial conversion price of the Bonds was HK$8.15 per Share and was adjusted from HK$8.15 per Share to HK$8.05 per Share with effect from 14 September 2019. Assuming full conversion of the Bonds, the total number of shares issued by the Company would be 291,231,055 Shares as at 31 December 2019.

Employees and Remuneration Policy

As at 31 December 2019, the Group employed a total of 4,716 employees, as compared to a total of 4,417 employees as at 31 December 2018. For the year ended 31 December 2019, the staff costs, (including Directors' emoluments but excluding any contributions to pension scheme), were approximately RMB739.9 million as compared to RMB596.1 million for the year ended 31 December 2018. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

Share Award Scheme (the "Scheme")

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. As at 31 December 2019, the Board has granted to the selected employees an aggregate of 25,206,000 (2018: 20,098,000) shares of the Company under the Scheme and 25,206,000 (2018: 20,098,000) awarded shares were accepted by selected employees. Details of the Scheme and the awards made up to 31 December 2019 are set out in note 39 to the financial statements.

Hedging Activities

As at 31 December 2019, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk.

Significant Investments Held

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

Future Plans for Material Investments or Capital Assets

The Group does not have other plans for material investments or capital assets.

Loan Agreement with Covenants relating to Specific Performance Obligations of the Controlling Shareholder

As disclosed in the announcement of the Company dated 2 August 2018, pursuant to the term of the facility agreement dated 2 August 2018 ("August Facility Agreement") entered into between Luye Pharma Europe AG (formerly known as Luye Pharma Switzerland AG) ("LPEU") and a bank (the "Bank"), the Bank has agreed to grant to LPEU a term loan facility of up to EUR120 million for a term of 60 months from the date of initial utilisation under the August Facility Agreement. Under the August Facility Agreement, in the event that Luye Pharmaceutical Investment ceases to be (i) the actual controller; or (ii) the first majority/single largest shareholder of the Company, all or any part of the commitments under the August Facility Agreement may be cancelled and all amounts outstanding under the August Facility Agreement may become immediately due and payable.

As at 31 December 2019, the loans did not meet certain covenant, and the bank was contractually entitled to request for immediate repayment of all or part of the outstanding loan amount of EUR107,131,215. Subsequently, the bank and the Group have reached an agreement. As of the date on which these financial statements were approved by the Board of Directors, the Group had obtained a waiver from the bank confirming no early repayment of the loan at this stage.

Directors

Executive Directors

Mr. Liu Dian Bo, aged 54, Executive Chairman, is a founding member of our Group. He was appointed as a director of the Company ("Director") in July 2003. As our Executive Chairman, Mr. Liu is responsible for the overall management, operations and the charting and reviewing of corporate directions and strategies of our Group. Prior to founding our Group, Mr. Liu was a teacher at Yantai Teacher's College from 1985 to 1989. From 1989 to 1993, Mr. Liu was the general manager of Penglai Huatai Pharmaceutical Co. Ltd. From 1994 to 1999, Mr. Liu was the chairman cum general manager of 山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co., Ltd.) ("Shandong Luye"). From 1999 to the incorporation of our Company in 2003, Mr. Liu was the chairman cum president of Shandong Luye. Mr. Liu obtained a Medical Diploma from Yishui Special Medical College (now known as Shandong Medical College) in July 1985. Mr. Liu is the executive chairman of Shandong Luye and Beijing WBL Peking University Biotech Co., Ltd. ("Beijing WPU"), and a director of the following main subsidiaries of our Company: Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading"), Sichuan Luye Buoguang Pharmaceutical Co., Ltd., Shandong Luye Natural Drug R&D Co. Ltd., Shanghai Ge Lin Li Fu Business Consulting Co. Ltd., AsiaPharm Investments Limited, AsiaPharm Biotech Pte. Ltd., Luye Biotech (Singapore) Pte. Ltd. and A-Bio Pharma Pte. Ltd.. Mr. Liu is a director of each of Luye Life Sciences Group Ltd. ("Luye Group"), Luye Pharma Holdings Ltd. ("Luye Pharma Holdings"), LuYe Pharmaceutical International Co., Ltd. ("Luye Pharma Intl"), LuYe Pharmaceutical Investment Co., Ltd. ("Luye Pharma Investment"), Shorea LBG, Ginkgo (PTC) Limited, and Nelumbo Investment Limited.

Mr. Yang Rong Bing, aged 54, holds the office of Vice Executive Chairman and is also a founding member of our Group. Mr. Yang was appointed as an Executive Director on 1 March 2007 and was previously a Non-Executive Director from July 2003. Mr. Yang was appointed as a vice executive chairman of the Board with effect from 30 March 2015. Mr. Yang has also been a non-executive director of Shandong Luye since 2000. Prior to that, Mr. Yang was with Jiangsu Xuzhou Bio-Chemical Pharmaceutical Factory from 1988 to 1994 where he worked as an assistant factory head. In 1994, Mr. Yang joined Shandong Luye as a deputy general manager and from 1999 to 2000, he was the chief sales executive and executive director of Shandong Luye. Mr. Yang obtained a Bachelor's degree in Science from Beijing Normal University in July 1988. Mr. Yang is the executive chairman of Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye") and a director of the following main subsidiaries of our Company: Shandong Luye, Luye Trading and Nanjing Luye. Mr. Yang is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Mr. Yuan Hui Xian, aged 61, holds the office of Executive Director and is also a founding member of our Group. Mr. Yuan was appointed as a Director in July 2003 and is in charge of our Group's public relations. Prior to joining our Group in 1994, Mr. Yuan was a doctor with Shengli Petroleum Administrative Bureau Yantai Sanatorium from 1980 to 1994, where he was in charge of radiation diagnosis. From 1994 to 1999, Mr. Yuan was a deputy general manager with Shandong Luye. From 1999 to the incorporation of our Company in 2003, Mr. Yuan was the vice-president and executive director of Shandong Luye. He has also received a Post-graduate Certificate in National Economics from the China People's University in February 2003. Mr. Yuan is the executive chairman of Luye Trading and a director of the following main subsidiaries of our Company: Shandong Luye, Nanjing Luye and Nanjing New AIGE Eggs Co. Ltd.. Mr. Yuan is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Ms. Zhu Yuan Yuan, aged 39, has been our Executive Director since March 2014. She joined our Group in August 2009 and has 10 years of experience in corporate finance. Before joining our Group, she worked for New Asia Partners Investment Holdings Limited, a Shanghai and Hong Kong-based investment firm focused on assisting Chinese companies in accessing the international capital markets, principally by providing equity capital and corporate finance advisory services. She obtained her Master's degree in Corporate Strategy and Governance from the University of Nottingham in December 2004 and a Bachelor's degree in Finance from Southeast University, the PRC in June 2003. Ms. Zhu is a director of the following subsidiaries of our Company: Luye Pharma Hong Kong Limited, Solid Success Holdings Limited, Apex Group Holdings Limited and Kang Hai Pharmaceutical Technology Development Limited. She is a supervisor of our subsidiary, Beijing WPU. Ms. Zhu is a director of each of Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Non-executive Director

Mr. Song Rui Lin, aged 58, has been our non-executive Director since March 2017. Mr. Song is the chairman of China Pharmaceutical Industry Research and Development Association* (中國醫藥創新促進會) and the executive deputy director of the Research Centre for Drug Policy and Industrial Development at China Pharmaceutical University* (中國藥科大學藥物政策與產業經濟研究中心). Mr. Song has extensive experience in the research of the PRC healthcare and drugs laws and policies, and was involved in the drafting and review of a number of the current PRC laws and regulations on healthcare and drugs. He is currently an independent non-executive Director of Shanghai Henlius Biotech, Inc., a company listed on the Main Board of Stock Exchange (stock code: 2696). From 1985 to 2007, Mr. Song served as deputy director (副處長), director (處長) and deputy head (副司長) at the PRC State Council Legislative Office* (中國國務院法制辦公室). Subsequent to 2008, Mr. Song served as deputy director of the Chinese Pharmaceutical Association* (中國藥學會) (the "Association") and executive director of the Research Centre for Drug Policies (醫藥政策研究中心) at the Association. He served as the chairman and executive editor of Chinese Journal of New Drugs* (中國新藥雜誌). Since 2011, Mr. Song has been serving as an expert at the Capital Healthcare Policy Reform Expert Group* (首都醫療衛生體制改革專家組). Mr. Song obtained a Bachelor of Laws degree from China University of Political Science and Law in 1985 and a Master in Business Administration degree from China Europe International Business School in 2004, and obtained a Doctorate in Social and Administrative Pharmacy from China Pharmaceutical University in 2018.

Mr. Song is an independent director of Shanxi Zhendong Pharmaceutical Co., Ltd.* (山西振東製藥股份有限公司) (SHE:300158), an independent director of Jiangxi Boya Bio-pharmaceutical Co., Ltd.* (江西博雅生物製藥股份有限公司) (SHE:300294), an independent director of Tibet Aim Pharm. Inc.* (西藏易明西雅醫藥科技股份有限公司) (SHE: 002826) and an independent Director of Shenzhen Chipscreen Biosciences Co., Ltd. (深圳微芯生物科技股份有限公司) (SHE: 688321). Each of Shanxi Zhendong Pharmaceutical Co., Ltd., Jiangxi Boya Bio-pharmaceutical Co., Ltd. and Tibet Aim Pharm. Inc. is a company listed on the Shenzhen Stock Exchange. Shenzhen Chipscreen Biosciences Co., Ltd. is a company listed on the Shanghai Stock Exchange.

Independent Non-executive Directors

Mr. Zhang Hua Qiao, aged 56, has been our Independent Non-Executive Director since June 2014. Mr. Zhang has 16 years of experience in working in the investment banking industry since 1994. He served as managing director and the co-head of China research team from June 1999 to April 2006 and the deputy head of China investment banking division of UBS AG, Hong Kong Branch from September 2008 to June 2011. He graduated from the Graduate School of the People's Bank of China (中國人民銀行研究生部) with a Master's degree in Economics in 1986, and from the Australian National University with a Master's degree in Economics in January 1991.

As at the date of this annual report, Mr. Zhang holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
Logan Property Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3380)	November 2013 to present	Independent non-executive director
China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1290)	October 2013 to present	Independent non-executive director
Zhong An Real Estate Limited, a company listed on the Main Board of the Stock Exchange (stock code: 672)	January 2013 to present	Independent non-executive director
Fosun International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 656)	March 2012 to present	Independent non-executive director
China Smartpay Group Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8325)	September 2017 to January 2020 May 2015 to September 2017 September 2012 to May 2015	Non-executive director Executive director Non-executive director
Boer Power Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1685)	November 2011 to May 2019	Non-executive director
China Rapid Finance Limited, a company listed on the New York Stock Exchange (NYSE: XRF)	April 2017 to March 2019	Independent non-executive director
Yancoal Australia Ltd, a company listed on the Australian Securities Exchange (stock code: YAL)	April 2014 to January 2019	Independent non-executive director
Sinopec Oilfield Service Corporation,, a company listed on the Main Board of the Stock Exchange (stock code: 1033)	February 2015 to June 2018	Independent non-executive director
Wanda Hotel Development Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 169)	September 2014 to May 2018	Independent non-executive director

Professor Lo Yuk Lam, aged 71, has been our Independent Non-executive Director since June 2014. Professor Lo has extensive experience in biotechnology industry, corporate management, academic research and community service. Currently Professor Lo is serving as the Chairman of the Advisory Council for Food Safety of the Food and Health Bureau HKSAR, the Founding President of HK Bio-Med Innotech Association. Professor Lo is also the Honorary Founding Chairman of Hong Kong Bio-Organization, and a Committee Member of the Chinese Manufacturers' Association of Hong Kong (CMA).

In the educational area, Professor Lo has been elected an Honorary Fellow of the Hong Kong University of Science and Technology. He is an Honorary Chairman of Hong Kong Food Safety Association, Adjunct Professor of the Chinese University of Hong Kong and Honorary Professor of several universities in China.

Professor Lo was heavily involved in several committees of the HKSAR Government. He had been appointed as Director of the Hong Kong Applied R&D Fund Co. Ltd., Chairman of the Biotechnology Committee of the Hong Kong Industry & Technology Development Council, and Chairman of Biotechnology Projects Vetting Committee of the Innovation and Technology Fund, HKSAR.

In Mainland China, Professor Lo is a member of Chinese People's Political Consultative Conference in Jilin Province, and a consultant of the Centre for Disease Control and Prevention of China. In recognition of his leadership in the community and dedication to his field, Professor Lo has received many awards, including the prestigious "World's outstanding Chinese Award" in 2008 and China's "Top Ten Financial and Intelligent Persons" in 2007. Professor Lo was also awarded "Pericles International Prize" in 2019. He is the second Asian and the first person from Hong Kong to be awarded the Prize since it was founded in 1986.

In the business sector, Professor Lo is the Chairman of GT Healthcare Capital Partners, and Partner & Investment Committee Member of Hongsen Investment Management Limited. As at the date of this annual report, Professor Lo holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
CSPC Pharmaceutical Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1093)	June 2014 to present	Independent non-executive director
Sinovac Biotech Ltd., a company listed on NASDAQ Global Select Market (symbol SVA)	March 2006 to present	Independent director

Professor Lo obtained an Honorary Doctorate of Philosophy in Business Management from York University in June 2008.

Mr. Leung Man Kit, aged 66, has been the Independent Non-executive Director since June 2014. Mr. Leung has over 40 years of experience in project finance and corporate finance. Mr. Leung was appointed executive director and responsible officer of Unitas Holdings Limited (stock code: 8020) from September 2011 to November 2018. He is now a responsible officer of Grand Moore Capital Limited effective 18 September 2019. Previously, he was a director of Emerging Markets Partnership (Hong Kong) Limited, the principal adviser to the AIG Infrastructure Fund L.P. in 1999. He also held senior positions in the Hong Kong Branch of the Swiss Bank Corporation, SG Securities (HK) Limited (formerly known as Crosby Securities (Hong Kong) Limited) and Peregrine Capital Limited.

As at the date of this annual report, Mr. Leung holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
Optics Valley Union Holding Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 798)*	March 2014 to present	Independent non- executive director
Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1132)*	February 2008 to present	Independent non-executive director
China Ting Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3398)	November 2005 to present	Independent non-executive director
Netease.com Inc., a company listed on NASDAQ (stock code: NTES)*	July 2002 to present	Independent non-executive director
Unitas Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8020)	October 2011 to November 2018	Executive Director
China Huiyuan Juice Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1886)*	June 2012 to January 2019	Independent non-executive director

* *Mr. Leung is also the chairman of the audit committee of these companies.*

Mr. Leung obtained a Bachelor's degree in Social Sciences from University of Hong Kong in October 1977.

Dr. Choy Sze Chung Jojo, aged 61, has been the Independent Non-executive Director since June 2014. Dr. Choy has extensive experience in the securities industry and business management. He is currently the vice chairman of National Resources Securities Limited and the permanent honourable president and vice chairman of the Institute of Securities Dealers Ltd.

Dr. Choy is a fellow member of the Hong Kong Institute of Directors, the Institute of Financial Accountants, the Institute of Public Accountants and the Institute of Compliance Officers and a member of the Society of Registered Financial Planners Limited. Dr. Choy is also a member of the Election Council for Hong Kong Deputies to the 12th and the 13th National People's Congress of the People's Republic of China, a member of the 4th and the 5th term Chief Executive Election Committee of Hong Kong and a member of Chinese People's Political Consultative Conference, Shantou.

As at the date of this annual report, Dr. Choy holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
First Credit Finance Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8215)	November 2017 to present	Independent non-executive director
Sparkle Roll Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 970)	October 2007 to present	Independent non-executive director
Zhaojin Mining Industry Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1818)	May 2007 to present	Independent non-executive director
Chengdu Putian Telecommunications Cable Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1202)	February 2006 to January 2018	Independent non-executive director

Dr. Choy obtained a Master's degree in Business Administration from University of Wales, Newport in October 2004 and a Master's degree in Business Law from Monash University in April 2007, a Honorary doctorate of Management from Lincoln University in August 2018 and a Fellowship from Canadian Chartered Institute of Business Administration.

Senior Management

Our senior management comprises Executive Directors and the following persons:

Mr. Liu Yuan Chong, aged 56, joined our Group in March 1997 and is currently our Chief Financial Officer. He started as the accountant-in-charge at our finance department, and was promoted to chief of the finance department in 2005 and to our Chief Financial Officer in 2012. Prior to joining our Group, he was the head of accounting of Yantai Alternator Plant (煙台家電交電總公司). He also taught at Yantai Business Vocational Secondary School (煙台商業中專) from September 1983 until September 1986. From 1980 to 1983, he was employed by Shangdong Laiyang Biochemical Pharmaceutical Factory. Mr. Liu received a Post-Graduate Certificate in Financial Management from Peking University in October 2006.

Dr. Li You Xin, aged 58, joined our Group in October 2007 and is currently our Senior Vice President and head of R&D. Dr. Li has extensive experience in drug design. He is responsible for a number of our R&D platforms including our long-acting and extended release technology and targeted drug delivery platforms. Under Dr. Li's leadership, the Company was awarded the State Key Laboratory of Long-acting and Targeting Drug Delivery System (長效和靶向製劑國家重點實驗室). Dr. Li is also a professor at the College of Life Sciences of Jilin University. Prior to joining our Group, he was a senior scientist officer at Schwarz Pharma AG. He was also a Research Fellow of Alexandar von Humboldt Foundation of University of Marburg from 1991 to 1993. Dr. Li obtained a Bachelor's degree in Chemistry in July 1982, a Master of Science degree in July 1985 and a Ph.D. in Science in July 1988 from Peking University.

Ms. Xue Yun Li, aged 56, joined our Group in 1994 and is currently our Senior Vice President and the general manager of Shandong Luye and responsible for manufacturing and quality management of subsidiaries. From 1999 to 2009, she was the director of the R&D centre and then vice president of R&D of Shandong Luye. Prior to joining our Group, she was a technician and the chief of scientific research at Shenyang Liaohe Pharmaceutical Factory from 1988 to 1994. Ms. Xue obtained a Bachelor's degree in Engineering from Jiamusi University in July 1988 and a Master's degree in Integrated Traditional Chinese and Western Clinical Medicine from Shandong University of Traditional Chinese Medicine in July 2011.

Ms. Jiang Hua, aged 42, joined our Group in 1998 and is currently our Vice President and head of international business, responsible for corporate strategy, product portfolio management and our Group's international business. Ms. Jiang has over 16 years of experience in international business development. Ms. Jiang holds a Doctor of Business Administration from United Business Institute in Belgium, a Master's degree in Business Administration from KEDGE Business School (formerly known as Euromed Management School), and a Bachelor's degree of Economics from Economy School, Fudan University. She is also an economist certified by the Ministry of Personnel of the People's Republic of China (now the Ministry of Human Resources and Social Security of the People's Republic of China).

REPORT OF DIRECTORS

The directors of the Company (the “Directors”) are pleased to present the Report of Directors 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 Bermuda on 2 July 2003 as an exempted company with limited liability under the laws of Bermuda (the “Companies Law”). The Company’s shares (the “Shares”) were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 July 2014 (the “Listing” or “Listing Date”).

Principal Activities

The principal activity of the Company is investment holding and the Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC. Details of the principal activities of the Company’s subsidiaries are set out in note 1 to the consolidated financial statements of this annual report.

Business Review and Performance

A fair review of the Group’s business during the year, including an analysis of which using financial key performance indicators, and the outlook of the Group’s business are provided in the section headed “Management Discussion and Analysis” of this annual report, of which the discussion forms part of this “Report of Directors”.

