



百信集团
PASHUN GROUP

Pa Shun International Holdings Limited

百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 574

**Annual
Report
2019**

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Chen Yenfei
(Chairman and Chief Executive Officer)
(vacated from his office as the Chairman and an Executive Director, and ceased to be the Chief Executive Officer, on 18 June 2020)

Mr. Shen Shun
Mr. Chen Rongxin

NON-EXECUTIVE DIRECTORS

Mr. Zhang Xiongfeng
Mr. Hu Haisong
(appointed on 20 May 2019)
Mr. Wu Guohua
(appointed on 20 May 2019)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Liangzhong
Mr. Wong Tak Shing
Mr. Lu Yongchao

AUTHORISED REPRESENTATIVES

Mr. Chen Rongxin
Mr. Shen Shun

COMPANY SECRETARY

Mr. Tsoi Yuen Hoi *HKICPA, ACCA*
(resigned on 10 May 2019)
Mr. Chang Eric Jackson *HKICPA, AICPA*
(appointed on 10 May 2019 and resigned on 13 August 2019)
Mr. Hung Hing Hung *HKICPA*
(appointed on 13 August 2019)

AUDIT COMMITTEE

Mr. Liu Liangzhong *(Chairman)*
Mr. Lu Yongchao
Mr. Wong Tak Shing

REMUNERATION COMMITTEE

Mr. Liu Liangzhong *(Chairman)*
Mr. Chen Yenfei *(ceased on 18 June 2020)*
Mr. Wong Tak Shing

NOMINATION COMMITTEE

Mr. Chen Yenfei *(Chairman)*
(ceased on 18 June 2020)
Mr. Liu Liangzhong
Mr. Lu Yongchao

CORPORATE GOVERNANCE COMMITTEE

Mr. Chen Yenfei *(Chairman)*
(ceased on 18 June 2020)
Mr. Lu Yongchao
Mr. Liu Liangzhong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1310D, 13/F, Premier Centre,
20 Cheung Shun Street, Lai Chi Kok,
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 608-616, Building 28
Longfor North Paradise Walk 2
229 Wufuqiao East Road
Jinniu District
Chengdu, Sichuan Province
PRC

AUDITORS

CCTH CPA Limited
Certified Public Accountants
Unit 5-6, 7/F, Greenfield Tower, Concordia Plaza
1 Science Museum Road
Tsim Sha Tsui, Kowloon
Hong Kong

CORPORATE INFORMATION

STOCK CODE

00574

COMPANY'S WEBSITE

www.pashun.com.cn

PRINCIPAL BANK

Bank of Communications Co., Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

FINANCIAL HIGHLIGHTS

A summary of the main financial data of Pa Shun International Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 with comparative figures for the year ended 31 December 2018 is set out below:

	For the year ended		
	31 December		
	2019	2018	Change
	RMB'000	RMB'000	(%)
Revenue	845,448	821,142	3.0
Gross profit	41,932	60,286	(30.4)
Loss for the year	(193,399)	(63,408)	205.0
Loss attributable to equity shareholders of the Company	(193,721)	(59,409)	226.1
Basic loss per share			
– RMB cent(s)	(13.38)	(5.32)	151.5
Diluted loss per share			
– RMB cent(s)	N/A	N/A	N/A

The board (the “Board”) of directors (the “Directors”) of the Company does not recommend the payment of any final dividend for the year ended 31 December 2019.

FINANCIAL SUMMARY

	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	<u>867,963</u>	<u>860,574</u>	<u>869,891</u>	<u>821,142</u>	<u>845,448</u>
Profit/(loss) before tax	113,006	28,441	19,502	(48,047)	(190,482)
Income tax expense	<u>(28,120)</u>	<u>(20,766)</u>	<u>(9,325)</u>	<u>(15,361)</u>	<u>(2,917)</u>
Profit/(loss) for the year	<u>84,886</u>	<u>7,675</u>	<u>10,177</u>	<u>(63,408)</u>	<u>(193,399)</u>
Earnings/(loss) per share (RMB cent(s))					
Basic	11.31	0.77	1.01	(5.32)	(13.38)
Diluted	<u>5.74</u>	<u>0.76</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Assets and liabilities					
Non-current assets	192,582	245,821	315,249	290,437	331,995
Current assets	708,714	854,666	831,999	838,674	593,871
Current liabilities	<u>(152,155)</u>	<u>(218,441)</u>	<u>(295,867)</u>	<u>(157,805)</u>	<u>(153,974)</u>
Net current assets	556,559	636,225	536,132	680,869	439,897
Total assets less current liabilities	749,141	882,046	851,381	971,306	771,892
Non-current liabilities	<u>(26,471)</u>	<u>(157,278)</u>	<u>(102,116)</u>	<u>(114,833)</u>	<u>(88,310)</u>
Net assets	<u>722,670</u>	<u>724,768</u>	<u>749,265</u>	<u>856,473</u>	<u>683,582</u>
Capital and reserves					
Share capital	801	801	856	1,116	1,216
Reserves	724,179	723,967	748,409	869,580	696,267
Non-controlling interests	<u>(2,310)</u>	<u>-</u>	<u>-</u>	<u>(14,223)</u>	<u>(13,901)</u>
Total equity	<u>722,670</u>	<u>724,768</u>	<u>749,265</u>	<u>856,473</u>	<u>683,582</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to focus on the pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC during the year ended 31 December 2019. For the self-operated retail pharmacies business, the Group continued to seek merger and acquisition opportunities in respect of established retail pharmacy chains in order to revitalize the business segment.

REVENUE

For the year ended 31 December 2019, the Group recorded a total revenue of RMB845.4 million, representing an increase of approximately 3.0% from RMB821.1 million for last year. This increase was primarily due to the growth in revenue from the Group's pharmaceutical distribution to wholesalers and hospitals and other medical institutions in rural areas.

COST OF SALES, GROSS MARGIN AND GROSS PROFIT MARGIN

The Group's cost of sales increased by approximately 5.6% from RMB760.9 million for the year ended 31 December 2018 to RMB803.5 million for the year ended 31 December 2019. This increase was primarily due to increase in cost of sales for the Group's pharmaceutical distribution segment.

The Group's gross profit decreased by approximately 30.4% from RMB60.3 million for the year ended 31 December 2018 to RMB41.9 million for the year ended 31 December 2019. The Group's gross profit margin decreased from 7.3% for the year ended December 2018 to 5.0% for the year ended 31 December 2019. Such decrease is primarily attributable to increasing competition of pharmaceutical distribution to wholesalers and franchise retail pharmacy chain stores.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses decreased by approximately 27.5% from RMB15.1 million for the year ended 31 December 2018 to RMB11.0 million for the year ended 31 December 2019. This decrease was primarily due to the absence of depreciation of ephedra grass of 鹽池縣醫藥藥材有限公司 (for identification purpose only, Yanchi County Medical & Pharmaceutical Herbal Co., Ltd.) ("Yanchi County"), a then wholly-owned subsidiary of the Company, during the year ended 31 December 2019 as the ephedra grass held by Yanchi County had been disposed of by the Group in 2018.

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's general and administrative expenses decreased by approximately 36.3% from RMB55.3 million for the year ended 31 December 2018 to RMB35.2 million for the year ended 31 December 2019. This decrease was primarily due to the payment of consultancy fee for advisory on business development in 2018 and recognition of the equity-settled share-based payments in the year ended 31 December 2018 as a result of the grant of share options by the Company to subscribe for an aggregate of 100,000,000 shares of the Company on 7 September 2018. No such expenses were recognized during the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME AND GAINS

Other income and gains increased by approximately 16.1% from RMB19.2 million for the year ended 31 December 2018 to RMB22.3 million for the year ended 31 December 2019. The increase was attributable to the gain on disposal of 100% equity interest in Yanchi County of RMB5.5 million and royalty fee income from patents acquired in 2019 of RMB4.0 million recognized during the year ended 31 December 2019 while no such income was noted in 2018. The increase is offset by the absence of one-off gain on redemption of convertible bonds in 2019, as compared to the one-off gain on redemption of convertible bonds of RMB7.5 million recorded for the year ended 31 December 2018.

OTHER NET LOSSES

The Group recorded other net losses of RMB197.3 million for the year ended 31 December 2019, representing an increase of approximately 362.5% from RMB42.7 million in 2018. The significant increase in other net losses was mainly due to the recognition of impairment loss on trade and other receivables of RMB125.7 million during the year ended 31 December 2019 as compared to the recognition of impairment loss on trade and other receivables of RMB12.4 million for the year ended 31 December 2018, taking into account that it is currently expected that the Group would not be able to receive the overdue trade receivables of the Company from some of its customers in the PRC. Subsequent to the date of the announcement of the Company dated 31 March 2020 in relation to the unaudited annual results for the year ended 31 December 2019 (the “Unaudited Results Announcement”), the management of the Group has communicated with the customers with long overdue receivables and find out that operation of these customers was adversely affected by the outbreak of the novel coronavirus (COVID-19) epidemic (“Epidemic”) and economic downturn in the PRC. In addition, there was no significant subsequent settlement for long outstanding trade receivables balance during the period from the date of the Unaudited Results Announcement to the date of the approval of the audited consolidated financial statement. These customers are facing capital and cash flow difficulties and after due and careful consideration, management of the Group assess that there is a risk of non-recovery of these outstanding trade receivables.

The increase in other net losses for the year ended 31 December 2019 is offset by the absence of loss on issue of convertible bonds in the year ended 31 December 2019, as compared to the loss on issue of convertible bonds of RMB42.0 million recorded in the year ended 31 December 2018.

FINANCE COSTS

Finance costs decreased by approximately 24.3% from RMB15.7 million for the year ended 31 December 2018 to RMB11.9 million for the year ended 31 December 2019. The decrease was primarily due to absence of interest on convertible bonds for the year ended 31 December 2019 following the conversion of the convertible bonds into ordinary shares of the Company in 2018.

