遠大健康
CGE HEALTHCARE

China Grand Pharmaceutical and Healthcare Holdings Limited
遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00512

2019 Annual Report

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Liu Chengwei *(Chairman)*
Mr. Hu Bo *(Deputy Chairman)*
Dr. Shao Yan *(Chief Executive Officer)*
Dr. Niu Zhanqi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie
Mr. Hu Yebi
Dr. Pei Geng

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr. Liu Chengwei
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Hu Yebi
Dr. Pei Geng

REMUNERATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Liu Chengwei
Mr. Hu Yebi

NOMINATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Dr. Shao Yan
Mr. Hu Yebi

WEBSITE

www.chinagrandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

As to Bermuda Law:
Conyers Dill & Pearman

As to Hong Kong Law:
Loeb & Loeb LLP

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
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Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

HSBC
Bank of China
Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Units 3302, The Center,
99 Queen's Road Central, Hong Kong

Corporate Profile

China Grand Pharmaceutical and Healthcare Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") are a global comprehensive pharmaceutical enterprise, which is principally engaged in the research and development, manufacture and sales of pharmaceutical preparations, high-end medical devices, specialized pharmaceutical raw materials, bio-technology products and nutrition products. The core products of the Group cover several major treatment areas represented by the respiratory and ENT, cardiovascular emergency preparations, and high-end medical devices, bio-technology products and nutrition products. The Group has mainly focused on four characterized product sectors, namely innovative medicines and medical devices with high entry barriers, branded drugs, pharmaceutical raw materials and preparations integration, and nutrition products.

In 2019, the operating results of the Company was satisfactory and hit a new record, with a revenue of approximately HK$6.59 billion and the total profit for the year attributable to the owners of the Company was approximately HK$1.15 billion, representing a year-on-year increase of approximately 61.4%. If excluding the effect of changes in exchange rate, the total profit for the year attributable to the owners of the Company increased by approximately 69.4% year-on-year.

The Group has a number of barrier products and exclusive products with leading market share in the medicine fields such as the respiratory and ENT, and cardiovascular emergency preparations. In the ophthalmology field and the respiratory field, the Group has reserved three innovative products in the late clinical stage, including the treatment of dry eye disease, pterygium and allergic rhinitis, and has become one of the domestic industry leaders. The Group has established a long-term and stable cooperative relationship with many overseas high-quality customers in the field of biotechnology products and nutrition products, which constitutes an important support for the Group's sustained high-speed and stable business performance.

After years of development, the Group has become the frontrunner in the domestic and even global "precise intervention treatment sector" and made an international "precision diagnosis + treatment" strategic deployment which integrated the vascular imaging diagnosis of Conavi, a Canada company, the vascular intervention of Cardionovum, a Germany company, and the tumor intervention of Sirtex, a Australian company and OncoSec, an American company. As a listed pharmaceutical company in Hong Kong, the Group is the only company that is involved in both vascular intervention and tumor intervention and the only one whose products cover three sectors of coronary, arteriovenous fistula and peripherals in China market. In the future, the Group will develop and expand innovative products in the neurointervention sector, striving to build a leading "pan-intervention treatment platform" in the PRC and even the globe. Over five years of penetration in precise intervention treatment field, the Group has achieved certain milestones. An innovative coronary intervention drug coating balloon product RESTORE DEB and a renal dialysis drug coating balloon product APERTO OTW were approved for marketing in the PRC. Novasight Hybrid has entered into the PRC's green channel for special approval of innovative medical devices. A nuclear medicine intervention product SIR-Spheres® Y-90 resin microsphere is expected to be launched in the PRC next year, which provides new treatment and hope to patients with liver cancer in the PRC and reflects the Group's capacity in introducing and launching international advanced technologies and products. Through the investment in OncoSec, the Group has obtained commercial interests of relevant products in Mainland China and 38 other Asian countries and regions, and also retained a number of top scientists and expert consulting teams in tumor and immunotherapy field, which has significantly enhanced the Group's research and development strength in tumor immunity field.

Since the outbreak of COVID-19, antiviral and anti-infective drugs have again become the focus of pharmaceutical companies across the word, setting off a new round of development boom. The Group has previously predicted that antiviral and anti-infection may become one of the diseases that pose a great threat to human health after malignant tumors, and has early carried out relevant innovative product layout, which included the cooperation with Professor Mark von Itzstein, the director of the Institute of Glycomics, Griffith University, Australia, as well as the inventor of "zanamivir", for obtaining the global rights of the world's first therapeutic parainfluenza product; obtaining the global rights of the world's first sepsis product initiated by The Australian National University. In addition, in May 2020, the Group was approved to conduct a phase II clinical study for the treatment of Acute Respiratory Distress Syndrome (ARDS) in patients with COVID-19 and a phase Ib clinical study for the treatment of sepsis in Australia. The said initiatives demonstrate the ability of Group to make forward-looking strategic layout.

"Broadness and Abundancy, Selectivity and Action". Looking into the future, the Group will continue to enrich the existing product pipelines in its superior areas, continue to introduce high-end R & D talents, increase investment in R & D costs, continue to consolidate its position as an industry leader in the superior areas, and make full use of the three core competitiveness of "**accurate and powerful business development capabilities at home and abroad, the introduction and digestion of international leading technologies, excellent marketing and sales capabilities**", which the Group has formed over the years and are leading in China, and focus on the layout of "the precision interventional therapy field" and "the anti-virus and anti-infection field". While consolidating the strength of the Company's own R & D team, it continues to promote international mergers and acquisitions and the introduction of advanced technologies and products, and cooperates deeply with top scientific research institutions around the world. Through the two-wheel drive of "self-development" + "global expansion", we are committed to becoming an international pharmaceutical company respected by patients and doctors and restored to society.

Corporate Profile

As of the date of the Report, core products of the Group are as follows:

PHARMACEUTICAL PREPARATION

Respiratory and ENT medicines:

Ophthalmic: Rui Zhu, He Xue Ming Mu series, Xin Bai Nei Ting, Travoprost and Jie Qi

Respiratory and ENT: Qie Nuo (Eucalyptol, Limonene and Pinene Enteric Soft Capsules), and Jinsang series

Cerebro-cardiovascular emergency medicines:

Li Shu An series, Rui An Ji series, Cedilan, Xin Wei Ning (Tirofiban Hydrochloride) and Nuo Fu Kang (Methoxamine Hydrochloride)

Anti-tumor drug:

Fluorouracil injection

MEDICAL DEVICES

Vascular interventional medical devices:

Paclitaxel Releasing Coronary Balloon Dilatation Catheter (RESTORE DEB)

Bio-technology products and nutrition products:

Taurine, amino acid, steroid medicines, bio-pesticides, and agricultural antibiotics

Specialized pharmaceutical raw materials and other products:

Metronidazole, chloramphenicol, dimethyl sulfate, nitromethane, epinephrine, etc.

The Group's products under development with potential to become blockbuster products are as follows:

PHARMACEUTICAL PREPARATION

Respiratory and ENT medicines:

Ophthalmic: BRM421 (dry eye disease)

Respiratory and ENT: New parainfluenza medicine, and Ryaltris

Cerebro-cardiovascular emergency: HIP and APAD sepsis products

Rare diseases:

Vigabatrin and Carglumic Acid

MEDICAL DEVICES:

Tumor intervention devices:

TAVO

SIR-Spheres Y-90 resin microsphere

Vascular intervention devices:

Paclitaxel Releasing Hemodialysis Shunt Balloon Dilatation Catheter (APERTO OTW)

Paclitaxel Releasing Peripheral Balloon Dilation Catheter (LEGFLOW OTW)

3D intracardiac imaging device for diagnosis (FORESIGHT ICE)

Vascular imaging device for diagnosis (NOVASIGHT Hybrid)

Corporate Profile

The medicines which have received Good Manufacturing Practice ("**GMP**") certifications issued by the National Medical Products Administration of the PRC are in the following dosage forms: large volume injections, small volume injections, tablets, hard capsules, soft capsules, pills, granulated medicines, tinctures, gels, external solutions, oral solutions, ointments, creams, eye drops, nasal drops, nasal sprays, freeze-dried powder injections, etc. The Group is also an emergency medicines manufacturer for national ready reserve, a national essential medicines base, a national centralized production base for minority-variety medicines, a national enterprise technology center, a recognized enterprise for integration of informationization and industrialization, a national pilot model enterprise for integrated development of manufacturing and Internet, a national model enterprise for intellectual property rights and a Hubei GMP training base.

Among existing products of the Group, there are more than 90 products included in the Chinese National List of Essential Drugs (2018 Version), more than 200 products included in the National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2019 Version) (the "**National Medical Reimbursement List**"). In particular, the Pediatric Cough Granule and Concentrated Sodium Chloride Injection were included in the National Medical Reimbursement List for the first time in 2019. In addition, core products of the Group have covered six major categories and eleven types of emergency drugs under the national catalogue. Several unique ENT products of the Group have been included in the list of the Protected Varieties of Traditional Chinese Medicines. In the second batch of national medicines procurement, the Group's metronidazole won the bid.

The Group has been adhering to an innovation-driven development path, attaching great importance to the protection of intellectual property rights, and encouraging scientific research teams to apply for various patents. As of 31 December 2019, the Group has an accumulative total of 246 valid patents, including 167 authorized invention patents, 38 authorized utility model patents and 41 authorized design patents.

MAIN PRODUCT DEVELOPMENT AND DEVELOPMENT OF THE GROUP DURING THE REPORTING PERIOD ARE AS FOLLOWS:

December 2019

- The Group entered into a three-party agreement with Sirtex Technology Pty Ltd. and Australian National University, obtaining cooperation in R&D related to HIP Project of anti-pyaemia drugs and license for intellectual property rights related to the project.
- The Group was enlisted in the Hang Seng biotechnology index in Hong Kong Stock Market.
- The Group entered into a license agreement and subscription agreement with BRIM Biotechnology, Inc. ("**BRIM**"), obtaining the exclusive development and commercial interests of BRM421 (the world's first product developed for treatment of dry eye diseases) in Greater China Region (mainland China, Hong Kong and Macao) for 20 years, and acquiring approximately 6% equity interests of BRIM with an investment of NTD160 million.

November 2019

- The Group was approved by the Consumer Products Industry Department of the Ministry of Industry and Information Technology of China （"**MIIT**"） as the builder of Small-Variety Medicine (Deficient Medicine) Production Base.
- The Group established a R&D Center in Australia, and entered into an exclusive license and development cooperation agreement with Griffith University, obtaining the global development and commercial interests of the world's first product for treatment of parainfluenza virus developed by Institution for Glycomics, Griffith University.

October 2019

- The Group purchased approximately 44% shares of OncoSec Medical Incorporated, and also acquired commercial interests of the TAVO™ (Tavokinogene Telseplasmid), the world's first gene immunotherapy product, in Mainland China and 38 other Asian countries and regions.
- An innovative coronary intervention product "Paclitaxel Releasing Coronary Balloon Dilatation Catheter" (the "**RESTORE DEB**"), the first product in the Chinese market for treatment of two indications (in-stent restenosis ("**ISR**") and small vessel disease ("**SVD**") co-developed by the Group and Cardionovum GmbH, an associated company of the Group in Germany, was granted the medical device registration certificate by National Medical Products Administration of PRC. The Group will be responsible for the promotion and distribution of such products in China.

August 2019

- Qie Nuo, the exclusive and core product of the Group for the respiratory field, was successively included into the National Medical Reimbursement List (2019 Version) and National List of Essential Drugs (2018 Version).

June 2019

- 100,000 patients all over the world received the treatment by SIR-Spheres® Y-90 resin microspheres, an interventional radioactive treatment for patients with Malignant liver tumor. More than 1,000 healthcare institutions and hospital systems in the world can offer this treatment for patients with liver cancer.

March 2019

- The Committee on Foreign Investment in the United States ("**CFIUS**") concluded all action under relevant law and issued the approval on the acquisition of Sirtex Medical Pty Ltd ("**Sirtex**") by the Group and CDH Genetech Limited ("**CDH Genetech**") ("**The Acquisition**").

- Our self-developed Vigabatrin Tablet for treatment of complex partial seizures and infantile spasms, was included in the priority list for drug examination and approval by the Center for Drug Evaluation (CDE) as the first domestic generic drug for orphan diseases.

February 2019

- The "NOVASIGHT" (血管內超聲光學相干斷層同步成像系統), an innovative medical device product of CONAVI MEDICAL INC. ("**CONAVI**"), a Canadian medical device company, invested by the group, has entered the special review process by NMPA of China.

- The Group entered into an exclusive license agreement with Glenmark Specialty S.A., a Swiss research and development institution. The Group was licensed to exclusively sell Ryaltris, a compound nasal spray in the PRC for a period of 20 years.

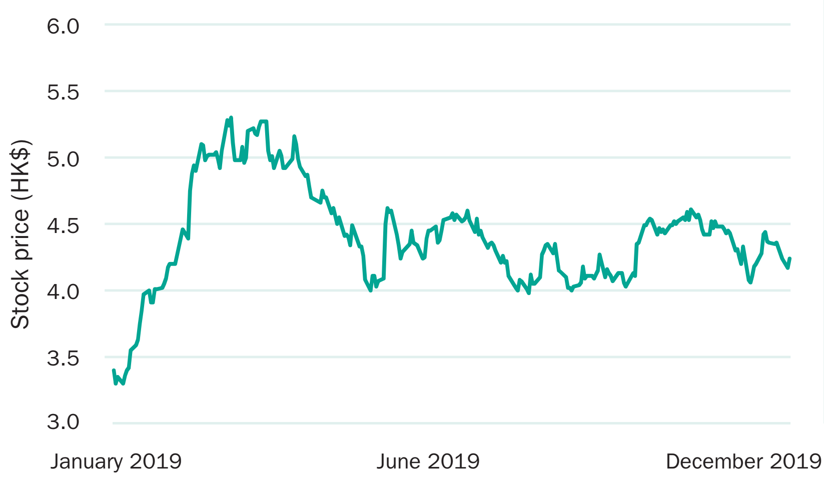
January 2019

- The self-developed eye drops "Travoprost" (product name: Nuo Ming) for the treatment of glaucoma was formally launched into the market.

For more details of the Group, please refer to the website of the Group: http://chinagrandpharm.com/.

The Company's stock price trend chart in 2019

Table 1.1



Revenue:
HK$6.59 billion (2019)

Net profit attributable to the owners of the Company:
HK$1.15 billion (2019)

The total cash dividend paid for 2018 was approximately HK$290 million

Corporate Profile

Sales Network (China)

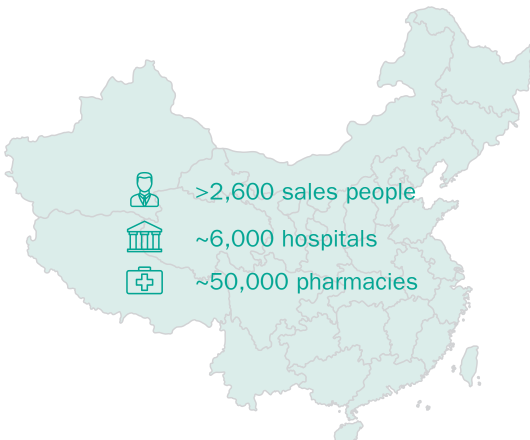
Table 1.2

First business division
Drug commercial and hospital promotion, covering the major commercial companies nationwide and other pipeline network

Second business division
Covering the central city hospital

Third business division
Ophthalmic general medicine sales, covering pharmacies

The ministry of commerce
Commercial pipeline construction, bidding coverage: all provinces



Fifth business division
Non-prescription product terminal promotion, covering pharmacies

Sixth business division
Covering secondary potential urban hospitals

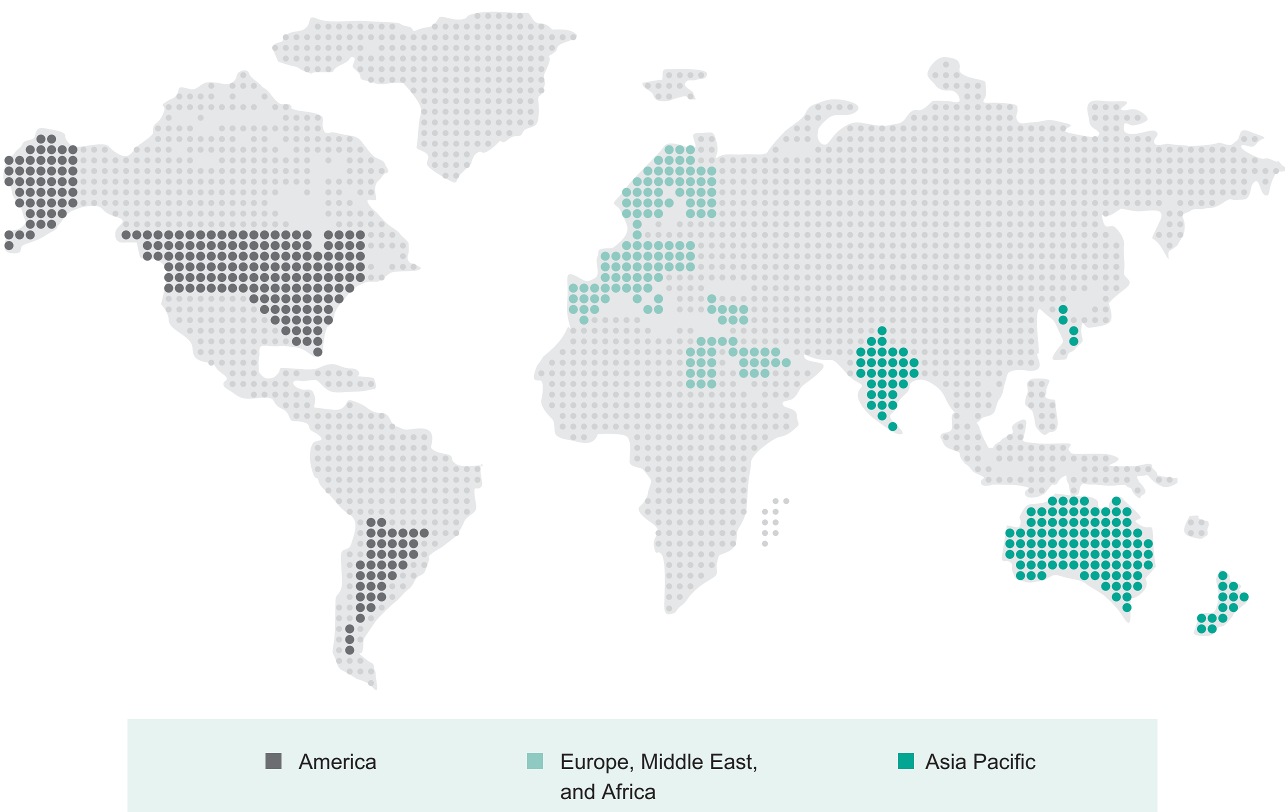
Seventh business division
Sales of Shubang and other products

Qie Nuo division
Sales of Qie Nuo (hospitals and pharmacies)

Traditional Chinese medicine division
Sales of traditional Chinese medicine products (hospitals and pharmacies)

Global Sales Network of Sirtex

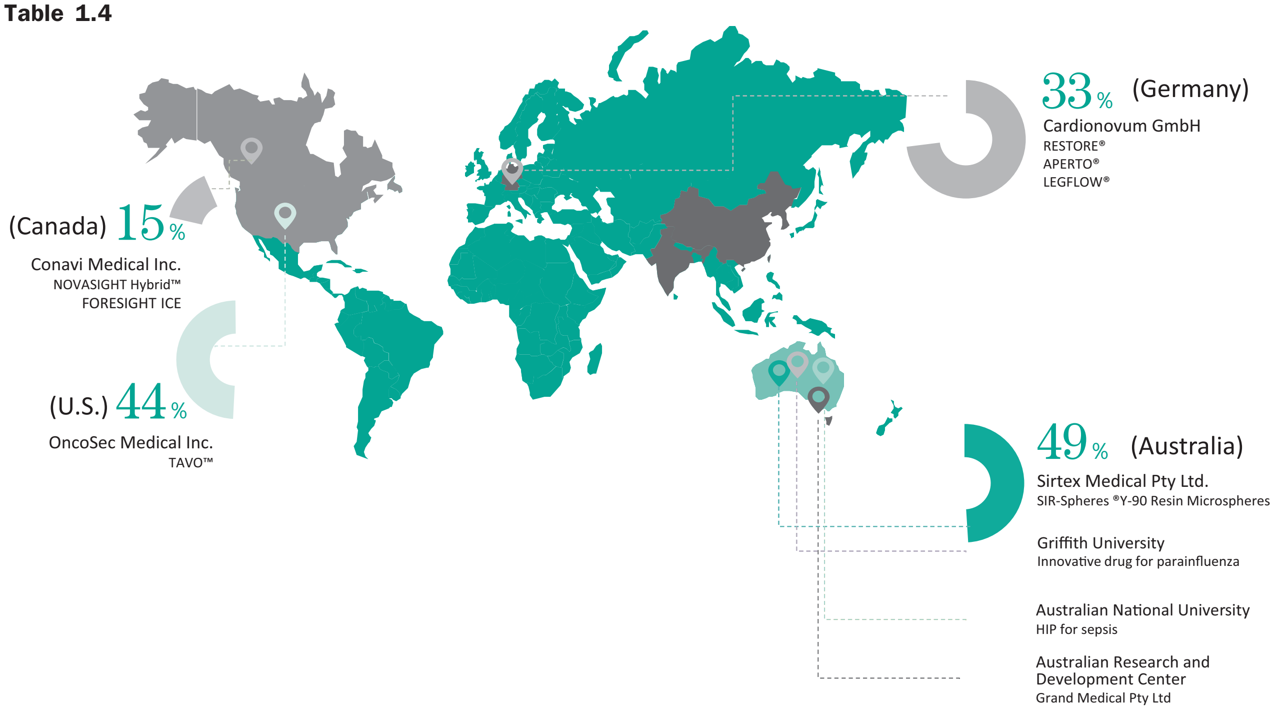
Table 1.3



THE GLOBAL LAYOUT OF THE GROUP

While continuing to give play to its local advantages, the Group adheres to the dual-wheel driving development strategy of independent R&D and international M&A. The Group absorbs top products and technologies with barriers in the globe, continuously enriches the product pipeline of the Group, and introduces international advanced management model, thereby improving the overall product competitiveness and operation level of the Group.

Table 1.4



Note: percentage (%) represents the proportion of equity interests in overseas companies

Corporate Profile

Particulars of the Group's principal subsidiaries are as follows:

Company name and percentage of equity interest	Positioning and functions
Grand Pharma (China) Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Pharmaceutical Co., Ltd. 99.18%	Manufacture of pharmaceutical raw materials
Wuhan Grand Hoyo Co., Ltd. 84.76%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Life Science & Technology Co., Ltd. 97.43%	Research and development, manufacture and sales of taurine products
Hubei Grand Biotechnology Co., Ltd. 49.69%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Fuchi Pharmaceutical & Chemicals Co., Ltd. 89.60%	Research and development, manufacture and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Pharmaceutical Company Limited 99.84%	Manufacture and sales of ophthalmic pharmaceutical products
Zhejiang Xianju Xianle Pharmaceutical Co., Ltd. 67.00%	Research and development, manufacture and sales of steroid hormones active pharmaceutical ingredients and related intermediates
Wuhan Kernel Bio-tech Co., Ltd. 91.56%	Research and development, manufacture and sales of bio-technology products series
Hubei Wellness Pharmaceutical Co., Ltd. 99.84%	Manufacture and sales of pharmaceutical products
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. 59.90%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Grandpharma Group Sales Co., Ltd. 99.84%	Sales of pharmaceutical products
Beijing Huajin Pharmaceutical Co., Ltd. 71.88%	Research and development, manufacture and sales of pharmaceutical products
Huangshi Fuchi Water Affairs Company Limited 99.84%	Treatment of sewage
Beijing Grand Jiuhe Pharmaceutical Co., Ltd. 96.84%	Research and development, manufacture and sales of pharmaceutical products
Tianjin Jingming New Technology Development Co., Ltd. 73.18%	Research and development, manufacture and sales of pharmaceutical products
Zhu Hai Cardionovum Medical Device Co. Ltd. 77.89%	Sales of medical devices
Xi'an Beilin Pharmaceutical Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Technology Co., Ltd. 99.84%	Research and development
Grand Medical Pty Limited 100%	Research and development

The principal associates of the Group are as follows:

Company name and percentage of equity interest	Positioning and functions
Sirtex Medical Pty Ltd 49.00%	Research and development, manufacture and sales of pharmaceutical products
OncoSec Medical Incorporated 48.31%	Research and development, manufacture and sales of pharmaceutical products
Shanghai Xudong Haipu Pharmaceutical Co., Ltd. 55.00%	Research and development, manufacture and sales of pharmaceutical products
Cardionovum GmbH 33.33%	Research and development, manufacture and sales of devices

Financial Summary

For the year ended 31 December 2019

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**6,590,635**	5,958,355	4,770,850	3,696,164	3,245,546
Profit before tax	**1,355,973**	883,899	558,939	313,964	240,563
Income tax	**(230,485)**	(147,460)	(73,181)	(44,602)	(40,156)
Profit for the year	**1,125,488**	736,439	485,758	269,362	200,407

ASSETS AND LIABILITIES

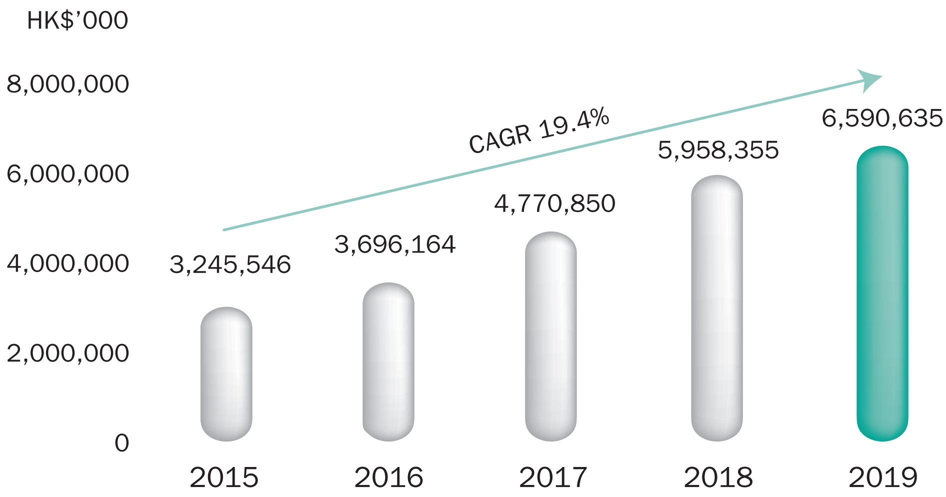
	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**13,813,307**	13,496,659	8,062,791	7,141,947	6,633,385
Total liabilities	**(5,302,300)**	(6,062,032)	(5,603,190)	(5,165,860)	(5,229,046)
Net assets	**8,511,007**	7,434,627	2,459,601	1,976,087	1,404,339