Results

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 61 of this annual report.

Dividend Policy and Final Dividend

The Board recommended the payment of a final dividend of RMB0.054 (equivalent to HK$0.060) per share for the year ended 31 December 2019 to the shareholders of the Company (the “Shareholders”). The final dividend is subject to the approval of the Shareholders at the Company’s annual general meeting to be held on 23 June 2020 (“AGM”), and if approved, will be payable on or around 24 July 2020.

It is the policy of the Board, in considering payment of dividends, to allow Shareholders to share the Company’s profits whilst retaining adequate reserves for the Group’s future growth.

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

- the Company’s actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- the Group’s working capital requirements, capital expenditure requirements and future expansion plans;

- the Group's liquidity position;
- general economic condition, business cycle of the Group's business and other internal or external factors that may affect the business or financial performance and position of the Company; and
- other factors that the Board considers relevant.

The payment of dividends is also subject to applicable laws and regulations including the laws and regulations of Bermuda and the articles of association of the Company. The Board will continually review the dividend policy from time to time and there is no assurance that dividends will be paid in any particular amount for any given period.

Financial Summary

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

Risks and Uncertainties relating to the Group's Business

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Market Risk

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

Operational Risk

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

Investment Risk

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

Manpower and Retention Risk

The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel.

Financial Risk

The Group also faces financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of these financial risks are set out in note 44 to the consolidated financial statements of the Group.

In light of the above risks relevant to and potentially affecting the Group's business, the Group has certain risk management procedures with a view to minimise the risks and to manage, but not eliminate, the risk of failure to fulfil business objectives. Please refer to the section headed "Risk Management and Internal Control" in the "Corporate Governance Report" for policies concerning the Group's risk management system.

Environmental Policies and Performance

Our Group is committed to achieving environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group's business is subject to national, provincial and local environmental laws and regulations of the PRC. During the year ended 31 December 2019, so far as our Directors are aware, there were no material breach of applicable environmental laws and regulations of the PRC that have a significant adverse impact on the business and operations of our Group.

Our Group also encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs — reduce, recycle and reuse and enhance environmental sustainability.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), the Company's Environmental, Social and Governance Report will be available on its website within three months from the publication of this annual report.

Compliance with Laws and Regulations

Our Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. Our Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. For the year ended 31 December 2019, the Group has complied, to the best of our knowledge, in all material respects, with all relevant rules and regulations that have a significant impact on the Company.

Key Relationships with Employees, Customers and Suppliers

Being people-oriented, our Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

Our Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Our Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 13.2% of the total sales for the year ended 31 December 2019 and sales to the largest customer included therein amounted to 3.3% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 35.5% of the total purchase for the year ended 31 December 2019 and purchase from the Group's largest supplier included therein amounted to 15.3% of the 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 share capital) 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 consolidated financial statements in this annual report.

Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 33 to the consolidated financial statements in this annual report.

Reserves

Details of movements in the reserves of the Group during the year are set out on pages 65 to 66 in the consolidated statement of changes in equity of this annual report and in note 34 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2019, the Company's and the Group's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately RMB–421.5 million (as at 31 December 2018: RMB77.8 million) and RMB5.0 billion (as at 31 December 2018: RMB4.1 billion), respectively.

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 26 to the consolidated financial statements in this annual report.

Directors

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

Executive Directors:

Mr. LIU Dian Bo *(Executive Chairman and Chief Executive Officer)*
Mr. YANG Rong Bing *(Vice Executive Chairman)*
Mr. YUAN Hui Xian
Ms. ZHU Yuan Yuan

Non-executive Director:

Mr. SONG Rui Lin

Independent non-executive Directors:

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Dr. CHOY Sze Chung Jojo

In accordance with the bye-laws of the Company (the "Bye-laws"), all Directors are subject to retirement by rotation at least once every three years and any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Shareholders 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.

In accordance with bye-law 84(1) of the Bye-laws, Mr. Yuan Hui Xian, Ms. Zhu Yuan Yuan and Mr. Song Rui Lin will retire by rotation and being eligible, will offer themselves for re-election as the Directors at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders.

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 21 to 27 of this annual report.

Confirmation of Independence of Independent Non-executive Directors

Each of the independent non-executive Directors has confirmed their 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 executive Directors has entered into an appointment letter with the Company for a term of three years commencing from 9 July 2017 and may be terminated in accordance with the respective terms of the appointment letters.

Mr. Song Rui Lin, the non-executive Director, entered into an appointment letter with the Company for a term of two years commencing from 29 March 2019, which may be terminated in accordance with the terms of the appointment letter.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 9 July 2018 and may be terminated in accordance with the respective terms of the appointment letters.

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

Interests in Transactions, Arrangements and Contracts

At the end of the year or at any time during the year, other than those transactions disclosed in note 38 to the consolidated financial statements and under the section headed "Connected Transactions" in this annual report, (a) no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, Company's subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted; and (b) there is no contract of significance (i) between the Company or its subsidiaries and Company's controlling shareholder or its subsidiaries; and (ii) for the provision of services to the Company or any of its subsidiaries by Company's controlling shareholder or its subsidiaries.

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.

Equity-Linked Agreements

Save as disclosed in this annual report, no equity-linked agreement that will or may result in the Company issuing Shares nor require the Company to enter into an agreement that will or may result in the Company issuing Shares was entered into by the Company during the year or subsisted at the end of the year under review.

Emolument Policy

The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. In addition, social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations. For employee retirement benefits, please refer to note 2.4 to the consolidated financial statements in this annual report. A remuneration committee of the Board was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. Our Group participates in the national pension schemes as defined by the laws of the countries in which it has operations and our Group makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore. The Company's subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC.

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 consolidated financial statements in this annual report.

Share Option Scheme

During the year ended 31 December 2019 and up to the date of this annual report, the Group has no share option scheme.

Luye Pharma Share Award Scheme

The Company adopted a share award scheme on 10 January 2017 (the "Scheme"). The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive Directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. No Shareholders' approval is required to adopt the Scheme. Please refer to the Company's announcement dated 10 January 2017 for information.

A summary of terms of the Scheme is set out below:

i. Purpose

The purpose of the Scheme is to recognise contributions by certain employee, including any executive director of any member of the Group except for the current executive Directors ("Employee") and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

ii. Duration

Subject to any early termination as may be determined by the Board in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of 10 years commencing on the 10 January 2017 (the "Adoption Date"). As at the date of this report, the Scheme has a remaining life of around 6 years and 8 months.

iii. Administration

The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the "Trustee") in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (the "Trust Deed"). The decision of the Board with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any shares held under the Trust.

iv. Contribution of funds to the Trust

The Board may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the Board. The committee appointed and authorised by the Board to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the Board ("EBT Committee"), may from time to time instruct the Trustee in writing to purchase Shares on the Stock Exchange specifying the timing of purchase, maximum amount of funds to be used and the range of prices within which such Shares are to be purchased.

v. Eligible persons for the Scheme and grant of Awarded Shares

The Board may from time to time select any Employee (excluding any Employee who is resident in a place where the award of, in respect of a Selected Employee, such number of Shares awarded by the Board ("Awarded Shares") and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Scheme is not permitted under the laws or regulations of such place or where in the view of the Board or the trustee of the Scheme, compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such Employee ("Excluded Employee")) for participation in the Scheme as a Selected Employee and grant to such Selected Employee Awarded Shares in such number at a stated price at which an Award Share is granted to a Selected Employee ("Grant Price") and on and subject to such terms and conditions as it may in its discretion determine.

vi. Vesting of Awarded Shares

The Board is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the Selected Employee. Upon the vesting of the Awarded Shares, the Selected Employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the Selected Employee shall pay the Company the Grant Price for the Awarded Shares.

vii. Rights attached to the Awarded Shares

A Selected Employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a Selected Employee, the date on which his entitlement to the Awarded Shares is vested in such Selected Employee pursuant to the terms of the Scheme ("Vesting Date").

viii. Non-transferrable

Prior to the Vesting Date, any award of Awarded Shares is personal to the Selected Employee to whom it is made and is not assignable and no Selected Employee may in any way sell, transfer, charge or mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award.

ix. Lapse of Awarded Shares

In the event that a Selected Employee has ceased to be an Employee, the relevant award made to such Selected Employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

x. Voting rights of the Trustee

The Trustee may not exercise the voting rights in respect of any Shares held under the Trust.

xi. Restrictions

The Trustee may not acquire or sell any Shares at any time when dealings in the Shares are prohibited under any code or requirements of the Listing Rules and all applicable laws.

xii. Scheme Limit

The maximum number of Shares and Awarded Shares which may be held under the Trust and managed by the Trustee may not exceed 2% of issued share capital of the Company at any single point in time during the life of the Trust.

xiii. Alteration of the Scheme

The Scheme may be altered in any respect by a resolution of the Board provided that no such amendment shall operate to affect materially and adversely any subsisting rights of any Selected Employee.

xiv. Termination

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the Board provided that such termination shall not materially and adversely affect any subsisting rights of any Selected Employee.

The fair value of services received in return for Shares granted is measured by reference to the fair value of Shares granted. The fair value of the Shares granted is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 Shares (the “2017 Awarded Shares”) were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2018 to those selected employees, an aggregate of 20,098,000 shares (the “2018 Awarded Shares”) were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2018 Awarded Shares is 15 May 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2019 to those selected employees, an aggregate of 25,206,000 shares (the "2019 Awarded Shares") were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2019 Awarded Shares is 15 May 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

The fair value of the shares granted during the year was HK$99,060,000 (HK$3.93 each), and the Group recognised a share award expense of RMB64,677,000 during the year ended 31 December 2019 (2018: RMB31,339,000). Out of the share award expense, an amount of RMB1,108,000 was included in the directors' remuneration during the year ended 31 December 2019 (2018: RMB1,366,000).

Changes to Information in respect of Directors

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, 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 for the year ended 31 December 2019.

Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures

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

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities(1)	Approximate percentage of shareholding
Liu Dian Bo(1)(2)	Founder of a discretionary trust	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%
Zhang Hua Qiao(3)	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam(3)	Beneficial owner	250,000(L)	0.01%
Leung Man Kit(3)	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo(3)	Beneficial owner	250,000(L)	0.01%
Song Rui Lin(3)	Beneficial owner	250,000(L)	0.01%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

Notes:

1. *Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo (PTC) Limited, Nelumbo Investments Limited, Luye Life Sciences Group Ltd., Luye Pharma Holdings Ltd., LuYe Pharmaceutical International Co., Ltd. and LuYe Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,517,113,930 ordinary shares and 72,701,950 short position in the Company held by LuYe Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd.*

2. *The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.*

3. *These represent the interests in underlying Shares in respect of the awarded shares granted by the Company under Luye Pharma Share Award Scheme.*

(ii) Interest in associated corporations

Name of Director	Associated Corporation	Nature of interest	Number of securities	Approximate percentage in the registered capital of the associated corporation
Liu Dian Bo	Luye Life Sciences Group Ltd.	Founder of a discretionary trust	8,400(L)	70%
Liu Dian Bo	Ginkgo (PTC) Limited	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852(L)	100%
Liu Dian Bo	LuYe Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988(L)	100%
Liu Dian Bo	LuYe Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1(L)	100%
Yang Rong Bing	Luye Life Sciences Group Ltd.	Beneficial owner	1,800(L)	15%
Yuan Hui Xian	Luye Life Sciences Group Ltd.	Beneficial owner	1,800(L)	15%

Remark: The Letter "L" denotes long position in such securities.

Notes:

1. *The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo.*

2. *Luye Life Sciences Group Ltd. holds the entire issued ordinary share capital of Luye Pharma Holdings Ltd. LuYe Pharmaceutical International Co.,Ltd. is wholly-owned by Luye Pharma Holdings Ltd. and LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd.*

Save as disclosed above, as at 31 December 2019, none of our Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and 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 for the year ended 31 December 2019.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2019, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of securities[1]	Approximate percentage of shareholding
LuYe Pharmaceutical Investment Co., Ltd.[1]	Beneficial owner	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%
LuYe Pharmaceutical International Co., Ltd.[1]	Interest in controlled corporation	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%
Luye Pharma Holdings Limited[1]	Interest in controlled corporation	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%
Luye Life Sciences Group Ltd.[2]	Interest in controlled corporation	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%
Nelumbo Investments Limited[2]	Interest in controlled corporation	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%
Ginkgo (PTC) Limited[2]	Trustee	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%
Shorea LBG[2]	Interest in controlled corporation	1,517,113,930(L)	46.41%
		72,701,950(S)	2.22%

Remark: The Letter "L" denotes long position in such securities and "S" denotes short position in such securities.

Notes:

1. *LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd., which is in turn wholly-owned by Luye Pharma Holdings Ltd..*

2. *Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.*

Save as disclosed above, as at 31 December 2019, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities

Consistent with the management's commitment to maintaining the well-being of the Group, and protecting its long-term interest, share repurchase and cancellation exercises were implemented during the year ended 31 December 2019. During the period, an aggregate of 1,000,000 Shares were repurchased on the Stock Exchange at an aggregate price of approximately HK$4.98 million, which does not include any fees associated with the repurchase. Consequent to these share repurchase exercises, the Company has acquired and cancelled approximately 0.0305% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations. As the Board considers that the value of the Company's shares is consistently undervalued, it trusts that the action taken will go towards addressing this trend. The Board also believes that given the current financial resources of the Company, the share repurchase will not affect the Company's solid financial position. Details of shares repurchased during the relevant period are set out as follows:

Date of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share Highest	Lowest	Aggregate consideration paid (HK$)
3 January	1,000,000	5.03	4.94	4,982,075.03
Total	1,000,000			4,982,075.03

All the 1,000,000 Shares were cancelled.

Save as the aforesaid repurchase of Shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2019.

Tax Relief

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holding of Company's shares.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Law that would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

Permitted Indemnity Provision

According to the Bye-laws of the Company, among others, the Directors acting in relation to any of the affairs of the Company may be entitled to be indemnified and secured harmless out of assets and profits of the Company from and against all, among others, actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Director's and Controlling Shareholder's Interest in Competing Business

A deed of non-compete undertaking dated 19 June 2014 (the "Deed of Non-compete Undertaking") was entered into between the Company and the controlling shareholder and the executive chairman of the Company, Mr. Liu Dian Bo, who has undertaken to our Company that conditional upon Listing, he will not carry on, engage, invest, participate or otherwise be interested in any business which competes or is likely to compete with any of the existing and/or future businesses carried on by any shareholder of our Group in relation to developing, producing, marketing and selling innovative pharmaceutical products.

As disclosed in the Prospectus, except for Mr. Liu Dian Bo's interest in our Group, he is interested in the equity interest of 蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co. Ltd.) ("Wuhu Luye"), which is owned as to 90% by 綠葉投資集團有限公司 (Luye Investment Group Co. Ltd.) ("Luye Investment Group") and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.), an independent third party. Luye Investment Group is owned by the founding shareholders (namely, Messrs. Liu Dian Bo, Yuan Hui Xian ("Mr. Yuan") and Yang Rong Bing ("Mr. Yang")) as to 70% by Mr. Liu Dian Bo and 15% by each of Mr. Yang and Mr. Yuan (each an executive Director). Wuhu Luye is primarily engaged in the production and sale of Chinese medicine covering a number of therapeutic areas including cardiocerebral vascular, neurology, neuropsychiatry and hepatology, which competes or is likely to compete, either directly or indirectly, with our Group's business.

By reasons of the fact that Wuhu Luye and our Group have (i) different management teams; (ii) separate production facilities and respective procurement teams to source raw materials and suppliers; (iii) independent sales and marketing activities; and (iv) independent financial and accounting systems, and that Mr. Liu Dian Bo has already given an undertaking pursuant to the Deed of Non-compete Undertaking, our Group is therefore capable of carrying on its business independently of, and at arms length from, the excluded business as described above.

The Company has received an annual written confirmation from the controlling shareholder, Mr. Liu Dian Bo, in respect of his compliance with the Deed of Non-compete Undertaking. In addition, during the reporting period and up to the completion of our acquisition of Shandong Boan, Mr. Liu has provided the Board with the updates on the development progress of product candidates of Shandong Boan.

The independent non-executive Directors have reviewed the Deed of Non-compete Undertaking and assessed whether the controlling shareholder has abided by the non-competition undertaking. The independent non-executive Directors confirmed that the controlling shareholder has not been in breach of the non-competition undertaking during the year ended 31 December 2019.

Save as disclosed above, none of the Directors held any interests in any business that compete directly against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2019.

Connected Transactions

On 1 December 2019, Shandong Luye, a wholly-owned subsidiary of the Company, and Luye Investment Group entered into a sale and purchase agreement pursuant to which Shandong Luye has agreed to purchase and Luye Investment Group has agreed to sell its 98.0% equity interest in Shandong Boan for a total purchase price of up to RMB1,446.7 million (approximately US$205.8 million). Luye Investment Group is owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director. Accordingly, Luye Investment Group is a connected person of the Company.

The total purchase price for the acquisition comprises an initial payment of RMB723.4 million (approximately US$102.90 million), which was payable by the Group in cash upon completion or closely thereafter and two subsequent payments of RMB361.7 million (approximately US$51.45 million) each payable only upon the grant by the competent authority in China of the marketing authorisation for LY01008 and LY06006, respectively. LY01008 and LY06006 are two biosimilar products under research and development by Shandong Boan and each of them is currently undergoing Phase III clinical trials in China. The purchase price is settled in RMB in the PRC.

Shandong Boan is a biotechnology company that develops biopharmaceutical products (including biosimilar and innovative drugs) with a focus on oncology, central nervous system (CNS), diabetes and immune diseases. Through the strategic acquisition of Shandong Boan, a company with a proven track record in the R&D of biosimilars and innovative drugs, the Group hopes to not only further expand and diversify its pipeline portfolio, but also further accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

The Board believes that Shandong Boan's portfolio of biosimilar and innovative products is highly complementary to the Group's existing core strengths and this acquisition will assist the Group in maintaining its position as a leading pharmaceutical player in China. In addition, Shandong Boan's novel antibody products have the potential to provide the Group with numerous excellent growth opportunities in the longer term.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to the connected transaction entered into by the Group during the year ended 31 December 2019.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2019 is contained in note 38 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

Charitable Donations

During the year ended 31 December 2019, the Group made charitable and other donations in a total amount of RMB8.9 million.

Post Balance Sheet Events

On 1 December 2019, Shandong Luye, a wholly-owned subsidiary of the Company, and Luye Investment Group entered into a sale and purchase agreement pursuant to which Shandong Luye agreed to purchase and Luye Investment Group agreed to sell 98.0% equity interest in Shandong Boan for a total purchase price of up to RMB1,446.7 million (approximately US$205.8 million). On 22 January 2020, the ordinary resolution to approve the transaction was duly passed by the shareholders at the special general meeting. On 17 February 2020, the Board announced that all conditions to completion were fulfilled. Further to completion of the acquisition, Shandong Boan has become a subsidiary of the Company. For further details of the information, please refer to the Company's announcements dated 1 December 2019, 22 January 2020 and 17 February 2020 and the circular of the Company dated 6 January 2020.

The completion of the above transfer took place in February 2020.

Please see note 45 to the consolidated financial statements in this annual report for a summary of the major events that have occurred in relation to the Company since the balance sheet date.

Audit Committee

The audit committee has reviewed together with the management the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2019.

Code of Conduct regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code 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 is set out in the Corporate Governance Report on pages 45 to 55 of this annual report.

Closure of Register of Shareholders

The Company's annual general meeting is currently scheduled to be held on 23 June 2020. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 18 June 2020 to 23 June 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, 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 17 June 2020.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from 2 July 2020 to 6 July 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, 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 30 June 2020.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the Directors at the date of this annual report, there was a sufficient public float of the issued shares of the Company as prescribed under the Listing Rules.