LOSS BEFORE TAX

Loss before tax increased by approximately 296.4% from RMB48.0 million for the year ended 31 December 2018 to RMB190.5 million for the year ended 31 December 2019. The increase was primarily due to the combined effect of (i) the increase in other net losses; (ii) the decrease in gross profit; and (iii) the decrease in general and administrative expenses as disclosed above.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX EXPENSE

Income tax expense decreased from RMB15.4 million for the year ended 31 December 2018 to RMB2.9 million for the year ended 31 December 2019. Such decrease was primarily due to the decrease in taxable income from the PRC subsidiaries of the Company.

LOSS FOR THE YEAR AND NET LOSS MARGIN

As a result of the foregoing, the Group's loss for the year increased by approximately 205.0% from RMB63.4 million for the year ended 31 December 2018 to RMB193.4 million for the year ended 31 December 2019. The Group's net loss margin increased from 7.7% for the year ended 31 December 2018 to 22.9% for the year ended 31 December 2019.

LOSS ON CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In January 2019, the Group acquired 5% unlisted equity interest in Wuhan Taifu at a consideration of RMB25,000,000. Wuhan Taifu is a company engaged in manufacturing of drugs with factory located in Wuhan City of the PRC. Previously, Wuhan Taifu had a plan to actively explore and develop the market of the PRC with its technology and facilities of drug manufacturing. However, due to the outbreak of the Epidemic in Wuhan City in December 2019, the factory of Wuhan Taifu ceased operations for several months and only partially resumed operation recently. The upstream and downstream industries of Wuhan Taifu are adversely affected. The Group has engaged an independent valuer to perform valuation which shows the fair value of these unlisted equity interest as at 31 December 2019 was only RMB3,000,000 and therefore a loss on change in fair value of RMB22,000,000 has been recognized in the financial assets at fair value through other comprehensive income in the audited results of the Company for the year ended 31 December 2019.

The acquisition of 5% unlisted equity interest in Wuhan Taifu has resulted in significant net losses and serious financial burden to the Group and in order to prevent further losses to the Group, the management of the Group decided to dispose of its equity interest in Wuhan Taifu in May 2020 at the consideration of RMB3,000,000.

BUSINESS REVIEW

In 2019, the Group's revenue generated by the pharmaceutical distribution segment amounted to approximately RMB798.5 million, representing an increase of approximately 5.8% as compared with approximately RMB754.5 million for 2018. The growth in revenue from the Group's pharmaceutical distribution was from wholesalers and hospitals and other medical institutions in rural areas. But due to increasing competition of pharmaceutical distribution after the implementation of the two-invoices system in the PRC, the gross profit ratio of pharmaceutical distribution keeps deteriorating during 2019.

For the year ended 31 December 2019, the Group's revenue from the self-operated retail pharmacies segment amounted to approximately RMB1.3 million, representing a decrease of approximately 67.7% from approximately RMB3.9 million for the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2019, the Group's revenue from the pharmaceutical manufacturing segment amounted to approximately RMB45.7 million, representing a decrease of approximately 27.2% from approximately RMB62.8 million for the year ended 31 December 2018. Such decrease was mainly attributable to the sluggish market for traditional embrocation products.

OUTLOOK

Due to the Epidemic in the PRC, the economy of the PRC is seriously affected. Since many economic activities in the PRC are slowed down due to the Epidemic, and the factory of the Group was closed for around two months in the first quarter of 2020, it is currently expected that the revenue and results of the Group for the first half of 2020 will be adversely affected. The Group will continue to leverage on its solid foundation in the PRC and make good use of its existing resources and networks to capture the opportunities to expand to other business through various business development strategies, at the same time diversify its business risk to other investment segments and other countries. In 2019, with the acquisition of two companies which indirectly hold interest in certain units located in the building called "The Apple" which is a multi-storey building located in Melaka, Malaysia during the current year, the Group made its first step to explore and invest in the Malaysia property market. The Company currently intends to hold the properties for investment purpose to generate rental income for the Group and will engage a local professional property manager to manage the properties and the leasing business upon the completion of construction of the properties. The Company will further seek other similar opportunities to reduce the operation risk of the Group.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents of RMB16.1 million as at 31 December 2019 as compared with RMB48.8 million as at 31 December 2018.

The Group recorded net current assets of RMB439.9 million and RMB680.9 million as at 31 December 2019 and 31 December 2018 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 3.86 as at 31 December 2019, as compared with 5.31 as at 31 December 2018.

As at 31 December 2019, the total amount of bank loans was RMB6.0 million, as compared with RMB35.8 million as at 31 December 2018.

As at 31 December 2019, the total number of issued ordinary shares of the Company was 1,474,992,908 shares (31 December 2018: 1,357,874,000 shares) (the "Shares"). In each of 2016 and 2018, the Company has granted to certain eligible persons share options (the "Options") to subscribe for an aggregate of 100,000,000 Shares under the share option scheme adopted by the Company by ordinary resolution of all shareholders of the Company passed on 26 May 2015. As at 31 December 2019, 100,000,000 share options remained outstanding. Please refer to the announcements of the Company dated 7 September 2018 for details of the grant of the Options. No Options were granted in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

During 2016 to 2018, the Company issued unsecured corporate bonds with principal amount of HK\$113.9 million to various independent third parties at par value, bearing coupon rates of 6.5% to 7% per annum and with maturity periods from 2 to 7.5 years. During the year ended 31 December 2019, the Company repaid a matured corporate bond with principal amount of HK\$2 million. As at 31 December 2019, two corporate bonds with aggregate amount of HK\$4.0 million maturing on 5 December 2019 and 20 December 2019 respectively have remained outstanding to date. As at 31 December 2019, interest payable on such corporate bonds of approximately HK\$7.4 million was due and remained outstanding and approximately HK\$738,000 was subsequently settled after 31 December 2019. Since the maturity dates of bonds principal and interests, the Company and the holders of the corporate bonds have engaged in numerous rounds of negotiations to seek to resolve the issue amicably, including extension of the maturity date and the due date of the interest payments, and repayments of principal and interests by installments.

The Group actively and regularly reviews and manages its capital structure to enhance its financial strength for the Group's long-term development. There was no change in the Group's approach to capital management during the year ended 31 December 2019.

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE RISKS

The functional currency of the Group is Renminbi while a portion of funds raised by the Group from its initial public offering and issue of corporate and convertible bonds is still in the form of bank deposits denominated in Hong Kong dollars. Therefore, it may be subject to the risks of exchange rate fluctuations of the Renminbi and the Hong Kong dollars. Apart from the above, most of the assets and transactions of the Group are dominated in Renminbi, and the Group mainly settles its operating expenses in the PRC with income generated from operations in Renminbi, thus the Group is not exposed to any significant foreign exchange risks.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2019, the Group conducted the following acquisitions:

On 8 March 2019, Ready Gain Limited ("Ready Gain"), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Mr. Yu Kin Wai Perway and Mr. Chu Hin Ming Alfonso (the "Vendors"), being the independent third parties to the Group, in relation to the acquisition of the entire issued share capital of Bisan Parkwell Consultants Limited ("Bisan Parkwell") by Ready Gain at a total consideration of HK\$45,325,000, which shall be satisfied by the allotment and issue of 82,409,090 Shares by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Bisan Parkwell is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding. It holds 49% of the legal and beneficial interest in the issued share capital of Awesome Applause Sdn. Bhd., a company incorporated in Malaysia. Awesome Applause Sdn. Bhd. has signed agreements for the purchase of 48 units located in the building called “The Apple” located in Melaka, Malaysia, which is a multi-storey building consisting of 361 units in total, all of which will be used as serviced apartments (the “Building”). The aggregate gross floor area of the 48 units is approximately 54,279 square feet. Completion of the acquisition took place on 19 March 2019, upon which 82,409,090 Shares have been allotted and issued by the Company, and Bisan Parkwell has become an indirect wholly-owned subsidiary of the Company. Details of this acquisition are set out in the Company’s announcements dated 8 March 2019 and 19 March 2019.

On 8 March 2019, Big Wish Global Limited (“Big Wish”), a direct wholly-owned subsidiary of the Company, and Mawar F & B Group Sdn Bhd (the “Vendor”), being the independent third party to the Group, entered into an agreement, pursuant to which Big Wish conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 45% of the entire issued share capital of VR Green Sdn Bhd (“VR Green”) at a total consideration of HK\$35,100,000 which shall be satisfied by the allotment and issue of 63,818,181 Shares by the Company. VR Green is a company incorporated in Malaysia with limited liability and is principally engaged in property development and investment. The principal asset of VR Green is a freehold building land (measuring approximately 9,308 square metres) which was then currently held under HS(D) 246768, P7553, in Bandar Baru Kota Sri Mas, District of Seremban, State of Negeri Sembilan. However, the agreement has been terminated on 28 March 2019 due to the unsatisfaction of the condition precedent in relation to due diligence as set out in the agreement. Details of this transaction are set out in the Company’s announcements dated 8 March 2019 and 28 March 2019.

On 3 April 2019, Big Wish entered into an agreement with the Vendors pursuant to which Big Wish conditionally agreed to acquire, and the Vendors conditionally agreed to sell, the entire issued share capital of Parkwell Services Consultants Limited (“Parkwell Services”) at a total consideration of HK\$19,090,400 which shall be satisfied by the allotment and issue of 34,709,818 Shares by the Company. Parkwell Services holds 49% of the legal and beneficial interest in the issued share capital of Massive Goodwill Sdn. Bhd., a company incorporated in Malaysia. Massive Goodwill Sdn. Bhd. has signed agreements for the purchase of 20 units located in the Building. The aggregate gross floor area of the 20 units is approximately 21,606 square feet. Completion of the acquisition took place on 12 April 2019, upon which 34,709,818 Shares have been allotted and issued by the Company, and Parkwell Services has become an indirect wholly owned subsidiary of the Company. Details of this acquisition are set out in the Company’s announcements dated 3 April 2019, 4 April 2019 and 12 April 2019.

The Building is expected to be completed in 2020. The Group will engage a local professional property manager to manage the Building and the leasing business.