Financial Summary

For the year ended 31 December 2019

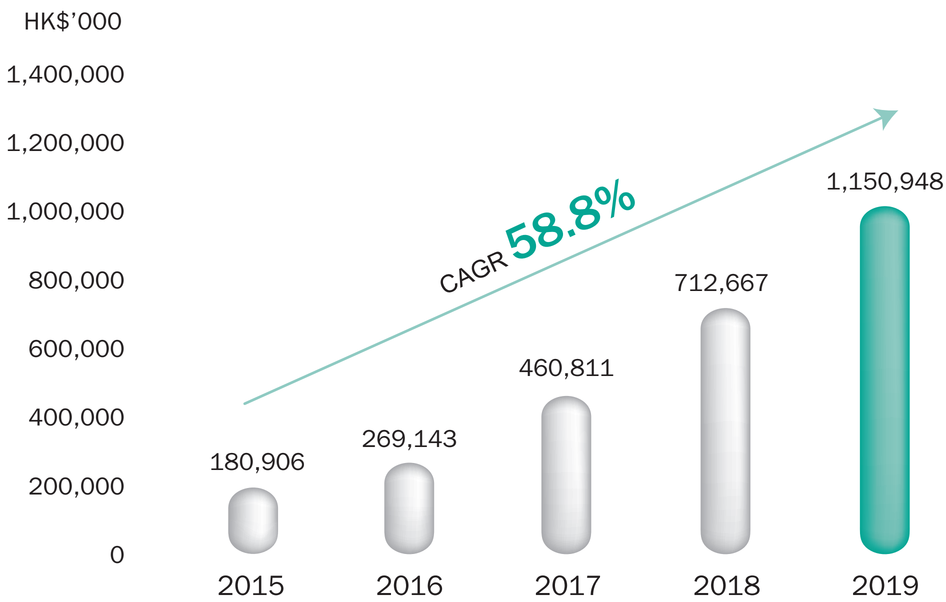
Revenue growth

Table 1.5



Increase rate of net profit attributable to the owners of the Company

Table 1.6



Core products

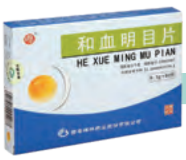
Preparation products with sales of above RMB100 million:

Above RMB500 million

Qie Nuo

Li Shu An

From RMB100 million to RMB500 million



He Xue Ming Mu

Xin Wei Ning

Rui Zhu

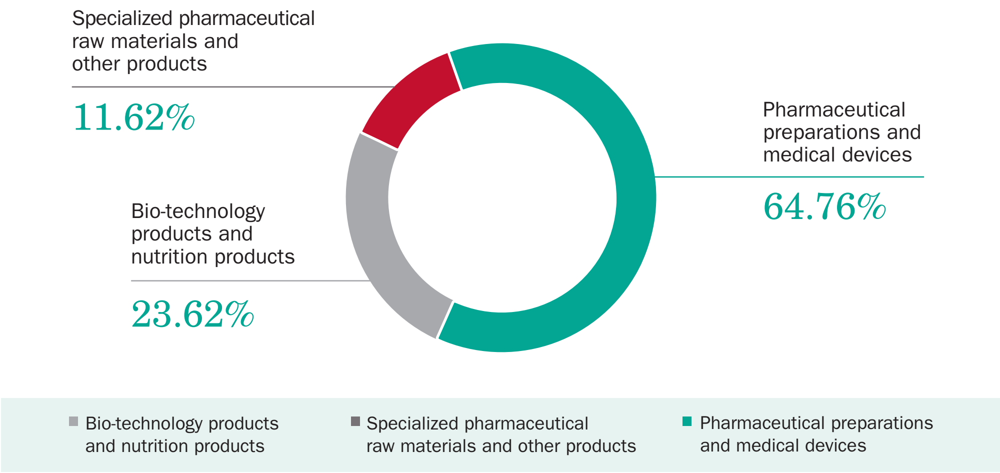
Jinsang series

Financial Summary

For the year ended 31 December 2019

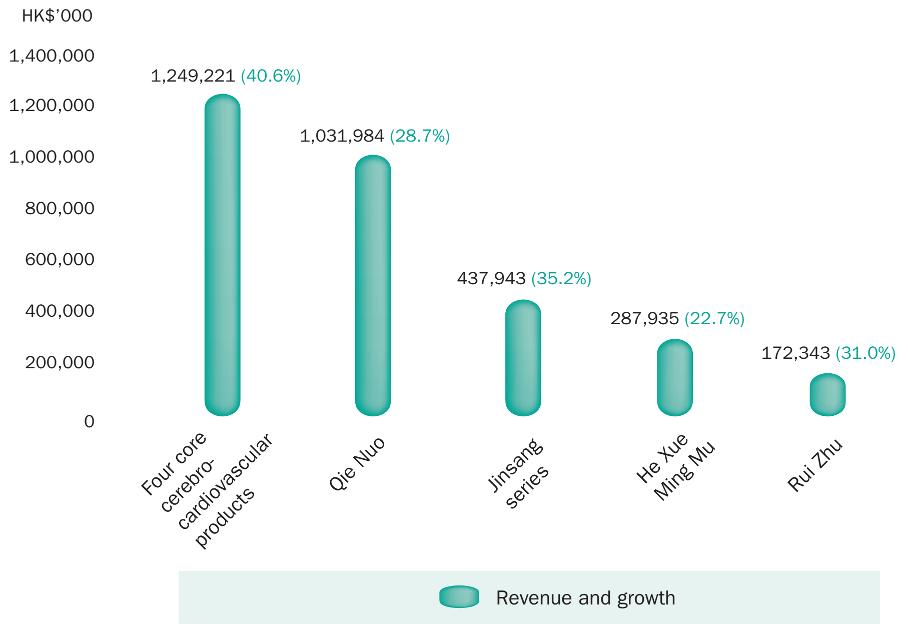
The revenue analysis of the Group by business segments is as follows:

Table 1.7



The revenue analysis of the Group's core products is as follows:

Table 1.8



INDUSTRY REVIEW

In 2019, high-quality and efficient development was maintained in the pharmaceutical industry, with an increase in the number of drugs approved by the Center for Drug Evaluation ("**CDE**") of the National Medical Products Administration ("**NMPA**") of China. During the period from January to November of 2019, the operating income of pharmaceutical industrial enterprises increased by 8.9% year on year and their total profit increased by 11% year on year. At the same time, an array of favorable policies introduced by the Chinese government, including quantity-based procurement of drugs, access to the new medical insurance catalogue through negotiations, and national fiscal support for research and development of innovative drugs, further improved the medical market system and promoted the healthy development of the medical market. In this context, the Group firmly grasped the opportunities emerging in the Chinese medical market in 2019 in a market-focused and policy-oriented manner. The Group actively responded to the national policies, and developed its business by continuously expanding product coverage.

NMPA showed that the Chinese pharmaceutical industry has become one of the most rapidly-developing industries in the national economy with its continuous expansion in overall scale since the reform and opening-up of China. With ongoing industrialisation and urbanisation, aging population and the changes in ecological environment and mode of life, some types of disease have become major causes of death and created burden of disease for the Chinese. The Opinions of the State Council on the Implementation of Healthy China Initiative (國務院關於實施健康中國行動的意見) published in June 2019 revealed that cerebro-cardiovascular diseases, cancers, respiratory illnesses, diabetes and other diseases contributes over 70% of the total burden of disease and approximately 88% of total deaths, and have been a key factor that hinders the increase in healthy life expectancy in China. As such, both generic and innovative drugs for preventing and treating four major diseases, namely cerebro-cardiovascular diseases, cancers, chronic respiratory illnesses and diabetes will have greater development opportunities, and pharmaceutical enterprises which implement strategic plans accordingly will be able to lead their rivals.

In the past year, opportunities and challenges existed side by side. The outbreak of coronavirus epidemic at the end of 2019 will unavoidably result big impact toward the global economy in 2020. The Group, a pharmaceutical enterprise headquartered in Wuhan and pledging to shoulder its social responsibility, ensured that the firstline drugs are steadily supplied to cope with the epidemic. Eight of our drugs have been included in the procurement catalogue of Huoshenshan Hospital and Leishenshan Hospital, and the Group's production lines of two emergency specialty of Jinsang series for clearing heat and removing toxicity, Eucalyptol, Limonene and Pinene Enteric Soft Capsules (Qie Nuo), antiviral oral solution and epinephrine for emergency medical treatment also resumed production on an emergency basis to ensure the supply of medical materials during the epidemic. At present, our production and operation are underway smoothly and orderly. We are making every effort to achieve compliant, orderly and stable production and operation on the premise of ensuring the health of employees.

BUSINESS REVIEW

Group Positioning

The Group is a global comprehensive pharmaceutical enterprise, which is principally engaged in the research and development, manufacture and sales of pharmaceutical preparations, high-end medical devices, specialized pharmaceutical raw materials, bio-technology products and nutrition products. The core products of the Group cover several major businesses represented by the respiratory and ENT, cardiovascular emergency preparations, anti-tumor agents and high-end medical devices, bio-technology products and nutrition products. The Group has mainly focused on four business scopes, namely "innovative drugs with high entry barriers", "branded drugs", "integration of raw materials", and "nutrition products".

The Group attaches great significance in the research and development and innovation. While enhancing its own research and development capacities, the Group has also further improved its product lines through international mergers and acquisitions. The Group is committed to expanding and consolidating its foundation, and enhancing its core competitiveness, so as to transform itself into a global innovative comprehensive pharmaceutical enterprise at a stable and rapid pace.

After several years of stable, rapid and high-quality development, the Group currently has developed into a comprehensive and internationalised pharmaceutical enterprise group that spans both pharmaceuticals and high-end medical devices on an international scale. It has also become one of the leading enterprises in the respiratory and ENT treatment, cerebro-cardiovascular emergency treatment, interventional internal radiotherapy for tumor treatment and cardiovascular interventional treatment and other sectors in the PRC.

RESEARCH AND DEVELOPMENT

The Group continued to focus on the development of new products in sectors including cerebro-cardiovascular emergency, respiration, anti-tumor, ophthalmology and ENT, and proactively introduced high-end R&D talents to build and improve the R&D platform of products. For the whole year of 2019, the Group obtained one production license, one medical device registration certificate and 3 consistency evaluation approvals, and its one product obtained the special approval for national innovative medical device and one drug obtained the preferential approval qualification. There are a total of more than 70 projects under development.

R&D Team

The Group is honored to appoint Dr. Shi Lin, the head of neuroscience European regulations of a famous multinational pharmaceutical company in the world and the liaison officer of U.S. Food and Drug Administration (美國食品藥品管理局) ("**FDA**"), as the Company's global chief medical officer. She is responsible for developing the Group's international new drugs, strengthening and perfecting the development system of new drugs. At present, there are more than 300 R&D personnel, among which nearly 60% hold master's degree and doctorate degree.

Construction of Overseas R&D Platforms

In November 2019, the Australian R&D Center was established to explore and develop and research overseas projects.

Approval for Production of Glaucoma Drugs

In January 2019, the Travoprost eye drops (product name: Nuo Ming) independently developed by the Group for the treatment of glaucoma obtained the production approval by NMPA of China, which is the first generic drug launched in our country. As the first product launched in the Chinese glaucoma treatment market, this product is also a major breakthrough in China's glaucoma treatment research and development.

Consistency Evaluation

Three products, namely sodium bicarbonate tablets, metronidazole tablets and trimetazidine tablets, were approved for listing after passing consistency evaluation, among which, sodium bicarbonate tablets and metronidazole tablets were admitted to the national second batch of centralized drug purchase catalogues with metronidazole tablets being selected in the first order.

RESTORE DEB and APERTO OTW were Approved for Marketing

In October 2019, an innovative coronary intervention product Paclitaxel Releasing Coronary Balloon Dilatation Catheter (the "**RESTORE DEB**"), which is the first product in the PRC market being able to treat 2 indications (in-stent restenosis ("**ISR**") and small vessel disease ("**SVD**")), co-developed by the Group and Cardionovum GmbH, an associated company of the Group in Germany, has been granted the medical device registration certificate by NMPA of China. The Group will be responsible for the promotion and distribution of such products in the PRC. It reflects a wide range of clinical value and market prospects. The Group used 3 years to complete the prospective, multi-center and randomized controlled clinical study of RESTORE DEB for 2 indications, namely ISR and SVD, and proved the safety and efficiency of RESTORE DEB in the treatment of ISR and SVD. The results were presented in the Transcatheter Cardiovascular Therapeutics congress held in the United States on 23 September 2018. It was also published on the JACC Cardiovascular Interventions, an internationally authoritative cardiovascular intervention academic journal.

In July 2019, a drug coating balloon product "Paclitaxel Releasing Hemodialysis Shunt Balloon Dilatation Catheter" ("**APERTO OTW**"), which is the first in the PRC market specified for patients on hemodialysis and suffering shunt restenosis and co-developed by the Group and Cardionovum GmbH, an associated company of the Group in Germany, was submitted for approval. In April 2020, APERTO OTW was granted the medical device registration certificate by NMPA of China. APERTO OTW is the first drug coated balloon product in the China market specified for arteriovenous fistulas ("**AVF**") stenosis. The balloon catheter contains the characteristics of both drug application and high pressure. In comparison with plain old balloon angioplasty ("**POBA**"), the current primary treatment option for shunt restenosis in arteriovenous fistulas, APERTO OTW can significantly increase the patency rate of dialysis access of patients, and it is expected to be a better treatment option for shunt restenosis in arteriovenous fistulas.

Special Approval and Preferential Approval for Innovative Medical Devices

The "**NOVASIGHT**" (血管內超聲光學相干斷層同步成像系統), an innovative medical device product of CONAVI MEDICAL INC. ("**CONAVI**"), a Canadian medical device company, invested by the Group, has entered the special review process by NMPA of China.

In March 2019, "Vigabatrin Tablet", which is self-developed by the Group in treatment refractory partial epilepsy and infantile spasms, was included in the preferential review and approval list of CDE of China as an orphan drug in view of its first to China. Before this, "Carboglutamic Acid Tablets" for the treatment of hyperammonemia was also included in the priority review and approval list. At the same time, there were five orphan drugs under study of the Group included in the "the first batch of orphan drugs catalogue". The Group has established a strategic cooperative relationship with the Institute of Materia Medica, Chinese Academy of Medical Sciences to jointly develop orphan drugs and open up a new journey of research and development of orphan drugs in China.

Intellectual Property Protection

The Group also emphasizes on the protection of intellectual property rights. It encourages its enterprises to actively apply for patent applications as a means to enhance the Group's core competitiveness. Throughout the year 2019, the Group has filed 22 core patents and 67 peripheral patents and received 17 authorized invention patents. Cumulatively, the Group has obtained 246 valid patents, including 167 invention patents, 38 utility model patents and 41 apparel design patents.

Investment, M&A and Cooperation

In 2019, the Group carried out six significant investment and acquisition activities with the purpose of further strengthening its reserve and competitiveness of innovative products in the core treatment fields, improving its R&D strength, speeding up the internationalization, and offering impetus to the long-term development of the Group.

Exclusive License Agreement for A New Compound Nasal Spray Ryaltris

In February 2019, the Group entered into an exclusive license agreement with Glenmark Specialty S.A., a Swiss research and development company. The Group was exclusively licensed to exclusively sell Ryaltris, a new compound nasal spray in China for a period of 20 years. Ryaltris is a new compound nasal spray integrating glucocorticoid and antihistamine drugs, used by patients above 12 years old for treatment of seasonal allergic rhinitis. The clinical trial results prove that its treatment result is better than those using single formula and also substantially minimizes the side effects. It is expected to be a better treatment option for rhinitis patients. This product is in the approval and formation provision status under U.S. FDA, and at the same time the clinical trial proposal in China is under design stage. Upon approval by FDA, an application will be made to CDE for import registration. China is one of the countries with the highest incidence of allergic rhinitis in the world. According to the Chinese Society of Allergy Guidelines for Diagnosis and Treatment of Allergic Rhinitis (中國過敏性鼻炎診療指南) published in 2018, from 2005 to 2011, the incidence of adult allergic rhinitis in China increased from approximately 11.1% to approximately 17.6%; at present, there are approximately 150 million adults with rhinitis in China, over 6 million of whom are patients with moderate and severe allergic rhinitis, as calculated according to market research.

Purchase of Shares of OncoSec and Licensing Agreement (Globally Innovative Immunotherapy-TAVO™ (Tavokinogene Telseplasmid))

In October 2019, the Group purchased approximately 44% shares of a U.S.-based biotechnology company OncoSec Medical Incorporated ("**OncoSec**") with US$25 million. OncoSec is a biotechnology company at the clinical stage, which develops the cytokine-based tumor immunotherapy with its proprietary electroporation transfer technology. Its internationally first gene immunotherapy product TAVO™ (Tavokinogene Telseplasmid) was granted the fast channel by U.S. FDA and approved as the orphan drug for the treatment of unresectable and metastatic melanoma in 2017, as a potential therapy for refractory and metastatic melanoma. In 2019, the product was classified into the Advanced Therapy Medical Product (ATMP) by European Medicines Agency (EMA). The phase 2 clinical research of TAVO for terminal melanoma after pure anti-PD-1 treatment is under progress, and is expected to be completed at the end of 2020. The acquisition will be completed in February 2020. The Group, jointly with Sirtex Medical US Holdings, Inc. (an associate company of which 49% shares are indirectly held by the Company), hold approximately 53% equity of OncoSec, and have obtained the commercialization rights of the licensed products in Mainland China and 38 other Asian countries and regions.

Global Development and Commercialization of the World-wide First-in-class Product for the Treatment of Parainfluenza

In November 2019, the Group entered into an exclusive licensing and co-development agreement with Griffith University in Australia, pursuant to which the Group obtained the global development and commercialization rights for the world-wide first-in-class product for the treatment of parainfluenza developed by the Institution for Glycomics, Griffith University. The development of this product will fill the gap of treatment for parainfluenza in the market.

Acquisition of Equity Interests of Wuhan Grand Hoyo Company Limited

In November 2019, the Group entered into an acquisition agreement for the acquisition of approximately 24.6% equity interests of Wuhan Grand Hoyo Company Limited (the "**Grand Hoyo**"), an indirect non-wholly owned subsidiary of the Company, at a consideration of RMB73,724,700. The transaction was completed in November 2019, and the Group holds approximately 84.76% equity interest in Grand Hoyo.

The R&D collaboration and The Licensing of the Intellectual Property on the World-wide First-in-class Drugs for the Treatment of Sepsis

In December 2019, the Group entered into a tripartite agreement with Sirtex Technology Pty Ltd. and Australian National University, pursuant to which the Group was granted the R&D collaboration and the licensing of the intellectual property related to the HIP project. The products introduced by HIP project are drugs for treatment of sepsis using a new mechanism. Sepsis is a life-threatening organ dysfunction caused by an immune response to infection. According to the information shown in the Chinese Guidelines for Emergency Treatment of Severe Sepsis and Septic Shock (2018) (中國膿毒症╱膿毒性休克急診治療指南(2018)), sepsis affects more than 19 million people worldwide each year, with a fatality rate of more than a quarter. At present, there is no drug on the market for this indication, which means there is an urgent market demand. There is pressing demand for drugs for clinical treatment of sepsis, a disease with continuously increasing incidence and high mortality rate. Thus drugs for treatment of sepsis have a tremendous market potential.

In May 2020, HIP Project was approved to commence phase II clinical research in Australia for the treatment of acute respiratory distress syndrome (ARDS) suffered by COVID-19 patients ("**COVID-19 ARDS**"), and also the phase Ib clinical research for treatment of sepsis.

Exclusive Development and Commercialization Rights of BRM421 (An Internationally First Product Used for the Treatment of Dry Eye Disease)

In December 2019, the Group entered a licensing agreement and a share subscription agreement with BRIM Biotechnology, Inc. (the "**BRIM**"), pursuant to which the Group obtained the exclusive development and commercialization rights in Greater China Region (mainland China, Hong Kong and Macao) of BRM421 for 20 years, an internationally first product used for the treatment of dry eye disease which is developed by the BRIM, and the Group acquired approximately 6% equity of BRIM at a price of NTD155 million. BRM421 is a global innovative small molecule peptide eye drops product, which can speed up the division and proliferation of limbal stem cells, and in turn stimulates the repair of ocular surface for curing the dry eye disease. This product is undergoing the phase 2 clinical research in the United States. It has high safety standard and low irritation. It has the potential to quickly relieve the symptoms and signs of dry eye disease within 2 weeks. Compared with such marketed therapeutic products for dry eye as cyclosporine eye drops, which generally take three to six months to take effect and have obvious eye irritation, BRM421 has obvious advantages of quick effect and little irritation. It is planned to commence a larger scope of clinical research at the beginning of 2020 for supporting the commercialization of such products.

One of the Second Batch of Centralized Production Base Construction Units for Minority-variety Drug (Inadequate Drugs)

In November 2019, the Group became one of the second batch of centralized production base construction units for minority-variety drug (inadequate drugs) approved by the Consumer Goods Industry Department of MIIT. According to the catalogue of small varieties of drugs of the national ministries and commissions, the Group is able to produce and supply 30 kinds of minority-variety drug and 38 specifications. The Group normally produces 13 varieties and 15 specifications, and is able to produce the rest varieties within one year. After becoming the centralized production base construction units for minority-variety drug (inadequate drugs), the Group will receive strong support from MIIT and the National Development and Reform Commission ("**NDRC**") in terms of production technology transformation, drug quality and efficacy consistency evaluation, and the relevant products will also be given priority review and approval from the food and drug supervision agencies. At the same time, National Health Commission of China ("**NHC**") will implement centralized online procurement and guarantee reasonable procurement prices for minority-variety drugs produced in centralized production bases. Relevant supportive policies not only further enhance the comprehensive strength of the Group, but also provide guarantee for the growth of minority-variety drug performance.

Updates on Significant Matters

With reference to the disclosure in the 2016, 2017 and 2018 annual report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "**Tianjin Jingming**"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2019, the court has concluded 53 cases, and Tianjin Jingming has appealed 16 cases against the judgement of first instance with aggregate compensation of approximately RMB16.64 million. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB14.43 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and Grand Pharm (China) Co., Ltd.("**Grand Pharm (China)**") had claimed the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgment by the court, he original shareholders of Tianjin Jingming should compensate to us approximately RMB8.09 million as the existing compensate and liquidated damages at the point of judgment. Grand Pharm (China) also has the right to raise litigation claiming the original shareholders of the Tianjin Jingming for the indemnification related to such product quality incident made by Tianjin Jingming in the future, the Directors therefore are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "**Actual Profit**") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "**Performance Guarantee**"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court and received the final judgement from the court in February 2018. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. The vendors subsequently applied for rehearing of the aforesaid judgement, and the matter was reheard according to the court's judgement. In December 2019, the Higher People's Court of Hubei Province made a final judgment: the appeal from vendors was dismissed and the original judgment was upheld.

REVENUE

For the year ended 31 December 2019, the Group recorded a revenue amount of approximately HK$6,590.64 million, representing an increase of 10.6% as compared with the same period of 2018. The increment of the revenue is mainly due to the Group vigorously develops specialized pharmaceutical products with large market and high-entry barriers, exclusive or protected pharmaceutical products and branded pharmaceutical products, especially the pharmaceutical preparation category recorded significant growth. In addition, various products of the Group are still listed in the National Medical Reimbursement List published during the year, and a few products were newly added into the list, as a result the number of products of the Group listed in the new version of National Medical Reimbursement List were more than the old version and allow the Group gaining more market share. As a result of continuous fine-tuning of the product portfolio, the proportion of products with high gross profit keep growing and resulting the increment of average gross profit margin of the Group to approximately 61.3% during the year, which is approximately 8.2 percent points higher than the approximately 53.1% in the same period of 2018. During the year, the profit attributable to the owners of the Company was approximately HK$1,150.95 million. It is benefited not only from the increment of revenue and gross earnings as stated above, but also the share of profit (net) from associates also recorded approximately HK$114.96 million (among which Xudong Haipu, which the acquisition were completed in the second half of 2018, contributed unaudited profit of approximately HK$244.56 million in aggregate). As a result, the profit for 2019 attributable to the owners of the Group increased by approximately 61.5% as compared with the same period of 2018. If excluding the effect of changes in exchange rate, for the year ended 31 December 2019 the revenue of the Group increased by approximately 15.6% and the profit for the period attributable to the owners of the Company increased by approximately 69.4% as compared to the same period of last year.

Pharmaceutical Preparations and Medical Devices

Pharmaceutical preparations and medical devices are the major sources of profit of the Group. The core products include the respiratory and ENT medicines, cerebro-cardiovascular medicines and medical devices, etc. For the year ended 31 December 2019, the revenue amount of pharmaceutical preparations and medical devices was approximately RMB3,763.05 million with the increment of approximately 24.3% as compared with approximately RMB3,027.64 million in the same period of 2018.

Respiratory and ENT medicines and devices

In recent years, the Group devotes to build the most comprehensive supply chain of respiratory and ENT medicines in the PRC, covering the prescription drugs, non-prescription drugs, Chinese medicine, medical devices, consumables and healthcare products, etc., and providing an all-rounded treatments and care to medical professions and patients. For the ophthalmic aspect which focuses in the products for treatment, the Group has multi-channel industry advantages and brand market awareness. Through application of combined advantages of multi-products, the Group will further increase the promotion of non-prescription branded products and increase brand awareness from consumers to obtain further recognition of the Group and its brands. It will further launch new products in the future to enhance the competitiveness of the Group in the respiratory and ENT medication field. During the current financial year, the revenue from respiratory and ENT medicines and devices was approximately RMB2,179.09 million, which was increased by approximately 24.4% as compared with the same period of last year. It was benefit from the substantial growth of the two major sub-divisions of the respiratory and ENT field, in which:

- Ophthalmic: In 2019, the revenue from the ophthalmic products was approximately RMB748 million, with an increment of approximately 15.3% as compared with the approximately RMB648.87 million in the same period of 2018. The core non-prescription eyedrops “Rui Zhu” has recorded continuous growth in revenue, in which the revenue during the period was approximately RMB151.93 million, representing an increase of approximately 31.0% as compared with the same period of last year. Benefited from the increased revenue from the core ophthalmic products and formulations including National Protected Chinese Medicines He Xue Ming Mu series that are protected by the National Chinese Medicine patents, the revenue of approximately RMB253.83 million has been recorded, with an increment of approximately 22.7% as compared with the same period of 2018.