Auditor

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2019.

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

On behalf of the Board
Liu Dian Bo
Chairman

Hong Kong, 26 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 Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save for the deviation disclosed in this annual report, in the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code during the year ended 31 December 2019.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors 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 "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). 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 annual report, the Board comprises 9 members, consisting of 4 executive Directors, 1 non-executive Director and 4 independent non-executive Directors as set out below:

Executive Directors

Mr. LIU Dian Bo *(Executive Chairman and Chief Executive Officer)*
Mr. YANG Rong Bing *(Vice Executive Chairman)*
Mr. YUAN Hui Xian
Ms. ZHU Yuan Yuan

Non-executive Director

Mr. SONG Rui Lin

Independent Non-executive Directors

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Dr. CHOY Sze Chung Jojo

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

During the year ended 31 December 2019, the Board at all times met the requirements of the 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 or accounting or related financial management expertise.

The Company also complied 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.

None of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant status, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on the latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

According to A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. According to the records kept by the Company, each of the Directors, namely, Mr. Liu Dian Bo, Mr. Yang Rong Bing, Mr. Yuan Hui Xian, Ms. Zhu Yuan Yuan, Mr. Song Rui Lin, Mr. Zhang Hua Qiao, Professor Lo Yuk Lam, Mr. Leung Man Kit and Dr. Choy Sze Chung Jojo (a) attended seminars and/or trainings that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors; and (b) read materials that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors during the year ended 31 December 2019.

Chairman and Chief Executive Officer

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.

Under the current organisation structure of the Company, Mr. Liu Dian Bo is the Executive Chairman of the Board and the Chief Executive Officer. Although the dual roles of Chairman and Chief Executive Officer is a deviation from the CG Code, the Board believes that with extensive experience in the pharmaceutical industry, vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals.

Appointment and Re-Election of Directors

Each of the executive Directors has entered into an appointment letter with the Company for a term of three years commencing from 9 July 2017 and may be terminated in accordance with the respective terms of the appointment letters.

Mr. Song Rui Lin, the non-executive Director, has entered into an appointment letter with the Company for a term of two years commencing from 29 March 2019 and may be terminated in accordance with the terms of the appointment letter.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 9 July 2018 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has a service agreement which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Bye-laws, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company has adopted the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than 14 days will be given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or committee 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 committee 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 committee meetings will be recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the year ended 31 December 2019, six board meetings and one annual general meeting ("AGM") were held and the attendance of the individual Directors at these meetings is set out in the table below:

	Attended/Eligible to attend	
Name of Director	**Board meeting**	**AGM**
Mr. LIU Dian Bo	6/6	1/1
Mr. YANG Rong Bing	5/6	1/1
Mr. YUAN Hui Xian	5/6	0/1
Ms. ZHU Yuan Yuan	6/6	1/1
Mr. SONG Rui Lin	5/6	1/1
Mr. ZHANG Hua Qiao	6/6	1/1
Professor LO Yuk Lam	6/6	1/1
Mr. LEUNG Man Kit	6/6	1/1
Dr. CHOY Sze Chung Jojo	6/6	1/1

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2019.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision on 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. 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.

Corporate Governance Function

The Board recognises that corporate governance should be the collective responsibility of Directors which include:

(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.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2019 are set out in note 8 to the consolidated financial statements in this annual report.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the top senior management (excluding the Directors) for the year ended 31 December 2019 fell within the following bands as follows:

Remuneration Band	No. of employees
RMB2,000,001 to RMB2,500,000	2
RMB2,500,001 to RMB3,000,000	—
RMB3,000,001 to RMB3,500,000	1
RMB3,500,001 to RMB4,000,000	—
RMB4,000,001 to RMB4,500,000	—
RMB4,500,001 to RMB5,000,000	1
	4

Directors' Liability Insurance

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Board Committees

Nomination Committee

The Nomination Committee currently comprises three members, namely Professor Lo Yuk Lam (chairman), Mr. Zhang Hua Qiao and Dr. Choy Sze Chung Jojo, all of them are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendation to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. The Nomination Committee adopted certain criteria and procedure in the nomination of new directors. 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.

In assessing the suitability of a proposed candidate before recommending to the Board for it to consider and make recommendations to the Shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies, the Nomination Committee will consider factors including, without limitation, character and integrity of the proposed candidates, qualifications of the proposed candidates including professional qualifications, skills, knowledge and experience, accomplishments and experience of the proposed candidates in the business from time to time, commitment of the proposed candidates in respect of available time and relevant interest, diversity and balance of the Board and such other perspectives appropriate to the Company's business.

The written terms of reference of Nomination Committee has been amended on 28 December 2018 which are available on the websites of the Stock Exchange and the Company.

Nomination Policy

A director nomination policy (the "Nomination Policy") adopted by the Board aims to enhancing transparency and accountability of the nomination process of Directors and enabling the Company to ensure the Board has a balance of skills and experience and diversity of perspectives appropriate to the requirements of the Company's business.

The selection criteria for assessing the suitability of a proposed candidate which shall be taken as reference by the Nomination Committee includes: character and integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and strategy, the potential contribution to the Board from the diversity aspects (including but not limited to age, gender, international background, and professional experience), the candidate's time commitment to the Company, the candidate's service on other boards of directors of the Group or of other companies (whether they are listed or non-listed) and any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and its Shareholders. These above selection criteria are not exhaustive or conclusive. The Nomination Committee would consider any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and shareholders of the Company.

For those potential new director candidates who appear upon first consideration to meet the Board's selection criteria, upon obtaining the required information from the candidate, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the candidate to the Board for appointment as a Director. The Nomination Committee shall review whether the candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and the policies of the Company.

The Board and the Nomination Committee intend to review the Nomination Policy at least annually and anticipate that modifications may be necessary from time to time as the Company's needs and circumstances evolve, and as applicable if and where the legal obligations or requirements in the Listing Rules or laws of Hong Kong or Bermuda, or other regulatory change(s).

During the year ended 31 December 2019, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Professor LO Yuk Lam	1/1
Mr. ZHANG Hua Qiao	1/1
Dr. CHOY Sze Chung Jojo	1/1

During the year 2019, the Nomination Committee reviewed the Board composition and considered that the existing Board was appropriately structured.

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 a Board Diversity Policy to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Ultimately, all Board appointments have been based on merit, and candidates were considered against objective criteria, having due regard for the benefits of diversity on the Board.

Remuneration Committee

The Remuneration Committee comprises three members, namely Dr. Choy Sze Chung Jojo (chairman), Mr. Zhang Hua Qiao and Professor Lo Yuk Lam, all of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations to the Board for approval on the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for ensuring that no Director or any of his/her associates will participate in deciding his/her own remuneration.

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

During the year ended 31 December 2019, two meetings of the Remuneration Committee were held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Dr. CHOY Sze Chung Jojo	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	2/2

During the year 2019, the Remuneration Committee assessed the performance of the Directors and reviewed the Company's policy and structure for all directors' and senior management remuneration.

Audit Committee

The Audit Committee comprises three members namely, Mr. Leung Man Kit (chairman), Mr. Zhang Hua Qiao and Professor Lo Yuk Lam, all of them are independent non-executive Directors. The main duties of the Audit Committee include the following:

— To review the financial statements and reports before submission to the Board;

— To review and monitor the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard and discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;

— To review 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, training programmes and budget of the Company's accounting and financial reporting function; and

— To oversee the risk management and internal control systems of the Group, report to the Board on any material issue, and make recommendations to the Board.

The written terms of reference of Audit Committee were amended on 28 December 2018 which are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2019, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. LEUNG Man Kit	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	2/2

During the year 2019, the Audit Committee had reviewed the annual results of the Group for the year ended 31 December 2019 and interim results of the Company and its subsidiaries for the period ended 30 June 2019, the risk management systems and processes for the re-appointment of the external auditor. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

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 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 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 59 of this annual report.

Risk Management and Internal Control

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholders investments and Company assets and reviewing the effectiveness of such system on an annual basis. The Board also clarifies that the system is purported to manage, but not eliminate, the risk of failure to fulfil business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss

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. Management is responsible for performing risk assessment, and owning the implementation and maintenance of internal control. Essential to this risk management and internal control systems are well defined policies and procedures that are properly documented and communicated to employees.

At least annually, the Board, through the Audit Committee, reviews the effectiveness of the risk management and the internal control systems of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the internal control system is effective and adequate. For the year ended 31 December 2019, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the risk management and the internal control systems are effective and adequate.

The Group's risk management and internal control system is embedded within our business processes so that it functions as an integral part of the overall operation of the Group. The system comprises a comprehensive organisation structure with assignment of definite accountabilities and delegation of corresponding authorities to each post. Based on our organisation structure, a reporting system has been developed including reporting channels from division heads of business units to the Board.

The risk management and internal control systems and accounting system of the Group are aimed at identifying and evaluating the Group's risk and formulate risk mitigation strategies, and to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation, and the accounting records are reliable for preparing financial information used within the business for publication, maintaining accountability for assets and liabilities and ensuring the business operations are in accordance with relevant legislation, regulations and internal guidelines.

The Group has a defined organisational structure with clear defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to report to Executive Directors on a regular basis. Policies and procedures are set for each department, which includes establishing and maintaining effective policies to enhance risks identification to which the Group are exposed and taking appropriate action to manage such risks, establishing a structure with defined authorities and proper segregation of duties; monitoring the strategic plan and performance; designing an effective accounting and information system; controlling price sensitive information; and ensuring swift actions and timely communication with our stakeholders.

Dissemination of Inside Information

With respect to the procedures and internal controls for handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated to all staff; the Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

Auditor's Remuneration

For the year ended 31 December 2019, the total remuneration paid or payable to the Company's auditors, Ernst & Young, for audit and non-audit services totally RMB9.70 million.

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

Items of auditors' services	Amount (RMB'000)
Audit services	8,738
Non-audit services — transfer pricing advisory services	965
Total	9,703

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the independent auditor of the Group for 2020 and the proposal will be submitted for approval at the AGM to be held on 23 June 2020.

Company Secretary

Ms. Lai Siu Kuen ("Ms. Lai") has been appointed as the Company Secretary of the Company since 2014. Ms. Lai is a director of the listing corporate services department of Trident Corporate Services (Asia) Limited. Ms. Lai has assisted on the company secretarial matters of the Company since listing and she has closely communicated with Ms. Zhu Yuan Yuan, an executive Director of the Company, during the past few years.

During the year 2019, Ms. Lai undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

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 the informed investment decisions.

The annual general meeting of the Company provides opportunity for shareholders to communicate directly with the Directors. The Chairman of the Company, the chairman of the Board Committees of the Company will attend the AGMs to answer shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at www.luye.cn, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder 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 shareholder meeting.

Convening of Special General Meeting and Putting Forward Proposals

In accordance with the Bye-laws, a special general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings.

Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition.

Shareholders may put forward proposals for consideration at an annual general meeting in accordance with the Companies Act 1981 of Bermuda and the Bye-laws.

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

Enquiries to the Board or Proposals at Company's General Meetings

Written enquiries to the Board and proposals at general meetings of the Company may be made at the Company's principal place of business in Hong Kong at Unit 3207, 32/F, Champion Tower, 3 Garden Road, Central, Hong Kong for the attention to the Chairman of the Board. Other enquiries may be made by telephone at (852) 3523 0428 or by fax at (852) 3524 0430.

Change in Constitutional Documents

There was no change in the Bye-laws of the Company during the year ended 31 December 2019.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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To the shareholders of Luye Pharma Group Ltd.
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 172, 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("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
Impairment testing of goodwill	
The carrying amount of goodwill at 31 December 2019 was RMB1,038,068,000. The Group performs its impairment test of goodwill on an annual basis. Management's annual impairment test is important to our audit because the assessment process is complex and requires significant judgement and estimates including cash-generating unit identification, growth rate, gross margin and discount rate. The Group's disclosures about impairment testing of goodwill are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 15 *Goodwill*, which specifically explain the accounting policies and management's assumptions and accounting estimates.	We evaluated management's identification of cash-generating units within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan, budget and financial projections and analysis of the industry. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the discount rate, the terminal growth rate applied and the valuation model with forecasted cash flows.
Recoverability of trade receivables	
As at 31 December 2019, the trade receivable balance amounted to RMB1,215,596,000, before loss allowance for impairment of RMB4,718,000, representing 6.3% of the Group's total assets. The impairment of trade receivables was assessed based on the expected credit loss model. The assessment of expected credit losses of trade receivables was performed at 31 December 2019 using the simplified approach which involved significant management's judgement and estimation including their assessment of customers' current financial positions and forward-looking information. The assessment is highly judgmental. The Group's disclosures about trade receivables are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 20 *Trade and notes receivables*, which specifically explain the accounting policies, management's estimates, the overdue receivables and the related provision.	We evaluated the expected credit loss provision methodology used by the Group. We also evaluated management's assessment on the estimates of customers' current financial positions and the forward-looking adjustments by reviewing the detailed analyses of the ageing of the receivables, testing on a sample basis, payments received subsequent to the year end and historical payment patterns, reviewing correspondence related to any disputes between the parties involved and market information about the credit status of the counterparties, where available, and evaluating the analyses of influence from macroeconomics on the loss rates of the Group's customers.

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs	
During the year ended 31 December 2019, the Group had capitalised development costs incurred for the development of new pharmaceutical products of RMB394,818,000. The expenditure on development activities is capitalised when all the criteria mentioned in note 2.4 *Summary of significant accounting policies* were satisfied. Significant management estimation and judgement were required in determining whether the capitalised costs met the capitalisation criteria. The Group's disclosures about capitalisation of development costs are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 16 *Other intangible assets*, which specifically explain the accounting policies and management's assumptions and accounting estimates.	We evaluated management judgement on the distinction between research and development phase and the satisfaction of capitalisation criteria through comparison to industry practice and the Group's policy. We obtained an understanding of the Group's internal approval process regarding the capitalisation of development costs by conducting interview with key management members in charge of research, development and commercialisation of various projects. We also examined technical feasibility reports and certifications related to different stages of development activities and reviewed the expenditure documents relevant to separately accounted development costs.

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 Report of Directors 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 Report of Directors 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 IFRSs issued by the IASB 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, in accordance with section 90 of the Bermuda Companies Act 1981, 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.

- 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
26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**6,357,596**	5,173,385
Cost of sales		**(1,478,684)**	(1,123,971)
Gross profit		**4,878,912**	4,049,414
Other income and gains	5	**315,667**	220,699
Selling and distribution expenses		**(2,034,824)**	(1,685,927)
Administrative expenses		**(525,921)**	(441,377)
Other expenses		**(588,788)**	(499,631)
Finance costs	7	**(274,605)**	(170,605)
Share of profit of an associate	17	**1,214**	897
PROFIT BEFORE TAX	6	**1,771,655**	1,473,470
Income tax expense	10	**(279,829)**	(167,475)
PROFIT FOR THE YEAR		**1,491,826**	1,305,995
Attributable to:			
Owners of the parent		**1,468,562**	1,303,373
Non-controlling interests		**23,264**	2,622
		1,491,826	1,305,995
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)			
— For profit for the year	12	**45.84 cents**	40.62 cents
Diluted (RMB)			
— For profit for the year	12	**45.50 cents**	40.45 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR		**1,491,826**	1,305,995
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Debt investments at fair value through other comprehensive income:			
Changes in fair value		**–**	13,518
Reclassification adjustments for gains included in the consolidated statement of profit or loss		**–**	(13,334)
		–	184
Exchange differences:			
Exchange differences on translation of foreign operations		**(11,754)**	12,922
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(11,754)**	13,106
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(13,287)**	4,764
Remeasurement on defined benefit plan	*40*	**(2,399)**	1,570
Income tax effect		**285**	(301)
		(2,114)	1,269
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(15,401)**	6,033
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(27,155)**	19,139
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,464,671**	1,325,134
Attributable to:			
Owners of the parent		**1,441,407**	1,322,512
Non-controlling interests		**23,264**	2,622
		1,464,671	1,325,134

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,162,137**	2,837,140
Advance payments for property, plant and equipment and other intangible assets		**795,091**	141,451
Right-of-use assets	14(b)	**256,208**	—
Prepaid land lease payments	14(a)	**—**	217,048
Goodwill	15	**1,038,068**	1,040,879
Other intangible assets	16	**4,486,866**	4,445,063
Investment in an associate	17	**6,346**	5,935
Equity investments designated at fair value through other comprehensive income	18	**64,257**	76,368
Financial assets at fair value through profit or loss	22	**1,263**	1,263
Pledged time deposits	23	**50,000**	—
Deferred tax assets	32	**93,859**	98,355
Total non-current assets		**9,954,095**	8,863,502
CURRENT ASSETS			
Inventories	19	**614,622**	585,609
Trade and notes receivables	20	**1,697,931**	1,531,282
Prepayments, other receivables and other assets	21	**254,102**	254,902
Due from related parties	38(b)	**3,451**	2,816
Financial assets at fair value through profit or loss	22	**1,861,639**	1,882,839
Restricted cash	23	**36,643**	28,345
Pledged time deposits	23	**1,565,009**	1,409,782
Time deposits with original maturity of over three months	23	**1,001,000**	1,306,868
Cash and cash equivalents	23	**2,325,446**	1,672,865
Total current assets		**9,359,843**	8,675,308
CURRENT LIABILITIES			
Trade and notes payables	24	**298,477**	279,750
Other payables and accruals	25	**1,078,153**	2,461,783
Interest-bearing loans and borrowings	26	**3,943,565**	5,290,547
Government grants	30	**17,493**	42,090
Tax payable		**203,799**	128,760
Dividend payable		**5,000**	—
Total current liabilities		**5,546,487**	8,202,930
NET CURRENT ASSETS		**3,813,356**	472,378
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,767,451**	9,335,880

	Notes	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,767,451**	9,335,880
NON-CURRENT LIABILITIES			
Convertible bonds	27	**1,833,173**	—
Interest-bearing loans and borrowings	26	**2,289,120**	847,596
Long-term payables	29	**55,810**	311,068
Employee defined benefit obligation	40	**7,880**	4,568
Government grants	30	**131,854**	108,714
Deferred revenue	31	**—**	40,907
Deferred tax liabilities	32	**77,772**	88,998
Total non-current liabilities		**4,395,609**	1,401,851
Net assets		**9,371,842**	7,934,029
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**420,565**	421,337
Treasury shares	33	**(279,558)**	(305,626)
Share premium	33	**2,734,985**	2,764,669
Equity component of convertible bonds	27	**292,398**	—
Reserves	34	**6,055,770**	4,928,033
		9,224,160	7,808,413
Non-controlling interests	35	**147,682**	125,616
Total equity		**9,371,842**	7,934,029