Saved as disclosed above, the Group did not make any other significant investments, acquisitions or disposals that would constitute a notifiable transaction under Chapter 14 of the Listing Rules during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 31 December 2019, the Group had a total of 170 (31 December 2018: 203) staff, primarily in the PRC. The total staff cost was RMB12.7 million (year ended 31 December 2018: RMB20.3 million) for the year ended 31 December 2019.

The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favorable working environment. The Group constantly invests in training across diverse operational functions and offers competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Shares are listed on the Main Board of the Stock Exchange on 19 June 2015 with net proceeds (the "Net Proceeds") from the global offering of approximately HK\$249.5 million (after deducting underwriting commissions and related expenses). As at 1 January 2019, the unutilised Net Proceeds amounted to approximately HK\$101.7 million. As at 31 December 2019, the Group had fully utilized all the Net Proceeds.

The following table sets forth a breakdown of the use of the Net Proceeds as at 31 December 2019:

	Available to use HK\$ million	Utilised (as at 31 December 2019) HK\$ million
Use of the Net Proceeds		
Logistics center and related expenses	121.3	121.0
Acquisition or establishment of self-operated retail pharmacy stores	116.2	14.8
Working capital and other general corporate purposes	12.0	113.7
	<u>249.5</u>	<u>249.5</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Notwithstanding the Group's continuous attempts in seeking and exploring on potential acquisition opportunities of retail pharmacy stores, the Group has encountered difficulties in identifying promising acquisition targets. To facilitate better resources allocation, during the year under review, the Board has resolved to change the proposed use of the unutilised Net Proceeds of approximately HK\$101.4 million originally intended to be used to acquire or establish self-operated retail pharmacy stores for working capital and other general corporate purposes, and approximately HK\$0.3 million originally intended to be used for the Group's logistics center and related expenses for working capital and other general corporate purposes and such proceeds were utilised as such during the year under review.

The Directors (including the independent non-executive Directors) consider the above changes of the use of the Net Proceeds is fair and reasonable and in the interests of the Company and its shareholders as a whole.

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (year ended 31 December 2018: Nil).

CORPORATE GOVERNANCE REPORT

The Board is committed to upholding a high standard of corporate governance and business ethics in the firm belief that they are essential for enhancing investors' confidence and maximising Shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders, comply with increasingly stringent regulatory requirements and fulfill its commitment to excellence in corporate governance.

CORPORATE GOVERNANCE CODE

After reviewing the Company's corporate governance practices and the relevant regulations of the Corporate Governance Code and the Corporate Governance Report (the "CG code") as set out in Appendix 14 to the Listing Rules, which have been adopted as the Company's code of corporate governance, the Board is satisfied that the Company has complied with the CG code provisions (each a "Code provision") then in force for the year ended 31 December 2019, except for the deviation from the Code provision A.2.1, which stipulates that the role of chairman and chief executive officer should be separated.

During the year ended 31 December 2019 and up to 17 June 2020, Mr. Chen Yenfei was the chairman of the Board as well as the chief executive officer of the Company. He has extensive experience in medicine industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considered that vesting the roles of chairman and chief executive officer in the same individual was beneficial to the business prospects and management of the Group. The balance of power and authorities was ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals.

As disclosed in the announcement of the Company dated 22 June 2020, the office of Mr. Chen Yenfei as the chairman of the Company and an executive Director was vacated on 18 June 2020. Mr. Chen Yenfei also ceased to be chief executive officer of the Company on 18 June 2020. Following the vacation of office of Mr. Chen Yenfei, the Board will consider suitable replacement candidate(s) for the position(s) of the chairman and the chief executive officer of the Company as soon as practicable.

BOARD OF DIRECTORS

The Board is responsible for governing the Company and managing assets entrusted by the Shareholders. The Directors recognise their collective and individual responsibility to the Shareholders and perform their duties diligently to achieve positive results for the Company and to maximise returns for Shareholders.

The Board currently comprises two executive Directors, namely, Mr. Shen Shun and Mr. Chen Rongxin, three non-executive Directors, namely, Mr. Zhang Xiongfeng, Mr. Hu Haisong and Mr. Wu Guohua and three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Lu Yongchao. Mr. Hu Haisong and Mr. Wu Guohua were appointed as non-executive Directors on 20 May 2019.

The Directors' biographical details are set out in the section headed "Directors and Senior Management" on pages 27 to 29 in this annual report. A list of the Directors identifying their roles and functions is available on the Company's website.

Save that Mr. Chen Rongxin is the nephew of Mr. Chen Yenfei, who was the Chairman and an executive Director during the year under review, to the best knowledge of the Board, there is no other financial, business, family or other material/ relevant relationships among members of the Board during the year under review.

CORPORATE GOVERNANCE REPORT

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, significant transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the corporate governance report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organisations. These interests are updated on an annual basis and when necessary.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Each newly appointed Director is given necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant laws and regulations.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices. The participations by the Directors in the continuous professional development are recorded individually.

The then Directors, namely, Mr. Chen Yenfei, Mr. Shen Shun, Mr. Chen Rongxin, Mr. Zhang Xiongfeng, Mr. Hu Haisong, Mr. Wu Guohua, Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Lu Yongchao had complied with the Code provision A.6.5 during the year ended 31 December 2019 by participating in continuous professional development.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2019 and up to 17 June 2020, Mr. Chen Yenfei assumed the roles of both the chairman and chief executive officer of the Company. The reasons for the deviation from the Code provision A.2.1 are explained in the paragraph headed “Corporate Governance Code” above.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board and give adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing one-third of the Board. Two of the independent non-executive Directors, Mr. Liu Liangzhong and Mr. Wong Tak Shing, have the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by four committees, namely the audit committee, the nomination committee, the remuneration committee and the corporate governance committee. Each Board committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the Company’s website.

All Board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The audit committee consists of three independent non-executive Directors, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Lu Yongchao. Mr. Liu Liangzhong, who has appropriate professional qualification and experience as required by Rule 3.10(2) of the Listing Rules, is the chairman of the audit committee.

The primary functions of the audit committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. These include reviewing the interim and annual results and reports of the Company.

CORPORATE GOVERNANCE REPORT

The members of the audit committee has reviewed and discussed with the external auditors of the Company the consolidated financial statements of the Group and effectiveness of internal control system for the year ended 31 December 2019, including the accounting principles and practices adopted by the Group and the report prepared by the external auditors covering major findings in the course of the audit. During the year ended 31 December 2019, the audit committee held two meetings and all members of the audit committee, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Lu Yongchao, attended all such meetings to which they were eligible to attend.

Remuneration Committee

During the year ended 31 December 2019 and up to 17 June 2020, the remuneration committee consisted of one executive Director, namely Mr. Chen Yenfei (who ceased to hold such position on 18 June 2020) and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Wong Tak Shing. Mr. Liu Liangzhong was the chairman of the remuneration committee.

The primary functions of the remuneration committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and, adopting the approach under Code provision B.1.2(c)(ii), make recommendations to the Board on the remuneration package of individual executive Director and senior management, the remuneration of non-executive Directors and on the establishment of a formal and transparent process for developing such remuneration policy. No executive Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees to be paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibilities, job complexity and the Group's performance are taken into account.

During the year ended 31 December 2019, the remuneration committee held two meetings and reviewed the remuneration policy and structure and the existing terms of remuneration relating to the Directors and senior management of the Company. All the then members of the remuneration committee, namely Mr. Chen Yenfei, Mr. Liu Liangzhong and Mr. Wong Tak Shing, attended such meetings to which they were eligible to attend.

The remuneration of the members of the senior management of the Group by bands for the year ended 31 December 2019 is set out below:

Remuneration bands	Number of persons
Nil to HK\$1,000,000	3

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 10 and 11 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Nomination Committee

During the year ended 31 December 2019 and up to 17 June 2020, the nomination committee consisted of one executive Director, namely Mr. Chen Yenfei (who ceased to hold such position on 18 June 2020) and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Lu Yongchao. Mr. Chen Yenfei was the chairman of the nomination committee during the year ended 31 December 2019 and up to 17 June 2020.

The primary functions of the nomination committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and make recommendations to the Board suitably qualified persons to become a member of the Board, monitor the succession planning for Directors and assess the independence of independent non-executive Directors. The nomination committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. The process for the nomination of Directors is led by the nomination committee, which has been made on a merit basis, taking into account the background, experience and qualification of the proposed candidates.

During the year ended 31 December 2019, the nomination committee held two meetings and reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors. All the then members of the remuneration committee, namely Mr. Chen Yenfei, Mr. Liu Liangzhong and Mr. Lu Yongchao attended such meetings to which they were eligible to attend.

Corporate Governance Committee

During the year ended 31 December 2019 and up to 17 June 2020, the corporate governance committee consisted of one executive Director, namely, Mr. Chen Yenfei (who ceased to hold such position on 18 June 2020), and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Lu Yongchao. Mr. Chen Yenfei was the chairman of the corporate governance committee during the year ended 31 December 2019 and up to 17 June 2020.

The primary functions of the corporate governance committee include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG code and disclosure in the corporate governance report.

The corporate governance committee also performs annual assessment on the anti-fraud, anti-corruption and anti-bribery measures and the channels for handling complaints and investigations ("Annual Assessment"), and submits the assessment results to the audit committee and the Board for review. During the year ended 31 December 2019, all the then members of the corporate governance committee, namely Mr. Chen Yenfei, Mr. Liu Liangzhong and Mr. Lu Yongchao, attended a meeting held on 31 March 2019 to review the Annual Assessment, and no incident of non-compliance with the Company's anti-fraud, anti-corruption, and anti-bribery policies that has significant impact to its operations was reported.

CORPORATE GOVERNANCE REPORT

BOARD PROCEEDINGS

Regular Board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the chairman or any of the company secretary of the Company to include matters in the agenda for regular board meetings.