- Respiratory and ENT: In 2019, the revenue of the respiratory and ENT products of the Group was approximately RMB1,431.09 million, which was increased by approximately 29.8% as compared with the approximately RMB1,102.13 million during the same period of last year. The main catalyst came from the major product “Qie Nuo” of Beijing Grand Jiuhe Pharmaceutical Co., Ltd.. It was benefited from the effort of developing primary and retail markets by the newly established non-prescription drug sales team of the Group and the market recognition of pediatric formulations, and thus the revenue during the period was approximately RMB909.75 million, representing an increase of approximately 28.7% as compared with the same period of last year. Moreover, the revenue of Jin Sang series was increased by approximately RMB100.47 million to approximately RMB386.07 million during the year.

Cerebro-cardiovascular medicines and devices

The Group’s cerebro-cardiovascular emergency medicines mainly cover the field of platelet inhibitors, blood-pressure control, vasoactive drugs, etc., in which the platelet inhibitors injections and vasoactive drugs are in the pioneer position of the PRC market. With the benefit of the growing market recognition and trust in the Group’s products, for the year ended 2019, the revenue of the Group’s cerebro-cardiovascular medicines was approximately RMB1,168.60 million, increased by approximately 38.3% as compared with the same period of last year. Among this sector, the core products Li Shu An, Nuo Fu Kang, Xin Wei Ning and Rui An Ji contributed revenue amount of approximately RMB1,101.256 million, which was increased by approximately 40.6% as compared with the same period of last year.

Bio-technology Products and Nutrition Products

The core products of the bio-technology products and nutrition products include Taurine, amino acid products, bio-pesticides, bio-feed additives and steroid products, etc. In 2019, the revenue of the bio-technology products and nutrition products was approximately RMB1,372.51 million, increased by approximately RMB9.09 million as compared with the same period of 2018. Benefiting from the Group’s commitment to expanding its international businesses, the revenue of amino acid products was approximately RMB488.47 million, representing an increase of approximately 13.4% as compared with the same period of last year, and the revenue of products related to bio-pesticides and bio-feed additives also recorded an increase of approximately 15.4%. However, the production volume and revenue of steroid products decreased due to the production safety rectification of production plant of steroid products in the year. Upon completion of relevant works and acceptance in 2020, the production capacity is expected to restore to the previous level.

Specialized Pharmaceutical Raw Materials and Other Products

Specialized pharmaceutical raw materials and other products are the comparatively stable sector among the product sectors of the Group. To enhance the market competitiveness and improve the economic efficiency, the Group has always been investing in the improvement of the product technology and the product quality, reformation in the production technique to enhance the efficiency, and adjusting the product matrix. As the adjustment of product matrix was entering the final stage, the relevant revenue for the year also began to increase and reached approximately RMB674.44 million, an increase of approximately 6.0% as compared with the same period of 2018.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution costs and administrative expenses for the year were approximately HK$2,239.49 million and HK$612.98 million respectively, while they were approximately HK$1,759.87 million and HK$550.64 million respectively in the same period of last year. The increment of the distribution costs was mainly due to the Group invested in the exploration of new markets and promotion of products during the past year, and strengthened market activities in connection with the release of the new national medical insurance catalogue to fully explore the opportunity, which led to a revenue growth of over 10%. Following the expansion of business scope, the administrative expenses such as salaries and other office expenses also increased and thus resulted the overall administrative expenses increased by approximately 10.9% as compared with the same period of last year.

FINANCE COSTS

For the year ended 31 December 2019, the finance costs of the Group were approximately HK$146.50 million while they were approximately HK$203.30 million during the same period of 2018. The Group's effort in changing bank loans portfolio has achieved a result, and the holder of convertible notes converted such notes to the shares of the Company in the year, leading to a substantial reduction of approximately 27.9% in overall finance costs.

INVESTOR RELATIONS

The Group has been committing to improving its corporate governance to ensure the long-term development. During the year under review, the Group published annual and interim reports, interim and annual results announcements, and other announcements and circulars on the websites of the Company and the Hong Kong Exchanges and Clearing Limited, and issued voluntary announcements, so as to disclose the latest business developments of the Group to shareholders and investors. Meantime, the Group maintained active and close contact with investors through various channels, and introduced the Group's business and leading advantages to investors through road shows, telephone conferences, one-to-one meetings and company researches. It also released information on the latest business development through media channels, so that investors can understand the business status and prospects of the Group. The Group won the award of the "**3rd New Fortune HK Listed Company with the Best IR (H Shares)**". In addition, the Group also hopes to collect more valuable opinions through communication with investors to further enhance the corporate governance of the Group.

OUTLOOK AND FUTURE PROSPECTS

Among the four treatment areas with noteworthy growth potentials as described in the "Industry Review" paragraphs, the Group has established a firm groundwork in three areas, i.e. cerebro-cardiovascular diseases, cancers and respiratory illnesses, with its years of experience and development, especially in the recent five years. The Group has actively embraced this vast development opportunity by making preparations in different aspects, e.g. product pipelines, core products market share, academic marketing and promotion and key opinion leader (KOL) network development, product commercialisation, international talents for professional studies, reserves of future star products of drugs and medical devices.

The Group enjoys a high market share of and has recorded a steady growth in sales income from its cerebro-cardiovascular products, particularly emergency drug products. The Group offers core products that cover six out of the eight major categories and eleven out of the forty-eight types of emergency drugs under the national catalogue. It also occupies a leading position in the cardiac stimulants segment with the largest number of products offered. Certain core products have been initially approved to be on the state's list of alternatives for emergency drugs in deficiency and are under supply protection by state policies. For the reserves of future products, in addition to the R&D of its own first generic drugs for emergency use, the Group will also gradually introduce significant internationally-innovative products like device for interventional therapy and device for diagnosis, and global innovative drugs for the treatment of sepsis to China, further strengthening our leading position in the field of cardiovascular emergency treatment.

For cancer treatment products, the Group acquired an interventional product of nuclear radiotherapy, namely SIR-Spheres Y-90 resin microsphere product, for terminal liver cancer and an international platform for the R&D, marketing and sales of nuclear radiotherapy products through cooperation with CDH Genetech Limited in successful acquisition of Sirtex Medical Pty Ltd., an Australian life science corporation, in the 2018. Liver cancer is one of the main courses of death for Chinese. The liver cancer patients in China accounting for more than 50% of the world's liver cancer patients. Currently, no effective liver cancer treatment methods and new-technology-based products are available. Therefore, a great potential exists for the development of SIR-Spheres Y-90 resin microsphere in China. In 2019, the Group successfully acquired shares of OncoSec, a U.S.-based biotechnology company and obtained commercialization rights of TAVO, the first gene immunotherapy product in the world, and subsequently-developed products in Mainland China and 38 other Asian countries and regions, further expanding the Group's product pipeline in the anti-tumor field. TAVO is expected to effectively deal with 60%–90% unresponsiveness of immunotherapy. The value of treatment market is expected to reach USD100 billion with an annual compound growth rate above 14%. The synergistic effects between TAVO and Y-90 will speed up the Group's accession to the one-trillion-dollar market of tumor immunotherapy. The Group will make best efforts to develop itself into one of leaders in the field of nuclear medicine and tumor immunotherapy in China.

As to respiratory illnesses, the Group owns Qie Nuo as a unique star product with annual sales of nearly RMB1 billion, and is further exploring the academic and application fields of the product, which is expected to be the Group's star product which can alone generate market sales of more than RMB3 billion. In addition, the Company also has a number of reserved products, including internationally innovative products. The Group will apply experience and ability in win-win cooperation and coordinated merger to further develop more product lines in the respiratory aspect, with the goal of being the pioneer and major role in this field.

In the ENT aspect especially in the ophthalmic sector, the Group has become one of the largest suppliers of ophthalmic products in China, and several exclusive products have been included in the list of the Protected Varieties of Traditional Chinese Medicines (中藥品種保護目錄). In terms of innovation reserve, the dry eye disease product acquired by the Group at the end of 2019 will further enrich our ophthalmic pipeline. The Group will fight for more internationally innovative products in order to enhance the ability of sustainable development in this field and maintain its market leader position.

The Group also has good results in other treatment sectors, such as the study of drugs and product reserves for rare disease in which we have started study early and made quick implementation, and thus we already have 5 products listed on the National Catalogue for Rare Disease (國家罕見病產品目錄). Currently, China has launched many supportive policies such as clinical registration facilitation, preferential tax treatment and medical insurance coverage in respect of rare disease products. The Group will keep working hard to become the forerunners in this field.

China is one of the largest markets for generic drugs, and the future development of generic drugs will rely on the core competitiveness such as integration of raw materials and preparations, and cost and expense control capability. By strictly following the strategies of extending the industry chain and promoting the integration of drug substances and pharmaceutical preparations, the Group has laid a solid foundation for the development of the Group's generic drugs, drugs with high entry barriers and future innovative drugs and this will be essential for securing the Group's competitive edge in generic drugs.

Management Discussion and Analysis

While treading similar paths as those in other developed countries towards development, the Chinese pharmaceutical market will continue to make advancement. However, due to the shortage of innovative ideas and talents in the pharmaceutical industry and the extensive government intervention, it may take greater efforts and longer time for the industry to become established. It will be the Group's core concepts of future development and pathway towards a transformation from drugs with high entry barriers and branded drugs to innovative and advantageous products to attach its importance to serving patients, acting according to market demand and focusing on R&D. Our short-term development is to improve comprehensive strength and increase competitiveness in the domestic pharmaceutical market. Actively exploring overseas markets and transforming our business to international market represent a feasible medium-term development path. Investments will be made in innovative drugs to satisfy the needs of our long-term strategic development.

By fully capitalising on its integrated development edges, the Group will explore the global market, extend the market coverage and enhance the capability of international development, insist on the integrated development strategy of carrying out its own R&D, patent licensing and synergetic investment, mergers and acquisitions, operate in compliance with rules and regulations and sunshine laws, follow the rules and regulations during operation, take on social responsibility and persistently act in the interests of the patients, staff and shareholders as a whole, so as to gain the recognition of medical practitioners and patients and become one of the leading enterprises in the Chinese pharmaceutical market.

Financial Resources and Liquidity

As at 31 December 2019, the Group had current assets of HK$3,816.32 million (31 December 2018: HK$3,429.05 million) and current liabilities of HK$3,589.56 million (31 December 2018: HK$4,966.85 million). The current ratio was approximately 1.06 at 31 December 2019 as compared with approximately 0.69 at 31 December 2018.

The Group's cash and bank balances as at 31 December 2019 amounted to HK$1,059.27 million (31 December 2018: HK$912.24 million), of which approximately 3.7% were denominated in Hong Kong Dollars, United States Dollars, Australian Dollars, Euro and 96.3% in Renminbi.

As at 31 December 2019, the Group had outstanding bank loans of approximately HK$2,010.16 million (31 December 2018: HK$2,134.35 million) all granted by banks in the PRC and dominated in RMB. The interest rates charged by banks ranged from 2.92% to 6.89% (31 December 2018: 2.92% to 6.66%) per annum, in which approximately HK$1,221.53 million bank loans were charged at fixed interest rates. Certain bank loans were pledged by assets of the Group with a net book value of approximately HK$287.89 million (31 December 2018: HK$250.16 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was reduced to approximately 24.0% as at 31 December 2019 as compared with approximately 29.7% as at 31 December 2018.

Since the Group's principal activities are in the PRC and the financial resources available, including cash and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2019, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected directly or indirectly, by a number of risks and uncertainties pertaining to the Group's businesses. To the best of knowledge and belief, the Directors consider that the following are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risks

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

Foreign Exchange Rates Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2019, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

For interest-sensitive products and investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing the risk in a cost-effective manner when appropriate, through variety of means.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

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. The 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.

Economic Environment

Most of the Group's facilities, operations and its revenue are located in and derived from Mainland China and Hong Kong, the PRC. The Group's results of operations and financial condition therefore depend on the economies of Mainland China and Hong Kong, the PRC. The economy of Hong Kong is significantly affected by the developments in the Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative economic developments, and other regional economies may also deteriorate.

The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

Environmental Policies

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize its environmental impact by reducing water consumption and encouraging recycle of office supplies and other materials.

Compliance with Relevant Laws and Regulations

Save as disclosed above, during the year ended 31 December 2019, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

(ii) Suppliers

The Group has developed long-standing relationships with a number of suppliers and take a great care to ensure that they share its commitment to quality and ethics. The Group cautiously selects its suppliers and requires them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

The Group is committed to offer quality products to its customers and keep them informed its latest business developments.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group employed about 8,485 staff and workers in Mainland China and Hong Kong, the PRC (31 December 2018: about 8,006). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

MATERIAL ACQUISITIONS AND DISPOSALS

In September 2019, the Group entered into a stock purchase agreement for the subscription of 10,000,000 shares of OncoSec at a consideration of US$25,000,000. The transaction was completed in February 2020, and the Group owned approximately 44.0% equity interests of OncoSec.

In November 2019, the Group entered into an acquisition agreement for the acquisition of approximately 24.6% equity interest of Wuhan Grand Hoyo Company Limited (武漢遠大弘元股份有限公司) (the "Grand Hoyo"), an indirect non-wholly owned subsidiary of the Company, at a consideration of RMB73,724,700. The transaction was completed in November 2019, and the Group holds approximately 84.76% equity interest of Grand Hoyo.

In December 2019, the Group entered into a share subscription agreement with the BRIM Biotechnology, Inc. (the "BRIM"), pursuant to which the Group will subscribe 3,875,000 shares of the BRIM at a consideration of NT$155,000,000, which will be approximately 6% of the enlarged share capital of BRIM. As at the date of this report, the transaction was not yet completed.

Issue of new shares and use of proceeds

On 23 June 2014, the Company entered into a subscription agreement with CDH Giant Health I Limited for the subscription of a convertible bond in an aggregate amount of HK$300.00 million. The convertible bond can be converted into ordinary share of the Company ("Shares") at the initial conversion price of HK$1.35 per Share. The net proceeds from the subscription of such convertible bond was approximately HK$297.30 million. The closing price of the Share at the date of entering the agreement (i.e. 23 June 2014, being the last trading day for the Shares before entering the agreement) was HK$1.50 each Share. On 3 June 2019, the Company received a conversion notice from the holder of the convertible bond. The convertible bond was then fully converted and 222,222,222 Shares with an aggregate nominal value of approximately HK$2,222,222 were allotted and issued to the holder of the convertible bond on 3 June 2019. The issuance of such convertible bond was initially intended to finance an acquisition of a company, but subsequently the transaction was terminated and thus the unused proceeds were already applied as the general working capital of the Group.

On 24 May 2018, the Company entered into a subscription agreement with the Shanghai China Grand Asset Finance Investment Management Co., Limited ("Shanghai Finance"), pursuant to which the Shanghai Finance conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 228,148,148 subscription shares at the subscription price of HK$5.00 per subscription share (the closing price of the Share at the date of entering the agreement (i.e. 24 May 2018, being the last trading day for the Shares before entering the agreement) was HK$6.34 per Share) for a cash consideration of approximately HK$1,141.00 million for the settlement of consideration for the acquisition of equity interests in a company (further details can be referred to the announcement of the Company dated 24 May 2018). For the year ended 31 December 2018, the Group has received part of the subscription money amounted to approximately HK$1,038.10 million, and in aggregate 207,624,950 subscription shares with an aggregate nominal value of approximately HK$2,076,250 have been allotted and issued. The allotment and issuance of remaining 20,523,198 subscription shares with an aggregate nominal value of approximately HK$205,232 were completed on 3 May 2019 after the subscription money amounted to approximately HK$102.60 million (equivalent to the net issue price of approximately HK$5.00 per Share) received in 2019. The received money was used to settle the remaining consideration for the said acquisition.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2018, the Group as lessee had operating lease commitments of HK$7.03 million.

As at 31 December 2019, the Group as lessor had operating lease commitments of HK$0.52 million (2018: HK$0.81 million).

As at 31 December 2019, the Group had capital commitments of HK$7.65 million (2018: HK$13.47 million).

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

EVENTS AFTER THE ACCOUNTING PERIOD

Since January 2020, Wuhan City, Hubei Province, the PRC has reported certain confirmed cases of Novel Coronavirus which may affect the usual business environment of the country as a whole. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at the date of this report.

CONTINGENT LIABILITIES

As at 31 December 2019, the Directors were not aware of any material contingent liabilities.

APPRECIATION

On behalf of the board of Directors (the "**Board**"), I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Liu Chengwei
Chairman

Hong Kong, 12 May 2020

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange during the year ended 31 December 2019:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2019.

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive Directors — Mr. Liu Chengwei, Mr. Hu Bo, Dr. Shao Yan and Dr. Niu Zhanqi and 3 independent non-executive Directors — Ms. So Tosi Wan, Winnie, Mr. Hu Yebi and Dr. Pei Geng. Mr. Liu Chengwei is the Chairman and Dr. Shao Yan is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Liu, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Dr. Shao, as the Chief Executive Officer, focuses on the day- to-day management of the Group's business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive Directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent and meet the independent guidelines set out in the Listing Rules.

All Directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company's Bye-Laws.

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure the he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The audit committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the audit committee consists of three independent non-executive Directors namely, Ms. So Tosi Wan, Winnie (Chairwoman), Mr. Hu Yebi and Dr. Pei Geng. Ms. So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The audit committee held two meetings during the year ended 31 December 2019 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference. Currently, the remuneration committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Mr. Liu Chengwei and an independent non-executive Director Mr. Hu Yebi as members.

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and reviewing specific remuneration package of all Directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The remuneration committee met once during the year to review the remuneration policy for all Directors and senior management.

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2019 are set out in note 15 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has established a nomination committee with written terms of reference. Currently, the nomination committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Dr. Shao Yan and an independent non-executive Director Mr. Hu Yebi as members.

The nomination committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The nomination committee held a meeting in 2019 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

ATTENDANCE RECORD AT MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2019 are set out as below:

Directors	Annual General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Liu Chengwei	1/1	21/21	N/A	1/1	N/A
Mr. Hu Bo	1/1	21/21	N/A	N/A	N/A
Dr. Shao Yan	1/1	21/21	N/A	N/A	1/1
Dr. Niu Zhanqi	1/1	21/21	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	1/1	21/21	2/2	1/1	1/1
Mr. Hu Yebi	1/1	21/21	2/2	1/1	1/1
Dr. Pei Geng	1/1	21/21	2/2	N/A	N/A

AUDITORS' REMUNERATION

During the year, the auditors performed the work of statutory audit for the year of 2019.

Audit fees for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$3,180,000.

FINANCIAL REPORTING

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently. The Directors are not aware of any other material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Company has an internal audit team which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board. The Board also ensures that the review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

During the year ended 31 December 2019, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review in the year ended 31 December 2019 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

(1) A list of risks was created after the scope of risks was determined and risks were identified.

(2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.

(3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

(6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

(1) The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

(2) Confidentiality agreements or confidentiality clauses are in place when the Group enters into significant negotiations.

(3) The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2019 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend general meetings of the Company which allows the Directors to meet and communicate with them.

SHAREHOLDERS' RIGHTS

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Unit 3302, The Centre,
99 Queen's Road Central, Hong Kong
Email: victor.foo@chinagrandpharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye-laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

This report is prepared by the Company in accordance with the Environment, Social and Governance Reporting Guidelines as set out in Appendix 27 of the Listing Rules. This report covers entities with substantial effect to the financial and actual operational process, mainly being the companies and production plants located in Wuhan City, Hubei Province, the PRC. Save as otherwise indicated, the data and contents in this report are all in relation to the period from 1 January 2019 to 31 December 2019.

ENVIRONMENTAL POLICY AND PERFORMANCE

Abiding by the rules and regulations as stipulated in Law of Environmental Protection of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, the Group upheld the concept of ensuring effective governance of pollutants and compliance with the standards of pollutant emission and preventing the occurrence of environmental pollution accidents, and adhered to the corporate environmental protection principles of placing environmental friendliness as the first priority, taking precaution as the main measure, adopting comprehensive rectification and management, and implementing energy-saving and emission reduction in the production process, in order to ensure the Group's production complying with laws and regulations and practically assume our corporate social responsibility. The Group is committed to becoming a pharmaceutical enterprise receiving respect from doctors and patients in the PRC. During the year, the Group continued to strengthen the control of the source of pollutants, optimized the process of end treatment and reduced pollutant emissions of the corporate. The Group increased its investment to constantly improve, renovate and upgrade the enterprise protection equipment pursuant to new standards and requirements on safety and environmental protection to ensure wastewater, waste gas and waste discharge are up to standard.

(1) Emission

In response to new standards and requirements on safety and environmental protection, the Group has increased its investment in safety and environmental protection, and constantly improved, modified and upgraded its safety and environmental protection equipment, in order to ensure compliance with the standards of pollutant emission. Each members of the Group has established comprehensive environmental management department, and followed the environmental protection requirements to perform environmental protection works. EHS trainings were organized to improve the professional skills of management and develop a complete environmental protection system.

The Group attaches great importance to the investment in the environmental protection facilities, and invested more than RMB18 million throughout the year to upgrade or modify its environmental protection facilities with the aim to reduce the discharge of terminal pollutants and lower the effect to the environment. Certain environmental protection projects were commenced and/or completed in 2019 as listed below:

Name of the member of the Group	Project Description
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water")	Fuchi Water reorganized the treatment of wastewater, optimized and adjusted the sewage treatment system for the plant. The efficiency of the wastewater treatment system is increased by more than 50% and the wastewater discharge is decreased by around 500 tons to 220 tons per day.

Name of the member of the Group	Project Description
Wuhan Wuyao Pharmaceutical Co., Ltd. ("Wuhan Wuyao")	Wuhan Wuyao invested more than RMB4 million in transformation, upgraded the sewage station and waste gas treatment facilities. The tail gas treatment process and the operating status of facilities are highly optimized. The efficiency of the exhaust-gas treatment device is enhanced and the pollutants are reduced.
Hubei Grand Fuchi Chemical and Pharmaceutical Company Limited ("Fuchi Chemical")	The biochemical wastewater treatment station is completed in 2018. After testing and commissioning, it is now officially operated in a good condition and the indicator of wastewater discharge is stable. In addition, Fuchi Chemical invested more than RMB2 million to upgrade the tail gas treatment device of sulfuric acid production system and introduced new technologies of catalysis and adsorption to reduce pollutant emission.
Beijing Grand Jiuhe Pharmaceutical Co., Ltd. ("Jiuhe")	Jiuhe invested more than RMB3 million to upgrade and reform wastewater treatment facilities in order to reduce the discharge of pollutants in wastewater and to recycle the wastewater.

(2) Use of Resources and Impact on the Environment and Resources

The resources mainly used by the Group in the production process include water, electricity and coal, etc. In accordance with principles and policies, regulations and standards of the national, local and industry competent authorities on energy conservation, such as Law of the People's Republic of China on Energy Conservation and Regulations on the Safety Administration of Dangerous Chemicals, the Group has formulated an internal management guideline to effectively and reasonably allocate and raise the utilization of energy and resources, reduce waste of available energy and resources, and lower our operating cost at the same time. Specific measures implemented in 2019 include:

— All key corporation improved resource utilization by adjusting production processes, sewage reuse, optimizing sewage treatment processes and strengthening on-site management to reduce wastewater discharges by around 90,000 tons;

— "Materials and procurement management system" is developed to regulate the purchasing of paper and plastic packaging for production by companies within the Group. The plan for the procurement is in a timely and appropriate manner according to the needs. Target and performance evaluation is set for using the inventory of raw and packaging materials.

— Improve and optimize the network of pollutant treatment and facilities for the corporation. Improve the environmental governance capacity and reduce around 86 tons of wastewater pollutants throughout the year; and

— Introduce new technologies and transform the boilers and sulfuric acid of gas treatment devices to reduce pollutant emissions by approximately 175 tons per year

The summary below are the key performance indicators of 2019 for twelve main members of the Group (which contribute over 70% revenue of the Group):

	Item	**Unit**	**Approximate Quantity**
Resource usage	**Energy Consumption**		
	Electricity	(kWh per annum)	148,253,000
	Coal	(tons per annum)	59,000
	Natural Gas	(square meters per annum)	4,095,000
	Water	(tons per annum)	2,427,000
	Steam (purchased from other suppliers)	(tons per annum)	347,000
	Packing Materials	(tons per annum)	410
Emissions	**Gas Emissions**		
	Particulates	(tons per annum)	48
	Nitrogen Oxides	(tons per annum)	202
	Sulphur Dioxide	(tons per annum)	252
	Sewage		
	Total Sewage	(tons per annum)	1,223,700
	Chemical Oxygen Demand	(tons per annum)	309
	Ammonia Nitrogen	(tons per annum)	41
	Wastes		
	Hazardous Wastes	(tons per annum)	742
	Non-hazardous Wastes	(tons per annum)	1,879

Note: only listed the statistics of emissions which are applicable to the Group.

EMPLOYMENT AND LABOUR PRACTICES

Sustainable development of talents serves as an important guarantee for the Group's to accomplish its strategic objectives. The Group works hard to create a fair and harmonious working environment to build up an enterprise with competitiveness and growing power. As such, the foundation of talents has been laid for the corporate sustainable development.

(1) Employee Rights

The Group has stringently implemented relevant laws and regulations such as the Labor Law of the People's Republic of China, and Labor Contract Law of the People's Republic of China, and formulated the human resources management system to proactively safeguard the legal rights of employees.

The Group promotes a cultural atmosphere of synergistic cooperation, advocates equality between people, and adheres to the principle of fairness and justice. We are against any form of discrimination. We have adopted the same starting salary for employees of different gender, complied with the same minimum wage standard, forbid any sexual discrimination during the employment and promotion processes, and applied equal pay for equal work. The wages of the Group's almost all existing employees are higher than the minimum wage standard of their location, and are in compliance with the local labor rules and policies. The Group will, in accordance with requirements of the national law at the time of recruiting employees, stringently examine the identities and ages of applicants, and will never employ child labors and forced labor. The Group is not aware of any differentiation in salary packages in relation to gender, age and nationality during recruitment and examination, selection, employment and deployment of applicants.

For employee welfares, the Group abides by the local labor rules, pays for statutory benefits for all formal staff, and offers leaves as required by the law; it provides holidays and benefits in accordance with requirements of the national and local law for all such female employees during the "three periods" (periods of pregnancy, maternity and lactation), and allows them to return to the workforce except for those who voluntarily render resignation. Male employees are also entitled to paternity leave for each confinement of their spouse. Furthermore, the Group has entertainment facilities such as library, badminton courts and table-tennis courts. We also organize different activities for enrich the after-work lives of our employees.

(2) Employee Safety

The designs of manufacturing plants and equipment are following the Measures for Supervision and Management of Drug Production, Regulation on the Safety Management of Hazardous Chemicals and other related laws and regulations. The Group committed to have continuous improvement and prevention of risks to implement the safety production at all level in order to provide safe working environment with proper equipment, and implements measures for safe working behaviors to safeguard occupational health and safety of employees. The Group has set up a safety and environmental protection center with qualified safety administrators for daily management on environmental, health and safety, such as security and fire management. For the safety design of production plants, the Group will use closed electrical equipment in the facilities where produce steams, corrosive gas and dust. In the facilities with explosive gas or dust, the Group will use explosion-proof electrical equipment. In the facilities with flammable and explosive or toxic gas, the Group implemented flammable or toxic gas leakage alarms with emergency stop settings.