Mr. Liu Dianbo
Director

Mr. Yang Rongbing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent												
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000 *(note 27)*	Other reserves* RMB'000	Statutory surplus reserves* RMB'000 *(note 34)*	Share award scheme reserve* RMB'000	Retained earnings* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Foreign currency translation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	421,337	(305,626)	2,764,669	–	41,387	723,140	36,763	4,112,091	5,955	8,697	7,808,413	125,616	7,934,029
Profit for the year	–	–	–	–	–	–	–	1,468,562	–	–	1,468,562	23,264	1,491,826
Other comprehensive income for the year:													
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	–	(13,287)	–	(13,287)	–	(13,287)
Exchange differences related to foreign operations	–	–	–	–	–	–	–	–	–	(11,754)	(11,754)	–	(11,754)
Remeasurement on defined benefit plan, net of tax	–	–	–	–	–	–	–	(2,114)	–	–	(2,114)	–	(2,114)
Total comprehensive income for the year	–	–	–	–	–	–	–	1,466,448	(13,287)	(11,754)	1,441,407	23,264	1,464,671
Cancellation of treasury shares *(note 33)*	(772)	30,456	(29,684)	–	–	–	–	–	–	–	–	–	–
Repurchase of shares *(note 33)*	–	(4,388)	–	–	–	–	–	–	–	–	(4,388)	–	(4,388)
Equity-settled share award expense *(note 39)*	–	–	–	–	–	–	63,108	–	–	–	63,108	1,569	64,677
Issue of convertible bonds	–	–	–	292,398	–	–	–	–	–	–	292,398	–	292,398
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	2,864	2,864
Transfer to statutory reserves	–	–	–	–	–	184.504	–	(184,504)	–	–	–	–	–
Final 2018 dividend *(note 11)*	–	–	–	–	–	–	–	(185,124)	–	–	(185,124)	–	(185,124)
Interim 2019 dividend *(note 11)*	–	–	–	–	–	–	–	(191,654)	–	–	(191,654)	–	(191,654)
Dividend paid to a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	(5,631)	(5,631)
At 31 December 2019	420,565	(279,558)	2,734,985	292,398	41,387	907,644	99,871	5,017,257	(7,332)	(3,057)	9,224,160	147,682	9,371,842

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent											
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Other reserves* RMB'000	Statutory surplus reserves* RMB'000 *(note 34)*	Share award scheme reserve* RMB'000	Retained earnings* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Foreign currency translation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	427,269	(459,284)	2,936,817	41,387	611,073	6,107	3,196,919	12,340	(4,225)	6,768,403	127,513	6,895,916
Effect of adoption of IFRS 9	–	–	–	–	–	–	12,316	(11,333)	–	983	–	983
At 1 January 2018 (restated)	427,269	(459,284)	2,936,817	41,387	611,073	6,107	3,209,235	1,007	(4,225)	6,769,386	127,513	6,896,899
Profit for the year	–	–	–	–	–	–	1,303,373	–	–	1,303,373	2,622	1,305,995
Other comprehensive income for the year:												
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	4,764	–	4,764	–	4,764
Change in fair value of debt investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	184	–	184	–	184
Exchange differences related to foreign operations	–	–	–	–	–	–	–	–	12,922	12,922	–	12,922
Remeasurement on defined benefit plan, net of tax	–	–	–	–	–	–	1,269	–	–	1,269	–	1,269
Total comprehensive income for the year	–	–	–	–	–	–	1,304,642	4,948	12,922	1,322,512	2,622	1,325,134
Cancellation of treasury shares *(note 33)*	(5,932)	178,080	(172,148)	–	–	–	–	–	–	–	–	–
Repurchase of shares *(note 33)*	–	(26,068)	–	–	–	–	–	–	–	(26,068)	–	(26,068)
Equity-settled share award expense *(note 39)*	–	–	–	–	–	30,656	–	–	–	30,656	683	31,339
Transfer to statutory reserves	–	–	–	–	112,067	–	(112,067)	–	–	–	–	–
Sale of shares repurchased for share award scheme	–	1,646	–	–	–	–	–	–	–	1,646	–	1,646
Final 2017 dividend	–	–	–	–	–	–	(148,999)	–	–	(148,999)	–	(148,999)
Interim 2018 dividend	–	–	–	–	–	–	(140,720)	–	–	(140,720)	–	(140,720)
Dividend paid to a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	(5,202)	(5,202)
At 31 December 2018	421,337	(305,626)	2,764,669	41,387	723,140	36,763	4,112,091	5,955	8,697	7,808,413	125,616	7,934,029

* *These reserve accounts comprise the consolidated reserves of RMB6,055,770,000 (2018: RMB4,928,033,000) in the consolidated statement of financial position.*

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,771,655**	1,473,470
Adjustments for:			
Share of profit of an associate		**(1,214)**	(897)
Depreciation of items of property, plant and equipment	*13*	**213,283**	166,289
Depreciation of right-of-use assets/recognition of prepaid land lease payments	*14(b)*	**23,397**	6,282
Amortisation of other intangible assets	*16*	**205,351**	144,614
(Gain)/loss on disposal of items of property, plant and equipment		**(9,777)**	1,657
Write-off of other intangible assets		**6,884**	—
Bank interest income	*5*	**(95,941)**	(49,353)
Changes in fair value of financial assets at fair value through profit or loss	*5*	**(9,402)**	(22,712)
Investment income from financial assets at fair value through profit or loss	*5*	**(46,044)**	(39,154)
Other interest income from debt investments at fair value through other comprehensive income	*5*	**—**	(13,334)
Investment income from entrusted loans	*5*	**—**	(1,092)
Equity-settled share award expense	*39*	**64,677**	31,339
Finance costs	*7*	**274,605**	170,605
Defined benefit plan		**663**	593
		2,398,137	1,868,307
Increase in trade and notes receivables		**(166,612)**	(120,062)
Decrease/(increase) in prepayments, other receivables and other assets		**12,338**	(49,648)
(Increase)/decrease in amounts due from related parties		**(635)**	25
Increase in inventories		**(29,013)**	(165,253)
Increase in restricted cash		**(8,298)**	(17,093)
Increase in pledged time deposits		**(114,633)**	(439,998)
(Decrease)/increase in government grants		**(29,857)**	11,083
Increase in trade and notes payables		**18,727**	175,151
Increase in other payables and accruals		**34,914**	126,274
Decrease in deferred revenue		**(6,567)**	(6,630)
Cash generated from operations		**2,108,501**	1,382,156
Interest paid		**(187,013)**	(157,717)
Income tax paid		**(176,591)**	(178,852)
Net cash flows from operating activities		**1,744,897**	1,045,587

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Net cash flows from operating activities		**1,744,897**	1,045,587
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(970,387)**	(728,165)
Prepayment of right-of-use assets	*41(c)*	**(10,995)**	—
Purchases of other intangible assets		**(2,241,657)**	(1,756,350)
Purchases of equity investments designated at fair value through other comprehensive income		**–**	(62,881)
Purchases of financial assets at fair value through profit or loss		**(3,379,477)**	(3,535,800)
Proceeds from sales of financial assets at fair value through profit or loss		**3,397,350**	3,025,000
Receipt of investment income from financial assets at fair value through profit or loss		**65,390**	39,154
Proceeds from sales of debt investments at fair value through other comprehensive income		**–**	300,000
Receipt of other interest income from debt investments at fair value through other comprehensive income		**–**	13,334
Proceeds from disposal of items of property, plant and equipment		**256**	2,725
Increase in deferred revenue		**13,286**	13,340
Dividend received from an associate		**911**	1,235
Receipt of government grants for property, plant and equipment		**28,400**	8,300
Increase/(decrease) in time deposits with original maturity of over three months		**305,868**	(360,165)
Increase/(decrease) in pledged time deposits		**9,503**	(3,281)
Addition to entrusted loan receivables		**–**	(110,000)
Collection of entrusted loan receivables		**–**	110,000
Receipt of investment income from entrusted loans		**–**	1,092
Interest received		**90,012**	44,714
Net cash flows used in investing activities		**(2,691,540)**	(2,997,748)

	Notes	2019 RMB'000	2018 RMB'000
Net cash flows used in investing activities		**(2,691,540)**	(2,997,748)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		**6,805,064**	9,219,870
Repayment of loans		**(6,739,241)**	(5,943,084)
Proceeds from issue of convertible bonds		**2,041,127**	—
Principal portion of lease payments	*41(c)*	**(16,776)**	—
Increase in pledged time deposits		**(100,097)**	(557,260)
Dividends paid to equity holders of the parent		**(376,778)**	(289,719)
Dividend paid to a non-controlling shareholder		**(631)**	(5,202)
Repurchase of shares		**(8,776)**	(21,605)
Proceeds from sale of shares repurchased for share award scheme		**—**	1,646
Capital contribution from non-controlling shareholders		**2,864**	—
Net cash flows from financing activities		**1,606,756**	2,404,646
NET INCREASE IN CASH AND CASH EQUIVALENTS		**660,113**	452,485
Effect of foreign exchange rate changes, net		**(7,532)**	(45,492)
Cash and cash equivalents at beginning of year	*23*	**1,672,865**	1,265,872
CASH AND CASH EQUIVALENTS AT END OF YEAR	*23*	**2,325,446**	1,672,865

1. Corporate and group information

Luye Pharma Group Ltd. (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited (the "SGX") on 5 May 2004 and has been delisted since 29 November 2012. On 9 July 2014, the Company succeeded its listing on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK").

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the development, production, marketing and sale of pharmaceutical products.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is Suite 3207, Champion Tower, 3 Garden Road, Central, Hong Kong.

In the opinion of the directors, the ultimate holding company of the Company is Luye Group Ltd., which is incorporated in Bermuda.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AsiaPharm Investments Ltd.	Bermuda 2 July 2003	US$120,000	100	—	Investment holding
Luye Pharma (Singapore) Pte. Ltd. ("LPPL")	Singapore 23 April 1991	SG$1,700,000	100	—	Distribution and sale of pharmaceutical drugs
Luye Pharma Investments Pte. Ltd.	Singapore 26 August 2010	SG$2	100	—	Investment holding
Luye Pharma Venture Capital	Cayman Islands 26 November 2015	US$50,000	100	—	Investment holding
Luye Pharma (USA) Ltd.	United States of America ("USA") 3 August 2015	US$1	100	—	Research and development and manufacture and sale of pharmaceutical products

1. Corporate and group information (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Luye Pharma Hong Kong Limited	Hong Kong 31 July 2007	HK$2,328,930,660	—	100	Distribution and sale of pharmaceutical products and investment holding
Solid Success Holdings Ltd. ("Solid Success")	British Virgin Islands ("BVI") 22 August 2002	US$100	—	100	Investment holding
Kanghai Pharmaceutical Technology Development Limited	Hong Kong 22 June 2002	HK$100	—	100	Investment holding
Apex Group Holding Limited	Hong Kong 10 June 1993	HK$10,000	—	100	Investment holding
A-Bio Pharma Pte. Ltd.	Singapore 17 August 2001	SG$12,500,000	—	100	Provision of contract research, process development and manufacturing services
Luye Biotech Pte. Ltd.	Singapore 6 November 2009	SG$26,100,000	—	100	Research and development of oncological, cardiovascular and other tropical diseases
Luye Pharma (Malaysia) Sdn. Bhd.	Malaysia 15 September 2010	MYR100,000	—	100	Distribution and sale of pharmaceutical products

1. Corporate and group information (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Luye Pharma Europe AG (formerly known as Luye Pharma Switzerland AG) ("LPEU")	Switzerland 11 July 2016	CHF100,000	—	100	Investment holding
Luye Pharma (Germany) GmbH	Germany 17 July 2016	EUR25,000	—	100	Investment holding
Luye Pharma Switzerland AG (formerly known as Luye Supply AG) ("LPCH")	Switzerland 23 January 2006	CHF100,000	—	100	Manufacture and sale of pharmaceutical products
Luye Pharma AG ("LPAG")	Germany 17 April 1997	EUR209,865	—	100	Distribution and sale of pharmaceutical products
Luye Pharma Ltd.	United Kingdom ("UK") 13 September 2018	GBP1	—	100	Investment holding
Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye")[(i)]	People's Republic of China ("PRC")/ Mainland China 8 June 1994	RMB1,171,800,000	—	100	Manufacture and sale of pharmaceutical products
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading")[(i)]	PRC/ Mainland China 27 March 1997	RMB900,000,000	—	100	Distribution and sale of pharmaceutical products
Shandong Langhe Biotechnology Ltd.[(i)]	PRC/Mainland China 11 March 2010	RMB10,000,000	—	100	Research and development

1. Corporate and group information (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shandong Luye Natural Drug Research and Development Co., Ltd[(i)]	PRC/Mainland China 31 December 2002	RMB5,000,000	—	100	Research and development of Chinese and Western medicines and provision of related services
Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye")[(i)]	PRC/Mainland China 22 February 2004	RMB220,000,000	—	100	Manufacture and sale of pharmaceutical products
Beijing WBL Peking University Biotech Co., Ltd. ("WPU")[(i)]	PRC/Mainland China 1 September 1994	RMB80,000,000	—	69.55	Manufacture and sale of pharmaceutical products
Nanjing New AIGE Eggs Co., Ltd. ("Nanjing AIGE")[(i)]	PRC/Mainland China 25 June 2010	RMB300,000	—	100	Manufacture and sale of eggs and technology development
Nanjing Kanghai Phospholipid Biological Technology Co., Ltd.[(i)]	PRC/Mainland China 13 September 2010	RMB1,500,000	—	100	Manufacture and sale of pharmaceutical products
Shanghai Ge Lin Li Fu Consulting Co., Ltd.[(i)]	PRC/Mainland China 28 June 2010	RMB1,000,000	—	100	Provision of business and investment consultation services
Sichuan Luye Pharmaceutical Co., Ltd. ("Sichuan Luye")[(i)]	PRC/Mainland China 21 December 2000	RMB36,000,000	—	100	Manufacture and sale of pharmaceutical products

1. Corporate and group information (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Chengdu Bomai Technology Co., Ltd.(i)	PRC/Mainland China 1 December 2004	RMB500,000	—	100	Research and development
Yantai Luye Pharma Holdings Co., Ltd.(ii)	PRC/Mainland China 15 May 2014	US$300,260,000	—	100	Investment holding
Yantai Lujian Drugs Retail Co., Ltd.(i)	PRC/Mainland China 12 August 2015	RMB200,000	—	100	Retail of pharmaceutical products
Shaanxi Ge Lin Biological Technology Co., Ltd.(i)	PRC/Mainland China 26 September 2016	RMB3,800,000	—	100	Cultivation of herbs and sale of herbal medicine
Nanjing Luye Life Sciences and Technology Research Institute Co., Ltd (LSTR)(i)	PRC/Mainland China 17 October 2018	RMB10,000,000	—	55	Research and development
Nanjing Luye Worldwide Pharmaceutical Co., Ltd(i)	PRC/Mainland China 21 November 2019	RMB400,000,000	—	100	Manufacture and sale of pharmaceutical products
Chengdu Luye WBL Biopharmaceutical Co., Ltd.(i)	PRC/Mainland China 30 May 2019	RMB100,000,000	—	100	Manufacture and sale of biopharmaceutical products
Luye Pharma Australia Pty Ltd	Australia 26 November 2019	AUD2	—	100	Distribution and sale of pharmaceutical products

(i) These entities are limited liability enterprises established under PRC law.

(ii) The entity is a wholly-foreign-owned enterprise established under PRC law.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), 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 equity investments designated at fair value through other comprehensive income, financial assets at fair value through profit or loss and notes receivable, 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.

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 IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9, IAS 19, IAS 28, and *Annual Improvements to IFRSs 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 IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC 15 *Operating Leases — Incentives* and SIC 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 IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 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 IAS 17 and related interpretations.

New definition of a lease

Under IFRS 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 IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 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 IFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. 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 IFRS 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 IAS 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 IFRS 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 IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	250,645
Decrease in prepaid land lease payments	(217,048)
Decrease in prepayments, other receivables and other assets	(6,374)
Increase in total assets	27,223
Liabilities	
Increase in interest-bearing loans and borrowings	27,223
Increase in total liabilities	27,223

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	30,412
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(511)
	29,901
Weighted average incremental borrowing rate as at 1 January 2019	4.76%
Discounted operating lease commitments as at 1 January 2019	26,985
Add: Finance lease liabilities recognised as at 31 December 2018	238
Lease liabilities as at 1 January 2019	27,223

2.2 Changes in accounting policies and disclosures (Continued)

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 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 International Financial Reporting Standards

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

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

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 *Effective for annual periods beginning on or after 1 January 2022*
4 *No mandatory effective date yet determined but available for adoption*

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 and IAS 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.

Amendments to IAS 1 clarify the criteria for determining whether to classify a liability as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments clarify the situations that are considered settlement of a liability. The new guidance will be effective for annual periods starting on or after 1 January 2022. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2.4 Summary of significant accounting policies (Continued)

Investments in associates and joint ventures (Continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date through fair value and any resulting gain or loss is recognised in profit or loss.

2.4 Summary of significant accounting policies (Continued)

Business combination and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

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 and financial 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.

2.4 Summary of significant accounting policies (Continued)

Impairment of non-financial assets (Continued)

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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Foreign currencies

These financial statements are presented in RMB, which the Company adopted as the presentation currency of the Group because the Group's principal operations are carried out in Mainland China. The functional currency of the Company is the United States dollar ("US$") and certain subsidiaries incorporated outside Mainland China use the Singapore dollar ("SG$"), the Hong Kong dollar ("HK$"), Malaysian Ringgit ("MYR") and Euro ("EUR") as their functional currencies. The functional currency of the subsidiaries established in Mainland China is RMB. 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 determined. 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 the non-PRC established 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.

2.4 Summary of significant accounting policies (Continued)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entities. 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non-PRC established companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services 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 or services.

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.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(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 acceptance of the goods.

2.4 Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

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.

Dividend income is recognised when the shareholders' right to receive 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.

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 transfers 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).

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 countries in which the Group operates.

Deferred tax is provided, using the liability method, on 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:

- where the deferred tax liability arises from the initial recognition of goodwill or 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 and an associate, 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.

2.4 Summary of significant accounting policies (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward 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, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference 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 and an associate, 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.

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 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 the statement of 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.

2.4 Summary of significant accounting policies (Continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 39 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 Summary of significant accounting policies (Continued)

Other employee benefits

Pension schemes

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The Group make contributions to the Central Provident Fund (the "CPF") Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Defined benefit plan

The Group operates a defined benefit pension plan in Switzerland, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales", "selling and distribution expenses" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

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 IFRS 15 in accordance with the policies set out for "Revenue recognition" above.

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.

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.

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

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

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 IAS 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.

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 derivative instruments and 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.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

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

Financial assets at fair value through profit or loss (Continued)

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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 asset 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.

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).

2.4 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

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.

The Group considers a financial asset in default when contractual payments are 180 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.

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 financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, 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, accruals and interest-bearing loans and borrowings.

2.4 Summary of significant accounting policies (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and 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.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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)

Fair value measurement

The Group measures equity investments and wealth management products investments 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.

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.

2.4 Summary of significant accounting policies (Continued)

Property, plant and equipment and depreciation (Continued)

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	10–40 years
Machinery and equipment	5–15 years
Motor vehicles	5–10 years
Computer and office equipment	3–15 years
Leasehold improvements	2–5 years

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 comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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.

2.4 Summary of significant accounting policies (Continued)

Leases (applicable from 1 January 2019) (Continued)

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	22 to 60 years
Buildings	2 to 5 years
Motor vehicles	2 to 3 years
Plant and machinery	3 to 4 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.

(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 loans and borrowings.

2.4 Summary of significant accounting policies (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment and buildings (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.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 net of any incentives received from the lessor 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.

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.

2.4 Summary of significant accounting policies (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Trademarks	10 years
Patents and technology know-how	5–30 years
Software	2–10 years
Distribution right	30 years

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production. During the period of development, the deferred development costs are tested for impairment annually.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 first-in, first-out 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.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

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.

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, less bank overdrafts which are repayable on demand 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, and assets similar in nature to cash, 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)

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.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make significant 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.

3. Significant accounting judgements and estimates (Continued)

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 goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB1,038,068,000 (2018: RMB1,040,879,000). Further details are given in note 15 to the financial statements.

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 each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. 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.