During the year ended 31 December 2019, the Board held ten Board meetings. Subsequent to the year ended 31 December 2019 and up to the date of this annual report, the Board held another three Board meetings for the main purposes of approving the annual results of the Group for the year ended 31 December 2019. One annual general meeting was held by the Company during the year ended 31 December 2019 on 28 June 2019.

Attendance at the Board meetings and the general meeting held during the year ended 31 December 2019 by each of the then Directors are set out below:

Name of Director	Attendance at Board meetings	Attendance at the general meeting
Mr. Chen Yenfei <i>(vacated from the office of director on 18 June 2020)</i>	10/10	1/1
Mr. Shen Shun	10/10	1/1
Mr. Chen Rongxin	10/10	1/1
Mr. Zhang Xiongfeng	10/10	1/1
Mr. Hu Haisong	3/3	1/1
Mr. Wu Guohua	3/3	1/1
Mr. Liu Liangzhong	10/10	1/1
Mr. Wong Tak Shing	10/10	1/1
Mr. Lu Yongchao	10/10	1/1

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board committees are kept by the company secretary of the Company with sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of the minutes are sent to all Directors for their comments and records respectively within a reasonable time after the Board meeting is held.

All Directors have access to the advice and services of the company secretary of the Company with a view to ensuring the Board procedures are followed.

CORPORATE GOVERNANCE REPORT

MEETING WITH INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019, the then chairman of the Company had one meeting with the independent non-executive Directors without the presence of other Directors to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views in Board meetings without restrictions.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

During the year ended 31 December 2019, each of Mr. Chen Yenfei and Mr. Shen Shun has entered into a service contract, and each of Mr. Zhang Xiangfeng, Mr. Liu Liangzhong and Mr. Wong Tak Shing has entered into a letter of appointment, with the Company for a term of three years commencing from 19 June 2018. Mr. Chen Rongxin has entered into a service contract with the Company for a term of three years commencing from 5 September 2018. Mr. Lu Yongchao has entered into a letter of appointment with the Company for a term of three years commencing from 14 September 2018. Each of Mr. Hu Haisong and Mr. Wu Guohua has entered into a letter of re-appointment with the Company for a term of one year commencing from 20 May 2020. All Directors are subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the Shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the Shareholders. In addition, all Directors are required to retire by rotation at least once every three years and are subject to re-election by the Shareholders at the annual general meeting.

BOARD DIVERSITY POLICY

Pursuant to the CG code relating to board diversity policy which has come into effect since 1 September 2013, the Board adopted a board diversity policy (the "Board Diversity Policy") on 26 May 2015. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Model Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code for the year ended 31 December 2019.

Senior management who, because of their offices in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Model Code.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Following the resignation of Mr. Tsoi Yuen Hoi on 10 May 2019, Mr. Chang Eric Jackson was appointed as the company secretary of the Company on 10 May 2019 and resigned on 13 August 2019. With the effect from 13 August 2019, Mr. Hung Hing Hung has been appointed as the company secretary of the Company. Each of Mr. Tsoi Yuen Hoi, Mr. Chang Eric Jackson and Mr. Hung Hing Hung possesses the requisite qualification and experience of a company secretary as required under Rule 3.28 and Rule 8.17 of the Listing Rules. All Directors have access to the advice and services of the company secretary of the Company to ensure that the Board procedures, and all applicable law, rules and regulations are followed.

During the year ended 31 December 2019, the company secretaries of the Company complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of Mr. Hung Hing Hung are set out in the section headed “Directors and Senior Management” on page 30 of this annual report.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial Reporting

The Board acknowledges its responsibility to prepare the Company’s accounts which give a true and fair view of the Group’s state of affairs, results and cash flows for the year ended 31 December 2019 and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business in the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of CCTH CPA Limited (“CCTH CPA”), the Company’s external auditors, with respect to financial reporting are set out in the section headed “Independent Auditor’s Report” in this annual report.

Risk Management and Internal Controls

The Board acknowledges that it is the responsibility of the Board for establishing and maintaining appropriate and effective risk management and internal control systems. Also, the Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness on an annual basis. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2019, the Board, through the audit committee of the Board, has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects. The systems were considered effective and adequate.

CORPORATE GOVERNANCE REPORT

The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

The internal audit function of the Group is governed by an appointed professional with Certified Internal Auditor qualification. With the appointment of chief audit executive, the effectiveness of the risk management and internal control systems is reviewed by conducting internal audit assignments. Recommendations for major observations of control weaknesses from the audits will be provided, so as to resolve material internal control defects.

Policies and procedures for releasing information to external parties had been established and are in place, which covers the handling and dissemination of inside information, with an aim to provide accurate, complete and timely information to all stakeholders of the Group. These policies and procedures define the class and form of the information to be disclosed, the procedures for dissemination and disclosure of information, and communication with investors, financial analysts and media. They also include the policies for communication with shareholders, and the information management for subsidiaries and associated companies of the Company.

EXTERNAL AUDITORS

CCTH CPA was appointed as the external auditors of the Company on 11 January 2017. The independence of the external auditors is recognised and annually reviewed by the Board and the audit committee of the Board. For the year ended 31 December 2019, the fees paid and payable to CCTH CPA and PRC statutory auditors in respect of their audit services provided to the Group were RMB1.31 million. For the year ended 31 December 2019, the fees paid to CCTH CPA in respect of non-audit service assignment (agreed-upon procedures regarding interim financial information for the six months ended 30 June 2019) amounted to RMB0.22 million.

There was no disagreement between the Board and the audit committee of the Board on the selection and appointment of the external auditors during the year under review.

NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Chen Yenfei and Praise Treasure Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company (“Controlling Shareholders”). To protect the Group from any potential competition, the Controlling Shareholders have entered into the Deed of Non-competition (“Deed of Non-competition”) in favor of the Company on 26 May 2015.

The Company has adopted the following measures to manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking:

- (a) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by the Controlling Shareholders under the Deed of Non-competition;

CORPORATE GOVERNANCE REPORT

- (b) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (c) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Deed of Non-competition in the annual reports of the Company; and
- (d) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of the Company.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders. Each of the Controlling Shareholders has confirmed in writing to the Company that he/it has complied with the Deed of Non-competition for the year ended 31 December 2019. Based on such written confirmation from the Controlling Shareholders and other appropriate queries made by the independent non-executive Directors, the independent non-executive Directors considered that the Controlling Shareholders have complied with all the undertakings under the Deed of Non-competition for the year ended 31 December 2019.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all the Shareholders an equal opportunity to exercise their rights in an informed manner and allow the Shareholders to engage actively with the Company. Under the Company's articles of association, the Shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

(i) Participation at general meeting

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. Prior notices of meetings with sufficient notice period in compliance with the articles of association of the Company and the Listing Rules and circulars containing details on the proposed resolutions will be sent to the Shareholders before the meeting. At the general meetings, separate resolutions are proposed on each substantial issue, including the election/re-election of individual Directors. One general meeting was held during the year ended 31 December 2019.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend general meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board committees at the general meetings or providing written notice of such proposals for the attention of the company secretary of the Company at the principal place of business of the Company in Hong Kong (currently situated at Room 1310D, 13/F, Premier Centre, 20 Cheung Shun Street, Lai Chi Kok, Kowloon, Hong Kong) or via email to ir@pashunholding.com.

CORPORATE GOVERNANCE REPORT

(iii) Convening extraordinary general meeting

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the company secretary of the Company and deposited at the principal place of business of the Company in Hong Kong (currently situated at Room 1310D, 13/F, Premier Centre, 20 Cheung Shun Street, Lai Chi Kok, Kowloon, Hong Kong) for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at general meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

Pursuant to the article 85 of the articles of association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office (as defined therein) provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

CORPORATE GOVERNANCE REPORT

Accordingly, if a Shareholder wishes to nominate a person to stand for election as a Director, the following documents must be validly served on the company secretary of the Company, namely (i) his/her notice of intention to propose a resolution at the general meeting; and (ii) a notice signed by the nominated candidate of the candidate's willingness to be appointed as a Director together with (A) that candidate's information as required to be disclosed under Rule 13.51(2) of the Listing Rules and such other information, as set out in the below heading "Required information of the candidate(s) nominated by Shareholders", and (B) the candidate's written consent to the publication of his/her personal data.

Required information of the candidate(s) nominated by Shareholders

In order to enable Shareholders to make an informed decision on their election of Directors, the above described notice of intention to propose a resolution by a Shareholder should be accompanied by the following information of the nominated candidate(s):

- (a) full name and age;
- (b) positions held with the Company and its subsidiaries (if any);
- (c) experience including (i) other directorships held in the past three years in public companies of which the securities are listed on any securities market in Hong Kong and overseas, and (ii) other major appointments and professional qualifications;
- (d) current employment and such other information (which may include business experience and academic qualifications) of which Shareholders should be aware of, pertaining to the ability or integrity of the candidate;
- (e) length or proposed length of service with the Company;
- (f) relationships with any Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Company, or an appropriate negative statement;
- (g) interests in the Shares within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), or an appropriate negative statement;
- (h) a declaration made by the nominated candidate in respect of the information required to be disclosed pursuant to Rule 13.51(2)(h) to (w) of the Listing Rules, or an appropriate negative statement to that effect where there is no information to be disclosed pursuant to any of such requirements nor there are any other matters relating to that nominated candidate's standing for election as a Director that should be brought to Shareholders' attention; and
- (i) contact details.

The Shareholder proposing the candidate will be required to read out aloud the proposed resolution at the general meeting.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

There was no change in the amended and restated memorandum and articles of association of the Company for the year ended 31 December 2019.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

POLICY ON PAYMENT OF DIVIDENDS

The Company adopted a policy on payment of dividends (the “Dividend Policy”) in compliance with E.1.5 of the CG code with effect from 1 January 2019, which establishes an appropriate procedure on declaring and recommending dividend payment of the Company.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:–

- (i) results of operations;
- (ii) cash flows;
- (iii) financial condition;
- (iv) statutory and regulatory restrictions on the payment of dividends by the Company;
- (v) future prospects; and
- (vi) other factors that the Board may consider relevant.

Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. Dividends may be paid only out of the Company’s distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in the Group’s operations.

Subject to the factors described above, the Board intends to recommend at the relevant shareholders meetings an annual dividend of no less than 30% of the Company’s future net profit available for distribution to the shareholders in the foreseeable future.

Declaration and payment of dividend by the Company is also subject to the articles of association of the Company and the laws of the Cayman Islands.

There can be no assurance that the Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Dividend Policy will continue to be reviewed from time to time by the Board.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

SHEN SHUN (沈順), aged 47, was appointed as an executive Director on 27 February 2012. Mr. Shen is mainly responsible for the sales and internal control of the Group. He has over 20 years of experience in the pharmaceutical industry. Mr. Shen has been appointed as a vice general manager of 成都科訊藥業有限公司 (in English for identification purpose only, Chengdu Kexun Pharmaceutical Co., Ltd.) (“Chengdu Kexun”) since 1998, responsible for the sales of Chengdu Kexun. Mr. Shen obtained a master’s degree of business administration from a course jointly cooperated by Southwest Jiaotong University (西南交通大學) and University of South Australia in May 2011.

CHEN RONGXIN (陳榮新), aged 42, was appointed as an executive Director on 1 August 2018, resigned with effect from 7 August 2018 and was re-appointed on 5 September 2018. Mr. Chen graduated from Military Economics Institute of Chinese People’s Liberation Army (中國人民解放軍軍事經濟學院) in June 2009, majoring in management engineering. He worked as a vice general manager in Wuhan Bai Xin Food Company Limited (武漢百信食品有限公司) from February 2000 to November 2007. He has been working as a general manager in Hubei Bai Xin Food Company Limited (湖北百信食品有限公司) since December 2007. He worked as a general manager of 鹽池縣醫藥藥材有限公司 (in English for identification purpose only, Yanchi County Medical & Pharmaceutical Herbal Co., Ltd.), a wholly-owned subsidiary of the Company, from July 2017 to May 2018. He is currently a vice general manager of Chengdu business area in 武漢百信控股集團有限公司 (in English for identification purpose only, Wuhan Baixin Holdings Group Limited).

Mr. Chen was the vice-president of Hubei Province Condiment Association from October 2008 to June 2018 and he has been the vice-president of Fujian Chamber of Commerce in Hubei from February 2016 to June 2018.

Mr. Chen Rongxin is the nephew of Mr. Chen Yenfei who was the chairman, the chief executive officer, an executive Director during the period under review and up to 17 June 2020 and is a controlling shareholder (having the meaning ascribed to it in the Listing Rules) of the Company.

NON-EXECUTIVE DIRECTORS

ZHANG XIONGFENG (張雄峰), aged 52, was appointed as a non-executive Director with effect from 1 July 2016. Mr. Zhang holds a bachelor of arts degree in German Language awarded by Shanghai International Studies University (上海外國語大學) in July 1990. Mr. Zhang has extensive experience in the investment banking industry, specialising in the area of corporate finance. From December 2004 to September 2010, Mr. Zhang was employed by Daiwa Capital Markets Hong Kong Limited. From October 2010 to May 2012, Mr. Zhang was the joint head of corporate finance department of Oriental Patron Asia Limited. From 30 June 2017 to 5 October 2018, Mr. Zhang was a non-executive director of Fire Rock Holdings Limited, a company whose shares were listed on GEM of the Stock Exchange (Stock code: 8345) and has transferred to the Main Board of the Stock Exchange on 27 June 2019 (Stock code: 1909) and he was an independent non-executive director of such company from January 2016 to June 2017. From 31 December 2013 to 1 December 2018, he was an executive director and the chairman of the board of directors of Hang Tai Yue Group Holdings Limited (formerly known as Interactive Entertainment China Cultural Technology Investments Limited) (Stock code: 8081), a company whose shares are listed on GEM of the Stock Exchange. Mr. Zhang is currently a non-executive director of Dadi International Group Limited (Stock code: 8130), a company whose shares are listed on GEM of the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. HU HAISONG (胡海松), aged 52, was appointed as a non-executive Director on 20 May 2019. Mr. Hu has a strong track record in pursuing crossborder business opportunities primarily in the energy and resources industry. Mr. Hu has substantial experience in business management and management and supervision of investment projects in various sectors and industries, including oil and gas related industry, trading of commodities and real estates. He has been appointed as a non-executive director of Eagle Ride Investment Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock code: 901) since 1 November 2013. Mr. Hu is currently the chairman and director of each of APAC Investment Holdings Limited (“APAC”) and Eagle Ride Investments Limited (“Eagle Ride Investments”). APAC is principally engaged in investment holding focusing on the energy sector and high growth private investments and Eagle Ride Investments is an investment holding company. Mr. Hu is also a director of Bluesea Energy Holdings Limited, a limited liability company incorporated in Hong Kong and is principally engaged in providing consultancy services in the oil and gas related industry and the trading of petroleum related products, including crude oil and fuel oil. Mr. Hu obtained a Doctor degree in Business Administration honoris causa by Dubna International University for Nature, Society and Man in June 2013.

Mr. WU GUOHUA (吳國華), aged 36, was appointed as a non-executive Director on 20 May 2019. Mr. Wu has a strong track record primarily in real estate and financial investment industries. Mr. Wu has extensive experience in the management and planning of the industrial structure chain of the real estate industry. He is currently a director of Hainan Tianyu Real Estate* (海南天宇房地產), which was awarded as the local enterprise with the strongest capabilities in the real estate development industry in Hainan. Such company is a diversified conglomerate integrating multiple sectors such as tourism, finance, trading, education, medical, agriculture and high technology. Mr. Wu obtained a Bachelor degree in Finance and Economics from The University of New South Wales in Australia in 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIU LIANGZHONG (劉良忠), aged 56, was appointed as an independent non-executive Director on 26 May 2015. He is mainly responsible for the overall supervision of compliance and corporate governance of the Group. Mr. Liu has over 30 years of experience in the food science and engineering industry. He has worked as a professor in Wuhan Polytechnic University (武漢輕工大學) since 2004, specialising in food science and engineering. He worked as a lecturer and associated professor from 1992 to 2001 and as a teaching assistant from 1986 to 1989 in Yangtze University (長江大學). Mr. Liu obtained a doctoral degree in processing and storage of agricultural products from Huazhong Agricultural University (華中農業大學) on 17 June 2004. In addition, he graduated from Beijing Agricultural University (北京農業大學) in July 1992, majoring in storage and processing of agricultural products and obtained a bachelor’s degree in meat product safety from Hangzhou School of Commerce (杭州商學院) (predecessor of Zhejiang Gongshang University (浙江工商大學)) in July 1986. Mr. Liu is the chairman of each of the audit committee and the remuneration committee of the Board and a member of each of the nomination committee and corporate governance committee of the Board.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

WONG TAK SHING (黃德盛), aged 57, was appointed as an independent non-executive Director on 26 May 2015. Mr. Wong graduated from the University of New England, Australia with a Postgraduate Diploma in Financial Management and from the University of Southampton, U.K. with a Bachelor of Social Science in Business Economics and Accounting degree. Mr. Wong is currently an associate member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 28 years of experience in corporate finance, accounting, personnel and administration. Mr. Wong is also an independent non-executive director of China Digital Culture (Group) Limited (Stock code: 8175), a company whose shares are listed on GEM of the Stock Exchange. Mr. Wong was previously an executive director of China Ocean Group Development Limited (Stock code: 8047), a company listed on GEM of the Stock Exchange and an independent non-executive director of Digital Domain Holdings Limited (Stock code: 547), a company listed on the Main Board of the Stock Exchange. Mr. Wong was also a company secretary of Greentech Technology International Limited (Stock code: 195) from 26 September 2014 to May 2019, a company listed on the Main Board of the Stock Exchange. Mr. Wong is a member of each of the audit committee and the remuneration committee of the Board.

LU YONGCHAO (呂永超), aged 41, was appointed as an independent non-executive Director on 1 August 2018, resigned with effect from 7 August 2018 and re-appointed on 14 September 2018. Mr. Lu obtained a diploma in Business Administration for Real Estate Entrepreneurs in China at Sun Yat-sen University (中山大學) and a diploma in English at Guangdong University of Foreign Studies (廣東外語外貿大學). Mr. Lu was a team member of Ample Luck International Capital Group Limited which is a fund management group. Mr. Lu has extensive experience in business development, market development, media management, finance and Information Technology industry and years of investment, financing and fund management history. He has rich experience in the enterprise strategic management, internet strategy, brand management, investment and financing management. Mr. Lu is a member of each of the audit committee, nomination committee and the corporate governance committee of the Board.

Mr. Lu was the founder of Enjoymedia Holdings Company Limited, which was listed on the Over-The-Counter Bulletin Board (OTCBB) in 2006 and was named as one of the hundred most Chinese Concept corporation listed in the United States. Prior to that Mr. Lu had been the chief executive of the online websites YESITE and ITNOW, as well as the Whirlpool Kit Department Head in China. Mr. Lu had assisted listing and financing of different enterprises while working in an investment company in China, and had served as a director of China Mobile Digital Group, a company whose shares are listed on the Taiwan Stock Exchange Corporation. He had also served as a director of a German outdoor brand VAUDE.

Mr. Lu has been an executive director of Cybernaut International Holdings Company Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock code: 1020), since February 2017 and an independent non-executive director of Glory Mark Hi-Tech (Holdings) Limited, a company whose shares are listed on GEM of the Stock Exchange (Stock code: 8159), since March 2019.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

LI XIAODUO (李小多), aged 51, is a manager in charge of the manufacturing of the Group. Mr. Li joined the Group in 1998 and is mainly responsible for the production and quality control of the Group. Mr. Li has over 18 years of experience in the pharmaceutical industry. Mr. Li was appointed as the deputy general manager of Wuhan Baixin Holdings Group Limited (武漢百信控股集團有限公司) since March 1998 in charge of manufacturing. Prior to joining the Group, he was the workshop supervisor and chief of biotech of Chengdu Di Kang Pharmaceuticals Limited (成都迪康製藥公司) from February 1996 to February 1998. He also worked for Chongqing Oriental Pharmaceutical Co., Limited (重慶東方藥業股份有限公司) from July 1994 to February 1996, responsible for developing new products. Mr. Li graduated from Chengdu College of Traditional Chinese Medicine (成都中醫學院) in July 1994, majoring in traditional Chinese medicine.