In 2019, the Group invested more than RMB30 million to rectify various security risks, continuously improve the companies on-site safety and health engineering control and management measures, including completed to add SIS system in process of hazardous production such as Wuhan Wuyao alkylation, hydrogenation and ammoniation; The site of Fuchi completed the relocation and renovation of dimethyl sulfate, storage tanks and improved the circular fire-fighting roads in the Class A storage area. The SIS system in spraying devices are automatic control remotely for in the manufacturing areas. Beijing Jiuhe completed 21 renovation projects including the transformation of hazardous chemical storage sites. In addition, the Group will carry out comprehensive trouble hidden investigation and rectification of various production facilities, auxiliary facilities and public areas to eliminate safety vulnerability and provide a strong guarantee for on-site security from time to time. In 2019, no major safety or serious fire accident is happened.

(3) Employee Training

In recent years, the Group promoted strategic transformation comprehensively, accelerated innovation independently, expanded product markets continuously and developed various business segments. The Group continues to improve the standardization and professionalism and increase the strength of research and development training. The direction of the talent training project is to commit "Professionalism, Young and internationalization". In addition, the Group also focuses on functions such as production, quality, safety, engineering equipment and procurement. Starting from the key functions and positions, strengthening the learning and knowledge is necessary on the position through job clarification, training, sharing and improve the skill. Development needs internationalization on the basis of meeting the company's compliance requirements to fulfill the quality assurance, efficiency and professional improvement. Standardized basic knowledge training, assessment and incentive system will be gradually established of the estimation of 2 to 3 years.

Grand Pharmaceutical Vocational and Technical School continues to focus on the skills and essential knowledge of employees and takes skill improvement as the training goal. Carry out multiple training projects such as production, quality, procurement, environmental protection, finance and Human Resource. The corporations need to prepare the teaching and promotion of skills and conduct professional exchange and share the knowledge.

COMMUNITY

The Group, whilst creating value for shareholders and wealth for customers, has proactively engaged in public service sector. We are concerned about minority groups and difficult public livelihood, and have fully assumed our social responsibility by giving full impetus to the progress and harmonious development of the community, enterprises and regional economies. During the year, Tangchi Town, Yingcheng City, Xiaogan City, Hubei Province Cailing Village carried out the work of poverty alleviation, assisted in the expansion of main roads, improved local urban communication from local to city. In addition, the Group also provided villages with special poverty alleviation funds to help villagers who are in difficulties.

OPERATION PRACTICE

(1) Supply Chain Management

The majority of the Group's suppliers are located in the PRC. The Group has formulated a series of procurement management system and procurement control procedure, and has strictly selected suppliers and monitored the procurement process in accordance with the Drug Administration Law of the People's Republic of China and Good Manufacturing Practice. In selecting suppliers, a due diligence check will be performed and may visit the production plants if necessary. The samples provided are required to pass the testing and trial production before such suppliers could become the Group's qualified suppliers. Procurement staffs have also conducted regular visits to suppliers to maintain close liaison and good cooperation relations with them. Meanwhile, the quality notices made by suppliers have been regularly monitored to ensure all of the raw materials used by the Group are in compliance with the standard requirements and ready for use.

(2) Product Liability

The production and sale of the Group's drugs are conducted in accordance with relevant rules as required in the Drug Administration Law of the People's Republic of China, Regulations for Implementation of the Drug Administration Law of the People's Republic of China, Good Manufacturing Practice and Norm on Production and Quality Control of Traditional Chinese Medicine, and has a complete production quality control system. Most of the drugs produced have been certified by GMP.

Drug quality correlates with the life safety of patients, and even the lifespan of the enterprise. The Group has fully conducted activities for improvement of quality control by urging for high standard and high quality of products, reducing product errors during production, so as to lower the risk in terms of product quality during production. A system for product return and exchange analysis has been formulated in combination with relevant requirements such as Good Supplying Practice, as well as refrigeration, cold storage and logistics management of drugs, automatic temperature and humidity monitoring system, as set out in the appendices of the above. Furthermore, modern information technology is used in the collection of adverse reactions, consultations and complaints of drugs, and the information will be analyzed for the continuous improvement of drug quality ensure the medicines is safe, effective, uniform and stable in order to provide confidence to patients for using products of the Group.

(3) Anti-corruption

The Group, committed to pursuing operation in good faith, constantly enhances internal control and monitoring mechanism within the enterprise, and stringently observes the rule on fair competition. Organised the employees to react Commercial bribery and other laws against unfair competition. Employees are required to strictly comply with provisions in relation to prohibition of commercial bribery acts under the Law Against Unfair Competition of the People's Republic of China, Criminal Law and Companies Ordinances, and all of the relevant management rules on integrity and self-discipline as stipulated by the Company. The Group is firmly against accepting commercial bribery, committing bribery and receiving gifts arising from other improper commercial acts, and establishes a management system and measures on capital management to prevent money laundering. The Company will promptly denounce and report to the relevant department for suspected personnel.

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 23 and 20 to the consolidated financial statements respectively.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the section "Management Discussion and Analysis" on pages 15 to 20 of this annual report.

Description of principal risks and uncertainties that may be faced by the Group can be found in the section "Management Discussion and Analysis — Principal Risks and Uncertainties" on pages 25 to 26 of this annual report.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the section "Management Discussion and Analysis — Financial Resources and Liquidity" on page 24 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which may have a significant impact on the Group are set out in the section "Management Discussion and Analysis — Environmental Policies" and "Management Discussion and Analysis — Compliance with Relevant Laws and Regulations" separately on page 26 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Group at that date are set out on pages 61 to 170.

DIVIDEND POLICY

The Company has adopted a dividend policy, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for future growth of the Group.

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

i. The Company's actual and expected financial performance;

ii. Retained earnings and distributable reserves of the Company and each of the members of the Group;

iii. The Group's working capital, capital expenditure requirements and future expansion plans;

iv. The Group's liquidity position;

v. General economic conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

vi. Other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Bermuda and the Company's Bye-laws. The Board will review the dividend policy from time to time and there can be no assurance that dividend will be paid in any particular amount for any given period.

DIVIDEND

The Board recommends the payment of final dividend of approximately HK$324,250,000 at HK$0.096 per Share for the year ended 31 December 2019 (2018: HK$290,470,000 at HK$0.086 per Share). No interim dividend was declared during the year (2018: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 44 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 42 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2019 are set out in notes 23 and 20 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group during the year are set out in note 33 to the consolidated financial statements.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Liu Chengwei
Mr. Hu Bo
Dr. Shao Yan
Dr. Niu Zhanqi

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie
Mr. Hu Yebi
Dr. Pei Geng

Pursuant to bye-law 87(1), Mr. Liu Cheng Wei, Mr. Hu Bo and Dr. Pei Geng will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation. Each of the independent non-executive Directors has been appointed pursuant to a letter of appointment for a term of one year, which is renewable automatically for successive terms of one year after the expiry of the term of appointment, unless terminated by not less than three months' notice in writing served by either party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTEREST

Save that Mr. Liu Chengwei, the chairman and an executive director, who is a director of China Grand and a supervisor of Huadong Medicine and Dr. Niu Zhanqi, an executive director, who is the president of Pharmaceutical Management Headquarters of China Grand and a director of Huadong Medicine, and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the Directors are aware of, no Directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2019, the related party transactions entered by the Group are all disclosed note 45 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 45 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2019, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

(1) On 30 October 2017, Grand Pharm (China) has entered into an agreement (the "Huadong Medicine Supply Agreement") with Huadong Medicine. Pursuant to the Huadong Medicine Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the Huadong Medicine Supply Agreement become effective until 31 December 2019 and for the two years ending 31 December 2017 are RMB50.0 million, RMB123.0 million and RMB162.0 million respectively (the "Huadong Medicine Supply Caps"). In 2019, the transaction amount under Huadong Medicine Supply Agreement is approximately RMB128,655,000.

(2) On 30 October 2017, Grand Pharm (China) has entered into an agreement (the "China Grand Supply Agreement") with China Grand. Pursuant to the China Grand Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to China Grand or its related companies and the maximum annual amount of products to be sold by the Group to China Grand for each of the periods commencing from the date where the terms of the China Grand Supply Agreement become effective until 31 December 2019 and for the two years ending 31 December 2017 are RMB13.0 million, RMB17.0 million and RMB23.0 million respectively (the "China Grand Supply Caps"). In 2019, the transaction amount under China Grand Supply Agreement is approximately RMB4,265,000.

(3) On 25 December 2019, Wuhan Kernel Bio-Tech Co., Ltd. (an indirect non-wholly owned subsidiary of the Company) (the "Wuhan Kernel"), entered into the Purchase Agreement (the "Grand Pharm Purchase Agreement") with Baoding Jiufu Biochemical Co., Ltd (the "Boading Jiufu"). Pursuant to which Wuhan Kernel agreed to purchase Raw Materials for the production of antibiotics which can be applied in animal feeds with an aggregate consideration of approximately RMB52.1 million"). In 2019, the transaction amount under China Pharm Purchase Agreement is approximately RMB10,055,000.

As Huadong Medicine and Baoding Jiufu are regarded as connected persons of the Company since they are associates of the China Grand (which is a substantial shareholder of the Company), and the subject matters of each of the Huadong Medicine Supply Agreement and China Grand Supply Agreement (collectively known as "Continuing Connected Transaction Agreements") are similar in nature, pursuant to Rule 14A.81 of the Listing Rules the transactions between the Group and each of these companies would be aggregated. As the aggregated amount of the Huadong Medicine Supply Caps and the China Grand Supply Caps will exceed HK$10,000,000 per annum, the transactions contemplated under the Continuing Connected Transaction Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed and confirmed that these transactions were entered into:

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

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Continuing Connected Transaction Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

(i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

(ii) obtained the relevant agreements governing each of the continuing connected transactions from management;

(iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 30 October 2017 made by the Company in respect of each of the continuing connected transactions.

SHARE OPTION SCHEME

During the year ended 31 December 2019, the Company did not adopt any share option scheme and no outstanding share options.

No share options were granted or exercised under any share option scheme during the year ended 31 December 2019 and 2018 and there were no outstanding share options as at 31 December 2019 and 2018.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the Directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

LONG POSITIONS IN THE SHARES OF THE COMPANY:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	6,019,600	0.18%

Note: Dr. Shao Yan, a Director, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr. Shao Yan shall be deemed to be interested in such 6,019,600 shares.

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

PERMITTED INDEMNITY PROVISION

The articles of associations of the Company provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate insurance cover or other relevant arrangement in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long and short positions in the shares of the Company:

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Outwit Investments Limited ("Outwit")	1	1,671,671,149 (L)	Beneficial owner	49.49 (L)
Grand (Hongkong) International Investments Holdings Limited ("Grand Investment")	1	1,671,671,149 (L)	Interest of controlled corporation	49.49 (L)
China Grand Enterprises Incorporation ("China Grand")	1	1,671,671,149 (L)	Interest of controlled corporation	49.49 (L)
Shanghai China Grand Asset Finance Investment Management Co., Limited ("Shanghai Finance")	2	286,039,153 (L)	Beneficial owner/ Interest of controlled corporation	8.47 (L)
Mr. Hu Kaijun ("Mr. Hu")	1&2&3	1,998,730,302 (L)	Interest of controlled corporation	59.17 (L)
Ms. Chau Tung	1&2&3	1,998,730,302 (L)	Beneficial owner/ Interest in spouse	59.17 (L)

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
CDH Giant Health I Limited ("CDH Giant")	4	356,648,142 (L)	Beneficial owner	10.56 (L)
CDH Fund V, L.P. ("CDH Fund")	4	356,648,142 (L)	Interest of controlled corporation	10.56 (L)
CDH V Holdings Company Limited ("CDH V")	4	356,648,142 (L)	Interest of controlled corporation	10.56 (L)
China Diamond Holdings V Limited ("China Diamond V")	4	356,648,142 (L)	Interest of controlled corporation	10.56 (L)
China Diamond Holdings Company Limited ("China Diamond")	4	356,648,142 (L)	Interest of controlled corporation	10.56 (L)
Assicurazioni Generali S.p.A ("Assicurazioni")	6	280,363,959 (L)	Interest of controlled corporation	8.30 (L)
Mr. Li Zhenfu	7	280,363,959 (L)	Interest of controlled corporation	8.30 (L)
Lion River I N.V.	5&6	280,363,959 (L)	Interest of controlled corporation	8.30 (L)
GL Capital Management GP L.P. ("GL Management (L.P.)")	5	181,069,959 (L)	Interest of controlled corporation	5.36 (L)
GL Capital Management GP Limited ("GL Management (Limited)")	5	181,069,959 (L)	Interest of controlled corporation	5.36 (L)
GL China Opportunities Fund L.P. ("GL Opportunities")	5	181,069,959 (L)	Interest of controlled corporation	5.36 (L)
GL Partners Capital Management Ltd. ("GL Partners")	7	225,639,959 (L)	Interest of controlled corporation	6.68 (L)
GL SAINO Investment Limited ("GL Saino")	5	181,069,959 (L)	Beneficial owner	5.36 (L)

(L) denotes long position

Note:

1. Outwit is the beneficial owner of 1,671,671,149 Shares. Grand Investment, being wholly-owned by China Grand, held 99.85% equity interests of Outwit, and Ms. Chau Tung, spouse of Mr. Hu, held the remaining 0.15% equity interests. Grand Investment and China Grand are therefore deemed to be interested in 1,671,671,149 Shares pursuant to the SFO.

2. Beijing Yuanda Huachuang Investment Co., Ltd. (北京遠大華創投資有限公司), a company wholly owned by Mr Hu, owned 70% of the equity interests of Shanghai Finance. Shanghai Finance is the beneficial owner of 255,142,148 Shares. East Ocean Capital (Hong Kong) Limited, a wholly owned subsidiary of Shanghai Finance, also holds 30,897,005 Shares. Shanghai Finance is therefore deemed to be interested in 286,039,153 Shares pursuant to the SFO.

3. China Grand is controlled and ultimately and beneficially owned by Mr. Hu. Ms. Chau Tung, spouse of Mr. Hu, is also the beneficial owner of 41,020,000 Shares. Mr. Hu and Ms. Chau Tung are therefore deemed to be interested in 1,998,730,302 Shares pursuant to the SFO.

4. CDH Giant is the beneficial owner of 356,648,142. CDH Giant is wholly-owned by CDH Fund, and pursuant to the SFO CDH Fund is therefore deemed to be interested in the 356,648,142. CDH Fund is controlled by CDH V, which in turn held as to 80% by China Diamond V. China Diamond V is in held as to 100% by China Diamond.

5. GL Healthcare Investment LP (“GL Healthcare”) is the beneficial owner of 44,570,000 Shares. GL Healthcare is a limited partnership incorporated in Canada. The general partner of GL Healthcare is GL Capital Management GP II B.C. 2 Ltd., which is wholly-owned by GL Management (Limited). GL Management (Limited) is in turn held as to 49% by Lion River I N.V. Pursuant to the SFO these companies are therefore deemed to be interested in the 44,570,000 Shares.

   GL China Long Equity Opportunities Fund SPV LP (“GL Long Equity (SPV)”) is the beneficial owner of 54,724,000 Shares. GL Long Equity (SPV) is a limited partnership incorporated in Canada. Lion River I N.V. owns 94.47% interests in GL China Long Equity Opportunities Fund LP., which in turn owns 80.13% interests in GL Long Equity (SPV). Pursuant to the SFO these companies are therefore deemed to be interested in the 54,724,000 Shares.

   GL Saino is the beneficial owner of 181,069,959 Shares. GL Saino is wholly-owned by GL Opportunities. The general partner of GL Opportunities is GL Management (L.P.) and is in turn wholly-owned by GL Management (Limited). GL Management (Limited) is held as to 49% by Lion River I N.V. Pursuant to the SFO these companies are therefore deemed to be interested in the 181,069,959 Shares.

6. As stated above, Lion River I N.V. is deemed to be interested in an aggregate of 280,363,959 Shares. Lion River I N.V. is wholly-owned by Assicurazioni. Pursuant to the SFO Assicurazioni is therefore deemed to be interested in the 280,363,959 Shares.

7. Mr. Li Zhenfu owns 70% interests in GL Partners, which in turn owns 51% interests in GL Management (Limited). As stated above, GL Management (Limited) is indirectly interested in 225,639,959 Shares, and pursuant to the SFO. Mr. Li Zhenfu is therefore deemed to be interested in the 225,639,959 Shares. Mr. Li Zhenfu also wholly-owns GL China Opportunities Carry GP Limited, which in turn wholly-owns GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd. GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd. is the general partner of GL Long Equity (SPV), which is the beneficial owner of 54,724,000 Shares. Pursuant to the SFO Mr. Li Zhenfu is therefore also deemed to be interested in the 54,724,000 Shares and in aggregate, 280,363,959 Shares.

Save as disclosed above, as at 31 December 2019, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the five largest customers of the Group accounted for less than 30% of the Group's total revenue while the five largest suppliers accounted for less than 30% the Group's total purchases.

The information in respect of the Group's revenue and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2019 is as follows:

	Percentage of the Group's total revenue	purchases
The largest customer	2.0%	N/A
The five largest customers in aggregate	7.0%	N/A
The largest supplier	N/A	4.0%
The five largest suppliers in aggregate	N/A	14.4%

So far as the Board are aware, neither the Directors, their close associates nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2019 and as at the latest practicable date prior to the issue of this annual report.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 29 to 34.

AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by HLB Hodgson Impey Cheng Limited which shall retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Board of Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 12 May 2020

EXECUTIVE DIRECTORS

Mr. Liu Chengwei, aged 46, was appointed as an executive Director in July 2008. Mr. Liu is the Chairman of the Company and is a director of Grand Pharm (China) Company Limited ("Grand Pharm (China)) and Xi'an Beilin, which both are subsidiaries of the Company. Mr. Liu has over 20 years of financial and management experience in the PRC. Mr. Liu is currently a director of the China Grand Enterprises Incorporation ("China Grand") (a substantial shareholder of the Company) and a supervisor of Huadong Medicine Company Limited, ("Huadong Medicine"), which is listed on the Shenzhen Stock Exchange (stock code: 000963). Huadong Medicine is owned as to approximately 41.77% by China Grand as at the date of this report, and is therefore a connected person (as defined in the Listing Rules) of the Company. Mr. Liu worked for General Electric Company for 5 years before joining China Grand in 2001. Mr. Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr. Hu Bo, aged 35, was appointed as an executive Director in July 2008. Mr. Hu has over 10 years of experience in network project management and property management. Mr. Hu is currently the assistant to president of a real estate company in the PRC. Mr. Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr. Hu is a nephew of Mr. Hu Kaijun, who controls and ultimately and beneficially owns the China Grand.

Dr. Shao Yan, aged 57, was appointed as an executive Director in October 2008. Dr. Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr. Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr. Shao has over 20 years of experience in corporate management and venture capital investment. Dr. Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr. Niu Zhanqi, aged 53, was appointed as an executive Director in November 2016. Dr. Niu has more than 10 years' experience in pharmaceutical research and development. He is currently the president of the Pharmaceutical Management Headquarters of China Grand. He also is a director of Huadong Medicine since June 2016. Dr. Niu holds a bachelor's degree in science from Nankai University and a doctoral degree (PhD) in pharmaceutics from Shenyang Pharmaceutical University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie, aged 57, was appointed as an independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Hu Yebi, aged 56, was appointed as an independent non-executive Director in December 2018. Mr. Hu received his Master of Business Administration from Netherlands International Institute for Management in the Netherlands and a Postgraduate Diploma in Management Engineering from Beijing Institute of Technology in Beijing, the PRC. Mr. Hu has more than twenty years of experience in securities and financial services, mergers and acquisitions and corporate finance. Mr. Hu is the founder and chairman of Vision Finance Group Limited. Mr. Hu is currently a non-executive director of Beijing Sports and Entertainment Industry Group Limited (stock code: 1803) and was an executive director of Tai United Holdings Limited (stock code: 718), Hua Lien International (Holding) Company Limited (stock code: 969), Beijing Enterprises Medical and Health Industry Limited (stock code: 2389) and Beijing Properties (Holdings) Limited (stock code: 925), but already resigned in October 2016, July 2017, October 2018 and November 2018 respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Dr. Pei Geng, aged 60, was appointed as an independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

SENIOR MANAGEMENT

Mr. Foo Tin Chung, Victor, aged 51, joined the Company in September 2011 as a company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is the company secretary and chief financial officer of Justin Allen Holdings Limited (stock code: 1425) and an independent non-executive director of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. which withdrawal listing on the Stock Exchange since June 2017. Mr. Foo was the company secretary of Huisheng International Holdings Limited (stock code: 1340), but already resigned on September 2017. All these companies are listed on the Stock Exchange.

Mr. Shi Xiaofeng, aged 53, joined the principal subsidiary Grand Pharm (China) since 2003 and was appointed as its director and general manager. Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA certificate at China Europe International Business School.

Mr. Zhang Bangguo, aged 52, joined the principal subsidiary Grand Pharm (China) since 1989 and used to work for it as a senior management, was currently appointed as director of Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"), has over 20 years of experience in pharmaceutical industry and sales and marketing. Mr. Zhang is responsible for overseeing the entire operation and management of Zhejiang Xianle. Mr. Zhang holds a MBA degree at Huazhong University of Science & Technology and holds a practicing pharmacist license in the PRC.

Mr. Feng Yonghua, aged 52, joined Zhejiang Xianle since 2002 and currently was appointed as its general manager. Mr. Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr. Feng holds a practicing pharmacist license in the PRC.

Independent Auditors' Report

HLB 國衛會計師事務所有限公司
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TO THE SHAREHOLDERS OF
CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 170, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matter
Impairment assessment of pharmaceutical business Refer to notes 3, 22 and 24 to the consolidated financial statements	
The Group has goodwill and intangible assets of approximately HK$480,321,000 and HK$794,723,000 respectively relating to the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialised pharmaceutical raw materials and other products, in the People's Republic of China as at 31 December 2019. Management performed impairment assessment of pharmaceutical business and concluded that no impairment is necessary to provide. This conclusion was based on value-in-use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management's estimates.	Our procedures in relation to management's impairment assessment included: • Evaluation of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the pharmaceutical business and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accounting and relevance of the input data used. We found the key assumptions were supported by the available evidence.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter

Impairment assessment of trade and other receivables and amounts due from related companies
Refer to notes 5(b), 29 and 36 to the consolidated financial statements

As at 31 December 2019, the Group had gross trade and other receivables and amounts due from related companies of approximately HK$1,100,553,000 and HK$54,326,000, respectively. The provision for impairment of trade and other receivables and amounts due from related companies are approximately HK$132,896,000 and HK$3,629,000, respectively.

In general, the credit terms granted by the Group to the customers ranged between 30 to 180 days (2018: 30 to 180 days). Management applied judgement in assessing the expected credit losses ("ECL"). Trade and other receivables relating to customers with known financial difficulties or significant doubt on collection of trade receivables are assessed individually for provision for impairment allowance. ECL are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its business and its ageing category, and applying ECL rates to the respective gross carrying amounts of the trade receivables. The ECL rates are determined based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

We focused on this area due to the impairment assessment of trade and other receivables amounts due from related companies under the ECL model involved the use of significant management judgements and estimates.

Our procedures in relation to management's impairment assessment of the trade and other receivables amounts due from related companies as at 31 December 2019 included:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis;
- Checking, on a sample basis, the ageing profile of the trade and other receivables amounts due from related companies as at 31 December 2019 to the underlying financial records and post year-end settlements to bank receipts;
- Inquiring of management for the status of each of the material trade and other receivables and amounts due from related companies past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and
- Assessing the appropriateness of the ECL provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the ECL.

We found that the management judgment and estimates used to assess the recoverability of the trade and other receivables and amounts due from related companies and determine the impairment provision to be supportable by available evidence.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter

Interests in associates
Refer to note 20 to the consolidated financial statements

As at 31 December 2019, the carrying amounts of interest in associates amounted to approximately HK$5,166.0 million which represented approximately 37.4% of the Group's total assets.

Included in the interests in associates, the Group has 49% interest in Grand Pharma Sphere Pte Limited ("**Grand Pharma Sphere**") which is accounted for under the equity method. The Group's share of loss from Grand Pharma Sphere for the year ended 31 December 2019 was approximately of HK$122.5 million and the Group's share of net assets of Grand Pharma Sphere was HK$2,778.0million as at 31st December 2019, which represented approximately 20.1% of the Group's total assets.

Grand Pharma Sphere's revenue amounted to approximately HK$1,236.0 million for the year ended 31st December 2019. Revenue was generated from sale of SIR-Spheres Y-90 resin microspheres, a targeted radiotherapy for liver cancer. Revenue is recognised when control of the product has transferred to the customer, being when the product is delivered to the distributor or medical facility and when the customer has sole discretion over the use of the product and there are no unfulfilled obligations that could affect the customer's acceptance of the product.

Our procedures in relation to the i) the audit work performed on interest in Sirtex; and ii) management's impairment assessment of interest in associates included:

i) The audit work performed on the Group's interest in Sirtex:

Sirtex Medical Pty Ltd. ("**Sirtex**") is a wholly owned subsidiary of Grand Pharma Sphere and is audited by non-HLB auditors ("**the Sirtex Auditors**"). We have met with the Sirtex Auditors and discussed their audit approach; result of their work and have reviewed their working papers. We discussed the key audit matters relating to Sirtex with Group's management and evaluated the impact on our audit of the consolidated financial statements. The procedures performed are summarised below.

— Obtaining detailed listing of revenue and agreed the total to the general ledger;

— Performing test of details verifying the validity and accuracy of a selection of revenue transactions to supporting documentation;

— Performing cut off test; and

— recalculating foreign currency accounts into Australian dollars at the average rate using external sources.

Together with their reporting to us in accordance with our group audit instructions, we found that the Group's share of results and net assets of Grand Pharma Sphere were supported by the available evidence.