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.

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 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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

3. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences 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 values of deferred tax assets relating to recognised tax losses and deductible temporary differences as at 31 December 2019 were nil (2018: RMB3,998,000) and RMB93,859,000 (2018: RMB94,357,000), respectively. Further details are contained in note 32 to the consolidated financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result, 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 corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

Useful lives of property, plant and equipment

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

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs as detailed in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the best estimate of the carrying amount of capitalised development costs was RMB394,818,000 (2018: RMB166,794,000).

4. Operating segment information

The Group manages its businesses by type of products. The Group's chief operating decision maker is the Chief Executive Officer, who reviews revenue from and results of the major type of products sold for the purpose of resource allocation and assessment of segment performance. Segment results are evaluated based on gross profit less selling expenses allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

Year ended 31 December 2019

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue *(note 5)*						
Sales to external customers	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Total revenue	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Segment results	1,555,140	322,294	417,774	476,756	72,124	2,844,088
Other income and gains						315,667
Administrative expenses						(525,921)
Other expenses						(588,788)
Finance costs						(274,605)
Share of profit of an associate						1,214
Profit before tax						1,771,655

4. Operating segment information (Continued)

Year ended 31 December 2018

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales to external customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Segment results	1,179,679	348,887	446,491	330,340	58,090	2,363,487
Other income and gains						220,699
Administrative expenses						(441,377)
Other expenses						(499,631)
Finance costs						(170,605)
Share of profit of an associate						897
Profit before tax						1,473,470

4. Operating segment information (Continued)

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	**5,320,669**	4,378,669
Asia (other than Mainland China)	**396,685**	104,000
European Union	**276,636**	434,594
Other countries	**363,606**	256,122
Total	**6,357,596**	5,173,385

The revenue information above is based on the locations of the customers. No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2019 and 2018.

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	**4,563,050**	3,291,992
Hong Kong	**3,586,459**	3,658,821
European Union	**1,559,844**	1,717,316
Other countries	**85,363**	19,387
Total	**9,794,716**	8,687,516

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

5. Revenue, other income and gains

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**6,357,596**	5,173,385

5. Revenue, other income and gains (Continued)

Revenue from contracts with customers

(i) Disaggregated revenue information
For the year ended 31 December 2019

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Type of goods or services						
Sale of products	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Total revenue from contracts with customers	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Geographical markets						
Mainland China	2,811,518	1,033,513	998,156	336,913	140,569	5,320,669
Asia (other than Mainland China)	—	9,712	6,429	379,566	978	396,685
European Union	—	—	—	276,636	—	276,636
Other countries	—	—	—	346,010	17,596	363,606
Total revenue from contracts with customers	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Timing of revenue recognition						
Goods transferred at a point in time	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596
Total revenue from contracts with customers	2,811,518	1,043,225	1,004,585	1,339,125	159,143	6,357,596

5. Revenue, other income and gains (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2018

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Type of goods or services						
Sale of products	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Geographical markets						
Mainland China	2,391,326	773,473	924,376	163,465	126,029	4,378,669
Asia (other than Mainland China)	—	13,601	6,115	83,242	1,042	104,000
European Union	—	—	—	419,058	15,536	434,594
Other countries	—	—	—	256,122	—	256,122
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Timing of revenue recognition						
Goods transferred at a point in time	2,391,326	787,074	930,491	921,887	142,607	5,173,385
Total revenue from contracts with customers	2,391,326	787,074	930,491	921,887	142,607	5,173,385

5. Revenue, other income and gains (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**47,783**	42,399

(ii) Performance obligation

Information about the Group's performance obligation is summarised below:

Sale of products

The performance obligation is satisfied upon acceptance of the goods and payment is generally due within one month to three months, extending up to six months for major customers.

	2019 RMB'000	2018 RMB'000
Other income and gains		
Bank interest income	**95,941**	49,353
Government grants	**121,041**	85,862
Investment income from financial assets at fair value through profit or loss	**46,044**	39,154
Changes in fair value of financial assets at fair value through profit or loss	**9,402**	22,712
Foreign exchange gain, net	**21,095**	—
Other interest income from debt investments at fair value through other comprehensive income	**—**	13,334
Investment income from entrusted loans	**—**	1,092
Gain on disposal of items of property, plant and equipment	**9,777**	—
Others	**12,367**	9,192
	315,667	220,699

6. Profit before tax

The Group's profit before tax is arrived at after charging:

	Notes	2019 RMB'000	2018 RMB'000
Depreciation of items of property, plant and equipment	*13*	**213,283**	166,289
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	*14(a), 14(b)*	**23,397**	6,282
Amortisation of other intangible assets*	*16*	**205,351**	144,614
Write-down of inventories to net realisable value**		**3,929**	3,104
Impairment of trade receivables, net	*20*	**589**	3,546
Lease payments not included in the measurement of lease liabilities	*14(d)*	**12,896**	—
Operating lease expenses		**—**	24,926
Auditor's remuneration		**8,738**	8,058
Employee benefit expenses (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**586,493**	515,864
Pension scheme contributions		**109,435**	87,970
Pension plan costs (defined benefit plan)		**1,972**	1,665
Central Provident Fund in Singapore		**2,007**	1,183
Staff welfare expenses		**77,923**	38,885
Equity-settled share award expense	*39*	**64,677**	31,339
		842,507	676,906
Other expenses:			
Research and development costs		**579,455**	491,160
Donation		**8,876**	4,433
Loss on disposal of items of property, plant and equipment		**—**	1,657
Foreign exchange loss, net		**—**	998
Others		**457**	1,383
		588,788	499,631

6. Profit before tax (Continued)

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

	2019 RMB'000	2018 RMB'000
Cost of inventories sold	**1,478,684**	1,123,971
The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:		
Depreciation of items of property, plant and equipment	**175,514**	124,681
Amortisation of other intangible assets*	**201,124**	140,902
Depreciation of right-of-use assets	**6,133**	—
Staff costs	**267,461**	252,864

* *The amortisation of trademarks, distribution right, patents and technology know-how are included in "Cost of sales" in the consolidated statement of profit or loss.*

The amortisation of software is included in "Administrative expenses" in the consolidated statement of profit or loss.

** *The write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss.*

7. Finance costs

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank and other loans (including convertible bonds)	**241,793**	149,948
Amortised interest on discounted long-term payables *(note 29)*	**20,781**	10,553
Interest on discounted notes receivable	**10,218**	10,072
Interest on lease liabilities	**1,813**	—
Finance charges payable under a hire purchase contract	**—**	32
	274,605	170,605

8. Directors' and chief executive's remuneration

Directors' and chief executive's 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	**1,373**	1,316
Other emoluments:		
Salaries, allowances and benefits in kind	**6,472**	6,311
Performance related bonuses	**1,804**	1,015
Equity-settled share award expense	**1,108**	1,366
Pension scheme contributions	**220**	224
	9,604	8,916
	10,977	10,232

During the year and in prior years, certain directors were granted shares, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 39 to the financial statements. The fair value of the shares granted, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

Independent non-executive directors

	Fees RMB'000	**Equity-settled share award expense** RMB'000	**Total** RMB'000
2019			
Leung Man Kit	**317**	**168**	**485**
Choy Sze Chung Jojo	**264**	**168**	**432**
Lo Yuk Lam	**264**	**168**	**432**
Zhang Hua Qiao	**264**	**168**	**432**
	1,109	**672**	**1,781**
2018			
Leung Man Kit	304	240	544
Choy Sze Chung Jojo	253	240	493
Lo Yuk Lam	253	240	493
Zhang Hua Qiao	253	240	493
	1,063	960	2,023

8. Directors' and chief executive's remuneration (Continued)

Executive directors, a non-executive director and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Equity-settled share award expense RMB'000	Total remuneration RMB'000
2019						
Executive directors:						
Liu Dian Bo	—	2,895	800	64	—	3,759
Yang Rong Bing	—	2,042	605	64	—	2,711
Yuan Hui Xian	—	1,045	300	—	—	1,345
Zhu Yuan Yuan	—	490	99	92	—	681
	—	6,472	1,804	220	—	8,496
Non-executive director:						
Song Rui Lin	264	—	—	—	436	700
	264	6,472	1,804	220	436	9,196
2018						
Executive directors:						
Liu Dian Bo	—	3,421	420	69	—	3,910
Yang Rong Bing	—	1,502	420	69	—	1,991
Yuan Hui Xian	—	957	108	—	—	1,065
Zhu Yuan Yuan	—	431	67	86	—	584
	—	6,311	1,015	224	—	7,550
Non-executive director:						
Song Rui Lin	253	—	—	—	406	659
	253	6,311	1,015	224	406	8,209

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

Liu Dian Bo is the chief executive officer and an executive director of the Group.

The directors did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2018: Nil).

9. Five highest paid employees

The five highest paid employees of the Group during the year included 3 directors (2018: 3 directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 2 (2018: 2) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**3,883**	3,393
Performance related bonuses	**711**	560
Equity-settled share award expense	**3,027**	1,560
Pension scheme contributions	**81**	69
	7,702	5,582

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**1**	–
	2	2

During the year and in prior years, shares were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 39 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

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.

Pursuant to the rules and regulations of Bermuda, the British Virgin Islands and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the rules and regulations of Singapore, Malaysia, Switzerland and Germany, the Group is subject to 17%, 25%, 10.5% and 29.125% of taxable income in Singapore, Malaysia, Switzerland and Germany, respectively.

Pursuant to the rules and regulations of the USA, the Group is subject to Federal statutory tax at the rate of 21% (2018: 21%) of taxable income. No provision for income tax has been made as the Group did not generate any taxable income in the USA (2018: Nil) during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Shandong Luye, Nanjing Luye, WPU and Sichuan Luye are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% (2018: 15%) during the year.

Nanjing AIGE is exempted from income tax as it is involved in the production and trading of agricultural products.

	2019 **RMB'000**	2018 RMB'000
Current tax:		
Charge for the year	**287,821**	182,914
Overprovision in prior years	**(1,548)**	(4,997)
Deferred tax *(note 32)*	**(6,444)**	(10,442)
Total tax charge for the year	**279,829**	167,475

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	**1,771,655**	1,473,470
At the PRC's statutory income tax rate of 25%	**442,914**	368,368
Effect of tax rate differences in other jurisdictions	**44,220**	21,851
Preferential income tax rates applicable to subsidiaries	**(185,574)**	(137,005)
Additional deductible allowance for research and development expenses	**(63,310)**	(49,909)
Effect of tax levied on a deemed income basis	**163**	35
Adjustments in respect of current tax of previous years	**(1,548)**	(4,997)
Effect of non-deductible expenses	**36,237**	9,364
Income not subject to tax	**(6,061)**	(50,238)
Tax losses utilised from previous years	**(3,684)**	(8,156)
Tax losses not recognised	**16,076**	17,972
Effect of withholding tax at 10% on the interest expense of the Group's PRC subsidiaries to be paid	**396**	190
Tax charge at the Group's effective rate	**279,829**	167,475

The effective tax rate of the Group for the year was 15.8% (2018: 11.4%).

11. Dividends

	2019 RMB'000	2018 RMB'000
Interim — RMB0.059 (2018: RMB0.043) per ordinary share	**191,654**	140,720
Proposed final — RMB0.054 (2018: RMB0.057) per ordinary share	**175,487**	185,124
	367,141	325,844

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 3,203,472,322 (2018: 3,208,346,677) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**1,468,562**	1,303,373
Interest on convertible bonds	**60,674**	—
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**1,529,236**	1,303,373

	Number of shares	
	2019	2018
Shares		
Weighted average number of shares in issue during the year	**3,203,472,322**	3,208,346,677
Effect of dilution — weighted average number of ordinary shares:		
Share award scheme	**17,984,051**	13,516,328
Convertible bonds	**139,871,185**	—
	3,361,327,558	3,221,863,005

13. Property, plant and equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019:							
Cost	1,128,396	1,583,379	22,244	116,110	21,555	854,165	3,725,849
Accumulated depreciation and impairment	(217,847)	(584,147)	(11,726)	(65,373)	(9,616)	–	(888,709)
Net carrying amount	910,549	999,232	10,518	50,737	11,939	854,165	2,837,140
At 1 January 2019, net of accumulated depreciation and impairment	910,549	999,232	10,518	50,737	11,939	854,165	2,837,140
Additions	11,196	279,089	435	24,347	1,735	301,819	618,621
Disposals	(59,749)	(17,732)	–	(1,349)	–	–	(78,830)
Depreciation provided during the year	(39,619)	(154,649)	(2,181)	(15,097)	(1,737)	–	(213,283)
Transfers	150,578	347,127	–	3,802	2,499	(504,006)	–
Exchange realignment	(664)	(798)	(2)	(46)	(1)	–	(1,511)
At 31 December 2019, net of accumulated depreciation and impairment	972,291	1,452,269	8,770	62,394	14,435	651,978	3,162,137
At 31 December 2019:							
Cost	1,229,627	2,176,805	22,277	140,501	23,854	651,978	4,245,042
Accumulated depreciation and impairment	(257,336)	(724,536)	(13,507)	(78,107)	(9,419)	–	(1,082,905)
Net carrying amount	972,291	1,452,269	8,770	62,394	14,435	651,978	3,162,137

13. Property, plant and equipment (Continued)

	Land and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	999,235	1,171,730	21,594	105,411	13,714	433,358	2,745,042
Accumulated depreciation and impairment	(180,594)	(478,000)	(10,272)	(58,668)	(7,538)	—	(735,072)
Net carrying amount	818,641	693,730	11,322	46,743	6,176	433,358	2,009,970
At 1 January 2018, net of accumulated depreciation and impairment	818,641	693,730	11,322	46,743	6,176	433,358	2,009,970
Additions	8,916	201,241	1,834	9,313	8,048	766,784	996,136
Disposals	(1,100)	(2,767)	(319)	(73)	(123)	—	(4,382)
Depreciation provided during the year	(38,463)	(111,363)	(2,322)	(11,700)	(2,441)	—	(166,289)
Transfers	121,702	220,763	—	3,272	240	(345,977)	—
Exchange realignment	853	(2,372)	3	3,182	39	—	1,705
At 31 December 2018, net of accumulated depreciation and impairment	910,549	999,232	10,518	50,737	11,939	854,165	2,837,140
At 31 December 2018:							
Cost	1,128,396	1,583,379	22,244	116,110	21,555	854,165	3,725,849
Accumulated depreciation and impairment	(217,847)	(584,147)	(11,726)	(65,373)	(9,616)	—	(888,709)
Net carrying amount	910,549	999,232	10,518	50,737	11,939	854,165	2,837,140

As at 31 December 2019, the Group was applying for certificates of ownership for certain properties with a net book value of RMB1,571,000 (2018: RMB1,612,000). The directors of the Company are of the opinion that the use of the properties and the conduct of operating activities at those properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

At 31 December 2019, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB582,211,000 (2018: Nil) were pledged to secure bank loans of RMB400,000,000 (note 26).

14. Leases

The Group has lease contracts for various items of buildings, plant and machinery and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 22 to 60 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery generally have lease terms between 3 and 4 years, while motor vehicles generally have lease terms between 2 and 3 years. Other equipment generally has lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

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

	RMB'000
Carrying amount at 1 January 2018	229,704
Recognised in profit or loss during the year	(6,282)
Carrying amount at 31 December 2018	223,422
Current portion included in prepayments, other receivables and other assets	(6,374)
Non-current portion	217,048

(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:

	Prepaid land lease payments RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Total RMB'000
As at 1 January 2019	223,422	27,223	—	—	250,645
Additions	10,880	15,917	194	2,467	29,458
Depreciation charge	(6,282)	(16,528)	(120)	(467)	(23,397)
Exchange realignment	—	(497)	(1)	—	(498)
As at 31 December 2019	228,020	26,115	73	2,000	256,208

14. Leases (Continued)

(c) Lease liabilities

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

	2019 Lease liabilities RMB'000	2018 Finance lease payables RMB'000
Carrying amount at 1 January	27,223	378
New leases	18,463	—
Accretion of interest recognised during the year	1,813	31
Payments	(18,589)	(171)
Exchange realignment	47	—
Carrying amount at 31 December	28,957	238
Analysed into:		
Current portion	16,627	150
Non-current portion	12,330	88

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 44 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	1,813
Depreciation charge of right-of-use assets	23,397
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, selling and distribution expenses and administrative expenses)	12,896
Total amount recognised in profit or loss	38,106

(e) The total cash outflow for leases is disclosed in note 41(c) to the financial statements.

15. Goodwill

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	**1,040,879**	1,036,902
Exchange realignment	**(2,811)**	3,977
Carrying amount at 31 December	**1,038,068**	1,040,879

There was no impairment charge made against goodwill for the year (2018: Nil).

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to seven individual cash-generating units for impairment testing as follows:

(a) CMNa cash-generating unit ("CMNa unit"), which relates to CMNa, one of the Group's key products;

(b) Pharmaceutical products other than the CMNa cash-generating unit ("Other products unit"), which relates to Maitongna and Lutingnuo, of which Maitongna is one of the Group's key products;

(c) Solid Success Group cash-generating unit ("SSL unit"), which relates to Lipusu and Tiandixin, of which Lipusu is one of the Group's key products;

(d) Luye Pharma (Singapore) Pte. Ltd. ("LPPL") cash-generating unit ("LPPL unit"), which relates to HypoCol;

(e) WPU cash-generating unit ("WPU unit"), which relates to Xuezhikang, one of the Group's key products;

(f) Sichuan Luye cash-generating unit ("SL unit"), which relates to Bei Xi, one of the Group's key products; and

(g) Europe cash-generating unit ("EU unit"), which relates to products of advanced transdermal drug delivery systems, one of the key products of the Group.

15. Goodwill (Continued)

Impairment testing of goodwill (Continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2019 RMB'000	2018 RMB'000
CMNa unit	**38,444**	38,444
Other products unit	**5,954**	5,954
SSL unit	**114,185**	114,185
LPPL unit	**7,353**	7,353
WPU unit	**22,276**	22,276
SL unit	**159,144**	159,144
EU unit	**690,712**	693,523
	1,038,068	1,040,879

The recoverable amounts of the cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period for the EU unit and other units. The pre-tax discount rates applied to cash flow projections were 11.7% (2018: 11.0%) for the EU unit and 15% (2018: 15%) for other units. The growth rates used to extrapolate the cash flows of the EU unit and other units beyond the five-year period were 2.0% (2018: 1.5%) and 3% (2018: 3%), respectively.

Key assumptions used in the value in use calculation

The calculation of value in use is based on assumptions of the following:

- Gross margins and operating expenses
- Discount rates
- Growth rates

Gross margins and operating expenses — Gross margins are based on the average gross margins achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect past experience and management's commitment to maintain them at an acceptable level.

Discount rates — the rates reflect management's estimate of the risks specific to each of the units.

Growth rates — the rates are based on published industry research.

The values assigned to the key assumptions on gross margins and operating expenses, discount rates and growth rates are consistent with management's past experience and external information sources.