TANG ZAIXIU (唐再秀), aged 41, is the head of accounting department of the Group. She is mainly responsible for daily accounting. Ms. Tang has over 15 years of experience in accounting. She has worked as the cashier, accountant, financial supervisor and financial manager of Chengdu Kexun since 1999. Ms. Tang graduated from Chongqing Technology and Business University (重慶工商大學) on 30 June 2007, majoring in accounting.

COMPANY SECRETARY

HUNG HING HUNG (洪慶虹), was appointed as company secretary of the Company on 13 August 2019. Mr. Hung obtained the Bachelor of Business Administration with Major in Professional Accountancy from The Chinese University of Hong Kong in May 2006 and is currently a fellow of Hong Kong Institute of Certified Public Accountants. Mr. Hung is currently the chief financial officer and the company secretary of Evergreen International Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 238), and the company secretary of China Tangshang Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange (Stock code: 674).

REPORT OF DIRECTORS

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.

BUSINESS REVIEW

A review of the business of the Group during 2019 and further discussion and analysis, including an indication of the likely future developments in the Group's business are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this report of Directors.

CORPORATE INFORMATION

The Company was incorporated on 3 May 2011 as a limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Shares were listed on the Stock Exchange on 19 June 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group primarily operates in three business segments in China, namely (1) pharmaceutical distribution, (2) self-operated retail pharmacies, and (3) pharmaceutical manufacturing. The analysis of the revenue of the principal activities of the Group during the year ended 31 December 2019 is set out in note 5 to the consolidated financial statements in this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 63 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the financial year ended 31 December 2019 (2018: Nil).

FINANCIAL SUMMARY

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

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial risks. The Group's key risk exposures are summarised as follows:

Business risks (i) Slowdown of China's economic growth in particular in Southwestern China

The Group derived all of its revenue from sales in the PRC market, particularly in the southwestern region. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. There can be no assurance that current economic reform and policies adopted by the PRC government will continue to successfully create economic growth as in the past years.

(ii) Changing legal and regulatory requirements in the PRC pharmaceutical industry

The Group anticipates that revenue from sales in the PRC will continue to represent a substantial proportion of its total turnover in the near future. The Group's operations, financial condition and results of operations could be adversely affected by changes in political condition or relevant laws and regulations in the PRC pharmaceutical industry. In April 2016, the State Council of the PRC issued the 2016 List of Major Tasks in Furtherance of the Healthcare and Pharmaceutical Reforms (深化醫藥衛生體制改革2016年重點工作任務) that outlines several important targets for the current healthcare reform, including the introduction of the "Two-Invoice System" (兩票制) which only allows a single level of distributors for the sale of pharmaceutical products from the manufacturers to the hospitals. While such reform is expected to further improve the quality and efficiency of the healthcare industry in the long-run, the implementation of the "Two-Invoice System" in April 2017 in Sichuan province, given the reliance of the Group on the Sichuan market, had a material adverse impact on the Group's sales to other distributors in its pharmaceutical distribution and pharmaceutical manufacturing businesses.

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

(Continued)

Operational risks

- (i) Non-compliance with, changes in, or amendments to, the applicable PRC regulatory licensing requirements may have a material adverse effect on the Group's business operations

The Group is required to obtain certain permits, approvals and certificates from various PRC governmental authorities for its business operations, such as Good Manufacturing Practices ("GMP") certificates for pharmaceutical manufacturing and Good Supply Practices ("GSP") certificates for pharmaceutical distribution and retail pharmacy operations.

The Good Manufacturing Practices (2010 Revision), which was promulgated by the Ministry of Health of the PRC on 17 January 2011 and effective on 1 March 2011, is a set of detailed basic guidelines on the manufacture and quality control of pharmaceutical products, with the purpose of ensuring that pharmaceutical products are consistently and appropriately manufactured to their intended use as well as statutory registration requirements for the pharmaceutical products, by minimising the risks of contamination, cross contamination, mix-ups and/or errors during the manufacture process.

According to the Administrative Measures of Good Supply Practices (《藥品經營質量管理規範》), which was promulgated by the China Food and Drug Administration on 25 June 2015 and was amended on 13 July 2016 and became effective on the same day, drug distributors should take quality control measures in the processes of procurement, storage, sale and transportation to ensure drug quality and establish drug trace system, intensifying the requirements regarding the management of pharmaceutical trade in terms of both software and hardware of the enterprises in this industry.

As of the date of this annual report, the Group had obtained all material requisite permits, approvals and certificates for its business operations, and intends to apply for the renewal of these certificates when required by applicable laws, rules and regulations. However, the conditions for such renewal may change from time to time. There is no assurance that the Group will be able to successfully renew all of these permits, approvals and certificates, including GMP and GSP. In addition, the more stringent requirements may also affect the Group's plan to identify potential acquisition target.

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

(Continued)

- (ii) Any disruption or termination of or material change in supplier relationships may have a negative impact on the Group's operation

The Group's business is dependent to a large extent upon the stable supply of products from its suppliers. If the Group fails to maintain stable relationship with its suppliers, it may not be able to secure a stable supply of products, which, in turn, may materially and adversely affect its business, financial condition and results of operations.

- (iii) Reliance on key personnel and business and growth may be disrupted if the Group is not able to retain the key personnel

The Group's future success depends heavily upon the continued services of its senior executives and key sales and marketing personnel. The Group's ability to attract and retain key personnel is a critical factor in its competitiveness. If the Group is unable to attract or retain the personnel required to achieve its business objectives, its business could be severely disrupted.

Financial risks

- (i) Foreign currency exchange risk
(ii) Interest rate risk
(iii) Credit risk
(iv) Liquidity risk
(v) Price risk

Details of the financial risk management are set out in note 47 to the consolidated financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

CHARGES OF ASSETS

Details of charges of the Group's assets during the year ended 31 December 2019 are set out in note 27 to the consolidated financial statements in this annual report.

GEARING RATIO

The Group's gearing ratio is represented by net debts divided by total equity plus net debts. The Group's net debts include bank borrowings, corporate and convertible bonds, less cash and cash equivalents and pledged bank deposits. As at 31 December 2019, the Group's gearing ratio was 9.4% (2018: 3.7%).

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds from the global offering of the Company (after deducting underwriting fees and related expenses) amounted to approximately HK\$249.5 million, which sum is intended to be applied in the manner consistent with that set out in the Company's prospectus dated 9 June 2015. For details of the utilisation of the net proceeds, please refer to the paragraph headed "Use of Net Proceeds from the Initial Public Offering" under the section headed "Management Discussion and Analysis" of this annual report.

REPORT OF DIRECTORS

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY AND COMPLIANCE WITH LAWS AND REGULATIONS

As a responsible corporation, the Group is committed to maintain the highest environmental and social standards to ensure sustainable development of its business.

The Group is subject to the following major PRC laws and regulations:

i) Business operation

- Administrative Measures for the Registration of Pharmaceuticals 《藥品註冊管理辦法》
- Administrative Measures for Pharmaceutical Supply Permit 《藥品經營許可證管理辦法》
- Good Supply Practice Rules for Pharmaceuticals 《藥品經營質量管理規範》
- Measures for the Certification of Good Supply Practice of Pharmaceutical Operations 《藥品經營質量管理規範認證管理辦法》
- Good Manufacturing Practices (2010 Revision) 《藥品生產質量管理規範(2010年修訂)》

ii) Environmental and social standards

- the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》
- the Labor Law of the PRC 《中華人民共和國勞動法》
- the Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》
- the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste 《中華人民共和國固體廢物污染環境防治法》
- the Law of the PRC on Safe Production 《中華人民共和國安全生產法》
- the PRC Labor Contract Law 《中華人民共和國勞動合同法》

During the year under review, the Group has complied with all relevant laws and regulations in relation to its business including production, health and safety, workplace conditions, employment and the environment that have a significant impact on the Group.

The Group strives to minimise its impact on the environment by reducing its electricity consumption and encouraging recycle of office supplies and other materials.

Further information about the Company's environmental policies and performance will be disclosed in the environmental, social and governance report to be issued by the Company in due course.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 50.9% of the total sales for the year ended 31 December 2019 and sales to the largest customer included therein amounted to approximately 16.0% of the total sales for the year. The credit terms granted to major customers are 30 to 180 days which are in line with those granted to other customers. Purchases from the Group's five largest suppliers accounted for approximately 41.1% of the total purchases for the year ended 31 December 2019 and purchases from the Group's largest supplier included therein amounted to approximately 13.1% of the total purchases for the year.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

The Group has established a business relationship with its five largest customers and suppliers for more than five years. Management of the Company conducts review on customer and supplier composition on a regular basis to monitor whether there is over-reliance on certain counterparty.

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 14 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 38 to the consolidated financial statements in this annual report.

DISCLOSEABLE TRANSACTIONS AND ISSUES OF SHARES

Acquisition of Bisan Parkwell Consultants Limited ("Bisan Parkwell")

On 8 March 2019, Ready Gain Limited ("Ready Gain"), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("Bisan Parkwell SP Agreement") with Mr. Yu Kin Wai Perway and Mr. Chu Hin Ming Alfonso (the "Vendors"), being the independent third parties to the Group, in relation to the acquisition of the entire issued share capital of Bisan Parkwell ("Bisan Parkwell Sale Shares") by Ready Gain at a total consideration of HK\$45,325,000, which shall be satisfied by the allotment and issue of 82,409,090 Shares ("Bisan Parkwell Consideration Shares") by the Company.