KEY AUDIT MATTERS *(Continued)*

Key audit matters	How our audit addressed the key audit matter
Interests in associates (Continued) Refer to note 20 to the consolidated financial statements *(Continued)*	
Management determines at the end of each reporting period the existence of any objective evidence through which the Group's interests in all associates may be impaired. The assessment of indicators of impairment and where such indicators exist and the determination of the recoverable amounts requires significant judgement.	ii) Management's impairment assessment of interests in associates included: — Evaluating of the Group's independent valuers' assessments as to whether any indication of impairment exist by reference to the available information in the relevant market and industries; — Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge; and — Checking, on a sample basis, the accuracy and relevance of information included in the impairment assessment of interest in associates. We found the key assumption adopted in management impairment assessment on interests in associates were supported by the available evidence

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 12 May 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	7	**6,590,635**	5,958,355
Cost of sales		**(2,549,270)**	(2,796,841)
Gross profit		**4,041,365**	3,161,514
Other revenue and income	8	**264,754**	183,181
Distribution costs		**(2,239,494)**	(1,759,869)
Administrative expenses		**(612,982)**	(552,506)
Impairment of financial assets at amortised cost, net		**(57,825)**	1,867
Other operating expenses	9	**(8,305)**	(16,171)
Share of results of associates	20	**114,962**	69,179
Finance costs	10	**(146,502)**	(203,296)
Profit before tax		**1,355,973**	883,899
Income tax expense	11	**(230,485)**	(147,460)
Profit for the year	12	**1,125,488**	736,439
Other comprehensive loss, net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value gain on investment in equity instruments at fair value through other comprehensive income		**176**	862
Share of other comprehensive income of associates		**10,419**	2,598
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(75,664)**	(153,816)
Other comprehensive loss for the year, net of income tax		**(65,069)**	(150,356)
Total comprehensive income for the year, net of income tax		**1,060,419**	586,083
Profit/(loss) for the year attributable to:			
– Owners of the Company		**1,150,948**	712,667
– Non-controlling interests		**(25,460)**	23,772
		1,125,488	736,439
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**1,085,152**	561,693
– Non-controlling interests		**(24,733)**	24,390
		1,060,419	586,083
Basic (HK cents)	14	**35.12**	27.74
Diluted (HK cents)	14	**34.42**	26.50

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,921,470**	2,876,443
Right-of-use assets	17	**342,364**	–
Investment properties	18	**79,815**	74,228
Prepaid lease payments	19	**–**	267,953
Interests in associates	20	**5,165,955**	5,309,989
Equity instruments at fair value through other comprehensive income	31	**95,025**	96,526
Deposits for acquisition of non-current assets	21	**–**	39,491
Goodwill	22	**480,321**	487,848
Intangible assets	24	**794,723**	815,998
Deferred tax assets	25	**19,872**	14,290
Prepayments	26	**97,439**	84,841
		9,996,984	10,067,607
Current assets			
Financial assets at fair value through profit or loss	27	**71,891**	45,605
Inventories	28	**814,373**	770,329
Trade and other receivables	29	**1,698,808**	1,609,311
Amounts due from related companies	36	**50,697**	10,832
Prepaid lease payments	19	**–**	7,216
Pledged bank deposits	30	**121,285**	73,515
Cash and cash equivalents	30	**1,059,269**	912,244
		3,816,323	3,429,052
Current liabilities			
Trade and other payables	32	**2,026,196**	2,342,539
Contract liabilities	32	**305,558**	156,432
Bank and other borrowings	33	**967,607**	1,967,352
Lease liabilities	34	**22,621**	–
Convertible bonds	37	**–**	284,725
Obligations under finance leases	35	**–**	54,097
Amounts due to related companies	36	**33,155**	10,529
Amount due to the immediate holding company	40	**3,402**	17,603
Income tax payable		**231,024**	133,571
		3,589,563	4,966,848
Net current assets/(liabilities)		**226,760**	(1,537,796)
Total assets less current liabilities		**10,223,744**	8,529,811

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Bank and other borrowings	33	**1,062,690**	187,486
Lease liabilities	34	**11,928**	–
Bond payables	38	**–**	113,562
Deferred tax liabilities	39	**171,506**	179,012
Deferred income	41	**466,613**	595,894
Obligations under finance leases	35	**–**	19,230
		1,712,737	1,095,184
Net assets		**8,511,007**	7,434,627
Capital and reserves attributable to owners of the Company			
Share capital	42	**33,776**	31,348
Reserves		**8,341,491**	7,159,611
Equity attributable to owners of the Company		**8,375,267**	7,190,959
Non-controlling interests		**135,740**	243,668
Total equity		**8,511,007**	7,434,627

The consolidated financial statements on pages 61 to 170 were approved and authorised for issue by the board of directors of the Company on 12 May 2020 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Contribution Surplus reserve HK$'000	Statutory reserve HK$'000 (Note a)	Safety fund reserve HK$'000 (Note b)	Translation reserve HK$'000	Other reserve HK$'000 (Note c)	Convertible bonds reserve HK$'000 (Note d)	FVTOCI reserve HK$'000	Retained profits HK$'000	Total equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 January 2018	22,370	660,537	121,273	200,961	25,659	9,344	(92,677)	72,577	–	1,214,707	2,234,751	226,285	2,461,036
Profit for the year	–	–	–	–	–	–	–	–	–	712,667	712,667	23,772	736,439
Other comprehensive loss for the year, net of income tax:													
Change in fair value of FATOCI	–	–	–	–	–	–	–	–	862	–	862	–	862
Share of other comprehensive income of associates	–	–	–	–	–	2,597	–	–	–	–	2,597	1	2,598
Exchange difference on translation of foreign operations	–	–	–	–	–	(153,863)	–	–	–	–	(153,863)	47	(153,816)
Total comprehensive income for the year	–	–	–	–	–	(151,266)	–	–	862	712,667	562,263	23,820	586,083
Convertible bond converted into shares during the year	222	33,908	–	–	–	–	–	(6,598)	–	–	27,532	–	27,532
Rights issue	3,941	2,045,619	–	–	–	–	–	–	–	–	2,049,560	–	2,049,560
Placing and subscription	4,815	2,314,023	–	–	–	–	–	–	–	–	2,318,838	–	2,318,838
Issuance costs relating to rights issues and placing	–	(1,985)	–	–	–	–	–	–	–	–	(1,985)	–	(1,985)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(6,437)	(6,437)
Transfer	–	–	–	72,204	3,166	–	–	–	–	(75,370)	–	–	–
As at 31 December 2018 and 1 January 2019	31,348	5,052,102	121,273	273,165	28,825	(141,922)	(92,677)	65,979	862	1,852,004	7,190,959	243,668	7,434,627
Profit for the year	–	–	–	–	–	–	–	–	–	1,150,948	1,150,948	(25,460)	1,125,488
Other comprehensive loss for the year, net of income tax:													
Change in fair value of FATOCI	–	–	–	–	–	–	–	–	176	–	176	–	176
Share of other comprehensive income of associates	–	–	–	–	–	10,419	–	–	–	–	10,419	–	10,419
Exchange difference on translation of foreign operations	–	–	–	–	–	(76,391)	–	–	–	–	(76,391)	727	(75,664)
Total comprehensive income for the year	–	–	–	–	–	(65,972)	–	–	176	1,150,948	1,085,152	(24,733)	1,060,419
Convertible bond converted into shares during the year	2,222	356,594	–	–	–	–	–	(65,979)	–	–	292,837	–	292,837
Issued under subscription	206	102,411	–	–	–	–	–	–	–	–	102,617	–	102,617
Acquisition of additional interest in a subsidiary (Note 23(c))	–	–	–	–	–	–	(5,827)	–	–	–	(5,827)	(77,803)	(83,630)
Dividend paid	–	–	–	–	–	–	–	–	–	(290,471)	(290,471)	(5,392)	(295,863)
Transfer	–	–	–	130,345	–	–	–	–	–	(130,345)	–	–	–
As at 31 December 2019	33,776	5,511,107	121,273	403,510	28,825	(207,894)	(98,504)	–	1,038	2,582,136	8,375,267	135,740	8,511,007

Notes:

a. Each of the Company's the PRC subsidiary's Articles of association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to document (Cai Qi 2006 No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired.

d. The amount represented the equity component of the convertible bonds issued in prior years.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Operating activities			
Profit before tax		**1,355,973**	883,899
Adjustments for:			
Amortisation of intangible assets	9, 24	**8,305**	16,171
Amortisation of prepaid lease payments	19	**–**	7,096
Depreciation of property, plant and equipment	16	**457,174**	220,144
Depreciation of right-of-use assets	17	**11,657**	–
Finance costs	10	**146,502**	203,296
Recognition of government grant	41	**(142,001)**	–
Loss on disposal of property, plant and equipment	12, 16	**31,574**	3,377
Write-off of property, plant and equipment	12, 16	**7,441**	39
Reversal of impairment loss on inventories		**–**	(1,946)
Impairment loss on inventories	12	**6,872**	–
Allowance for expected credit loss/impairment loss recognised in respect of trade and other receivables	12	**54,145**	11,110
Allowance for expected credit loss recognised in respect of amounts due from related companies	12	**3,680**	–
Dividends received from associates		**807**	–
Fair value loss on financial assets at fair value through profit or loss	12	**11,666**	–
Interest income	8	**(11,152)**	(11,917)
Reversal of impairment loss on trade and other receivables		**–**	(10,498)
Reversal of expected credit loss		**–**	(2,440)
Share of results of associates	20	**(114,962)**	(69,179)
Gain on sales and lease back transaction, net	8	**(28,378)**	(28,717)
Net gain in fair value of investment properties	8, 18	**(6,974)**	(13,342)
Investment income	8	**(1,099)**	(2,952)
Operating cash flows before movements in working capital		**1,791,230**	1,204,141
Decrease in inventories		**(65,119)**	(46,982)
Increase in trade and other receivables		**(143,546)**	(216,717)
(Decrease)/increase in trade and other payables		**(297,152)**	574,826
Increase in amounts due from related companies		**(43,494)**	(5,712)
Increase/(decrease) in amounts due to related companies		**23,130**	(6,976)
Increase in contract liabilities		**153,983**	–
Increase in deferred incomes		**22,615**	–
Cash generated from operations		**1,441,647**	1,502,580
Income tax paid		**(137,702)**	(94,277)
Net cash generated from operating activities		**1,303,945**	1,408,303
Investing activities			
Purchase of property, plant and equipment	16	**(566,038)**	(372,858)
Purchase of intangible asset	24	**(1,148)**	(1,304)
Payments of right-of-use assets		**(32,194)**	–
Acquisition of prepaid lease payment	19	**–**	(3,164)
Acquisition of financial assets at fair value through profit or loss		**(49,998)**	–
Addition of investments in associates		**(63,136)**	–
Advances from associates		**309,013**	–
Repayment of advances from associates		**(18,463)**	–
Decrease in deposits for acquisition of non-current assets	21	**39,350**	–
Placement of pledged bank deposits		**(49,738)**	(49,292)
Increase in non-current prepayments		**(14,271)**	(21,862)
Proceeds from disposal of property, plant and equipment		**–**	150
Proceeds from disposal of financial assets at fair value through profit or loss		**11,412**	–
Interest income received	8	**11,152**	11,917
Investment income	8	**1,099**	2,952
Net cash outflow from acquisition of subsidiaries that are not constitute business	43	**(20,619)**	–
Net cash outflow from acquisition of associates		**–**	(3,621,568)
Net cash used in investing activities		**(443,579)**	(4,055,029)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Financing activities			
Acquisition of partial interest of a subsidiary	23	**(83,630)**	–
Proceed from issue of new shares from subscription		**102,617**	–
Proceed from issue of equity, net		**–**	3,426,660
Purchase of financial assets at fair value through profit or loss		**–**	(47,476)
Proceed of financial assets at fair value through profit or loss		**–**	17,777
Repayments of bank and other borrowings		**(1,749,903)**	(2,165,686)
Repayments of lease liabilities	34	**(58,798)**	–
Repayments of obligations under finance leases		**–**	(54,972)
Repayments of bond payables	38	**(113,436)**	–
Interest paid		**(128,605)**	(178,424)
Proceed from new bank and other borrowings		**1,631,508**	1,976,448
Repayment to an immediate holding company		**(14,090)**	(6,020)
Dividend paid		**(290,471)**	–
Dividends paid to non-controlling interest		**(5,392)**	(6,437)
Net cash (used in)/generated from financing activities		**(710,200)**	2,961,870
Net increase in cash and cash equivalents		**150,166**	315,144
Cash and cash equivalents at the beginning of year		**912,244**	640,842
Effect of foreign exchange rate changes		**(3,141)**	(43,742)
Cash and cash equivalents at the end of year			
Cash and cash equivalents		**1,059,269**	912,244

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialised pharmaceutical raw materials and other products, in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent company of the Company and China Grand Enterprises Incorporation is the ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as functional currency of the Company, and the functional currency of the most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

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

Application of new and amendments to HKFRSs – effective on 1 January 2019

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

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

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

The above new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

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

Application of new and amendments to HKFRSs – effective on 1 January 2019 *(Continued)*

Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	Carrying amounts previously reported at 31 December 2018	Reclassification	Recognition of lease	Carrying amounts under HKFRS16 at 1 January 2019
	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets				
Right-of-use assets	–	275,169	5,316	280,485
Prepaid lease payments	267,953	(267,953)	–	–
Total non-current assets	**10,067,607**	**7,216**	**5,316**	**10,080,139**
Current assets				
Prepaid lease payments	7,216	(7,216)	–	–
Total current assets	**3,429,052**	**(7,216)**	**–**	**3,421,836**
Current liabilities				
Lease liabilities	–	54,097	2,643	56,740
Obligations under finance leases (note)	54,097	(54,097)	–	–
Total current liabilities	**4,966,848**	**–**	**2,643**	**4,969,491**
Net current liabilities	**(1,537,796)**	**(7,216)**	**(2,643)**	**(1,547,655)**
Non-current liabilities				
Lease liabilities	–	19,230	2,673	21,903
Obligation under finance leases (note)	19,230	(19,230)	–	–
Total non-current liabilities	**1,095,184**	**–**	**2,673**	**1,097,857**
Net assets	**7,434,627**	**–**	**–**	**7,434,627**

Note: In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to approximately HK$54,097,000 and HK$19,230,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019. There has been no change in the liability recognised.

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

Application of new and amendments to HKFRSs – effective on 1 January 2019 *(Continued)*

HKFRS 16 Leases

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

Definition of a lease

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

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

As a lessee

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

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

a. Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on pervious assessments on whether leases are onerous as a alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-for-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend of terminate the lease.

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

Application of new and amendments to HKFRSs – effective on 1 January 2019 *(Continued)*

HKFRS 16 Leases *(Continued)*

b. Measurement of lease liabilities

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 5.09% to 10.29%.

	2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	7,030
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(557)
Less: short-term leases not recognised as a liability	(1,157)
Lease liabilities relating to operating lease recognised upon application of HKFRS16	5,316
Add: finance lease liabilities recognised as at 31 December 2018	73,327
Lease liabilities recognised as at 1 January 2019	78,643

c. Measurement of right-of-use assets

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

	Notes	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	(a)	5,316
Add: Reclassification from prepaid lease payments	(b)	275,169
		280,485

	HK$'000
By class:	
Properties	5,316
Land use rights	275,169
	280,485

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

Application of new and amendments to HKFRSs – effective on 1 January 2019 *(Continued)*

HKFRS 16 Leases *(Continued)*

c. Measurement of right-of-use assets (Continued)

Notes:

(a) The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

(b) Up front payments for leasehold lands in PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately HK$7,216,000 and HK$267,953,000 respectively were reclassified to right-of-use assets.

d. Lessor accounting

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

e. Sales and leaseback transactions

The Group acts as a seller-lessee

In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the year, the Group entered into a sale and leaseback transaction in relation to certain plant and machinery and the transaction does not satisfy the requirements as a sale.

New and amendments to HKFRSs that have been issued but are not yet effective

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[1]
HKFRS 3 (Amendments)	Definition of a Business[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 17	Insurance Contracts[3]
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]

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

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

New and amendments to HKFRSs that have been issued but are not yet effective *(Continued)*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

Business combination

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

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

Acquisition of a subsidiary not constituting a business

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is or a portion thereof, is classified as held for sales, in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 28 and HKFRS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sales. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the carrying amount of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such change in ownership interests.

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sale of goods

Revenue from manufacture and sales of pharmaceutical preparations and medical devices, sales of bio-technology products and nutrition products and sales of specialised pharmaceutical raw materials and other products are recognised at point in time when carrier designated by the customer, or after the customer's acceptance or after control transfer to customer. The credit period granted to customers by the Group is determined based on the characteristics of customers' credit risk, which is consistent with industry practice and there is no significant financing component. The Group's obligations to transfer goods to customers for consideration received or receivable from customers are shown as contract liabilities.

Dividend income

Dividend income from investments is recognised at point in time when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

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

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

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

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Allocation of consideration to components of a contract

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

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

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

Right-of-use assets (Continued)

The cost of right-of-use asset includes: *(Continued)*

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

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

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not recent third party financing; and

- Makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

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

Lease liabilities (Continued)

Lease payments included in the measurement of the lease liability comprise: *(Continued)*

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Definition of a lease (prior to 1 January 2019)

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

The Group as lessee (prior to 1 January 2019)

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as lessor (prior to 1 January 2019)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessor (upon application of HKFRS 16 since 1 January 2019)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term, except for investment properties measured under fair value model. Upon application of HKFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Allocation of consideration to components of a contract

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessor (upon application of HKFRS 16 since 1 January 2019) *(Continued)*

Refundable rental deposits

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

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

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

Sales and leaseback transactions

The Group acts as a seller-lessee

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

For a transfer that does not satisfy the requirement as a sale, the Group as a seller-lessee measures the right-of-use assets arising from the leaseback at the proportion of the previous carrying amount of the asset and recognise any gain or less that relates to the right transferred to the buyer-lessor only.

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

- exchange differences on the transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable form or payable to a foreign operation for which settlement is nether planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation reserve.

Borrowing costs

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

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Current and deferred tax for the year

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services for administrative purposes (other than allocated land and construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Ownership interests in leasehold land and building *(Continued)*

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than allocated land and construction in progress over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gain and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties under construction are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period which the property is derecognised.

If an investment property become a stock of properties because its use has changed as evidenced by the commencement of development with view to sale, any difference the carrying amount and the fair value of the property at the date of transfer is recognised in profit or loss. Subsequent to the changes, the property is stated at lower of deemed cost, equivalent to the fair value at the date of transfer, and net realisable value.

The Group transfers a property from stock of properties to investment properties when there is a change in use to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. For a transfer from stock of properties to investment properties, any difference between the fair value of the property at the date of change in use and its previous carrying amount is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Research and development expenditure

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

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

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination *(Continued)*

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

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefit

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected until credit method, with actuarial valuations being carried out at the end if each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes of the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur, Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Retirement benefit costs and termination benefits *(Continued)*

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expenses or income; and
- remeasurement.

The Group presents all components of defined benefit costs in profit or loss in the line item cost of sales, distribution costs and administrative expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by HKAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered/reduces service cost by attributing contributions to the employees' periods of service in accordance with HKAS 19 paragraph 70.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit *(Continued)*

Short-term and other long-term employee benefits

A liability is recognised for benefit accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value if the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Financial instruments

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

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

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

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

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

A financial asset is held for trading if:

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

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

Amortised cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other revenue and income" line item in profit or loss, if any.

Financial assets at FVTPL

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

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

Impairment of financial assets

The Group recognises a loss allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, pledged bank deposits, amounts due from related companies and cash and cash equivalents). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Impairment of financial assets (Continued)

Significant increase in credit risk

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

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

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

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

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

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Credit-impaired financial assets

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

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

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

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

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

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

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 1 year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Measurement and recognition of ECL *(Continued)*

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and amounts due from related companies where the corresponding adjustment is recognised through a loss allowance account.

Financial liabilities and equity instruments

Classification as financial liabilities or equity

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

Equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including bank borrowings, promissory note, obligations under finance leases, trade payables, deposits received, accruals and other payables (excluding receipt in advance) and amounts due to non-controlling interests) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Convertible bonds

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bond is converted or redeemed.

If the convertible bond is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the convertible bond is redeemed, the convertible bonds reserve is released directly to retained profits.

When the convertible bond is extinguished before maturity through an early redemption or repurchase where the original conversion privileges are unchanged, the consideration paid and any transaction costs for the redemption or repurchase are allocated to the liability component and equity component using the same allocation basis as when the convertible bond was originally issued. Once the allocation of consideration and transaction costs is made, any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to equity component is recognised in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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

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

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

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

   (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

   (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

   (iii) 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); or

   (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 POLICIES *(Continued)*

Related parties *(Continued)*

Close family members of an individual are those family members who may be expected to influence, or be influence by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

Valuation of inventories

Valuation of inventories is stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product by product basis at the end of each reporting period and assess the need for write down of inventories.

Key source of estimation uncertainty

The following are 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.

Valuation of investment properties

Investment properties are included in the statement of financial position at their fair value, which is assessed annually by independent qualified valuers, after taking into consideration all readily available information and current market environment.

The methodology and assumptions adopted in the property valuations are mentioned in note 18.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2019 was approximately HK$480,321,000 (2018: HK$487,848,000). Details of the recoverable amount calculation are disclosed in note 22.

Impairment of intangible assets

The Group performs annual tests on whether there has impairment of intangible assets in accordance with the accounting policy. The recoverable amounts of fair value are determined based on income approach calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, post-tax discount rates, and other assumptions underlying the calculation.

The carrying amount of intangible assets as at 31 December 2019 was approximately HK$794,723,000 (2018: HK$815,998,000). Detailed information is disclosed in note 24.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key source of estimation uncertainty *(Continued)*

Provision of ECL for trade and other receivables and amounts due from related companies

The Group uses three-stage model to calculate ECL for the trade and other receivables and amounts due from related companies. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The three-stage model is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and other receivables and amounts due from related companies with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables and amounts due from related companies are disclosed in notes 5(b)(iv), 29 and 36.

Income tax and deferred tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of property, plant and equipment, prepaid lease payments and intangible assets

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

The patents, trademarks and capitalised development costs are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

The intangible asset will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

During the year ended 31 December 2019, the Group did not change the estimated useful lives of property, plant and equipment, prepaid lease payments and intangible assets.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key source of estimation uncertainty *(Continued)*

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of assets and liabilities. Notes 5(b)(v), 18, 27, 31 and 37 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Impairment test for interests in associates

The Group completed its annual impairment test for interests in associates by comparing the recoverable amount of interests in associates to its carrying amount as at 31 December 2019. The Group has engaged the Valuer to carry out a valuation of the interests in associates as at 31 December 2019 based on the value in use calculations. This valuation uses cash flow projections based on the financial estimates covering a five-year period, and discount rates ranged from 12.03% to 16.29%. The cash flows beyond the five-year period are extrapolated using a steady 3% growth rate for the pharmaceutical industries in which are operated by associates.

Determining the lease term

As explained in note 2, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying assets to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Equity Instruments at FVTOCI	**95,025**	96,526
Financial assets at FVTPL	**71,891**	45,605
Financial asset at amortised cost (including cash and cash equivalents)		
– Trade and other receivables	**1,465,992**	1,320,431
– Amounts due from related companies	**50,697**	10,832
– Pledged bank deposits	**121,285**	73,515
– Cash and cash equivalents	**1,059,269**	912,244
	2,864,159	2,459,153
Financial liabilities		
At amortised costs		
– Trade and other payables	**1,965,600**	2,193,772
– Bank and other borrowings	**2,030,297**	2,154,838
– Lease liabilities	**34,549**	–
– Bond payables	**–**	113,562
– Convertible bonds	**–**	284,725
– Obligations under financial leases	**–**	73,327
– Amounts due to related companies	**33,155**	10,529
– Amount due to the immediate holding company	**3,402**	17,603
	4,067,003	4,848,356

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, financial asset at FVTPL, trade and other receivables, amounts due from related companies, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings, lease liabilities, bond payables, convertible bonds, obligations under financial leases, amounts due to related companies and amount due to the immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

i. *Currency risk*

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, cash and cash equivalents, trade and other payables, bank and other borrowings are denominated in foreign currencies of United State dollars ("USD"). Such USD denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD.

The Group currently does not have any USD hedging policy but the management monitors USD exchange exposure and will consider hedging significant USD exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2018: 10%) in exchange rate of USD against RMB while all other variables are held constant. 10% (2018: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2018: 10%) change in foreign currency rates.

	2019 **HK$'000**	2018 HK$'000
Increase/(decrease) in profit for the year		
– if USD weakens against of RMB	**(15,237)**	(15,311)
– if USD strengthens against of RMB	**15,237**	15,311

A change of 10% (2018: 10%) in exchange rate of USD against RMB does not affect other components of equity except the translation reserve.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2019 **HK$'000**	2018 HK$'000
USD		
– Trade and other receivables	**132,765**	154,819
– Cash and cash equivalents	**36,801**	13,336
– Trade and other payables	**(17,113)**	(15,043)

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

ii. Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates and variable-rate borrowings (see note 33). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2018: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2018: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would increase/decrease by approximately HK$1,752,000 (2018: increase/decrease by approximately HK$1,563,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank and other borrowings.

iii. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

As at 31 December 2019

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,965,600	1,965,600	–	–	–	1,965,600
Bank and other borrowings	4.73	2,120,954	1,002,917	866,953	251,084	–	2,030,297
Lease liabilities	12.06	40,514	24,833	4,181	5,330	6,170	34,549
Amounts due to related companies	–	33,155	33,155	–	–	–	33,155
Amount due to the immediate holding company	–	3,402	3,402	–	–	–	3,402
		4,163,625	3,029,907	871,134	256,414	6,170	4,067,003

As at 31 December 2018

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	2,193,772	2,193,772	–	–	–	2,193,772
Bank and other borrowings	4.77	2,257,133	2,034,847	96,395	125,891	–	2,154,838
Bond payables	5.49	133,378	6,506	6,524	120,348	–	113,562
Convertible bonds	9.29	307,151	307,151	–	–	–	284,725
Obligations under finance lease	11.92	80,345	59,882	20,463	–	–	73,327
Amounts due to related companies	–	10,529	10,529	–	–	–	10,529
Amount due to the immediate holding company	5.00	18,043	18,043	–	–	–	17,603
		5,000,351	4,630,730	123,382	246,239	–	4,848,356

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk

The credit risk of the Group mainly arises from bank balances and deposits, trade and other receivable, amount due from associates and amounts due from related companies. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, ECL rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2019 and 2018.

The credit risk for amount due from associates are considered to be low, therefore no ECL provision was made during the year ended 31 December 2019 and 2018.

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

At the end of each reporting period, 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.

As at 31 December 2019 and 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of pharmaceutical products and are transacted in credit. The Group's trade receivables arise from sales of pharmaceutical products to the customers. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 8.76% and 3.76% (2018: 9.13% and 3.43%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade and other receivables and amount due from related companies at an amount equal to 12-month ECLs and lifetime ECLs, which are calculated using three-stage model. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. ***Credit risk*** *(Continued)*

(1) Provision of trade and other receivables

The tables below show credit quality and maximum exposure to credit risk based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2019 and 31 December 2018.