16. Other intangible assets

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Deferred development costs RMB'000	Distribution right RMB'000	Total RMB'000
31 December 2019						
At 1 January 2019:						
Cost	41,971	1,955,578	45,034	166,794	2,827,813	5,037,190
Accumulated amortisation	(31,838)	(490,482)	(22,677)	—	(47,130)	(592,127)
Net carrying amount	10,133	1,465,096	22,357	166,794	2,780,683	4,445,063
Cost at 1 January 2019, net of accumulated amortisation	10,133	1,465,096	22,357	166,794	2,780,683	4,445,063
Additions	—	—	3,787	228,701	—	232,488
Amortisation provided during the year	(3,114)	(103,437)	(4,227)	—	(94,573)	(205,351)
Write-off	—	(33,808)	—	—	—	(33,808)
Exchange realignment	—	9,605	(33)	(677)	39,579	48,474
At 31 December 2019	7,019	1,337,456	21,884	394,818	2,725,689	4,486,866
At 31 December 2019:						
Cost	35,348	1,973,774	48,743	394,818	2,869,146	5,321,829
Accumulated amortisation	(28,329)	(636,318)	(26,859)	—	(143,457)	(834,963)
Net carrying amount	7,019	1,337,456	21,884	394,818	2,725,689	4,486,866

16. Other intangible assets (Continued)

	Trademarks RMB'000	Patents and Technology know-how RMB'000	Software RMB'000	Deferred development costs RMB'000	Distribution right RMB'000	Total RMB'000
31 December 2018						
At 1 January 2018:						
Cost	41,971	1,062,020	42,662	134,859	—	1,281,512
Accumulated amortisation	(28,724)	(402,324)	(21,762)	—	—	(452,810)
Net carrying amount	13,247	659,696	20,900	134,859	—	828,702
Cost at 1 January 2018, net of accumulated amortisation	13,247	659,696	20,900	134,859	—	828,702
Additions	—	859,259	5,225	31,156	2,720,988	3,616,628
Amortisation provided during the year	(3,114)	(91,152)	(3,712)	—	(46,636)	(144,614)
Exchange realignment	—	37,293	(56)	779	106,331	144,347
At 31 December 2018	10,133	1,465,096	22,357	166,794	2,780,683	4,445,063
At 31 December 2018:						
Cost	41,971	1,955,578	45,034	166,794	2,827,813	5,037,190
Accumulated amortisation	(31,838)	(490,482)	(22,677)	—	(47,130)	(592,127)
Net carrying amount	10,133	1,465,096	22,357	166,794	2,780,683	4,445,063

17. Investment in an associate

	2019 RMB'000	2018 RMB'000
At 1 January	**5,935**	6,243
Share of profit	**1,276**	904
Dividend received	**(911)**	(1,235)
Foreign currency translation differences	**46**	23
At 31 December	**6,346**	5,935

The Group's trade receivable balance with the associate is disclosed in note 38 to the consolidated financial statements.

Particulars of the associate are as follows:

Company	Place of incorporation and business	Nominal value of issued/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Steward Cross Pte. Ltd. ("Steward Cross")	Singapore	SG$620,002	36	Distribution and sale of pharmaceutical drugs

The Group's shareholdings in this associate comprise completely equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associate that is not material:

	2019 RMB'000	2018 RMB'000
Share of the associate's profit for the year	**1,214**	897
Share of the associate's total comprehensive income	**1,214**	897
Carrying amount of the Group's investment in the associate	**6,346**	5,935

As at 31 December 2019, the unrealised profit from the related party transaction between Steward Cross and LPPL was RMB1,972,000 (2018: RMB2,144,000).

18. Equity investments designated at fair value through other comprehensive income

	2019 RMB'000	2018 RMB'000
Listed equity investments, at fair value	2,714	2,200
Unlisted equity investments, at fair value	61,543	74,168
	64,257	76,368

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

The fair value of the listed equity investments is derived from quoted price in an active market.

The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

19. Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	238,587	211,299
Work in progress	126,270	124,314
Finished goods	249,765	249,996
	614,622	585,609

20. Trade and notes receivables

	2019 RMB'000	2018 RMB'000
Trade receivables	**1,215,596**	1,143,778
Notes receivable	**487,053**	391,999
	1,702,649	1,535,777
Less: Impairment of trade receivables	**(4,718)**	(4,495)
	1,697,931	1,531,282

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. 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. Trade receivables are non-interest-bearing.

As at 31 December 2019, notes receivable of RMB487,053,000 (2018: RMB391,999,000), whose fair values approximate to their carrying values, were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2019.

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**1,141,426**	824,520
3 to 6 months	**61,836**	277,068
6 to 12 months	**8,213**	32,564
1 to 2 years	**3,136**	8,077
Over 2 years	**985**	1,549
	1,215,596	1,143,778

20. Trade and notes receivables (Continued)

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

	Individually impaired RMB'000	Collectively impaired RMB'000	Total RMB'000
At 1 January 2019	**263**	**4,232**	**4,495**
Impairment losses, net *(note 6)*	**66**	**523**	**589**
Write-off	**(329)**	**—**	**(329)**
Exchange realignment	**—**	**(37)**	**(37)**
At 31 December 2019	**—**	**4,718**	**4,718**
At 1 January 2018	263	697	960
Impairment losses, net *(note 6)*	36	3,510	3,546
Write-off	(36)	—	(36)
Exchange realignment	—	25	25
At 31 December 2018	263	4,232	4,495

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due and are not subject to enforcement activity.

20. Trade and notes 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

	Current	Past due Less than 3 months	Past due 4 to 6 months	Past due Over 6 months	Total
Expected credit loss rate	**0.29%**	**0.02%**	**0.00%**	**22.81%**	**0.39%**
Gross carrying amount (RMB'000)	**1,083,106**	**121,514**	**4,212**	**6,764**	**1,215,596**
Expected credit losses (RMB'000)	**3,153**	**22**	**—**	**1,543**	**4,718**

As at 31 December 2018

	Current	Past due Less than 3 months	Past due 4 to 6 months	Past due Over 6 months	Total
Expected credit loss rate	0.26%	0.00%	0.00%	10.73%	0.39%
Gross carrying amount (RMB'000)	936,762	153,568	33,839	19,609	1,143,778
Expected credit losses (RMB'000)	2,390	—	—	2,105	4,495

As at 31 December 2019, the Group has pledged notes receivable of RMB50,000,000 (2018: RMB127,372,000) to secure intra-group notes receivable of RMB50,000,000 (2018: RMB127,180,000).

As at 31 December 2019, the Group has pledged notes receivable of RMB13,567,000 (2018: RMB45,341,000) to secure notes payable of RMB13,567,000 (2018: RMB45,273,000) (note 24).

As at 31 December 2019, the Group has pledged notes receivable and intra-group notes receivable of nil (2018: RMB2,126,000) and RMB170,000,000 (2018: RMB275,000,000), respectively, to secure bank loans of US$15,000,000 and US$40,000,000 (2018: EUR15,000,000 and EUR30,000,000) (note 26).

20. Trade and notes receivables (Continued)

The notes receivable are due within twelve months. Notes receivable and intra-group notes receivable of nil (2018: RMB7,722,000) and RMB380,000,000 (2018: RMB495,000,000), respectively, were discounted as at 31 December 2019.

At 31 December 2019, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB327,597,000 (2018: RMB223,041,000) (the "Endorsement"). The Endorsed Notes have a maturity from one to twelve months as at 31 December 2019. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed 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 risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with an amount of RMB259,134,000 (2018: RMB188,867,000) (the "Derecognised Notes"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade and other 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.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade and other payables settled with an amount of RMB68,463,000 as at 31 December 2019 (2018: RMB34,174,000) because the directors of the Company believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

During the year ended 31 December 2019, 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 period and cumulatively. The Endorsement has been made evenly throughout the year.

21. Prepayments, other receivables and other assets

	2019 RMB'000	2018 RMB'000
Other receivables	**127,080**	101,962
Prepaid income tax	**46**	34,689
Prepaid other tax	**30,566**	21,919
Prepayments	**99,410**	99,332
	257,102	257,902
Impairment allowance	**(3,000)**	(3,000)
	254,102	254,902

21. Prepayments, other receivables and other assets (Continued)

The financial assets included in the above balances are non-interest-bearing, unsecured and repayable on demand.

As at 31 December 2019 and 2018, except for a historical credit impairment allowance of RMB3,000,000, the financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts, and the loss allowance was assessed to be minimal.

22. Financial assets at fair value through profit or loss

	2019 RMB'000	2018 RMB'000
Current		
Listed equity investments, at fair value	75,542	40,493
Other unlisted investments, at fair value	1,786,097	1,842,346
	1,861,639	1,882,839
Non-current		
Unlisted equity investment, at fair value	1,263	1,263

The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

The above other unlisted investments were wealth management products issued by licensed financial institutions in Mainland China with a maturity period within one year. The fair values of the financial assets approximate to their costs plus expected interest. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The fair value of the listed equity investments is derived from quoted price in an active market.

The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

As at 31 December 2019, other unlisted investments of RMB1,221,580,000 (2018: RMB1,335,000,000) were pledged to secure intra-group notes payable.

As at 31 December 2019, other unlisted investments of RMB88,320,000 (2018: RMB25,000,000) were pledged to secure notes payable (note 24).

23. Cash and cash equivalents, pledged time deposits and restricted cash

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**1,950,446**	1,752,983
Time deposits	**2,991,009**	2,636,532
	4,941,455	4,389,515
Less:		
Pledged time deposits for letters of credit	**(1,839)**	(11,342)
Pledged time deposits for bank loans	**(941,170)**	(841,073)
Current pledged time deposits for notes payable	**(622,000)**	(557,367)
Non-current pledged time deposits for notes payable	**(50,000)**	—
Non-pledged time deposits with original maturity of over three months when acquired	**(1,001,000)**	(1,306,868)
Cash and cash equivalents	**2,325,446**	1,672,865
Denominated in RMB	**2,158,371**	1,359,894
Denominated in US$	**108,878**	145,301
Denominated in EUR	**42,695**	126,632
Denominated in other currencies	**15,502**	41,038
Cash and cash equivalents	**2,325,446**	1,672,865

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. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

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

As at 31 December 2019, restricted cash of RMB28,548,000 (2018: RMB20,341,000) represented an account balance held at Bank of Communications Trustee Limited. The account was opened for the share award scheme of the Company, of which the balance cannot be withdrawn during the valid and effective term of the share award scheme. Restricted cash of RMB8,095,000 (2018: RMB8,004,000) represented an account balance held at China Minsheng Banking Corporation Limited. The account was opened for a bank loan of LPEU, which shall only be used for the payment of the interest, fees and principal of the loan. The borrower shall not utilise any amounts in the account without consent from the lender. The restricted cash balance is not available to finance the Group's day-to-day operations, and, therefore has been excluded from cash and cash equivalents for the purposes of the statement of cash flows.

23. Cash and cash equivalents, pledged time deposits and restricted cash (Continued)

As at 31 December 2019, time deposits of RMB941,170,000 (2018: RMB841,073,000) have been pledged to secure bank loans (note 26).

As at 31 December 2019, time deposits of RMB672,000,000 (2018: RMB551,700,000) have been pledged to secure intra-group notes payable (note 24).

24. Trade and notes payables

	2019 RMB'000	2018 RMB'000
Trade payables	196,590	201,151
Notes payable	101,887	78,599
	298,477	279,750

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

	2019 RMB'000	2018 RMB'000
Within 3 months	282,413	263,980
3 to 6 months	9,470	10,786
6 to 12 months	3,510	2,779
1 to 2 years	1,512	1,156
Over 2 years	1,572	1,049
	298,477	279,750

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

The maturity of the notes payable is within twelve months.

As at 31 December 2019, the Group's notes payable were secured by certain of the Group's notes receivable with a carrying amount of RMB13,567,000 (2018: RMB45,341,000) (note 20) and other unlisted investments with a carrying amount of RMB88,320,000 (2018: RMB25,000,000) (note 22).

As at 31 December 2019, the Group's intra-group notes payable were secured by certain of the Group's time deposits of RMB672,000,000 (2018: RMB551,700,000) (note 23).

25. Other payables and accruals

	Notes	2019 RMB'000	2018 RMB'000
Other payables	*(a)*	**153,063**	75,764
Accrued liabilities		**154,552**	183,972
Accrued payroll		**125,281**	99,705
Contract liabilities	*(b)*	**49,408**	47,783
Taxes payable other than corporate income tax		**56,428**	95,078
Payables for purchases of property, plant and equipment and other intangible assets		**276,067**	330,338
Current portion of long-term payables *(note 29)*		**263,354**	1,629,143
		1,078,153	2,461,783

Notes:

(a) *Other payables are non-interest-bearing.*

(b) *Details of contract liabilities are as follows:*

	31 December 2019 RMB'000	*31 December 2018 RMB'000*	*1 January 2018 RMB'000*
Short-term advances received from customers			
Sale of products	***49,408***	*47,783*	*42,399*
Total contract liabilities	***49,408***	*47,783*	*42,399*

Contract liabilities include short-term advances received to deliver products. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to the sale of products at the end of the year.

26. Interest-bearing loans and borrowings

31 December 2019

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB30,000,000 bank loan	LPR+0.04	4 March 2020	30,000
RMB20,000,000 bank loan	LPR+0.04	4 March 2020	20,000
RMB70,000,000 bank loan	LPR–0.235	27 November 2020	70,000
RMB200,000,000 bank loan	LPR+0.04	24 April 2020	200,000
RMB150,000,000 bank loan	LPR+0.04	17 April 2020	150,000
RMB76,150,000 bank loan	4.00	23 March 2020	76,150
RMB50,000,000 bank loan	4.30	18 February 2020	50,000
RMB80,000,000 bank loan	4.30	20 February 2020	80,000
RMB80,000,000 bank loan	4.35	14 January 2020	80,000
RMB70,000,000 bank loan	4.35	17 January 2020	70,000
RMB100,000,000 bank loan	4.20	22 January 2020	100,000
RMB65,000,000 bank loan	4.25	14 April 2020	65,000
RMB94,000,000 bank loan	4.35	25 April 2020	94,000
RMB100,000,000 bank loan	4.20	22 January 2020	100,000
HK$117,800,000 bank loan	1-month HIBOR+1.50	17 January 2020	105,523
HK$175,000,000 bank loan	1-month HIBOR+1.10	8 May 2020	156,309
US$15,000,000 bank loan	3-month LIBOR+0.80	24 April 2020	104,643
US$40,000,000 bank loan	3-month LIBOR+0.85	24 June 2020	279,048
EUR21,000,000 bank loan	3-month EURIBOR+0.70	6 March 2020	164,126
EUR21,000,000 bank loan	3-month EURIBOR+0.70	24 April 2020	164,126
EUR12,000,000 bank loan	EURIBOR+1.40	12 April 2020	93,786
EUR9,500,000 bank loan	EURIBOR+1.40	15 April 2020	74,247
EUR22,000,000 bank loan	0.80	27 March 2020	171,941
EUR107,131,215 bank loan	3-month EURIBOR+1.70	On demand	837,284
Current portion of long term bank loans — secured			
RMB2,000,000 bank loan	4.90	21 December 2020	2,000
US$1,750,200 bank loan	3-month LIBOR+2.85	30 June 2020	12,210
US$13,800,000 bank loan	3-month LIBOR+2.85	30 June 2020	96,272
US$14,373,600 bank loan	3-month LIBOR+2.85	30 June 2020	100,273
Discounted notes receivable	3.65	16 January 2020	100,000
	3.30	14 January 2020	50,000
	3.45	27 February 2020	60,000
	3.32	20 March 2020	100,000
	3.40	3 April 2020	70,000
Lease liabilities *(note 14(c))*	4.45	31 December 2020	16,627
			3,943,565

26. Interest-bearing loans and borrowings (Continued)

31 December 2019 (Continued)

	Effective interest rate (%)	Maturity	RMB'000
Non-current			
Bank loans — secured			
RMB148,000,000 bank loan	4.90	21 June 2020 – 6 June 2025	148,000
RMB250,000,000 bank loan	4.90	15 April 2022 – 30 September 2026	250,000
US$15,751,800 bank loan	3-month LIBOR+2.85	30 June 2021 – 30 June 2025	109,888
US$124,200,000 bank loan	3-month LIBOR+2.85	30 June 2021 – 30 June 2025	866,444
US$129,362,400 bank loan	3-month LIBOR+2.85	30 June 2021 – 30 June 2025	902,458
Lease liabilities *(note 14(c))*	4.45	1 January 2021 – 30 August 2023	12,330
			2,289,120
Total interest-bearing loans and borrowings			6,232,685
Convertible bonds *(note 27)*	7.29	2019–2024	1,833,173
			8,065,858

Some of the Group's loan agreements are subject to covenants. As at 31 December 2019, one of the Group's loans did not meet certain covenants, and the bank was contractually entitled to request for immediate repayment of all or part of the outstanding loan amount of EUR107,131,215. Subsequently, the bank and the Group have reached an agreement. As of the date on which these financial statements were approved by the directors, the Group has obtained a waiver from the bank confirming no early repayment of the loan at this stage.

26. Interest-bearing loans and borrowings (Continued)

1 January 2019

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB400,000,000 bank loan	4.35	25 April 2019	400,000
RMB100,000,000 bank loan	4.35	5 February 2019	100,000
RMB50,000,000 bank loan	5.00	15 February 2019	50,000
RMB80,000,000 bank loan	5.00	22 February 2019	80,000
RMB69,000,000 bank loan	5.00	18 January 2019	69,000
RMB81,000,000 bank loan	5.00	16 January 2019	81,000
RMB100,000,000 bank loan	5.09	25 September 2019	100,000
RMB60,000,000 bank loan	4.40	22 February 2019	60,000
RMB5,000,000 bank loan	5.01	12 June 2019	5,000
RMB70,000,000 bank loan	5.00	12 February 2019	70,000
HK$117,800,000 bank loan	1-month HIBOR+1.50	11 March 2019	103,216
US$299,003,804 bank loan	1-month LIBOR+1.40	26 June 2019	2,052,111
US$30,000,000 bank loan	6-month LIBOR+1.10	5 December 2019	205,895
US$25,000,000 bank loan	1-year LIBOR+1.35	9 July 2019	171,580
EUR21,000,000 bank loan	1-year EURIBOR+1.35	1 August 2019	164,792
EUR30,000,000 bank loan	3-month EURIBOR+0.70	30 October 2019	235,419
EUR26,000,000 bank loan	3-month EURIBOR+0.70	15 May 2019	204,030
EUR23,200,000 bank loan	1-year EURIBOR+1.50	23 April 2019	182,057
EUR22,000,000 bank loan	3-month EURIBOR+0.70	5 March 2019	172,641
EUR15,000,000 bank loan	6-month EURIBOR+1.45	14 May 2019	117,710
EUR8,800,000 bank loan	1-year EURIBOR+1.50	18 April 2019	69,056
Current portion of long term bank loans — secured			
EUR6,000,000 bank loan	3-month EURIBOR+1.70	13 February 2019	47,084
EUR6,000,000 bank loan	3-month EURIBOR+1.70	13 August 2019	47,084
Discounted notes receivable	3.90	27 January 2019	7,722
	3.75	26 January 2019	15,000
	4.35	28 June 2019	10,000
	3.85	18 October 2019	100,000
	3.65	18 October 2019	100,000
	3.20	18 October 2019	110,000
	3.30	18 October 2019	30,000
	3.35	18 October 2019	30,000
	3.45	18 October 2019	100,000
Lease liabilities *(note 14(c))*	4.76	31 December 2019	11,174
			5,301,571
Non-current			
Bank loans — secured			
EUR108,000,000 bank loan	3-month EURIBOR+1.70	14 February 2020 – 14 August 2023	847,508
Lease liabilities *(note 14(c))*	2.20	1 January 2020 – 30 September 2021	16,049
			863,557
			6,165,128