REPORT OF DIRECTORS

DISCLOSEABLE TRANSACTIONS AND ISSUES OF SHARES *(Continued)*

Acquisition of Bisan Parkwell Consultants Limited (“Bisan Parkwell”) *(Continued)*

Bisan Parkwell is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding. It holds 49% of the legal and beneficial interest in the issued share capital of Awesome Applause Sdn Bhd (“Awesome Applause”) a company incorporated in Malaysia. Awesome Applause has signed agreements for the purchase of 48 units (“Bisan Parkwell Properties”) located in the building called “The Apple” located in Melaka, Malaysia, which is a multi-storey building consisting of 361 units in total, all of which will be used as serviced apartments (the “Building”). The aggregate gross floor area of the 48 units is approximately 54,279 square feet.

Completion of the acquisition of Bisan Parkwell by Ready Gain was subject to and conditional upon, the fulfilment or waiver of, the following conditions precedent:

- (i) Ready Gain being satisfied with the results of the due diligence exercise conducted on Bisan Parkwell and Awesome Applause;
- (ii) Ready Gain obtaining the approval of its board of directors and its shareholders in general meeting for the purchase of the Bisan Parkwell Sale Shares, if required;
- (iii) the Company obtaining the approval of its Board and/or its shareholders in general meeting for the purchase of the Bisan Parkwell Sale Shares, if so required;
- (iv) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal, in the Bisan Parkwell Consideration Shares;
- (v) the obtaining of a legal opinion (in the form and substance to the satisfaction of Ready Gain) from a qualified Malaysian legal adviser appointed by Ready Gain in respect of the Bisan Parkwell SP Agreement and the transactions contemplated under the Bisan Parkwell SP Agreement, including, but not limited to, the due incorporation and subsistence of Awesome Applause, the beneficial ownership of Awesome Applause, and the legality and validity of the Bisan Parkwell Properties in Melaka, Malaysia;
- (vi) the obtaining of a valuation report (in the form and substance satisfactory to Ready Gain) from a firm of independent professional valuer appointed by Ready Gain showing the valuation of the Bisan Parkwell Properties to be not less than HK\$95,000,000;
- (vii) the warranties given by the Vendors under the Bisan Parkwell SP Agreement remaining true, accurate and complete in all respects; and
- (viii) the parties to the Bisan Parkwell SP Agreement obtaining the approval or consent of any other relevant authority(ies) or person(s) for the sale and purchase of the Bisan Parkwell Sale Shares, if required.

REPORT OF DIRECTORS

DISCLOSEABLE TRANSACTIONS AND ISSUES OF SHARES *(Continued)*

Acquisition of Bisan Parkwell Consultants Limited (“Bisan Parkwell”) *(Continued)*

Reasons for and benefits of the acquisition

The Company is an investment trading, and investment holding company and provides corporate management services. The principal activities of the Group include pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC.

As disclosed in the annual report of the Company for the year ended 31 December 2017, the Group has investment in a property development project of logistic centre in Chengdu, the PRC. The Company continues to seek other opportunities in property sector in order to diversify the business risk of the principal business of the Group of pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC. The Board considers that the acquisition of Bisan Parkwell could be a good investment opportunity for the Group to explore and invest in the Malaysia property market. The Company currently intends to, through Awesome Applause, hold the Bisan Parkwell Properties for investment purpose to receive rental income and will engage a local professional property manager to manage the Bisan Parkwell Properties and the leases upon the completion of construction of the Bisan Parkwell Properties. Taking into account the prime location of the Bisan Parkwell Properties located in the city centre of the city of Melaka, the Company believes that the acquisition could generate stable cashflow and income to the Company and may enjoy potential capital appreciation in the future.

Taking into account the above factors, the Directors consider that the terms of the Bisan Parkwell SP Agreement are fair and reasonable and the acquisition of Bisan Parkwell is in the interests of the Company and the Shareholders as a whole.

All the conditions have been fulfilled and completion of the acquisition took place on 19 March 2019, upon which 82,409,090 Shares have been allotted and issued by the Company, and Bisan Parkwell has become an indirect wholly-owned subsidiary of the Company. Details of this acquisition are set out in the Company’s announcements dated 8 March 2019 and 19 March 2019.

Acquisition of VR Green Sdn Bhd (“VR Green”)

On 8 March 2019, Big Wish Global Limited (“Big Wish”), a direct wholly-owned subsidiary of the Company, and Mawar F & B Group Sdn Bhd (“Mawar”), being an independent third party to the Group, entered into an agreement, pursuant to which Big Wish conditionally agreed to acquire, and Mawar conditionally agreed to sell, 45% of the entire issued share capital of VR Green at a total consideration of HK\$35,100,000 which shall be satisfied by the allotment and issue of 63,818,181 Shares by the Company. VR Green is a company incorporated in Malaysia with limited liability and is principally engaged in property development and investment. The principal asset of VR Green is a freehold building land (measuring approximately 9,308 square metres) which was then held under HS(D) 246768, P7553, in Bandar Baru Kota Sri Mas, District of Seremban, State of Negeri Sembilan. However, the agreement has been terminated on 28 March 2019 due to the unsatisfaction of the condition precedent in relation to due diligence as set out in the agreement. Details of this transaction are set out in the Company’s announcements dated 8 March 2019 and 28 March 2019.

REPORT OF DIRECTORS

DISCLOSEABLE TRANSACTIONS AND ISSUES OF SHARES *(Continued)*

Acquisition of Parkwell Services Consultants Limited (“Parkwell Services”)

On 3 April 2019, Big Wish entered into an agreement (“Parkwell Services SP Agreement”) with the Vendors pursuant to which Big Wish conditionally agreed to acquire, and the Vendors conditionally agreed to sell, the entire issued share capital of Parkwell Services (“Parkwell Services Sales Shares”) at a total consideration of HK\$19,090,400 which shall be satisfied by the allotment and issue of 34,709,818 Shares (“Parkwell Services Consideration Shares”) by the Company. Parkwell Services holds 49% of the legal and beneficial interest in the issued share capital of Massive Goodwill Sdn Bhd (“Massive Goodwill”), a company incorporated in Malaysia. Massive Goodwill has signed agreements for the purchase of 20 units (“Parkwell Services Properties”) located in the Building. The aggregate gross floor area of the 20 units is approximately 21,606 square feet.

Completion of the acquisition of Parkwell Services by Big Wish was subject to and conditional upon, the fulfilment or waiver of, the following conditions precedent:

- (i) Big Wish being satisfied with the results of the due diligence exercise conducted on Parkwell Services and Massive Goodwill;
- (ii) Big Wish obtaining the approval of its board of directors and its shareholders in general meeting for the purchase of the Parkwell Services Sale Shares, if required;
- (iii) the Company obtaining the approval of its Board and/or its shareholders in general meeting for the purchase of the Parkwell Services Sale Shares, if so required;
- (iv) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal, in the Parkwell Services Consideration Shares;
- (v) the obtaining of a legal opinion (in the form and substance to the satisfaction of Big Wish) from a qualified Malaysian legal adviser appointed by Big Wish in respect of the Parkwell Services SP Agreement and the transactions contemplated under the Parkwell Services SP Agreement, including, but not limited to, the due incorporation and subsistence of the Massive Goodwill, the beneficial ownership of the Massive Goodwill, and the legality and validity of the Parkwell Services Properties in Melaka, Malaysia;
- (vi) the obtaining of a valuation report (in the form and substance satisfactory Big Wish) from a firm of independent professional valuer appointed by Big Wish showing the valuation of the Parkwell Services Properties to be not less than HK\$40,000,000;
- (vii) the warranties given by the Vendors under the Parkwell Services SP Agreement remaining true, accurate and complete in all respects; and
- (viii) the parties to the Parkwell Services SP Agreement obtaining the approval or consent of any other relevant authority(ies) or person(s) for the sale and purchase of the Parkwell Services Sale Shares, if required.

REPORT OF DIRECTORS

DISCLOSEABLE TRANSACTIONS AND ISSUES OF SHARES *(Continued)*

Acquisition of Parkwell Services Consultants Limited (“Parkwell Services”) *(Continued)*

Reasons for and benefits of the acquisition

The Company is an investment trading, and investment holding company and provides corporate management services. The principal activities of the Group include pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC.

As disclosed in the annual report of the Company for the year ended 31 December 2017, the Group has investment in a property development project of logistic centre in Chengdu, the PRC. The Company continues to seek other opportunities in property sector in order to diversify the business risk of the principal business of the Group of pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC.

Upon completion of the acquisition of Bisan Parkwell as disclosed above, the Company is indirectly interested in 49% of Awesome Applause, which in turn is interested in a total of 48 units of the Building. Upon further consideration and review of the project and the investment prospect, the Board decided to acquire further interest in 20 units of the Building and considers that the acquisition of Parkwell Services is a good investment opportunity for the Group to further invest in the Malaysia property market. The Company currently intends to, through the Massive Goodwill, hold the Parkwell Services Properties for investment purpose to receive rental income and will engage a local professional property manager to manage the Parkwell Services Properties and the leases upon the completion of construction of the Parkwell Services Properties. Taking into account the prime location of the Parkwell Services Properties located in the city centre of the city of Melaka, the Company believes that the acquisition of Parkwell Services could generate stable cashflow and income to the Company and may enjoy potential capital appreciation in the future.

Taking into account the above factors, the Directors consider that the terms of the Parkwell Services SP Agreement are fair and reasonable and the acquisition of Parkwell Services is in the interests of the Company and the Shareholders as a whole.

All the conditions have been fulfilled and completion of the acquisition took place on 12 April 2019, upon which 34,709,818 Shares have been allotted and issued by the Company, and Parkwell Services has become an indirect wholly owned subsidiary of the Company. Details of this acquisition are set out in the Company’s announcements dated 3 April 2019, 4 April 2019 and 12 April 2019.

The Building is expected to be completed in 2020. The Group will engage a local professional property manager to manage the Building and the leasing business.