As at 31 December 2019	**12-months ECLs Stage 1 HK$'000**	**Lifetime ECLs Stage 2 HK$'000**	**Lifetime ECLs Stage 3 HK'000**	**Total HK$'000**
Trade receivables and other receivables				
– Industry average	**20,799**	**–**	**–**	**20,799**
– CCC- to CC	**–**	**8,264**	**–**	**8,264**
– D	**–**	**–**	**103,833**	**103,833**
	20,799	**8,264**	**103,833**	**132,896**

As at 31 December 2018	12-months ECLs Stage 1 HK$'000	Lifetime ECLs Stage 2 HK$'000	Lifetime ECLs Stage 3 HK'000	Total HK$'000
Trade receivables and other receivables				
– Industry average	1,293	–	–	1,293
– CCC- to CC	–	3,100	–	3,100
– D	–	–	76,302	76,302
	1,293	3,100	76,302	80,695

The credit rating of industry average represented the debtors that have not incurred due payments. If the invoice dates of the outstanding debt were from 3 months to 1 year, the credit rating will be represented from CCC- to CC. In case the debts have been outstanding over 1 year, the credit rating will be marked as D.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(1) Provision of trade and other receivables (continued)

The provision of trade receivables as at 31 December 2019 and 2018 were as follows:

	HK$'000
As at 1 January 2018	61,697
Provision for the year	4,128
Exchange realignment	(5,021)
As at 31 December 2018 and 1 January 2019	60,804
Provision for the year	41,122
Exchange realignment	(1,732)
As at 31 December 2019	**100,194**

The provision of other receivables as at 31 December 2019 and 2018 were as follows:

	HK$'000
As at 1 January 2018	27,167
Reversal of provision for the year	(5,995)
Exchange realignment	(1,281)
As at 31 December 2018 and 1 January 2019	19,891
Provision for the year	13,023
Exchange realignment	(212)
As at 31 December 2019	**32,702**

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(2) Provision of amounts due from related companies

The table below show credit quality and maximum exposure to credit risk of amounts due from related companies based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2019.

As at 31 December 2019	**12-months ECLs Stage 1 HK$'000**	**Lifetime ECLs Stage 2 HK$'000**	**Lifetime ECLs Stage 3 HK'000**	**Total HK$'000**
Amounts due from related companies				
– Industry average	**387**	**–**	**–**	**387**
– CCC- to CC	**–**	**59**	**–**	**59**
– D	**–**	**–**	**3,183**	**3,183**
	387	**59**	**3,183**	**3,629**

The provision of amounts due from related companies as at 31 December 2019 was as follows:

	HK$'000
As at 1 January 2019	–
Provision for the year	3,680
Exchange realignment	(51)
As at 31 December 2019	**3,629**

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. *Fair value*

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

– the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider the fair values of trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to the immediate holding company approximate to its carrying amount as the impact of discounting is not significant.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. ***Fair value*** *(Continued)*

Fair value hierarchy

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL (note 27)	**71,891**	**–**	**–**	**71,891**

	2018			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL (note 27)	45,605	–	–	45,605

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Equity instruments at FVTOCI (note 31) (note (b))	**–**	**–**	**95,025**	**95,025**

	2018			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Equity instruments at FVTOCI (note 31) (note (b))	–	–	96,526	96,526

Fair value of financial liabilities that are not measured at fair value (but fair value disclosure are required):

	2018			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Convertible bonds (note (a))	–	–	286,046	286,046

Notes:

(a) As at 31 December 2018, the fair value of convertible bonds of approximately HK$286,046,000. The fair value of liabilities component of convertible bonds was valued by an independent valuer. The convertible bonds was calculated by discounting the future cash flow at market rate and including some unobservable inputs. See note 37 for the details information of convertible bonds.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. ***Fair value*** *(Continued)*

Fair value hierarchy (Continued)

Notes: (Continued)

(a) (Continued)

Below is a summary of the valuation technique used and the key inputs to the valuation of convertible bonds:

	Valuation technique	Significant unobservable inputs	2018
Convertible bonds	Discounted cash flow method	Risk free rate	0.9%
		Volatility	48.58%
		Discount rate	9.37%

There were no transfers between all levels.

(b) As at 31 December 2019, the fair value of equity instruments of approximately HK$95,025,000 (2018: HK$96,526,000) were valued by an independent valuer. The calculation was based on investment costs and including some unobservable inputs.

Below is a summary of the valuation technique used and the key inputs to the valuation of equity instruments:

	Valuation technique	Significant unobservable inputs	2019	2018
Equity instruments	Market comparative	Adjusted Profit-To-Book ratio	**1.42**	1.50
		Liquidity discount rate	**25.6%**	25.6%

Reconciliation of Level 3 fair value measurements of financial assets

	2019 HK$'000	2018 HK$'000
As at 1 January	**96,526**	100,898
Fair value gain in other comprehensive income	**176**	862
Exchange alignment	**(1,677)**	(5,234)
As at 31 December	**95,025**	96,526

Included in other comprehensive income is an amount of approximately HK$176,000 (2018: approximately HK$862,000) fair value gain relating to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of "FVTOCI reserve".

6. CAPITAL RISK MANAGEMENT

The Group reviews its capital structure to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank and other borrowings, lease liabilities, convertible bonds, bond payables, obligations under financial leases, amounts due to related companies and amount due to the immediate holding company, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at the end of the reporting period was as follows:

	2019 **HK$'000**	2018 HK$'000
Debts (note (a))	**2,101,403**	2,654,584
Cash and cash equivalents	**(1,180,554)**	(985,759)
Net debt	**920,849**	1,668,825
Equity (note (b))	**8,375,267**	7,190,959
Net debt to equity ratio	**11%**	23%

Notes:

(a) Debts comprises bank and other borrowings, lease liabilities, convertible bonds, bond payables, obligations under financial leases, amounts due to related companies and amount due to the immediate holding company respectively.

(b) Equity includes all capital and reserves attributable to owners of the Company.

7. REVENUE AND SEGMENT INFORMATION

For the years ended 31 December 2019 and 2018, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products, nutrition products, specialised pharmaceutical raw materials and other products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's revenue represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**5,430,277**	4,889,374	**7,056,007**	6,744,831
America	**480,998**	226,343	**–**	–
Europe	**261,209**	444,047	**–**	–
Asia other than the PRC	**315,623**	361,308	**490**	–
Others	**102,528**	37,283	**–**	–
Total	**6,590,635**	5,958,355	**7,056,497**	6,744,831

Note: Non-current assets excluded equity instruments at fair value through other comprehensive income, deferred tax assets and a part of interests in associates.

Information about major customers

For the years ended 31 December 2019 and 2018, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

REVENUE

Disaggregation of revenue from contracts with customers

	2019 HK$'000	2018 HK$'000
Type of goods and services		
Manufacture and sales of pharmaceutical preparations and medical devices	**4,268,653**	3,588,143
Sales of bio-technology products and nutrition products	**1,556,922**	1,615,832
Sales of specialised pharmaceutical raw materials and other products	**765,060**	754,380
Total revenue recognised at point in time	**6,590,635**	5,958,355

	2019 HK$'000	2018 HK$'000
Revenue disclosed in segment information		
External customers	**6,590,635**	5,958,355
Timing of revenue recognition		
At a point in time	**6,590,635**	5,958,355

All of the Group's revenue are recognised at point in time when carrier designated by the customer, or after the customer's acceptance or after control transfer to customer. All revenue are generated in the PRC based on where goods are sold. All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contacts is not disclosed.

8. OTHER REVENUE AND INCOME

	2019 HK$'000	2018 HK$'000
Government grants	**199,325**	35,498
Interest income	**11,152**	11,917
Sales of raw materials, scrap and other materials, net	**7,839**	13,892
Gain on sales and lease back transaction, net	**28,378**	28,717
Investment income	**1,099**	2,952
Rental income	**504**	485
Net gain in fair value of investment properties	**6,974**	13,342
Government compensation on office relocation	**–**	66,915
Sundry incomes	**9,483**	9,463
	264,754	183,181

* The total amount in 2019 consist of government grant that have conditions amounted approximately HK$142,001,000 and government grant which have no condition amounted approximately HK$57,324,000 respectively.

9. OTHER OPERATING EXPENSES

	2019 HK$'000	2018 HK$'000
Amortisation of intangible assets (note 24)	**8,305**	16,171

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank and other borrowings:		
– wholly repayable within five years	**121,788**	157,653
Interest on bond payables (note 38)	**5,988**	6,805
Interest on convertible bonds (note 37)	**11,909**	26,977
Interest on amount due to the immediate holding company	**21**	255
Interest on finance lease	**–**	11,606
Interest on lease liabilities	**6,796**	–
	146,502	203,296

11. INCOME TAX EXPENSE

	2019 **HK$'000**	2018 HK$'000
Current tax:		
The PRC Enterprise Income Tax	**240,372**	154,034
Deferred tax (notes 25 and 39)	**(9,887)**	(6,574)
	230,485	147,460

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax at the rate of neither 8.25% nor 16.5% (2018: neither 8.25% nor 16.5%). Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

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

	2019 **HK$'000**	2018 HK$'000
Profit before tax	**1,355,973**	883,899
Tax at the domestic income tax rate of 25% (2018: 25%)	**338,993**	220,975
Tax effect of share of results of associates	**(28,741)**	(17,295)
Tax effect of expenses not deductible for tax purpose	**30,379**	27,482
Tax effect of income not taxable for tax purpose	**(14,280)**	(6,352)
Tax effect of deductible temporary differences not recognised	**1,044**	1,960
Effect of tax exemptions granted to the PRC subsidiaries	**(20,993)**	(13,075)
Income tax on concessionary rate	**(102,617)**	(106,171)
Tax effect of tax losses not recognised	**26,700**	39,936
Tax charge for the year	**230,485**	147,460

The applicable tax rate of 25% (2018: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

12. PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments (note 15)) comprises:		
– Wages and salaries	**908,043**	784,140
– Retirement benefits schemes contributions (note 48)	**61,178**	55,089
	969,221	839,229
Depreciation of property, plant and equipment (note 16)	**457,174**	220,144
Depreciation of right-of-use assets (note 17)	**11,657**	–
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses) (note 19)	**–**	7,096
Amortisation of intangible assets (included in other operating expenses) (note 24)	**8,305**	16,171
Total depreciation and amortisation	**477,136**	243,411
Allowance for ECL on financial assets		
– trade and other receivables	**54,145**	11,110
– amounts due from related companies	**3,680**	–
– reversal of ECL on trade and other receivables (included in other revenue and income)	**–**	(10,498)
Allowance for ECL of financial assets at amortised cost, net	**57,825**	612
Auditors' remuneration		
– audit services	**3,180**	2,880
– non-audit services	**–**	400
Cost of inventories recognised as an expense	**2,549,270**	2,796,841
Gain on sales and lease back transaction, net	**(28,378)**	(28,717)
Write-off of property, plant and equipment	**7,441**	39
Research and development expenditure	**186,130**	137,490
Impairment loss on inventories	**6,872**	–
Loss on disposal of property, plant and equipment	**31,574**	3,377
Net foreign exchange gain	**(7,220)**	(9,861)
Short-term lease rental expenses	**14,969**	9,205
Net loss on financial assets at FVTPL		
– Unrealised loss on financial assets at FVTPL	**11,666**	–

13. DIVIDEND

(i) Dividends payable to equity shareholders of the company attributable to the year

	2019 HK$000	2018 HK$000
Final dividend proposed after the end of the reporting period of HK$0.096 per share (2018: HK$0.086 per share)	**324,250**	269,600

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

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

	2019 HK$000	2018 HK$000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.086 per share (2018: nil)	**290,471**	–

14. EARNINGS PER SHARE

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

	2019 HK$'000	2018 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share calculation	**1,150,948**	712,667
Effect of dilutive potential ordinary shares:		
– Interest on convertible bond (net of tax)	**9,598**	26,977
Earnings for the purpose of diluted earnings per share calculation	**1,160,546**	739,644

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**3,277,561**	2,568,876
Effect of dilutive potential ordinary shares:		
– Convertible bonds	**93,760**	222,222
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**3,371,321**	2,791,098

The Company's outstanding convertible bonds were included in the calculation of diluted earnings per share because the effect of the Company's outstanding convertible bonds were diluted for the years ended 31 December 2019 and 2018.

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2019 HK$'000	2018 HK$'000
Fees:		
Executive directors	150	175
Independent non-executive directors	340	270
	490	445
Other emoluments:		
Salaries and allowances	2,521	2,581
Retirement benefits scheme contributions	18	18
	3,029	3,044

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2019 and 2018.

The emoluments paid or payable to each of the seven (2018: seven) directors for the year ended 31 December 2019 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	2,521	18	2,539
Dr. Niu Zhanqi	50	–	–	50
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Hu Yebi	100	–	–	100
Dr. Pei Geng	60	–	–	60
Total	490	2,521	18	3,029

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2018 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	75	–	–	75
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	2,581	18	2,599
Dr. Niu Zhanqi	50	–	–	50
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence (passed away on 11 May 2018)	30	–	–	30
Mr. Hu Yebi (appointed on 31 December 2018)	–	–	–	–
Dr. Pei Geng	60	–	–	60
Total	445	2,581	18	3,044

During both years ended 31 December 2019 and 2018, no directors of the Company agreed to waive or waived any emoluments.

During both years ended 31 December 2019 and 2018, the executive director of the Company, Dr. Shao Yan, was the chief executive officer of the Company.

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2018: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2018: four) individuals are as follows:

	2019 HK$'000	2018 HK$'000
Employees		
Salaries and allowances	**6,253**	7,035
Retirement benefits schemes contributions	**168**	105
	6,421	7,140

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals *(Continued)*

These emoluments were within the following bands:

	2019 No. of employees	2018 No. of employees
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**3**	2
HK$1,500,001 to HK$2,000,000	**–**	1
Over HK$2,000,000	**1**	1
	4	4

During both years ended 31 December 2019 and 2018, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management who are non-director of the Group are within the following band.

	2019 No. of employees	2018 No. of employees
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**–**	1
Over HK$2,000,000	**1**	–
	5	5

During both years ended 31 December 2019 and 2018, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Owned buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
As at 1 January 2018	1,468,939	1,802	1,610,890	31,033	77,615	412	495,400	3,686,091
Additions	67,129	–	83,222	1,589	2,263	–	218,655	372,858
Disposals	(11,448)	–	(22,129)	(3,275)	(9,086)	–	–	(45,938)
Write-off	–	–	(5)	(12)	(43)	–	–	(60)
Transfer	11,226	–	46,757	–	52	–	(58,035)	–
Exchange realignment	(78,856)	(94)	(87,836)	(1,542)	(3,730)	–	(32,036)	(204,094)
As at 31 December 2018 and 1 January 2019	1,456,990	1,708	1,630,899	27,793	67,071	412	623,984	3,808,857
Additions	122,633	–	214,217	8,496	20,735	–	199,957	566,038
Disposals	(17,086)	–	(25,666)	(2,567)	(3,501)	–	–	(48,820)
Acquired through acquisition of assets (note 43)	–	–	–	–	–	–	25,645	25,645
Write-off	–	–	(22,103)	(2,717)	(885)	–	–	(25,705)
Transfer	16,845	–	72,727	–	1,699	–	(91,271)	–
Exchange realignment	(25,988)	(30)	(31,676)	(529)	(1,406)	–	(12,889)	(72,518)
As at 31 December 2019	1,553,394	1,678	1,838,398	30,476	83,713	412	745,426	4,253,497
Accumulated depreciation and impairment								
As at 1 January 2018	246,599	–	484,320	13,444	49,531	412	–	794,306
Depreciation provided for the year	66,217	–	143,131	3,967	6,829	–	–	220,144
Eliminated on disposals	(7,615)	–	(14,400)	(2,897)	(8,581)	–	–	(33,493)
Eliminated on write-off	–	–	(3)	(11)	(7)	–	–	(21)
Exchange realignment	(15,105)	–	(30,206)	(739)	(2,472)	–	–	(48,522)
As at 31 December 2018 and 1 January 2019	290,096	–	582,842	13,764	45,300	412	–	932,414
Depreciation provided for the year	127,114	–	300,756	4,701	24,603	–	–	457,174
Eliminated on disposals	(1,366)	–	(10,251)	(2,320)	(3,309)	–	–	(17,246)
Eliminated on write-off	–	–	(16,624)	(1,167)	(473)	–	–	(18,264)
Exchange realignment	(6,790)	–	(13,935)	(259)	(1,067)	–	–	(22,051)
As at 31 December 2019	409,054	–	842,788	14,719	65,054	412	–	1,332,027
Net carrying amounts								
As at 31 December 2019	**1,144,340**	**1,678**	**995,610**	**15,757**	**18,659**	**–**	**745,426**	**2,921,470**
As at 31 December 2018	1,166,894	1,708	1,048,057	14,029	21,771	–	623,984	2,876,443

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, except for construction in progress and allocated land are depreciated on a straight-line basis, at the following rates per annum:

Buildings	2.5% – 10%
Plant and machinery	5% – 25%
Equipment	12% – 33.3%
Motor vehicles	10% – 25%
Others	12.5% – 20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant PRC's authorities.

Buildings are held in the PRC under medium-term leases.

As at 31 December 2019 and 2018, an allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 46.

17. RIGHT-OF-USE ASSETS

	Motor vehicle leased for own used HK$'000	Buildings leased for own use HK$'000	Land right use HK$'000	Total HK$'000
Cost				
As at 31 December 2018	–	–	–	–
Adjustments upon application of HKFRS 16 (note 2)	–	5,316	297,503	302,819
As at 1 January 2019 (restated)	–	5,316	297,503	302,819
Additions	248	14,109	35,280	49,637
Acquired through acquisition of assets (note 43)	–	–	31,224	31,224
Exchange realignment	(3)	(392)	(7,073)	(7,468)
As at 31 December 2019	245	19,033	356,934	376,212
Accumulated depreciation				
As at 31 December 2018	–	–	–	–
Adjustment upon application of HKFRS 16 (note 2)	–	–	22,334	22,334
As at 1 January 2019 (restated)	–	–	22,334	22,334
Depreciation provided for the year	114	4,108	7,435	11,657
Exchange realignment	(2)	(38)	(103)	(143)
As at 31 December 2019	112	4,070	29,666	33,848
Net carrying amounts				
As at 31 December 2019	**133**	**14,963**	**327,268**	**342,364**
As at 1 January 2019	–	5,316	275,169	280,485

17. RIGHT-OF-USE ASSETS *(Continued)*

Notes:

1. The comparative information has not been restated as a result of the initial application of HKFRS 16 as discussed in note 2.

2. In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases" under HKAS 17 Leases. The assets were presented in presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to note 2.

3. The Group leases several assets including properties and land right use. The average lease term is 7 years (1 January 2019: 4 years).

4. As at 31 December 2019, the Group is committed approximately to HK$1,328,000 for short-term leases.

5. The total cash outflow for leases amount approximately to HK$65,594,000 for the year ended 31 December 2019.

18. INVESTMENT PROPERTIES

	2019 **HK$'000**	2018 HK$'000
Completed investment properties	**79,815**	74,228

	2019 **HK$'000**	2018 HK$'000
As at 1 January	**74,228**	64,773
Fair value gain recognised in profit or loss (note 8)	**6,974**	13,342
Exchange realignment	**(1,387)**	(3,887)
As at 31 December	**79,815**	74,228

Asset measured at fair value

	2019 **Level 1** **HK$'000**	 **Level 2** **HK$'000**	 **Level 3** **HK$'000**	 **Total** **HK$'000**
Investment properties located in PRC	**–**	**–**	**79,815**	**79,815**

	2018 Level 1 HK$'000	 Level 2 HK$'000	 Level 3 HK$'000	 Total HK$'000
Investment properties located in PRC	–	–	74,228	74,228

18. INVESTMENT PROPERTIES *(Continued)*

(a) Valuation of investment properties

The investment properties amounted of approximately HK$79,815,000 (2018: HK$74,228,000) of the Group were stated at fair value as at 31 December 2019. The fair value of investment properties as at 31 December 2018 were arrived at based on the valuations carried out by an independent firm of qualified professional valuer, Wuhan Huasheng Zhenghao Assets Appraisal Co., Ltd. (this is the English translation of Chinese name or words which included for identification purposes only). The fair value of investment properties as at 31 December 2019 were assessed by the board of directors based on the obtainable market comparative transactions adjusted with dissimilar nature of the Group's investment properties.

The valuer has valued the properties on the basis of comparable market transactions as available. Discussions of valuation processes and results are held between the Group and valuers at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2019, the fair values of the properties have been determined by the valuer. At each financial year end, the Group (i) verifies all major inputs to the independent valuation report; (ii) holds discussions with the independent valuer.

Market approach method is adopted based on the principle of substitution, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value and capital values.

The valuation assumptions, unless otherwise stated, the valuer assumed that:

(a) The assets within the scope of the assessment are owned by the appraised unit and there is no ownership dispute;

(b) The assessment information provided by the entrusting party and the appraised unit is true, lawful and complete; and

(c) The assessment data collected by the assessors in the capacity range is authentic and credible.

There has been no change from the valuation technique used during the year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The valuation of investment properties is determined by various major inputs:

i. As at 31 December 2019:

The major key inputs applied in valuing the investment properties were market unit sales per each square meter. The range of unit market price were from RMB1,097 to RMB1,764.

Another unobservable input was volume rate of the land use right. The ranges of plot ratio of investment properties were from 1.0 to 3.7. An increase in volume rate would result in increase in the fair value of investment properties.

18. INVESTMENT PROPERTIES *(Continued)*

(a) Valuation of investment properties *(Continued)*

ii. As at 31 December 2018:

The major key inputs applied in valuing the investment properties were market unit sales per each square meter. The range of unit market price were from RMB1,315.8 to RMB1,545.24.

Another unobservable input was volume rate of the land use right. The ranges of plot ratio of investment properties were from 1.00 to 3.00. An increase in volume rate would result in increase in the fair value of investment properties.

The fair value of the investment properties of approximately HK$79,815,000 (2018: HK$74,228,000) as at 31 December 2019. The investment properties were classified as level 3 of fair value hierarchy. There were no transfers into or out of level 3 during the year.

19. PREPAID LEASE PAYMENTS

	2018 HK$'000
At the beginning of year	296,574
Additions	3,164
Written off	(2,332)
Amortisation for the year	(7,096)
Exchange realignment	(15,141)
At the end of year	275,169
Analysed for reporting purposes as:	
Current assets	7,216
Non-current assets	267,953
	275,169

Leasehold lands are held in the PRC under medium leases.

As at 31 December 2019 and 2018, certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 46.

Upon application of HKFRS 16 on 1 January 2019, prepaid lease payments are reclassified to land leased for own use under "Right-of-use assets", details please refer to notes 2 and 17.

20. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Cost of unlisted investments (note)	**4,768,615**	5,153,458
Share of post-acquisition loss and other comprehensive loss	**180,002**	61,380
Share of net assets of associates	**4,948,617**	5,214,838
Amounts due from associates	**217,338**	95,151
	5,165,955	5,309,989

Amounts due from associates are unsecured, interest-free and not repayable/recoverable within next twelve months.

The summarised financial information in respect of the Group's associates is set out below:

Yangxin Fuxin Chemical Company Limited (the "Yangxin Fuxin")

	2019 HK$'000	2018 HK$'000
Total assets	**10,195**	13,393
Total liabilities	**(2,243)**	(3,829)
Net assets	**7,952**	9,564
Group's share of net assets of the associate	**3,896**	4,686
Revenue	**15,754**	19,025
Profit for the year	**1,647**	1,107
Share of results of an associate for the year	**807**	542

20. INTERESTS IN ASSOCIATES *(Continued)*

Cardionovum Holding Company Limited (the "Cardionovum Holding")

	2019 HK$'000	2018 HK$'000
Total assets	**853,182**	804,642
Total liabilities	**(11,136)**	(123,894)
Net assets of the associate	**842,046**	680,748
Less: Non-controlling interests	**(4,246)**	(8,706)
Net assets attributable to owners of associate	**837,800**	672,042
Group's share of net assets of the associate	**279,238**	223,991
Revenue	**54,408**	53,266
Loss for the year	**(23,639)**	(13,280)
Share of results of an associate for the year	**(7,879)**	(4,426)

East Ocean Medical (Hong Kong) Company Limited (the "East Ocean")

	2019 HK$'000	2018 HK$'000
Total assets	**61,223**	59,693
Total liabilities	**(1,495)**	(2,671)
Net assets	**59,728**	57,022
Group's share of net assets of the associate	**–**	–
Revenue	**–**	–
Loss for the year	**(307)**	(1,063)
Share of results of an associate for the year	**–**	–

20. INTERESTS IN ASSOCIATES *(Continued)*

Shanghai Xudong Haipu Pharmaceutical Company Limited (the "Xudong Haipu")

	2019 **HK$'000**	2018 HK$'000
Total assets	**2,379,023**	1,757,318
Total liabilities	**(642,964)**	(379,500)
Net assets of the associate	**1,736,059**	1,377,818
Less: Non-controlling interests	**(41,173)**	(36,272)
Net assets attributable to owners of associate	**1,694,886**	1,341,546
Group's share of net assets of the associate	**932,187**	737,840
Revenue	**1,043,013**	236,819
Profit for the year	**444,662**	169,624
Share of results of an associate for the year	**244,564**	93,293

Grand Pharma Sphere Pte Ltd. (the "Grand Pharma Sphere")

	2019 **HK$'000**	2018 HK$'000
Total assets	**10,950,551**	11,602,593
Total liabilities	**(5,281,127)**	(5,704,391)
Net assets	**5,669,424**	5,898,202
Group's share of net assets of the associate	**2,778,018**	2,890,119
Revenue	**1,236,022**	351,760
Loss for the year	**(250,062)**	(41,285)
Share of results of an associate for the year	**(122,530)**	(20,230)

20. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates as at 31 December 2019 and 2018 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2019	2018		
Yangxin Fuxin (note (a))	PRC/PRC	Limited liability company	**40.32% (indirect)**	40.32% (indirect)	Contributed capital RMB2,000,000	Production and sales of fine chemicals and chemical medicine
Cardionovum Holding (note (b))	Hong Kong/ Hong Kong	Limited liability company	**33.33% (indirect)**	33.33% (indirect)	Contributed capital USD93,000,000	Development, production and distribution of advanced cardiovascular interventional medical devices and the provision of related services
East Ocean (note (c))	PRC/PRC	Limited liability company	**0.07% (direct)**	0.07% (direct)	Issued capital HK$117,000,000/ contributed capital HK$58,500,001	Investment holding
Xudong Haipu (note (d))	PRC/PRC	Limited liability company	**55.00% (indirect)**	55.00% (indirect)	Contributed capital RMB60,000,000	Production and sales of pharmaceutical preparations for injections
Grand Pharma Sphere (note (e))	Singapore/ Singapore	Limited liability company	**49.00% (indirect)**	49.00% (indirect)	Contributed capital USD100	Investment holding

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.

As at 31 December 2013, the Group held approximately 40.22% equity interest in Yangxin Fuxin and are accounted for the investment as an associate. During the year ended 31 December 2014, the Group had further acquired approximately 0.24% equity interest in Grand Pharm (China) on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the Group's equity interest in Yangxin Fuxin was increased from 40.22% to 40.32%.