26. Interest-bearing loans and borrowings (Continued)

31 December 2018

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB400,000,000 bank loan	4.35	25 April 2019	400,000
RMB100,000,000 bank loan	4.35	5 February 2019	100,000
RMB50,000,000 bank loan	5.00	15 February 2019	50,000
RMB80,000,000 bank loan	5.00	22 February 2019	80,000
RMB69,000,000 bank loan	5.00	18 January 2019	69,000
RMB81,000,000 bank loan	5.00	16 January 2019	81,000
RMB100,000,000 bank loan	5.09	25 September 2019	100,000
RMB60,000,000 bank loan	4.40	22 February 2019	60,000
RMB5,000,000 bank loan	5.01	12 June 2019	5,000
RMB70,000,000 bank loan	5.00	12 February 2019	70,000
HK$117,800,000 bank loan	1-month HIBOR+1.50	11 March 2019	103,216
US$299,003,804 bank loan	1-month LIBOR+1.40	26 June 2019	2,052,111
US$30,000,000 bank loan	6-month LIBOR+1.10	5 December 2019	205,895
US$25,000,000 bank loan	1-year LIBOR+1.35	9 July 2019	171,580
EUR21,000,000 bank loan	1-year EURIBOR+1.35	1 August 2019	164,792
EUR30,000,000 bank loan	3-month EURIBOR+0.70	30 October 2019	235,419
EUR26,000,000 bank loan	3-month EURIBOR+0.70	15 May 2019	204,030
EUR23,200,000 bank loan	1-year EURIBOR+1.50	23 April 2019	182,057
EUR22,000,000 bank loan	3-month EURIBOR+0.70	5 March 2019	172,641
EUR15,000,000 bank loan	6-month EURIBOR+1.45	14 May 2019	117,710
EUR8,800,000 bank loan	1-year EURIBOR+1.50	18 April 2019	69,056
Current portion of long term bank loans — secured			
EUR6,000,000 bank loan	3-month EURIBOR+1.70	13 February 2019	47,084
EUR6,000,000 bank loan	3-month EURIBOR+1.70	13 August 2019	47,084
Discounted notes receivable	3.90	27 January 2019	7,722
	3.75	26 January 2019	15,000
	4.35	28 June 2019	10,000
	3.85	18 October 2019	100,000
	3.65	18 October 2019	100,000
	3.20	18 October 2019	110,000
	3.30	18 October 2019	30,000
	3.35	18 October 2019	30,000
	3.45	18 October 2019	100,000
Current portion of long term finance lease payables *(note 28)*	2.20	31 December 2019	150
			5,290,547
Non-current			
Bank loans — secured			
EUR108,000,000 bank loan	3-month EURIBOR+1.70	14 February 2020 – 14 August 2023	847,508
Finance lease payables *(note 28)*	2.20	1 January 2020 – 30 August 2020	88
			847,596
			6,138,143

26. Interest-bearing loans and borrowings (Continued)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	**3,943,565**	5,290,547
In the second year	**229,503**	141,339
In the third to fifth years, inclusive	**2,976,456**	706,257
After five years	**916,334**	—
	8,065,858	6,138,143

Note:

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits of RMB941,170,000 (2018: RMB841,073,000) (note 23);

(ii) the pledge of certain of the Group's notes receivable of nil (2018: RMB2,126,000) (note 20);

(iii) the pledge of certain of the Group's intra-group notes receivable of RMB170,000,000 (2018: RMB275,000,000) (note 20);

(iv) the pledge of certain of the Group's property, plant and equipment, which had an aggregate carrying value at the end of the reporting period of approximately RMB582,211,000 (2018: Nil); and

(v) the pledge of certain of the Group's subsidiaries' shares.

27. Convertible bonds

On 9 July 2019, the Company issued 1.50 per cent convertible bonds with an aggregate principal amount of US$300,000,000. There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares with the initial conversion price of HK$8.15 per share at any time on or after 19 August 2019 and up to the close of business on the date falling ten days prior to 9 July 2024. The bonds are redeemable at the option of the bondholders at a 3.75 per cent gross yield upon early redemption. Any convertible bonds not converted will be redeemed on 9 July 2024 at 112.25 per cent of its principal amount together with accrued but unpaid interest thereon. The bonds carry interest at a rate of 1.50 per cent per annum, which is payable semi-annually in arrears on 9 January and 9 July.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

27. Convertible bonds (Continued)

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	2019 RMB'000
Nominal value of convertible bonds issued during the year	**2,065,590**
Equity component	**(292,398)**
Direct transaction costs attributable to the equity component	**(3,504)**
Direct transaction costs attributable to the liability component	**(20,959)**
Liability component at the issuance date	**1,748,729**
Interest expense	**60,674**
Exchange realignment	**23,770**
Liability component at 31 December *(note 26)*	**1,833,173**

28. Finance lease payables

The Group has certain finance leases for motor vehicles, equipment and machinery. These leases were classified as finance leases prior to IFRS 16 becoming effective on 1 January 2019 and had remaining lease terms ranging from one to two years.

As at 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments RMB'000	Present value of minimum lease payments RMB'000
Amounts payable:		
Within one year	183	150
In the second year	107	88
Total minimum finance lease payments	290	238
Future finance charges	(52)	
Total net finance lease payables	238	
Portion classified as current liabilities *(note 26)*	(150)	
Non-current portion *(note 26)*	88	

29. Long-term payables

	2019 RMB'000	2018 RMB'000
At 1 January	**311,068**	–
Consideration arising from the acquisition of other intangible assets	**–**	1,860,278
Amortisation of interest on discounted consideration charged to profit or loss *(note 7)*	**20,781**	10,553
Exchange realignment	**(12,685)**	69,380
At 31 December	**319,164**	1,940,211
Less: Portion classified as current liabilities *(note 25)*	**(263,354)**	(1,629,143)
Non-current portion	**55,810**	311,068

On 7 May 2018, a subsidiary of the Company, Luye Pharma Hong Kong Limited ("Luye Hong Kong"), and AstraZeneca UK Limited ("AstraZeneca") entered into an asset purchase and licence agreement, pursuant to which AstraZeneca conditionally agreed to transfer to Luye Hong Kong the know-how to manufacture or procure the manufacture of Seroquel and Seroquel XR (the "Products") and marketing authorisations of the Products and grant to Luye Hong Kong a perpetual, sub-licensable royalty-free licence to use certain trademarks, knowhow, records and regulatory information related to the Products in the territory, which covers 51 countries and regions. The purchase price for the transfer and the grant of the licence is in the aggregate sum of US$546,000,000, which will be paid in four instalments. As at 31 December 2019, the first instalment of US$260,000,000 and the second instalment of US$240,000,000 were paid and the remaining long-term instalments of RMB55,810,000 were recorded as long-term payables.

30. Government grants

	2019 RMB'000	2018 RMB'000
At 1 January	**150,804**	131,421
Grants received during the year	**32,146**	43,437
Amount released	**(33,603)**	(24,054)
At 31 December	**149,347**	150,804
Current	**17,493**	42,090
Non-current	**131,854**	108,714
	149,347	150,804

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research expenses and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

31. Deferred revenue

	2019 RMB'000	2018 RMB'000
At 1 January	**40,907**	34,041
Grants received during the year	**13,286**	13,340
Amount released	**(6,567)**	(6,630)
Amount reversed	**(47,385)**	—
Exchange realignment	**(241)**	156
At 31 December	**—**	40,907

The deferred revenue represents the grants received from Bayer Shering Pharma AG ("BSP"). LPAG and BSP have entered into an agreement that BSP finances EUR17,000,000 for the depreciation of the production facilities of LPAG, which could manufacture special hormone products for BSP from the use of such production facilities for at least 20 years. LPAG has recognised 50% of the grants received of EUR1,700,000 per year (EUR850,000) as deferred revenue since 2013, which will be recognised in the statement of profit or loss on a straight-line basis over 20 years. In November 2019, both parties agreed to terminate the agreement and the delivery obligation of LPAG has expired at that point in time.

32. Deferred tax

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

Deferred tax assets

	2019								
	Employee defined benefit obligation RMB'000	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Losses available for offsetting against future taxable profits RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from inter-company transactions RMB'000	Total deferred tax assets RMB'000
At 1 January 2019	370	24,024	8,184	3,998	634	840	21,125	39,180	98,355
Deferred tax credit/(charged) to the statement of profit or loss during the year *(note 10)*	–	(5,425)	(895)	(3,998)	761	426	(218)	4,644	(4,705)
Deferred tax charged to other comprehensive income during the year	244	–	–	–	–	–	–	–	244
Exchange realignment	2	–	(37)	–	–	–	–	–	(35)
At 31 December 2019	616	18,599	7,252	–	1,395	1,266	20,907	43,824	93,859

	2018								
	Employee defined benefit obligation RMB'000	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Losses available for offsetting against future taxable profits RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from inter-company transactions RMB'000	Total deferred tax assets RMB'000
At 1 January 2018	528	16,161	8,130	1,089	332	575	18,045	49,293	94,153
Deferred tax credit/(charged) to the statement of profit or loss during the year *(note 10)*	–	7,863	(89)	3,006	302	265	3,080	(10,113)	4,314
Deferred tax charged to other comprehensive income during the year	(161)	–	–	–	–	–	–	–	(161)
Exchange realignment	3	–	143	(97)	–	–	–	–	49
At 31 December 2018	370	24,024	8,184	3,998	634	840	21,125	39,180	98,355

32. Deferred tax (Continued)

Deferred tax liabilities

	2019			
	Fair value adjustment on acquisition RMB'000	Accelerated depreciation and amortisation for tax purposes RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2019	70,114	13,933	4,951	88,998
Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)*	(8,099)	(2,114)	(936)	(11,149)
Exchange realignment	—	(77)	—	(77)
At 31 December 2019	62,015	11,742	4,015	77,772

	2018					
	Fair value adjustment on acquisition RMB'000	Accelerated depreciation and amortisation for tax purposes RMB'000	Fair value adjustments arising from financial assets at fair value through profit or loss RMB'000	Fair value adjustments arising from equity investments at fair value through other comprehensive income RMB'000	Fair value adjustments arising from available-for-sale investments RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2018	78,145	14,337	3,734	229	—	96,445
Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)*	(8,031)	686	1,217	—	—	(6,128)
Deferred tax credited to other comprehensive income during the year	—	—	—	(229)	—	(229)
Exchange realignment	—	(1,090)	—	—	—	(1,090)
At 31 December 2018	70,114	13,933	4,951	—	—	88,998

32. Deferred tax (Continued)

The Group has tax losses arising in Singapore and Hong Kong of RMB78,272,000 (2018: RMB87,623,000) that are available indefinitely for offsetting against future taxable profits.

The Group has tax losses arising in Switzerland of RMB112,189,000 (2018: RMB97,475,000) that are available for offsetting against future taxable profits in seven years.

The Group has tax losses arising in the USA of RMB131,229,000 (2018: RMB80,311,000) that are available for offsetting against future taxable profits in twenty years.

The Group has tax losses arising in Mainland China of RMB30,643,000 (2018: RMB23,796,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses arisen in Singapore, Hong Kong, Switzerland, the USA and Mainland China as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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 5%. 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, no deferred tax 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 (2018: Nil). In the opinion of the directors, these subsidiaries' fund will be retained in Mainland China for the expansion of these subsidiaries' operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. 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 RMB4,924,091,000 as at 31 December 2019 (2018: RMB3,899,868,000).

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

33. Issued capital and treasury shares

	2019	2018
Authorised:		
10,000,000,000 (2018: 10,000,000,000) ordinary shares of US$0.02 each		
US$'000	**200,000**	200,000
Issued and fully paid:		
3,268,965,343 (2018: 3,274,965,343) ordinary shares of US$0.02 each		
US$'000	**65,379**	65,499
RMB'000	**420,565**	421,337

A summary of movements in the Company's issued share capital, treasury shares and share premium is as follows:

	Number of shares in issue	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2018	3,321,073,843	427,269	(459,284)	2,936,817	2,904,802
Shares cancelled	(46,108,500)	(5,932)	178,080	(172,148)	—
Shares repurchased	—	—	(26,068)	—	(26,068)
Sale of shares repurchased for share award scheme	—	—	1,646	—	1,646
At 31 December 2018 and 1 January 2019	3,274,965,343	421,337	(305,626)	2,764,669	2,880,380
Shares cancelled *(note a)*	(6,000,000)	(772)	30,456	(29,684)	—
Shares repurchased *(note b)*	—	—	(4,388)	—	(4,388)
At 31 December 2019	3,268,965,343	420,565	(279,558)	2,734,985	2,875,992

Notes:

(a) The Company cancelled 6,000,000 shares on 16 July 2019 which were repurchased in 2018 and 2019 on the Hong Kong Stock Exchange.

(b) The Company purchased 1,000,000 of its shares on the Hong Kong Stock Exchange for a total consideration of HK$5,008,000 (equivalent to approximately RMB4,388,000).

34. Reserves

Statutory 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.

35. Partly-owned subsidiaries with material non-controlling interests

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests:		
WPU	30.45%	30.45%
LSTR	45%	—*

	2019 RMB'000	2018 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
WPU	24,433	2,622
LSTR	(1,169)	—
Dividends paid to non-controlling interests:		
WPU	5,631	5,202
Accumulated balances of non-controlling interests at the reporting date:		
WPU	145,987	125,616
LSTR	1,695	—
Share award scheme reserve attributable to non-controlling interests:		
WPU	1,569	683

* *LSTR was incorporated in 2018 and started its operation in 2019.*

35. Partly-owned subsidiary with material non-controlling interests (Continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2019	**WPU RMB'000**	**LSTR RMB'000**
Revenue	**440,282**	**383**
Total expenses	**(397,577)**	**(2,980)**
Profit/(loss) for the year	**42,705**	**(2,597)**
Total comprehensive income for the year	**42,705**	**(2,597)**
Current assets	**331,231**	**5,658**
Non-current assets	**339,879**	**843**
Current liabilities	**(140,749)**	**(2,735)**
Non-current liabilities	**(34,839)**	**—**
Net cash flows from/(used in) operating activities	**189,484**	**(1,113)**
Net cash flows used in investing activities	**(175,756)**	**(581)**
Net cash flows (used in)/from financing activities	**(11,883)**	**5,000**
Net foreign exchange differences	**78**	**—**
Net increase in cash and cash equivalents	**1,923**	**3,306**

2018	WPU RMB'000	LSTR RMB'000
Revenue	275,933	—
Total expenses	(271,849)	—
Profit for the year	4,084	—
Total comprehensive income for the year	4,084	—
Current assets	201,855	—
Non-current assets	348,111	—
Current liabilities	(67,857)	—
Non-current liabilities	(15,950)	—
Net cash flows from operating activities	26,477	—
Net cash flows used in investing activities	(17,791)	—
Net cash flows used in financing activities	(17,267)	—
Net foreign exchange differences	196	—
Net decrease in cash and cash equivalents	(8,385)	—

As at 31 December 2019, the unrealised profit from the inter-company transaction between WPU and Luye Trading was RMB16,092,000 (2018: RMB53,628,000).

36. Contingent liabilities

A subsidiary of the Group is currently involved in an arbitration brought by the former distributor of Seroquel in Mainland China disputing the subsidiary's basis of terminating the distribution agreement with such distributor. The directors of the Company, based on information currently available to the Group and preliminary assessment taking into account the advice from the Group's legal counsel in relation to the arbitration proceedings, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

37. Commitments

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Buildings	131,526	295,494
Plant and machinery	207,875	489,968
Other intangible assets	319,164	1,966,641
	658,565	2,752,103

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its buildings, plant and machinery and motor vehicles under operating lease arrangements. Leases for buildings were negotiated for terms ranging from one to ten years, and those for plant and machinery were for terms ranging from one to five years, and those for motor vehicles were for terms ranging between one and three 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	12,215
In the second to fifth years, inclusive	16,789
After five years	1,408
	30,412

38. Related party transactions

Details of the Group's principal related parties are as follows:

Company	Relationship
Steward Cross	Associate
Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan")	An entity controlled by certain directors of the Company
Yantai Lujian Real Estate Co., Ltd. ("Lujian Real Estate")	An entity controlled by a director of the Company

(a) The Group had the following transactions with related parties during the year:

	Notes	**2019 RMB'000**	2018 RMB'000
Sales of goods to Steward Cross	*(i)*	**7,398**	6,839
Sales of inventories to Shandong Boan	*(ii)*	**146**	846
Milestone payment for the acquisition of biological antibody drugs under research and development from Shandong Boan	*(iii)*	**300,000**	—

Notes:

(i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The sales to Shandong Boan were made on terms equivalent to those that prevail in arm's length transactions.

(iii) The consideration was determined at the price mutually agreed between the parties.

38. Related party transactions (Continued)

(b) Outstanding balances with related parties:

Due from related parties

	2019 RMB'000	2018 RMB'000
Steward Cross	**926**	2,135
Shandong Boan	**2,525**	681
	3,451	2,816

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**20,259**	18,651
Pension scheme contributions	**766**	855
Equity-settled share award expense	**9,326**	5,718
Total compensation paid to key management personnel	**30,351**	25,224

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

39. Share award scheme

The Company adopted a share award scheme on 10 January 2017 (the "Scheme"). The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and, to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

Subject to any early termination as may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of ten years commencing on the 10 January 2017 (the "Adoption Date").

The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the "Trustee") in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (the "Trust Deed"). The decision of the board of directors with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Company's shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any shares held under the Trust.

The board of directors may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the board of directors. The committee appointed and authorised by the board of directors to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the board of directors, may from time to time instruct the Trustee in writing to purchase shares on the Stock Exchange specifying the timing of purchase, the maximum amount of funds to be used and the range of prices within which such shares are to be purchased.

The board of directors may from time to time select any employee (excluding any employee who is resident in a place where the award of, in respect of a selected employee, such number of shares awarded by the Board (the "Awarded Shares") and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Scheme are/is not permitted under the laws or regulations of such place or where in the view of the board of directors or the Trustee of the Scheme, compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such employee) for participation in the Scheme as a selected employee and grant to such selected employee Awarded Shares in such number at a stated price at which an Awarded Share is granted to a selected employee (the "Grant Price") and on and subject to such terms and conditions determined at the discretion of the board of directors.

The board of directors is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the selected employee. Upon the vesting of the Awarded Shares, the selected employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the selected employee shall pay the Company the Grant Price for the Awarded Shares.

A selected employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a selected employee, the date on which his entitlement to the Awarded Shares is vested pursuant to the terms of the Scheme (the "Vesting Date"). Prior to the Vesting Date, any award of Awarded Shares is personal to the selected employee to whom it is made and is not assignable and no selected employee may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award. In the event that a selected employee has ceased to be an employee, the relevant award made to such selected employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

39. Share award scheme (Continued)

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the board of directors, provided that such termination shall not materially and adversely affect any subsisting rights of any selected employee.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 shares (the "2017 Awarded Shares") of the Company of US$0.02 each were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2018 to those selected employees, an aggregate of 20,098,000 shares (the "2018 Awarded Shares") of the Company of US$0.02 each were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2018 Awarded Shares is 15 May 2021. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

Pursuant to share award notices issued on 15 May 2019 to those selected employees, an aggregate of 25,206,000.00 shares (the "2019 Awarded Shares") of the Company of US$0.02 each were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2019 Awarded Shares is 15 May 2022. There is no other performance target required except that the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

The following awarded shares were outstanding under the Scheme during the year:

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2019	**27,676,500**	**37,822,000**
Granted on 15 May 2019	**(25,206,000)**	**25,206,000**
At 31 December 2019	**2,470,500**	**63,028,000**
Exercisable as at 31 December 2019	**–**	**–**

39. Share award scheme (Continued)

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2018	48,194,500	17,724,000
Disposal	(420,000)	—
Granted on 15 May 2018	(20,098,000)	20,098,000
At 31 December 2018	27,676,500	37,822,000
Exercisable as at 31 December 2018	—	—

The fair value of the shares granted during the year was HK$99,060,000 (HK$3.93 each), and the Group recognised a share award expense of RMB64,677,000 during the year ended 31 December 2019 (2018: RMB31,339,000). Out of the share award expense, an amount of RMB1,108,000 was included in the directors' remuneration (2018: RMB1,366,000).