(b) Cardionovum Holding was an associate of Grand Wise International Trading Limited, a wholly-owned subsidiary of the Company, and Cardionovum Holding was establish with individual third party. The Company had subscribed for approximately 33.33% of the enlarged issued share capital of the Cardionovum Holding pursuant to an agreement signed on 21 April 2015, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over Cardionovum Holding because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(c) East Ocean was an associate of the Company and East Ocean was establish with a connected person of the Company. The Company had held for 1 out of 1500 issued share capital of the East Ocean as at 31 December 2017. Pursuant to an agreement signed between the Company and the owners of East Ocean in relate to the establishment of East Ocean, the Company will inject not more than 49.9% equity interest of capital into East Ocean within five years, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over East Ocean because it has the power to appoint one out of the three directors of that company under the shareholders agreement.

20. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(d) Xudong Haipu was an associate of Taiwan Tung Yang International Company Limited ("Tung Yang").

On 24 May 2018, the Company entered into the acquisition agreement, the Company had acquired 100% of the Tung Yang shares at aggregate consideration HK$2,004,227,000 which are settled by cash and shares. Upon completion of the acquisition, Tung Yang is directly wholly-owned subsidiary of the Company. Shanghai Xudong Haipu Pharmaceutical Co., Ltd ("Xudong Haipu") and its subsidiaries are classified as associates of the Company after Completion. This is because material decisions of Xudong Haipu (including but not limited to the approval of its annual budget, manufacturing plan and profit distribution policy) are subject to the resolutions of the board of directors of Xudong Haipu which must be passed by at least two-third of its directors in attendance under the articles of association of Xudong Haipu. As the Tung Yang entitled to appoint only four out of the seven directors of Xudong Haipu, the Tung Yang does not have control over the operations and financial management of Xudong Haipu.

The completion of the acquisition took place on 5 September 2018. Details of the acquisition of the Tung Yang are disclosed in the announcement of the Company dated 24 May 2018, 31 July 2018 and 24 August 2018.

Even the Company was holding 55% of shares of Xudong Haipu, since the resolutions requires at least 5 out of 7 directors' approval to pass, where the Company only entitled to appoint 4 directors on the board meeting, the Company does not have control over the associate.

(e) Grand Pharma Sphere was an associate of Grand Decade Developments Limited ("Grand Decade") and it was the immediate holder of Grand Pharma Sphere (Australia BidCo) Pte Ltd. ("BidCo").

On 14 June 2018, the Company entered into the binding scheme implementation deed pursuant to which CDH Genetech Limited ("CDH Genetech") and the Company had acquired 100% of the Sirtex Medical Pty Ltd. (formerly named Sirtex Medical Ltd.) ("Sirtex") shares. The Company and CDH Genetech had established BidCo to acquire the Sirtex shares and paid aggregate consideration HK$2,907,725,000. Upon completion of the acquisition, the Company and CDH Genetech owned 49% and 51% of the issued shares capital of the BidCo respectively. The completion of the acquisition took place on 20 September 2018. Details of the acquisition of the BidCo are disclosed in the announcement of the Company dated 14 June 2018, 26 July 2018, 20 September 2018 and 12 March 2019.

The above table lists associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

21. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

	2019	2018
	HK$'000	HK$'000
Purchase of land use right (note (a))	**–**	39,491

Note:

(a) During the year ended 31 December 2016, Beijing Grand Jiuhe Pharmaceutical Limited ("Jiuhe") entered into an agreement with the independent third party to acquire a land use right and paid amount to approximately RMB34,690,000 (equivalent to approximately HK$38,874,000) within a specified period as stipulated in the agreement. As at 31 December 2018, the Group was in the progress of obtaining the land use right certificate. During the year ended 31 December 2019, the agreement was terminated and the deposits were fully refunded from the independent third party.

22. GOODWILL

	HK$'000
As at 1 January 2018	511,539
Exchange realignment	(23,691)
As at 31 December 2018 and 1 January 2019	487,848
Exchange realignment	(7,527)
As at 31 December 2019	**480,321**

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

- Zhejiang Jianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")
- Wuhan Kernel Bio-tech Co., Ltd. ("Wuhan Kernel")
- Hubei Wellness Pharmaceutical Co., Ltd ("Hubei Wellness")
- Beijing Rui Yao Technology Limited ("Beijing Rui Yao")
- Jiuhe
- Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming")
- Xi'an Beilin Pharmaceutical Co., Ltd. ("Xi'an Beilin")

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2019 **HK$'000**	2018 HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**15,666**	15,944
Hubei Wellness	**22,603**	23,003
Beijing Rui Yao	**24,139**	24,566
Jiuhe	**179,909**	183,092
Tianjin Jingming	**60,951**	62,030
Xi'an Beilin	**122,109**	124,269
	480,321	487,848

22. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes:

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2018: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2018: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 15% (2018: 18%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2018: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2018: 18%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2018: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2018: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2018: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

22. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes: *(Continued)*

Jiuhe

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2018: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2018: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Tianjin Jingming

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2018: 17%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2018: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Xi'an Beilin

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15% (2018: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 3% growth rate per annum (2018: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 3% (2018: 3%) of market share per year. The values assigned to the assumption reflect past experience and are consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

23. PARTICULAR OF SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2019 and 2018 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2019	2018	Particulars of issued/paid-up capital	Principal activities
Grand Pharm (China) (notes (iv), (vi), (vii) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.18% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (notes (ii), (viii), (xvi) and (xxiv))	PRC/PRC	Limited liability company	**84.76% (indirect)**	60.80% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (notes (viii) and (xx))	PRC/PRC	Limited liability company	**89.60% (indirect)**	89.60% (indirect)	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	**67.00% (direct)**	67.00% (direct)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (notes (iii), (viii), (xvi) and (xvii))	PRC/PRC	Limited liability company	**91.56% (indirect)**	91.56% (indirect)	Contributed capital RMB79,200,000	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.90% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC
Beijing Rui Yao (notes (x) & (xii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB23,901,750	Investment holding
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajin") (notes (viii), (x) & (xii))	PRC/PRC	Limited liability company	**71.88% (indirect)**	71.88% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the PRC

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2019	2018	Particulars of issued/paid-up capital	Principal activities
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB1,000,000	Treatment of sewage in the PRC
Jiuhe (note (xiii))	PRC/PRC	Limited liability company	**96.84% (indirect)**	96.84% (indirect)	Contributed capital RMB20,000,000	Manufacture and sales of capsules, pharmaceutical intermediates, tablets, granules and soft capsules in the PRC
Tianjin Jingming (note (xiv))	PRC/PRC	Limited liability company	**73.18% (indirect)**	73.18% (indirect)	Contributed capital RMB1,000,000	Research and development, manufacture and sales of ophthalmic medical devices and disposal surgical product
Zhu Hai Cardionovum Medical Device Co. Ltd. ("Zhu Hai Cardionovum") (note (xv))	PRC/PRC	Limited liability company	**77.89% (indirect)**	77.89% (indirect)	Contributed capital USD1,000,000	Development, manufacture and sales of ophthalmic medical devices
Xi'an Beilin (note (xvii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB27,800,000	Manufacture and sales of Chinese medicine and health food product
Grand Decade (note (xxii))	BVI/BVI	Limited liability company	**100% (direct)**	100% (direct)	Contributed capital HKD78,000	Investment holding
Tung Yang (note (xxiii))	Hong Kong/ Hong Kong	Limited liability company	**100% (direct)**	100% (direct)	Contributed capital USD2,944,611	Investment holding
Beijing Kun Wu International Business Limited ("Beijing Kun Wu") (note (xxv))	PRC/PRC	Limited liability company	**99.84% (indirect)**	–	Contributed capital RMB18,000,000	Land holding

Notes:

(a) Detail of subsidiaries

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010.

During the year ended 31 December 2010, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(v) Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 22 November 2012. The effective equity interest in Hubei Wellness held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB136.40 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.06 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.

(viii) Pursuant to share transfer agreement dated on 10 October 2014, Grand Pharm (China) had increased the paid-up capital to RMB470,000,000. The Group had paid RMB285,000,000 during the year ended 2014. After the payment of additional paid-up capital, the Group further acquired approximately 0.24% equity interest in Grand Pharm (China) at the consideration of RMB1.134million (representing approximately RMB4.725 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the equity interest held by the Group in Grand Pharm (China) was approximately 99.84%. As a result of the acquisition detail on notes (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 98.94% to 99.18%; Wuhan Grand Hoyo was increased from 62.15% to 62.30%; Hubei Fuchi was increased from 82.09% to 82.29%; Hubei Grand EBE was increased from 99.60% to 99.84%, Wuhan Kemel was increased from 80.70% to 80.90%. Hubei Wellness was increased from 99.60% to 99.84%; Huangshi Feiyun was increased from 59.76% to 59.90% and Beijing Huajin was increased from 50.80% to 50.92%.

(ix) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Huangshi Feiyun. The effective equity interest in Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(x) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao acquisition, Grand Pharm (China) will own approximately 70.56% equity interest in Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(xi) The Group established and owned 99.84% equity interest in Fuchi Water. The effective equity interest in Fuchi Water held by the Group is 99.84% on 30 September 2014.

(xii) Pursuant to an agreement dated 11 December 2014, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 29.16% equity interest in Beijing Rui Yao on 1 January 2015. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao additional acquisition, the Group will own approximately 99.84% equity interest in Rui Yao and approximately 71.88% equity interest in Beijing Huajin indirectly through Rui Yao.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xiii) Pursuant to an agreement dated 17 July 2015, Grand Pharm (China) entered into an agreement with Ningbo CDH Jinxiu Investment Management Company Limited (the "Ningbo CDH") to acquire 67.00% equity interest in Jiuhe on 31 July 2015 and upon completion of Jiuhe acquisition, the Group will own approximately 66.89% equity interest in Jiuhe.

During the year ended 2015, a further 30.00% equity interest in Jiuhe was acquired by Grand Pharm (China). As a result, the effective equity interest in Jiuhe held by the Group was increased from 66.89% to 96.84%.

(xiv) Pursuant to an agreement dated 22 December 2014, Grand Pharm (China) entered into an agreement with Wu Liang and Fan Li Jin to acquire 73.30% equity interest in Tianjin Jingming on 1 January 2015. The effective equity interest in Tianjin Jingming held by the Group is 73.18% on 1 January 2015.

(xv) The Group established and owned 77.89% equity interest in Zhu Hai Cardionovum. The effective equity interest in Zhu Hai Cardionovum held by the Group is 77.89% on 9 October 2015.

(xvi) During the year ended 31 December 2016, the Group increase effective equity interest by 13.44% in Huang Gang Fuchi Pharmaceutical Co., Ltd. from the non-controlling interests at consideration of three subsidiaries shares of 2.59% in Wuhan Grand Hoyo; 2.11% in Wuhan Kemel and 3.47% in Hubei Grand Bio-technology Limited.

(xvii) During the year ended 31 December 2016, the Group acquired additional 1.55% and 16.05% equity interest in Wuhan Kernel from the non-controlling interests of Wuhan Kernel at a cash consideration of RMB3,000,000 and RMB20,180,000 (approximately HK$3,362,000 and HK$22,614,000). The Group recognised an decrease in non-controlling interests and decrease in other reserve of approximately HK$28,165,000 and HK$2,059,000 respectively.

(xviii) Pursuant to an agreement dated 29 June 2016, Grand Pharm (China) entered into an agreement with independent third parties to acquire 77.21% equity interest in Xi'an Beilin on 13 July 2016. Xi'an Beilin also owing 100%, 100% and 79% equity interest in Shenxi Xin Beilin Medical Company Limited (the "Shenxi Xin Beilin"), Xi'an Hanyuan Shiye Company Limited (the "Xi'an Hanyuan Shiye") and Xi'an Beilin Biological Technology Company Limited (the "Xi'an Beilin Biological") without any encumbrances and potential disputes, and upon completion of Xi'an Beilin acquisition, the Group will own approximately 77.09% equity interest in Xi'an Beilin and approximately 77.09%, 77.09% and 60.91% equity interest in Shenxi Xin Beilin, Xi'an Hanyuan Shiye and Xi'an Beilin Biological indirectly through Xi'an Beilin. During the year ended 31 December 2016, the Group derecognised Xi'an Beilin Biological Technology.

During the year ended 31 December 2017, Grand Pharm (China) acquire additional 22.79% equity interest in Xi'an Beilin from the non-controlling interests of Xi'an Beilin at a cash consideration of RMB131,512,000 (approximately HK$151,606,000), and upon completion of the further acquisition, the Group will own approximately 99.84% equity interest in Xi'an Beilin and approximately 99.84% and 99.84% equity interest in Shenxi Xin Beilin and Xi'an Huanyuan Shiye indirectly through Xi'an Beilin. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$113,123,000 and HK$38,484,000 respectively.

(xix) During the year ended 31 December 2017, Wuhan Kernel had increased the contributed capital to RMB79,200,000. After the payment of additional of contributed capital, Grand Pharm (China) disposed 4.9% equity interest in Wuhan Kernel to independent third party at a cash consideration of RMB12,740,000 (approximately HK$14,687,000). Upon the completion of the partial disposal, the Group will own approximately 91.56% equity interest in Wuhan Kernel indirectly. The Group recognised an increase in non-controlling interests and increase in other reserve of approximately HK$5,832,000 and HK$8,853,000 respectively.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xx) During the year ended 31 December 2017, Grand Pharm (China) acquire additional approximately 7.32% equity interest in Hubei Fuchi from the non-controlling interests of Hubei Fuchi at a cash consideration of approximately RMB11,679,000 (approximately HK$13,463,000), and upon completion of the further acquisition, the Group will own approximately 89.60% equity interest in Hubei Fuchi. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$7,506,000 and HK$5,957,000 respectively. As a result of the acquisition, the Group's equity interest in Wuhan Grand Hoyo was increased from 59.71% to 60.80%; and Hubei Fuchi was increased from 82.29% to 89.60%.

(xxi) The above table lists the subsidiaries of the Group, which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors result in particulars of excessive lengths.

(xxii) During the year ended 31 December 2018, the Company establish Grand Decade for the purpose of acquiring associate, Grand Pharma Sphere.

(xxiii) During the year ended 31 December 2018, the Company acquire 100% equity interest in Tung Yang at aggregate consideration HK$2,004,227,000. Upon completion, Xudong Haipu becomes an associate of the Company.

(xxiv) Pursuant to an agreement dated 20 November 2019, the Group acquired additional of 24.6% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB73,724,700 (approximately HK$83,630,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 23.96%. The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$77,803,000 and HK$5,827,000 respectively.

(xxv) During the year ended 31 December 2019, Grand Pharm (China) entered into an agreement with 北京瑞雅科國際企業管理有限公司 to acquire 100% equity interest in Beijing Kun Wu. The effective equity interest in Beijing Kun Wu held by the Group is 99.84% upon the completion of the acquisition on 1 May 2019.

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of Company	Place of incorporation/ registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profits allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019**	2018	**2019**	2018
				HK$'000	HK$'000	**HK$'000**	HK$'000
Wuhan Grand Hoyo	PRC/PRC	**15.24%**	39.20%	**7,477**	21,385	**47,755**	104,968

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Wuhan Grand Hoyo and its subsidiaries

	2019 HK$'000	2018 HK$'000
Current assets	**293,317**	243,184
Non-current assets	**58,947**	56,054
Current liabilities	**(36,444)**	30,236
Non-current liabilities	**(2,468)**	1,296
Equity attributable to owners of the Company	**265,597**	162,739
Non-controlling interests	**47,755**	104,968
Revenue	**554,101**	510,647
Other revenue and income	**4,450**	3,332
Expenses	**(509,489)**	(459,439)
Profit for the year	**49,062**	54,540
Profit attributable to owners of the Company	**41,585**	33,155
Profit attributable to non-controlling interests	**7,477**	21,385
Total comprehensive income for the year	**45,646**	40,609
Total comprehensive income attributable to owners of the Company	**38,690**	24,686
Total comprehensive income attributable to non-controlling interests	**6,956**	15,923
Dividend paid to non-controlling interest	**–**	–
Net cash inflow from operating activities	**20,111**	1,151
Net cash outflow from investing activities	**(5,758)**	(4,138)
Net cash (outflow)/inflow from financing activities	**(629)**	727
Effect of foreign exchange rate charges	**(2,272)**	(2,285)
Net cash inflow/(outflow)	**11,452**	(4,545)

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

(c) Change in ownership interests in Wuhan Grand Yoho and its subsidiaries

During the year, the Group acquired 23.96% effective equity interests of from a non-controlling shareholder which is holding 24.6% equity interests of Wuhan Grand Yoho and its subsidiaries pursuant to an equity transfer agreement at a cash consideration of RMB73,724,700 (approximately HK$83,630,000). The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

	HK$'000
Carrying amount of non-controlling interests acquired	77,803
Consideration paid for non-controlling interests	(83,630)
	(5,827)

24. INTANGIBLE ASSETS

	Pharmaceutical technology HK$'000	Patent, trademark and capitalised development cost HK$'000	Acquired patent rights HK$'000	Total HK$'000
Cost				
As at 1 January 2018	7,588	802,588	118,602	928,778
Addition	–	–	1,304	1,304
Exchange realignment	(393)	(41,644)	(6,206)	(48,243)
As at 31 December 2018 and 1 January 2019	7,195	760,944	113,700	881,839
Addition	–	–	1,148	1,148
Exchange realignment	(125)	(13,231)	(2,023)	(15,379)
As at 31 December 2019	7,070	747,713	112,825	867,608
Accumulated amortisation and impairment loss				
As at 1 January 2018	979	–	52,081	53,060
Provided for the year (note 9)	375	–	15,796	16,171
Exchange realignment	(65)	–	(3,325)	(3,390)
As at 31 December 2018 and 1 January 2019	1,289	–	64,552	65,841
Provided for the year (note 9)	358	–	7,947	8,305
Exchange realignment	(27)	–	(1,234)	(1,261)
As at 31 December 2019	1,620	–	71,265	72,885
Net carrying amounts				
As at 31 December 2019	**5,450**	**747,713**	**41,560**	**794,723**
As at 31 December 2018	5,906	760,944	49,148	815,998

The economic useful life of recognised intangible assets are as follows:

Intangible assets	**Economic useful life**
Pharmaceutical technology	20 years
Acquired patent rights	5 years – 7 years
Patents, trademarks and capitalised development cost	indefinite useful lives

The patents and trademarks will expire in the coming two to five years and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the patents and trademarks and consider that the possibility of failing in renewal is remote and the patents and trademarks will generate net cash flows for the Group for an indefinite period. Therefore, the patents and trademarks are treated as having an indefinite useful life.

For the purposes of impairment testing, goodwill, patents and trademarks above have been allocated to the acquired cash generating units, details of impairment assessment was set out in note 22. During the years ended 31 December 2019 and 2018, the management of the Group determines that there is no impairment need of any of its CGUs containing goodwill, patents and trademarks.

25. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	ECL provision HK$'000	**Impairment loss on trade and other receivables** HK$'000	**Total** HK$'000
As at 1 January 2018	11,331	1,243	12,574
Charge to profit or loss	1,780	–	1,780
Exchange realignment	–	(64)	(64)
As at 31 December 2018 and 1 January 2019	13,111	1,179	14,290
Charge/(credit) to profit or loss	7,087	(1,175)	5,912
Exchange realignment	(326)	(4)	(330)
As at 31 December 2019	**19,872**	**–**	**19,872**

As at 31 December 2019, the Group has unused tax losses of approximately HK$166,161,000 (2018: HK$60,931,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$166,161,000 (2018: HK$60,931,000) due to the unpredictability of future profit streams.

26. PREPAYMENTS

The amount represented prepayment of RMB87,106,000 (equivalent to approximately HK$97,439,000) (2018: RMB74,526,000 (equivalent to approximately HK$84,841,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 **HK$'000**	2018 HK$'000
Listed equity security in HK (note (a))	**38,332**	–
Investment at fair value (note (b))	**33,559**	45,605
	71,891	45,605

Notes:

(a) Fair value was determined with reference to quoted market bid prices.

(b) As at 31 December 2019 and 2018, the Group's investment in wealth management products were designed at financial assets at fair value through profit or loss of which fair values are determined by reference to the quoted market bid prices available on the relevant PRC market.

The financial assets at fair value through profit or loss were classified as level 1 of fair value hierarchy.

28. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**146,785**	193,234
Work-in-progress	**350,371**	282,541
Finished goods	**317,217**	294,554
	814,373	770,329

29. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables, net	**897,991**	928,865
Bills receivables	**497,866**	313,659
Prepayments	**194,292**	258,028
Deposits paid	**469**	469
Other tax receivables	**38,524**	30,852
Other receivables, net	**69,666**	77,438
	1,698,808	1,609,311

The Group generally allows a credit period of 30 – 180 days (2018: 30 – 180 days) to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

	2019 HK$'000	2018 HK$'000
Trade receivables	**998,185**	989,669
Less: allowance for ECL	**(100,194)**	(60,804)
Total trade receivables	**897,991**	928,865

The ageing analysis of the trade receivables is as follows:

	2019 HK$'000	2018 HK$'000
Within 90 days	**773,517**	831,589
91 – 180 days	**84,724**	73,678
181 – 365 days	**39,750**	23,598
	897,991	928,865

29. TRADE AND OTHER RECEIVABLES *(Continued)*

	2019 HK$'000	2018 HK$'000
Other receivables	**102,368**	97,329
Less: allowance for ECL	**(32,702)**	(19,891)
Total other receivables	**69,666**	77,438

Allowance for ECL in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balances directly.

The Group does not hold any collated or other credit enhancement over its trade and other receivables balances. Trade and other receivables are non-interest bearing.

The Directors considered that the residual amounts of trade and other receivables are fully recoverable and no provision for impairment.

30. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2019 HK$'000	2018 HK$'000
Cash in banks	**1,059,248**	912,236
Cash on hand	**21**	8
	1,059,269	912,244

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	2019 HK$'000	2018 HK$'000
HK$	**165**	1,911
USD	**36,801**	14,072
Australian dollars (the "AUD")	**33**	–
Euro dollars (the "EURO")	**2,201**	1,468
RMB	**1,020,069**	894,793
	1,059,269	912,244

As at 31 December 2019, bank deposits of approximately HK$121,285,000 (2018: HK$73,515,000) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2019, the annual effective interest rate on pledged bank deposits is 1.18% (2018: 1.09%).

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

31. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Unlisted securities:		
– Unlisted equity securities (note)	**95,025**	96,526

Note:

Upon application of HKFRS 9 on 1 January 2018, the unlisted equity securities are reclassified from AFS financial assets. As at 31 December 2019 and 2018, the fair value of the unlisted equity security was arrived on the basis of a valuation carried out by an independent professional.

32. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Trade payables	**355,171**	394,506
Bills payables	**479,122**	661,370
Accruals and other payables (note a)	**1,131,307**	1,137,896
Other tax payables	**60,596**	148,767
Total	**2,026,196**	2,342,539
Contract liabilities (note b)	**305,558**	156,432

Notes:

a. Included in accruals and other payables, during year ended 31 December 2018, there is an amount of approximately HK$350,632,000 which was payable for acquisition of associate company.

b. Contract liabilities in relation to sales of finished goods are expected to be settled within one year. The entire amount of contract liabilities as at 1 January 2019 is all recognised as revenue during current year.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2019 HK$'000	2018 HK$'000
Within 90 days	**237,118**	267,262
Over 90 days	**118,053**	127,244
	355,171	394,506

32. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES *(Continued)*

The average credit period on purchases of goods is 90 days.

The bills payables are mature within 180 days from the end of the reporting period.

33. BANK AND OTHER BORROWINGS

	2019 **HK$'000**	2018 HK$'000
Bank borrowings (secured)	**2,010,162**	2,134,347
Other borrowing (unsecured)	**20,135**	20,491
	2,030,297	2,154,838
Carrying amount repayable:		
On demand or within one year	**967,607**	1,967,352
More than one year but not exceeding two years	**824,983**	83,456
More than two years but not more than five years	**237,707**	104,030
	2,030,297	2,154,838

As at 31 December 2019 and 2018, certain bank loans are guaranteed by China Grand Enterprises Incorporation, a related company with common controlling shareholder of the Company, and secured by the plant and machinery, buildings, prepaid lease payments/right-of-use assets and pledged bank deposits of the Group in the PRC as detailed in note 46.

As at 31 December 2019 and 2018, all other bank loans and other borrowings of the Group are denominated in RMB.

As at 31 December 2019 and 2018, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of approximately HK$1,221,534,000 (2018: HK$1,087,004,000) that were charged at fixed interest rate of 2.92% to 6.89% (2018: 2.92% to 6.66%) per annum, all other bank loans bear variable interest rates from 4.74% to 5.23% (2018: 3.70% to 5.66%) per annum.

The Group has borrowed unsecured other borrowings of approximately HK$20,135,000 (2018: HK$20,491,000) from Huangshi Zhongbang City Housing Investment Co., Ltd, independent third party, during the years ended 31 December 2019 and 2018.

34. LEASE LIABILITIES

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

	As at 31 December 2019		As at 1 January 2019	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**22,621**	**24,833**	56,739	62,807
After 1 year but within 2 years	**3,376**	**4,181**	21,904	23,349
After 2 years but within 5 years	**4,283**	**5,330**	–	–
After 5 years	**4,269**	**6,170**	–	–
	11,928	**15,681**	21,904	23,349
	34,549	**40,514**	78,643	86,156
Less: total future interest expenses		**(5,965)**		(7,513)
Present value of lease obligations		**34,549**		78,643

Analysed for reporting purposes as:

	As at 31 December 2019 HK$'000	As at 1 January 2019 HK$'000
Current liabilities	**22,621**	56,739
Non-current liabilities	**11,928**	21,904
	34,549	78,643

The carrying amount of the lease liabilities approximate their fair value. As at 31 December 2019, the Group has lease property, plant and equipment under lease liabilities with net book value of approximately HK$157,051,000.

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2019 HK$'000
RMB	**34,165**
HK$	**384**
	34,549

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to lease which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

35. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 December 2015, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 5 years. Interest rates underlying all obligations under finance leases are (i) 1.033 times of; or (ii) 0.2% higher than the 1–5 years basic borrowing rate as promulgated by the People's Bank of China, whichever is higher. At the end of the lease term of the Finance Lease Contract, Grand Pharm (China) will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 (equivalent to approximately HK$112). No arrangement have been entered into for contingent rental payments.

During the year ended 31 December 2016, the Group leased certain of its manufacturing equipment under finance lease from the business combination. The lease term is 3 years. Interest charges underlying all obligations under finance leases are fixed repayment on RMB474,907 and RMB474,598 (equivalent to approximately HK$532,183 and HK$531,836) and adjustment based on 0.1% higher or lower than the 1–5 years basic borrowing rate as promulgated by the People's Bank of China when it is amended during the lease term. At the end of the lease term of the finance lease contracts, Xi'an Beilin will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 and RMB100 (equivalent to approximately HK$112 and HK$112). No arrangement have been entered into for contingent rental payments.