The fair value of the shares granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the shares were awarded. The following table lists the inputs to the model used:

	2019	2018
Dividend yield (%)	**1.21**	1.14
Expected volatility (%)	**40.62**	38.74
Risk-free interest rate (%)	**1.51**	2.13
Forfeiture rate (%)	**4.1**	2.4

No other feature of the shares granted was incorporated into the measurement of fair value.

40. Pension plan

The Group has a defined benefit pension plan in Switzerland. The pension plan grants disability and death benefits which are defined as projected savings capital without interest but including future savings contribution. This projected savings capital is converted in disability or death benefits. In the event that an employee leaves his employment with the Group prior to reaching a pensionable age, the cumulative balance of the savings account is withdrawn from the pension plan and invested into the pension plan of the employee's new employer. The assets of the funded plan are held independently of those of the Group, being managed through a central trust fund. The plan is valued by a qualified actuary annually using the projected unit credit method.

The movements in the defined benefit obligation and fair value of plan assets during the year are as follows:

	Defined benefit obligation RMB'000	Fair value of plan assets RMB'000	Benefit liability RMB'000
At 1 January 2019	(12,375)	7,807	(4,568)
Pension cost charged to profit or loss			
Service cost	(1,972)	–	(1,972)
Net interest expense	(94)	–	(94)
	(2,066)	–	(2,066)
Remeasurement gains/(losses) in other comprehensive income			
Return on plan assets (excluding amounts included in net interest expense)	–	29	29
Actuarial changes arising from plan experience	(267)	–	(267)
Actuarial changes arising from financial assumptions	(2,161)	–	(2,161)
	(2,428)	29	(2,399)
Contributions by employer	–	1,403	1,403
Contributions by employee	(951)	951	–
Benefits paid	382	(382)	–
Exchange differences	(687)	437	(250)
At 31 December 2019	(18,125)	10,245	(7,880)

40. Pension plan (Continued)

The movements in the defined benefit obligation and fair value of plan assets during the year are as follows: (Continued)

	Defined benefit obligation RMB'000	Fair value of plan assets RMB'000	Benefit liability RMB'000
At 1 January 2018	(17,280)	11,899	(5,381)
Pension cost charged to profit or loss			
Service cost	(1,665)	—	(1,665)
Net interest expense	(139)	56	(83)
	(1,804)	56	(1,748)
Remeasurement gains/(losses) in other comprehensive income			
Return on plan assets (excluding amounts included in net interest expense)	—	(21)	(21)
Actuarial changes arising from plan experience	1,230	—	1,230
Actuarial changes arising from financial assumptions	361	—	361
	1,591	(21)	1,570
Contributions by employer	—	1,155	1,155
Contributions by employee	(771)	771	—
Benefits paid	6,456	(6,456)	—
Exchange differences	(567)	403	(164)
At 31 December 2018	(12,375)	7,807	(4,568)

The fair value of plan assets is as follows:

	2019 RMB'000	2018 RMB'000
Savings capital	**10,245**	7,807

40. Pension plan (Continued)

The principal assumptions used in determining benefit obligations for the Group's plan are shown below:

	2019	2018
Discount rate	0.25%	0.90%
Salary increase	1.50%	1.50%
Pension increase	0.00%	0.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December is shown below:

	Impact on defined benefit obligation	
	2019 RMB'000	2018 RMB'000
Discount rate:		
0.25% increase	(879)	(584)
0.25% decrease	944	625
Salary increase:		
0.25% increase	137	97
0.25% decrease	(137)	(97)
Pension increase:		
0.25% increase	497	313
0.25% decrease	—	—

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The following payments are expected contributions to the defined benefit plan in future years:

	2019 RMB'000	2018 RMB'000
Less than 1 year	—	—
Between 1 and 5 years	—	—
Over 5 years	7,880	4,568
	7,880	4,568

41. Notes to the consolidated statement of cash flows

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB18,463,000 and RMB18,463,000, respectively, in respect of lease arrangements for buildings, plant and machinery and motor vehicles (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Bank and other loans RMB'000	Finance lease payables/ lease liabilities RMB'000	Convertible bonds RMB'000
At 31 December 2018	6,137,905	238	—
Effect of adoption of IFRS16	—	26,985	—
At 1 January 2019 (restated)	6,137,905	27,223	—
Changes from financing cash flows	65,823	(16,776)	2,041,127
Equity component of convertible bonds	—	—	(292,398)
New leases	—	18,463	—
Foreign exchange movement	—	47	23,770
Interest expense	—	1,813	60,674
Interest paid classified as operating cash flows	—	(1,813)	—
At 31 December 2019	6,203,728	28,957	1,833,173

2018

	Bank and other loans RMB'000	Finance lease payables RMB'000
At 1 January 2018	2,860,979	378
Changes from financing cash flows	3,276,926	(140)
At 31 December 2018	6,137,905	238

(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	(14,709)
Within investing activities	(10,995)
Within financing activities	(16,776)

42. 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:

2019

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	64,257	–	64,257
Notes receivable	–	–	487,053	–	487,053
Trade receivable	–	–	–	1,210,878	1,210,878
Financial assets included in prepayments, other receivables and other assets	–	–	–	124,080	124,080
Financial assets at fair value through profit or loss	1,263	1,861,639	–	–	1,862,902
Cash and cash equivalents	–	–	–	2,325,446	2,325,446
Time deposits with original maturity of over three months	–	–	–	1,001,000	1,001,000
Pledged time deposits	–	–	–	1,615,009	1,615,009
Restricted cash	–	–	–	36,643	36,643
Due from related parties	–	–	–	3,451	3,451
	1,263	1,861,639	551,310	6,316,507	8,730,719

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and notes payables	298,477
Financial liabilities included in other payables and accruals	847,036
Dividend payable	5,000
Convertible bonds	1,833,173
Long-term payables	55,810
Interest-bearing loans and borrowings	6,232,685
	9,272,181

42. Financial instruments by category (Continued)

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

2018

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	—	—	76,368	—	76,368
Notes receivable	—	—	391,999	—	391,999
Trade receivable	—	—	—	1,139,283	1,139,283
Financial assets included in prepayments, other receivables and other assets	—	—	—	98,962	98,962
Financial assets at fair value through profit or loss	1,263	1,882,839	—	—	1,884,102
Cash and cash equivalents	—	—	—	1,672,865	1,672,865
Time deposits with original maturity of over three months	—	—	—	1,306,868	1,306,868
Pledged time deposits	—	—	—	1,409,782	1,409,782
Restricted cash	—	—	—	28,345	28,345
Due from related parties	—	—	—	2,816	2,816
	1,263	1,882,839	468,367	5,658,921	8,011,390

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and notes payables	279,750
Financial liabilities included in other payables and accruals	2,219,217
Long-term payables	311,068
Interest-bearing loans and borrowings	6,138,143
	8,948,178

42. Financial instruments by category (Continued)

Fair value

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

During the reporting period, the Group has carried all listed and unlisted equity investments, other unlisted investments and notes receivable that are classified as financial assets at fair value through other comprehensive income and fair value through profit or loss as required by IFRS 9 (notes 18, 20 and 22).

43. Fair value and fair value hierarchy of financial instruments

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
Equity investments designated at fair value through other comprehensive income	2,714	61,543	—	64,257
Notes receivable	—	487,053	—	487,053
Financial assets at fair value through profit or loss	75,542	1,787,360	—	1,862,902
	78,256	2,335,956	—	2,414,212

43. Fair value and fair value hierarchy of financial instruments (Continued)

Fair value hierarchy (Continued)

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

Assets measured at fair value: (Continued)
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
Equity investments designated at fair value through other comprehensive income	2,200	74,168	—	76,368
Notes receivable	—	391,999	—	391,999
Financial assets at fair value through profit or loss	40,493	1,843,609	—	1,884,102
	42,693	2,309,776	—	2,352,469

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: the unlisted equity investment of RMB40,493,000 was transferred out of level 2 to level 1 due to the listing of the ordinary shares of such investment which are actively traded since 24 May 2018).

Financial instruments whose carrying amounts approximate to their fair values

Management has determined that the carrying amounts of cash and cash equivalents, pledged time deposits, restricted cash, trade receivables, other receivables and other assets, amounts due from/to related parties, trade and notes payables, other payables and short-term interest-bearing loans and borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The fair values of the non-current portion of pledged time deposits and interest-bearing loans and borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing loans and borrowings as at 31 December 2019 were assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

43. Fair value and fair value hierarchy of financial instruments (Continued)

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income are based on recently executed transaction prices in securities of the issuer. The fair value of the unlisted equity investments at fair value through profit or loss has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires management to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, which is price to book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by a book value measure. The trading multiple is then discounted for considerations such as liquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to measure the fair value of the unlisted equity investments. Management believes that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position, and the related change in fair values, which is recorded in consolidated statement of profit or loss, are reasonable, and that it was the most appropriate value at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of the notes receivable classified as debt investments at fair value through other comprehensive income as at 31 December 2019 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within twelve months, and thus, their fair values approximate to their carrying values.

44. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing loans and borrowings, convertible bonds, finance leases and cash and time deposits. 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 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.

44. Financial risk management objectives and policies (Continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB, EUR, HK$ and US$ interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2019			
RMB	**50**	**(70)**	**(70)**
RMB	**(50)**	**70**	**70**
EUR	**50**	**(8)**	**(8)**
EUR	**(50)**	**8**	**8**
HK$	**50**	**(13)**	**(13)**
HK$	**(50)**	**13**	**13**
US$	**50**	**(1,770)**	**(1,770)**
US$	**(50)**	**1,770**	**1,770**
2018			
EUR	50	(299)	(299)
EUR	(50)	299	299
HK$	50	(13)	(13)
HK$	(50)	13	13
US$	50	(474)	(474)
US$	(50)	474	474

44. Financial risk management objectives and policies (Continued)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between 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 foreign currency 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) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2019			
If the RMB weakens against the HK$	**5**	**(7,838)**	**(5,879)**
If the RMB strengthens against the HK$	**(5)**	**7,838**	**5,879**
If the RMB weakens against the EUR	**5**	**(8,595)**	**(7,306)**
If the RMB strengthens against the EUR	**(5)**	**8,595**	**7,306**
If the US$ weakens against the HK$	**5**	**(5,217)**	**(5,218)**
If the US$ strengthens against the HK$	**(5)**	**5,217**	**5,218**
If the US$ weakens against the EUR	**5**	**(24,957)**	**(24,904)**
If the US$ strengthens against the EUR	**(5)**	**24,957**	**24,904**
2018			
If the RMB weakens against the US$	5	43	29
If the RMB strengthens against the US$	(5)	(43)	(29)
If the US$ weakens against the SG$	5	1,130	1,130
If the US$ strengthens against the SG$	(5)	(1,130)	(1,130)
If the US$ weakens against the HK$	5	195,931	195,931
If the US$ strengthens against the HK$	(5)	(195,931)	(195,931)
If the US$ weakens against the EUR	5	(24,830)	(24,830)
If the US$ strengthens against the EUR	(5)	24,830	24,830

44. 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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

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.

The amounts presented are gross carrying amounts for financial assets.

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*	—	—	—	1,215,596	1,215,596
Notes receivable	487,053	—	—	—	487,053
Financial assets included in prepayments, other receivables and other assets					
— Normal**	124,080	—	—	—	124,080
— Doubtful**	3,000	—	—	—	3,000
Due from related parties					
— Normal**	3,451	—	—	—	3,451
Restricted cash					
— Not yet past due	36,643	—	—	—	36,643
Pledged time deposits					
— Not yet past due	1,615,009	—	—	—	1,615,009
Time deposits with original maturity of over three months					
— Not yet past due	1,001,000	—	—	—	1,001,000
Cash and cash equivalents					
— Not yet past due	2,325,446	—	—	—	2,325,446
	5,595,682	—	—	1,215,596	6,811,278

44. Financial risk management objectives and policies (Continued)

Credit risk (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*	—	—	—	1,143,778	1,143,778
Notes receivable	391,999	—	—	—	391,999
Financial assets included in prepayments, other receivables and other assets					
— Normal**	98,962	—	—	—	98,962
— Doubtful**	3,000	—	—	—	3,000
Due from related parties					
— Normal**	2,816	—	—	—	2,816
Restricted cash					
— Not yet past due	28,345	—	—	—	28,345
Pledged time deposits					
— Not yet past due	1,409,782	—	—	—	1,409,782
Time deposits with original maturity of over three months					
— Not yet past due	1,306,868	—	—	—	1,306,868
Cash and cash equivalents					
— Not yet past due	1,672,865	—	—	—	1,672,865
	4,914,637	—	—	1,143,778	6,058,415

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.*

** *The credit quality of the 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 indicating 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".*

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Since the Group trades only 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.

44. 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 other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings, convertible bonds and lease liabilities.

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

31 December 2019

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Convertible bonds	—	15,696	15,696	2,474,807	—	2,506,199
Lease liabilities	—	4,678	14,543	10,779	1,883	31,883
Interest-bearing loans and borrowings (excluding lease liabilities)	845,922	1,419,938	1,852,908	3,939,476	1,147,227	9,205,471
Trade and notes payables	16,064	268,846	13,567	—	—	298,477
Financial liabilities included in other payables and accruals	308,473	275,209	263,354	—	—	847,036
Dividend payable	5,000	—	—	—	—	5,000
Long-term payables	—	—	—	55,810	—	55,810
	1,175,459	1,984,367	2,160,068	6,480,872	1,149,110	12,949,876

31 December 2018

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	—	900,099	4,486,827	883,359	—	6,270,285
Trade and notes payables	15,770	238,023	25,957	—	—	279,750
Financial liabilities included in other payables and accruals	319,192	270,882	1,629,143	—	—	2,219,217
Long-term payables	—	—	—	311,068	—	311,068
	334,962	1,409,004	6,141,927	1,194,427	—	9,080,320

44. Financial risk management objectives and policies (Continued)

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 and the risk characteristics of the underlying assets. 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 adjusted capital plus net debt. Net debt includes interest-bearing loans and borrowings, trade and notes payables, and other payables and accruals, less cash and cash equivalents, time deposits with original maturity of over three months, pledged time deposits and restricted cash. Capital includes convertible bonds and equity attributable to the owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Interest-bearing loans and borrowings *(note 26)*	**6,232,685**	6,165,366	6,138,143
Trade and notes payables	**298,477**	279,750	279,750
Other payables and accruals	**1,078,153**	2,461,783	2,461,783
Less: Cash and cash equivalents	**(2,325,446)**	(1,672,865)	(1,672,865)
Time deposits with original maturity of over three months	**(1,001,000)**	(1,306,868)	(1,306,868)
Pledged time deposits	**(1,615,009)**	(1,409,782)	(1,409,782)
Restricted cash	**(36,643)**	(28,345)	(28,345)
Net debt	**2,631,217**	4,489,039	4,461,816
Convertible bonds, the liability component	**1,833,173**	—	—
Equity attributable to owners of the parent	**9,224,160**	7,808,413	7,808,413
Adjusted capital	**11,057,333**	7,808,413	7,808,413
Capital and net debt	**13,688,550**	12,297,452	12,270,229
Gearing ratio	**19%**	37%	36%

Note: The Group has adopted IFRS 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. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 36% to 37% on 1 January 2019 when compared with the position as at 31 December 2018.

45. Events after the reporting period

On 1 December 2019, Shandong Luye, a wholly-owned subsidiary of the Company, and Luye Investment Group Co. Ltd. entered into a sale and purchase agreement, pursuant to which Shandong Luye has conditionally agreed to purchase and Luye Investment Group Co. Ltd. has conditionally agreed to sell its 98.0% equity interest in Shandong Boan for a total purchase price of up to RMB1,446,700,000 (approximately US$205,800,000). On 22 January 2020, the ordinary resolution of the transaction was duly passed by the shareholders at the special general meeting. On 17 February 2020, the board announced that all conditions to completion were fulfilled. For the details of the information, please refer to the Company's announcements dated 1 December 2019, 22 January 2020 and 17 February 2020.

There has been an outbreak of the novel coronavirus ("COVID-19") around the world. The Group expects the COVID-19 outbreak to have a limited impact on its business. However, it is difficult to estimate the full impact in the coming months given the dynamic nature of the circumstances under COVID-19. The Group will keep paying attention to the situation of COVID-19 and assess and react actively to its impacts.

46. Statement of financial position of the Company

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

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	102,966	44,058
Right-of-use assets	1,691	—
Advance payments for property, plant and equipment and other intangible assets	34,881	—
Total non-current assets	139,538	44,058
CURRENT ASSETS		
Due from subsidiaries	6,543,924	4,806,763
Financial assets at fair value through profit or loss	75,542	40,493
Prepayments, other receivables and other assets	12,626	14,697
Restricted cash	28,547	20,341
Cash and cash equivalents	59,747	159,662
Total current assets	6,720,386	5,041,956
CURRENT LIABILITIES		
Interest-bearing loans and borrowings	708,183	1,053,545
Due to subsidiaries	1,163,706	779,637
Other payables and accruals	4,223	16,184
Total current liabilities	1,876,112	1,849,366
NET CURRENT ASSETS	4,844,274	3,192,590
TOTAL ASSETS LESS CURRENT LIABILITIES	4,983,812	3,236,648
NON-CURRENT LIABILITIES		
Convertible bonds	1,833,173	—
Total non-current liabilities	1,833,173	—
Net assets	3,150,639	3,236,648
EQUITY		
Issued capital	420,565	421,337
Equity component of convertible bonds *(note)*	292,398	—
Treasury shares	(279,558)	(305,626)
Share premium *(note)*	2,734,985	2,764,669
Reserves *(note)*	(17,751)	356,268
Total equity	3,150,639	3,236,648

46. Statement of financial position of the Company (Continued)

Note:

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

	Share premium account RMB'000	Share award scheme reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Foreign currency translation reserve RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
At 1 January 2018	2,936,817	6,251	504,003	72,702	—	3,519,773
Loss for the year	—	—	(136,519)	—	—	(136,519)
Other comprehensive income for the year:						
Currency realignment	—	—	—	168,211	—	168,211
Total comprehensive income for the year	—	—	(136,519)	168,211	—	31,692
Cancellation of treasury shares	(172,148)	—	—	—	—	(172,148)
Equity-settled share award scheme	—	31,339	—	—	—	31,339
Final 2017 dividend	—	—	(148,999)	—	—	(148,999)
Interim 2018 dividend	—	—	(140,720)	—	—	(148,720)
At 31 December 2018 and 1 January 2019	2,764,669	37,590	77,765	240,913	—	3,120,937
Loss for the year	—	—	(122,514)	—	—	(122,514)
Other comprehensive income for the year:						
Currency realignment	—	—	—	60,596	—	60,596
Total comprehensive income for the year	—	—	(122,514)	60,596	—	(61,918)
Cancellation of treasury shares	(29,684)	—	—	—	—	(29,684)
Equity-settled share award scheme	—	64,677	—	—	—	64,677
Issue of convertible bonds	—	—	—	—	292,398	292,398
Final 2018 dividend	—	—	(185,124)	—	—	(185,124)
Interim 2019 dividend	—	—	(191,654)	—	—	(191,654)
At 31 December 2019	2,734,985	102,267	(421,527)	301,509	292,398	3,009,632

47. Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2020.

Luye Pharma
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