During the year ended 31 December 2017, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 3 years. Interest rates underlying all obligations under finance leases are (i) 1.033 times of; or (ii) 0.2% higher than the 1–5 years basic borrowing rate as promulgated by the People's Bank of China, whichever is higher. At the end of the lease term of the Finance Lease Contract, Zhejiang Xianle will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 (equivalent to approximately HK$120). No arrangement have been entered into for contingent rental payments.

As at 31 December 2018, the Group's finance lease liabilities were repayable as follows:

	2018 HK$'000
Amounts payable under finance leases:	
Within one year	59,882
In the second to fifth year	20,462
	80,344
Future finance charges on finance lease	(7,017)
Present value of finance lease liabilities	73,327

The present value of finance lease liabilities is as follows:

	2018 HK$'000
Current portion	54,097
Non-current portion	19,230
	73,327

The carrying amounts of the finance lease liabilities approximate their fair values. As at 31 December 2018, the Group has lease property, plant and equipment under finance leases with net book value of approximately HK$177,235,000.

Upon application of HKFRS 16 on 1 January 2019, obligations under finance leases are reclassified to "Lease liabilities", details please refer to notes 2 and 34.

36. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

Details of amounts due from related companies are as follows:

Name of related companies:	Balance at 31 December 2019 HK$'000	2018 HK$'000
Amounts due from related companies under common control of members of the shareholder of the Group		
保定九孚生化有限公司 (unofficially translated as "Baoding Jiufu Biochemical Company Limited")	**28,607**	–
江蘇遠大信誼藥業有限公司	**20,360**	5,996
華東醫藥股份有限公司 (unofficially translated as "Huadong Medicine Co. Ltd")	**3,879**	4,516
廣東雷允上藥業有限公司	**755**	–
河南遠大生物製藥有限公司	**373**	–
華東醫藥股份有限公司藥品分公司	**201**	205
華東醫藥麗水有限公司	**87**	115
瀋陽藥大雷允上藥業有限責任公司	**42**	–
華東醫藥（西安）博華製藥有限公司製藥分公司	**22**	–
	54,326	10,832
Less: allowance for ECL	**(3,629)**	–
	50,697	10,832

Details of impairment assessment as at 31 December 2019 are set out in note 5b.

The entire trade nature amounts due from related companies were past due as at 31 December 2018 which the Group had not provided for impairment loss, as there had not been a significant change in credit quality and the amounts were still considered recoverable based on the historical experience. The Group did not hold any collateral over these balances.

The Group had policy regarding impairment losses on amounts due from related parties which was based on the evaluation of collectability and on the management's judgement including the current creditworthiness and the past collection history of each related party.

Members of the shareholder of the Group have controlling interests over the related companies.

The amounts due from/(to) related companies are unsecured, interest-free and recoverable/repayable on demand.

37. CONVERTIBLE BONDS

As at 31 December 2018, the carrying amount of convertible bonds amount of approximately HK$284,725,000 ("Convertible bonds"). Each bond entitles the holder to convert to Company's ordinary share at a conversion price of HK$1.35 and will be matured on 17 October 2019.

The Company issued the Convertible bonds for the principal amount of HK$330 million to mainly finance the acquisition of 上海衛康光學眼鏡有限公司 (unofficially translated as "Shanghai Weicon Optics Co., Ltd.") (the "Acquisition") and general working capital. The Company does not have the intention to apply for the listing of the Convertible Bonds, therefore, an active market does not exist.

However, the Acquisition has been terminated on 28 May 2015, the net proceeds from the issue of the convertible bonds will no longer be used to finance the Acquisition. As a result, the Directors intend to use such unused proceeds (i) for financing potential mergers and acquisitions when opportunities arise in the future; and (ii) as the general working capital of the Group.

The Convertible bonds may be converted into shares of the Company at any time on or after issue date up to the close of business on the maturity date.

Unless previously redeemed, converted, purchased and cancelled, the Company will redeem each Convertible bonds at its principal amount with accrued and unpaid interest thereon on the maturity date.

The Convertible bonds bear interest from and including the issue date at 3% per annum in arrears on 31 December in each year. The interest payable amount is calculated by 3% to outstanding principal amount of such Convertible bonds.

The Convertible bonds contain two components: liability and equity elements. The equity element is presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component on initial recognition is 9.29% per annum. The valuation of Convertible bonds was performed by an independent qualified professional valuer of the Company.

During the year ended 31 December 2019, the Convertible bond with the principal amount of HK$300,000,000 (2018: HK$30,000,000) was converted into 222,222,222 shares (2018: 22,222,222 shares).

The carrying amounts of the Convertible bonds approximate to its fair value as at 2018.

37. CONVERTIBLE BONDS *(Continued)*

The Convertible bonds information are presented as follows:

	Convertible bonds HK$'000
Principal amounts:	
– as at 31 December 2017	330,000
– as at 31 December 2018	300,000
Interest:	in HK$ settlement 3% p.a. payable per annum
Issue date:	17 October 2014
Maturity date:	17 October 2019
Conversion price per share:	HK$1.35

Below is a summary of the valuation techniques used and the key inputs to the valuation of convertible bonds at issue date:

– Valuation techniques	Discounted cash flow method
– Significant unobservable inputs	
Risk free rate	1.45%
Volatility	54.05%
Discount rate	9.15% to 10.38%

The convertible bonds recognised in the consolidated statement of financial position were calculated as follows:

	Convertible bonds HK$'000
As at 1 January 2018	293,958
Imputed interest charge (note 10)	26,977
Less: interest paid	(9,165)
Less: converted	(27,045)
As at 31 December 2018 and 1 January 2019	284,725
Imputed interest charge (note 10)	11,909
Less: accrued interest	(3,797)
Less: conversion on 3 June 2019	(292,837)
As at 31 December 2019	–

38. BOND PAYABLES

	2019 **HK$'000**	2018 HK$'000
Listed corporate bond	**–**	113,562

On 1 December 2016, the Group issued a listed corporate bond at a principal amount of RMB100,000,000 (equivalent to approximately HK$112,061,000) which is unsecured, bears a fixed interest rate of 5.49% per annum in first three years and is fully redeemable by the Group after 5 years from the issue date at its principal amount of RMB100,000,000 (equivalent to approximately HK$112,061,000).

The bond payables have been approved by the China Securities Regulatory Commission as part of the proposed corporate bond offerings to qualified investors in Shenzhen Stock Exchange. The Group has an option to adjust the coupon rate, and bond holders have an option to resell to the issuer, at the end of the third interest-bearing year.

The effective interest rate of the unlisted corporate bond is approximately 5.67%.

The movement of the unlisted corporate bond is set out as below:

	HK$'000
Unlisted corporate bond issued as at 1 January 2018	119,474
Imputed interest charged (note 10)	6,805
Less: coupon interest payable	(6,506)
Exchange realignment	(6,211)
As at 31 December 2018 and 1 January 2019	113,562
Imputed interest charged (note 10)	5,988
Less: coupon interest payable	(5,709)
Less: repayment	(113,436)
Exchange realignment	(405)
As at 31 December 2019	**–**

Note: The delisting of the bond from Shenzhen Stock Exchange was following early redemption and cancellation of the bond on 2 December 2019.

39. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Intangible assets HK$'000	Property, plant and equipment and prepaid lease payments HK$'000	Investment properties HK$'000	Convertible bonds HK$'000	Total HK$'000
As at 1 January 2018	143,034	37,442	9,944	5,162	195,582
Credited to profit or loss (note 11)	(2,056)	(1,797)	–	(2,501)	(6,354)
Credited to equity	–	–	–	(488)	(488)
Exchange realignment	(7,340)	(1,872)	(516)	–	(9,728)
As at 31 December 2018 and 1 January 2019	133,638	33,773	9,428	2,173	179,012
Credited to profit or loss (note 11)	(483)	(1,807)	–	(1,685)	(3,975)
Credited to equity	–	–	–	(488)	(488)
Exchange realignment	(2,317)	(562)	(164)	–	(3,043)
As at 31 December 2019	**130,838**	**31,404**	**9,264**	**–**	**171,506**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$272,677,000 (2018: approximately HK$222,153,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

40. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

As at 31 December 2019 and 2018, the amount is unsecured, interest-free (2018: interest bearing at 5% per annum) and repayable on demand.

41. DEFERRED INCOME

The movement of deferred income is set out below:

	HK$'000
As at 1 January 2018	632,253
Exchange realignment	(36,359)
As at 31 December 2018 and 1 January 2019	595,894
Compensation received during the year (notes (b) and (c))	22,615
Credit to profit or loss	(142,001)
Exchange realignment	(9,895)
As at 31 December 2019	**466,613**

41. DEFERRED INCOME *(Continued)*

Notes:

(a) On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(i) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(ii) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

(iii) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. During the year ended 31 December 2014, RMB58,500,000 (equivalent to approximately HK$73,629,000) was received by Grand Pharm (China).

(iv) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China). During the year ended 31 December 2014, RMB171,000,000 (equivalent to approximately HK$215,219,000) was received by Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

41. DEFERRED INCOME *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

The relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the years ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the years ended 31 December 2012, the Group did not receive any Compensation. During the years ended 31 December 2013 and 2014, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) and RMB229,500,000 (equivalent to approximately HK$288,848,000) respectively.

As at 31 December 2018, the Group did not achieve all consideration and obtain the approval from the PRC Government.

During the year ended 31 December 2019, Grand Pharm (China) received one of the construction completion reports to verify partially the completion of the Relocation. Therefore, the Group recognised approximately RMB21,721,000 (equivalent to approximately HK$24,639,000) related to depreciable assets over their useful life and approximately RMB103,272,000 (equivalent to approximately HK$117,147,000) in regards to relevant loss or expenses which were unable to identified and deferred until completion of the Relocation.

(b) On 18 January 2018, Wuhan Kernel entered into an agreement with The People's Government of Xiantao which provides for detailed provisions as to promote economic development of Xiantao and expand its operation scale. The compensation, as mutually agreed between Wuhan Kernel and The People's Government of Xiantao, amounts to RMB18,936,900 (equivalent to approximately HK$21,481,000). The acquisition of land right use was finished at 29 July 2019, the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2019 based on 50 years useful lives of the land right use.

(c) On 20 September 2019, Jiuhe entered into an agreement with Beijing Fangshan District Association for Science and Technology which provides for research and development expenditure allowance, amounting to RMB1,000,000 (equivalent to approximately HK$1,134,000). As at 31 December 2019, the Company did not achieve all consideration and obtain the approval from the PRC Government.

42. SHARE CAPITAL

	Number of shares at		Share capital at	
	31 December 2019 '000	31 December 2018 '000	**31 December 2019 HK$'000**	31 December 2018 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
As at 1 January 2019 and 2018	**3,134,825**	2,237,012	**31,348**	22,370
Exercise of convertible bond (note (a))	**222,222**	22,222	**2,222**	222
Right issue (note (b))	**–**	394,146	**–**	3,941
Issued under subscription (note (c))	**20,524**	481,445	**206**	4,815
As at 31 December 2019 and 2018	**3,377,571**	3,134,825	**33,776**	31,348

Notes:

(a) On 8 March 2018, the Company issued of ordinary shares to the convertible bond holder of 22,222,222 shares of par value HK$0.01 as a result of the conversion of bond with principal amount of HK$30,000,000.

On 3 June 2019, the Company issued of ordinary shares to the convertible bond holder of 222,222,222 shares of par value HK$0.01 as a result of the conversion of bond with principal amount of HK$300,000,000.

(b) On 5 September 2018, the Company placed to the qualifying shareholders of 394,146,288 shares of par value HK$0.01 each at a placing price of HK$5.20 for a total consideration, before expenses, of HK$2,049,560,000. The proceeds used for paying the Company's funding contribution in relation to the Sirtex Acquisition.

(c) On 15 January 2018, the Company placed to Mr. Huang Xiaohua of 47,750,000 shares of par value HK$0.01 each at placing price of HK$2.24 for total consideration, before expenses, of HK$106,960,000. The proceeds of the subscription was used to replenish the Company's cash used for acquisition.

On 24 August 2018, the Company issued the consideration shares to GL Saino Investment Limited of 181,069,959 of par value HK$0.01 each at issue price of HK$4.20, for total consideration, before expenses of HK$760,494,000. The proceeds of the issue of shares was used as cash payment in relation of acquisition of Taiwan Tung Yang International Company Limited.

On 31 August 2018, 7 September 2018 and 3 October 2018, the Company placed to Shanghai China Grand Asset Finance Investment Management Co., Limited of 36,020,000, 34,100,000 and 137,504,950 shares of par value HK$0.01 each at placing price HK$5.00 respectively for total consideration, before expense, of HK$1,038,124,750. On 3 May 2019, the remaining 20,523,198 shares of par value HK$0.01 each were issued at placing price of HK$5.00 for consideration of HK$102,615,990. The proceeds used for paying the acquisition of Taiwan Tung Yang International Company Limited and the Company's general working capital.

On 12 September 2018, the Company placed to Oasis Investment II Master Fund Ltd of 45,000,000 of par value HK$0.01 each at issue price of HK$5.20, for total consideration, before expenses of HK$234,000,000. The proceeds mainly be used as the cash payment in relation to the Sirtex Acquisition.

43. ACQUISITION OF ASSETS

During the year ended 31 December 2019, Grand Pharm (China), a subsidiary of the Company, entered into sale and purchase agreements with 北京瑞雅科國際企業管理有限公司 to acquire 100% equity interest in Beijing Kun Wu.

Beijing Kun Wu was holding construction in progress ("CIP") and land right use in PRC and as at the date of acquisition, Beijing Kun Wu did not carry out any significant business transactions except for holding CIP and land night use in PRC.

The above acquisitions in respect of Beijing Kun Wu has been accounted for by the Group as acquisition of assets as the entities acquired by the Group do not constitute a business.

Pursuant to the relevant sale and purchase agreements in respect of the acquisition of Beijing Kun Wu, the aggregate consideration for Beijing Kun Wu was adjusted to RMB18,000,000 (equivalent to approximately HK$20,633,000) based on the net asset values of Beijing Kun Wu as at 1 May 2019 (date of acquisition). The net assets acquired by the Group in the above transactions are as follows:

	HK$'000
Fair value of net assets acquired:	
Property, plant and equipment (note 16)	**25,645**
Right-of-use assets (note 17)	**31,224**
Bank balances	**14**
Trade and other payables	**(36,250)**
	20,633
Satisfied by:	
Cash	**20,633**

An analysis of the cash flows in respect of the acquisition of the entity is as follows:

	HK$'000
Cash consideration	**20,633**
Bank balances acquired	**(14)**
Net cash outflow in respect of the acquisition of a subsidiary that are not constitute business	**20,619**

44. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2019 **HK$'000**	2018 HK$'000
Non-current assets		
Interests in associates	**2,977,123**	2,969,205
Interests in subsidiaries	**2,973,454**	3,247,678
Right-of-use assets	**490**	–
	5,951,067	6,216,883
Current assets		
Financial assets at fair value through profit or loss	**38,332**	–
Other receivables	**1,403**	1,248
Cash and cash equivalents	**26,573**	14,760
	66,308	16,008
Current liabilities		
Lease liabilities	**383**	–
Other payables	**16,839**	363,784
	17,222	363,784
Net current assets/(liabilities)	**49,086**	(347,776)
Total assets less current liabilities	**6,000,153**	5,869,107
Non-current liabilities		
Amount due to the immediate holding company	**3,402**	17,603
Deferred tax liabilities	**–**	2,172
Convertible bonds	**–**	284,725
	3,402	304,500
Net assets	**5,996,751**	5,564,607
Capital and reserves attributable to owners of the Company		
Share capital	**33,776**	31,348
Reserves	**5,962,975**	5,533,259
Total equity	**5,996,751**	5,564,607

The financial statement was approved and authorised for issue by the board of directors of the Company on 12 May 2020 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

44. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

Movements of the Company's reserve

	Share premium HK$'000	Contributed surplus HK$'000	Convertible Bonds reserve HK$'000	Accumulated losses/ retained earnings HK$'000	Total HK$'000
As at 1 January 2018	660,537	121,273	72,577	(214,390)	639,997
Profit and total comprehensive profit for the year	–	–	–	508,295	508,295
Total comprehensive profit for the year	–	–	–	508,295	508,295
Exercise of convertible bond	33,908	–	–	–	33,908
Right issue	2,045,619	–	–	–	2,045,619
Issue under subscription	2,314,023	–	–	–	2,314,023
Issuance costs	(1,985)	–	–	–	(1,985)
Equity components of convertible bond	–	–	(6,598)	–	(6,598)
As at 31 December 2018 and 1 January 2019	5,052,102	121,273	65,979	293,905	5,533,259
Profit and total comprehensive profit for the year	–	–	–	327,161	327,161
Total comprehensive profit for the year	–	–	–	327,161	327,161
Conversion of convertible bond	356,594	–	–	–	356,594
Issue under subscription	102,411	–	–	–	102,411
Equity components of convertible bond	–	–	(65,979)	–	(65,979)
Dividend paid (note 13)	–	–	–	(290,471)	(290,471)
As at 31 December 2019	**5,511,107**	**121,273**	**–**	**330,595**	**5,962,975**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

45. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associates as disclosed in note 20, related companies as disclosed in note 36 and immediate holding company as disclosed in note 40 and Subscription 2 as disclosed in note 42(b), during the years ended 31 December 2019 and 2018, the Group entered into following transactions with its related parties:

	2019 **HK$'000**	2018 HK$'000
Interest charged to the Group by immediate holding company (note (i), note 10)	**21**	255
Sales of goods to Yangxin Fuxin (note (ii))	**2,861**	2,723
Purchases of goods from Yangxin Fuxin (note (ii))	**15,125**	16,513
Sales of goods to the companies with common controlling shareholder:		
Huadong Medicine Co. Ltd and its related companies (note (iii))	**145,941**	100,751
中國遠大集團有限責任公司 and its related companies (unofficially translated as "China Grand Enterprises Incorporation" (note (iii))	**4,838**	10,558
Purchase of goods from the Companies with common controlling shareholder:		
Baoding Jiufu Biochemical Company Limited (note (iv))	**11,406**	1,130

Notes:

(i) Interest was charged on an amount due to the immediate holding company as disclosed in note 40.

(ii) Transactions were conducted with terms mutually agreed with the contracting parties.

(iii) The transactions constitute continuously connected transactions under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

(iv) The transactions are connected transaction in 2019 and continuously connected transaction in 2018 respectively under Chapter 14A of the Listing Rules.

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2019 and 2018 are set out in note 33.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2019 **HK$'000**	2018 HK$'000
Short-term benefits	**9,446**	9,304
Post-employment benefits	**90**	63
	9,536	9,367

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

46. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2019 HK$'000	2018 HK$'000
Prepaid lease payments (note 19)	–	5,833
Right-of-use assets (note 17)	20,380	–
Buildings (note 16)	121,450	116,934
Plant and machinery (note 16)	146,057	127,395
Pledged bank deposits (note 30)	121,285	73,515
	409,172	323,677

47. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

The Group is the lessee in respect of a number of properties and items of office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach.

Under this approach, the Group adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2018 HK$'000
Within one year	3,866
In the second to fifth year inclusive	3,164
	7,030

47. COMMITMENTS *(Continued)*

(a) Operating lease commitment *(Continued)*

The Group as lessee (Continued)

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to three years and rentals are fixed for an average of one to three years.

The Group as lessor

The Group leases out certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$504,000 (2018: HK$485,000). The Group had future minimum lease receipts from tenants under non-cancellable operating lease which fall due as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	**393**	451
In the second to fifth year inclusive	**126**	362
	519	813

(b) Capital commitment

	2019 **HK$'000**	2018 HK$'000
Capital expenditure contracted but not provided for: Acquisition of property, plant and equipment	**7,654**	13,474

48. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2018: HK$1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2018: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately HK$61,196,000 (2018: HK$55,089,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

49. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amount due to the immediate holding company HK$'000	**Bond payables** HK$'000	**Convertible bonds** HK$'000	**Lease liabilities/ obligations under finance leases** HK$'000	**Bank and other borrowings** HK$'000	**Total** HK$'000
As at 1 January 2018	23,368	119,474	293,958	133,036	2,444,169	3,014,005
Accrued interest	255	6,805	26,977	11,606	157,653	203,296
Financing cash outflows paid	(6,020)	–	–	(54,972)	(2,165,686)	(2,226,678)
Interest paid	–	–	(9,165)	(11,606)	(157,653)	(178,424)
Interest payable	–	(6,506)	–	–	–	(6,506)
Financing cash inflows	–	–	–	–	1,976,448	1,976,448
Non-cash changes	–	–	(27,045)	–	–	(27,045)
Exchange realignment	–	(6,211)	–	(4,737)	(100,093)	(111,041)
As at 31 December 2018	17,603	113,562	284,725	73,327	2,154,838	2,644,055
Adjustment upon application of HKFRS 16 (note 2)	–	–	–	5,316	–	5,316
As at 1 January 2019 (restated)	17,603	113,562	284,725	78,643	2,154,838	2,649,371
Accrued interest	21	5,988	11,909	6,796	121,788	146,502
Financing cash outflows paid	(14,090)	(113,436)	–	(58,798)	(1,749,903)	(1,936,227)
Interest paid	(21)	–	–	(6,796)	(121,788)	(128,605)
Interest payable	–	(5,709)	(3,797)	–	–	(9,506)
New leases entered	–	–	–	15,595	–	15,595
Financing cash inflows	–	–	–	–	1,631,508	1,631,508
Non-cash changes	–	–	(292,837)	–	–	(292,837)
Exchange realignment	(111)	(405)	–	(891)	(6,146)	(7,553)
As at 31 December 2019	**3,402**	**–**	**–**	**34,549**	**2,030,297**	**2,068,248**

50. LITIGATION

With reference to the disclosure in the 2016, 2017 and 2018 annual reports of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "**Tianjin Jingming**"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Company. As of 31 December 2019, the court has concluded 53 cases, and Tianjin Jingming has appealed 16 cases against the judgment of first instance with aggregate compensation of approximately RMB16.64 million. Among the final and effective judgments, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB14.43 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and GrandPharma (China) Co., Ltd. ("**GrandPharma (China)**") is also claiming the original shareholders of Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgment of the court, the original shareholders of Tianjin Jingming shall compensate us approximately RMB8.09 million for compensation existed at the time of judgment and also the default damages. Meantime, GrandPharma (China) is also entitled to claim the original shareholders of Tianjin Jingming for the indemnification which will be subsequently paid by Tianjin Jingming in connection with such product quality incidents. Therefore, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

50. LITIGATION *(Continued)*

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "**Actual Profit**") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "**Performance Guarantee**"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgment of first instance from the court and received the final judgment from the court in February 2018. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. Subsequently, the vendors applied for rehearing of the aforesaid judgment, and the matter will be reheard according to the court's judgment. However, Hubei Provincial Higher People's Court issued the final judgment in December 2019, according to which the appeal was dismissed and the original judgment was upheld.

In June 2016, the Group has successfully applied to the court to freeze RMB20,000,000 (equivalent to approximately HK$22,414,000) assets of the original shareholders of Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company since January 2015 in order to secure the Group's pending responsibilities regarding certain litigations related to an incident as stated in a press release issued by the China National Food and Drug Administration (the "**NMPA**") on 14 April 2016, which is about a product quality incident related to some Ophthalmic Perfluoro propane Gases produced by Tianjin Jingming. According to the terms of the sales and purchase agreement in relation to the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for such product incident. The Group is claiming them for their responsibilities and also indemnified those related losses suffered by the Group.

(a) Writ issued in PRC by China Pharm (China) and original shareholders of Tianjin Jingming

Although such product incident is still under investigation, being taking up the social responsibilities and fulfilling related requirements, the Group had recalled all products of the related batches and also temporary suspended the production and sales of such related products. According to the terms of the Tianjin Jingming acquisition agreement, Tianjin Jingming had already fully settled the penalty of approximately RMB14,430,000 (equivalent to approximately HK$16,361,000) imposed by the NMPA. As at the date of this report, Tianjin Jingming is undertaking certain claim actions for approximately RMB16,540,000 (equivalent to approximately HK$18,762,000) given to the above incident. Given that (i) referring to the opinions from the professional organised by the NMPA, it is unable to identify the impurity that caused the product incident with the existing technology and it will need further investigation and research to find out the cause thereof; (ii) Ophthalmic Perfluoro propane Gases is not the core product of the Group, the Board considers that the suspension of the production of such product and the recall of the relevant batches by Tianjin Jingming do not have any material impact on the Group's operations or financial position; and (iii) according to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of the Tianjin Jingming should responsible for the compensation of such product incident. Hence, the Directors are of the view that the said incident and related litigations do not have material impact to the Group. For the detail information, please refer to the Group's interim report date on 20 September 2016.

On 22 August 2016, original shareholders of Tianjin Jingming filed its objection to the Rulings of Enforcement to the Wuhan Intermediate People's Court.

On 5 September 2016, the Group received the Wuhan Intermediate People's Court's dismissal to its objection.

50. LITIGATION *(Continued)*

(b) Writs issued in PRC by Tianjin Jingming and certain plaintiffs

In April and September 2016, the Group received writs issued by certain plaintiffs against Tianjin Jingming (as defendant) and demand for payment with claiming of plaintiffs legal charges.

On 17 January 2017, Tianjin Jingming received judgments dated 17 January 2017 issued by Beijing Haidian District People's Court. The court made orders to request Tianjin Jingming to provide the compensation payment with the relevant legal charges of approximately RMB3,952,000 (equivalent to approximately HK$4,619,000).

As at the date of this report, the court has concluded 53 cases, and Tianjin Jingming has appealed 16 cases with aggregate compensation of approximately RMB16.5 million. For the remaining cases, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB14.43 million in according to the court order. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and GrandPharma (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

(c) Writs issued in PRC by Grand Pharm (China)

Except the above litigation related to the product incident of Tianjin Jingming, according to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the"Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court and received the final judgement from the court in February 2018 It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming.

Save as disclosed above, as at 31 December 2019, so far as the Directors were aware, the Group was not engaged in any litigation or claims of material importance, and no litigation or claims of material importance are pending or threatened against the Group.

51. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties and equipment for fixed terms of 2 years to 30 years. On the lease commencement, the Group recognised approximately HK$15,595,000 of right-of-use assets and approximately HK$15,595,000 of lease liabilities.

During the year ended 31 December 2018, the Group acquired an associate, Xudong Haipu, with cash consideration unpaid amounted to approximately HK$ 350,632,000 (note 32) and share consideration of approximately HK$ 939,753,000. The effects of the above equity translations are presented in non-controlling interests and other reserve.

The Group entered in the above non-cash investing activities which are not reflected in the consolidated statement of cash flows.

52. EVENTS AFTER THE REPORTING PERIOD

Since January 2020, Wuhan City, Hubei Province, the PRC has reported certain confirmed cases of Novel Coronavirus which may affect the usual business environment of the country as a whole. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at the date of this report.

53. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019. Under the transition method, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

54. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 May 2020.