Saved as disclosed above, the Group did not make any other significant investments, acquisitions or disposals that would constitute a notifiable transaction under Chapter 14 of the Listing Rules during the year under review.

REPORT OF DIRECTORS

ISSUE OF CORPORATE BONDS

During 2016 to 2018, the Company issued unsecured corporate bonds with principal amount of HK\$113.9 million to various independent third parties at par value, bearing coupon rates of 6.5% to 7% per annum and with maturity periods from 2 to 7.5 years. During the year ended 31 December 2019, the Company repaid a matured corporate bond with principal amount of HK\$2 million. As at 31 December 2019, two corporate bonds with aggregate amount of HK\$4.0 million maturing on 5 December 2019 and 20 December 2019 respectively have remained outstanding to date. As at 31 December 2019, interest payable on such corporate bonds of approximately HK\$7.4 million was due and remained outstanding and approximately HK\$738,000 was subsequently settled after 31 December 2019. Since the maturity dates of bonds principal and interests, the Company and the holders of the corporate bonds have engaged in numerous rounds of negotiations to seek to resolve the issue amicably, including extension of the maturity date and the due date of the interest payments and repayments of principal and interests by installments.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2019 are set out on page 67 in the consolidated statement of changes in equity of this annual report and in note 40 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's accumulated losses amounted to approximately RMB260,263,000 and the Company's share premium amounted to approximately RMB691,882,000. By passing an ordinary resolution of the Company, dividends may be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2019 are set out in note 30 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

DIRECTORS

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

Executive Directors:

Mr. Chen Yenfei (*Chairman and Chief Executive Officer*)
(*vacated from his office as the Chairman and an Executive Director, and ceased to be the Chief Executive Officer, on 18 June 2020*)

Mr. Shen Shun
Mr. Chen Rongxin

Non-executive Directors:

Mr. Zhang Xiongfeng
Mr. Hu Haisong (*appointed on 20 May 2019*)
Mr Wu Guohua (*appointed on 20 May 2019*)

Independent non-executive Directors:

Mr. Liu Liangzhong
Mr. Wong Tak Shing
Mr. Lu Yongchao

Each of the executive Directors has entered into a service contract, and each of the non-executive Director (except Mr. Hu Haisong and Mr. Wu Guohua), and independent non-executive Directors has entered into a letter of appointment, with the Company for a term of three years, subject to termination by (i) each of the executive Directors by not less than one month's notice in writing served by either party on the other; and (ii) each of the non-executive Director and the independent non-executive Directors by service of notice in writing to the Company at least half month in advance or by the Company at any time. Each of Mr. Hu Haisong and Mr. Wu Guohua has entered into a letter of re-appointment with the Company for a term of one year, subject to termination by not less than six month's notice in writing served by either party on the other. All Directors are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are disclosed in note 10 to the consolidated financial statements in this annual report.

Details of the Directors' biographies are set out on pages 27 to 29 of this annual report. In accordance with article 84 of the Company's articles of association. Mr. Zhang Xiongfeng, Mr. Liu Liangzhong and Mr. Wong Tak Shing will retire from the Board by rotation at the forthcoming annual general meeting of the Company ("AGM"). Mr. Zhang Xiongfeng, Mr. Liu Liangzhong and Mr. Wong Tak Shing, being eligible, offer themselves for re-election at the AGM.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

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

REPORT OF DIRECTORS

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 27 to 30 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

No Director has any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year or at any time during the year ended 31 December 2019.

CONTRACTS OF SIGNIFICANCE ENTERED INTO BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDERS

There are not any contracts of significance entered into between the Group and the controlling shareholders of the Company (within the meaning of the Listing Rules) (or any of their subsidiaries) which subsisted at any time during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. A permitted indemnity provision (having its meaning under section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) is in force for the benefit of the Directors when this report of Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and was in force throughout the year ended 31 December 2019 for the benefit of the then Directors.

The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the directors of the Company and its subsidiaries.

REPORT OF DIRECTORS

SHARE OPTION SCHEME

The Company adopted the share option scheme (the “Share Option Scheme”) on 26 May 2015 for the purpose of rewarding certain Eligible Persons (as defined below) for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such Eligible Persons (as defined below) who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 26 May 2015.

Eligible participants of the Share Option Scheme include, (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Company or any of its subsidiaries and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above (the persons referred above are the “Eligible Persons”).

In accordance with the resolution passed at the annual general meeting held in 28 June 2019 (“2019 AGM”), the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the date of the 2019 AGM, i.e. 147,499,290 Shares. During the year under review, no share options was granted under the Share Option Scheme, and share options granted on 8 July 2016 to subscribe for an aggregate of 75,690,000 shares were lapsed on 31 December 2019. As at 31 December 2019, the total number of securities available for issue under the Share Option Scheme pursuant to its terms was 100,000,000 Shares, representing in aggregate approximately 6.78% of the Company’s issued share capital as at the date of this annual report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may grant options beyond the 10% limit to the Eligible Persons specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

The maximum number of Shares issued and to be issued upon the exercise of options granted under the Share Option Scheme (including exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the Shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

REPORT OF DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder (within the meaning of the Listing Rules) or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The Board shall not offer the grant of any option to any Eligible Person after inside information has come to its knowledge until it has announced the information pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period commencing two months immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements provided that no option may be granted during any period of delay in publishing a results announcement.

The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 28 days after the offer date.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share.

REPORT OF DIRECTORS

SHARE OPTION SCHEME (Continued)

The details of share options granted under the Share Option Scheme as at 31 December 2019 are set out as follows:

Name	Date of grant	Vesting date	Number of share options					Outstanding as at 31 December 2019
			Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	
Mr. Chen Rongxin (an executive Director)	7 September 2018	7 September 2018	10,000,000 (Note 1)	-	-	-	-	10,000,000
Mr. Zhang Xiongfeng (a non-executive Director)	8 July 2016	8 July 2016	8,000,000 (Note 2)	-	-	(8,000,000)	-	-
	7 September 2018	7 September 2018	10,000,000 (Note 1)	-	-	-	-	10,000,000
Employees in aggregate	8 July 2016	8 July 2016	30,390,000 (Note 2)	-	-	(30,390,000)	-	-
	7 September 2018	7 September 2018	10,000,000 (Note 1)	-	-	-	-	10,000,000
Other eligible participates in aggregate	8 July 2016	8 July 2016	37,300,000 (Note 2)	-	-	(37,300,000)	-	-
	7 September 2018	7 September 2018	70,000,000 (Note 1)	-	-	-	-	70,000,000
Total			175,690,000	-	-	(75,690,000)	-	100,000,000

Notes:

- The exercise price of these options is HK\$0.67 and the exercise period is from 7 September 2018 to 25 May 2025, both dates inclusive. The closing price of the Shares immediately preceding the date of grant of these options was HK\$0.70. The Company received HK\$1 from each of the grantees of these options upon acceptance of the options granted.
- The exercise price of these options is HK\$0.60 and the exercise period is from 8 July 2016 to 31 December 2019, both dates inclusive. The closing price of the Shares immediately preceding the date of grant of these options was HK\$0.59. The Company received HK\$1 from each of the grantees of these options upon acceptance of the options granted.

EMOLUMENT POLICY

A remuneration committee of the Board was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

REPORT OF DIRECTORS

EMOLUMENT POLICY *(Continued)*

The Company has adopted the Share Option Scheme, of which share options may be granted to Eligible Persons. Details of the Share Option Scheme are set out in the paragraph headed “Share Option Scheme” in this report of Directors and note 39 to the consolidated financial statements in this annual report.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 10 and 11 to the consolidated financial statements in this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

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

DIRECTORS AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the Shares

Name of Director	Capacity/ nature of interest	Number of Shares held	Approximate percentage of shareholding <i>(Note 1)</i>
Mr. Chen Yenfei <i>(Note 2)</i>	Interest of a controlled corporation	753,040,000	51.05%
	Beneficial owner	13,560,000	0.92%
		766,600,000	51.97%
Mr. Shen Shun	Beneficial owner	3,500,000	0.24%
Mr. Chen Rongxin	Beneficial owner	414,820	0.03%
Mr. Zhang Xiongfeng	Beneficial owner	19,932,000	1.35%

Notes:

- The total number of Shares in issue as at 31 December 2019 (i.e. 1,474,992,908 Shares) has been used for the calculation of the approximate percentage of interest.
- Mr. Chen Yenfei holds 100% of the issued share capital of Praise Treasure Limited and is therefore deemed to be interested in the 753,040,000 Shares held by Praise Treasure Limited in the Company.

REPORT OF DIRECTORS

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS *(Continued)*

Long position in the underlying Shares

Name of Director	Capacity/nature of interest	Number of underlying Shares held	Approximate percentage of shareholding <i>(Note 1)</i>
Mr. Chen Rongxin <i>(Note 2)</i>	Beneficial owner	10,000,000 <i>(Note 2)</i>	0.68%
Mr. Zhang Xiongfeng <i>(Note 3)</i>	Beneficial owner	10,000,000 <i>(Note 3)</i>	0.68%

Notes:

- The total number of Shares in issue as at 31 December 2019 (i.e. 1,474,992,908 Shares) has been used for the calculation of the approximate percentage of interest.
- These are 10,000,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Chen Rongxin on 7 September 2018 pursuant to the Share Option Scheme and can be exercised by Mr. Chen Rongxin between 7 September 2018 and 25 May 2025 at the subscription price of HK\$0.67 per Share.
- These are 10,000,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Zhang Xiongfeng on 7 September 2018 pursuant to the Share Option Scheme and can be exercised by Mr. Zhang Xiongfeng between 7 September 2018 and 25 May 2025 at the subscription price of HK\$0.67 per Share.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had 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 which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, during the year under review, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

REPORT OF DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2019, so far as the Directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executive of the Company) had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

(i) Substantial shareholder's long position in the Shares

Name of Shareholder	Capacity/nature of interest	Number of Shares held	Approximate percentage of issued share capital (Note 1)
Praise Treasure Limited	Beneficial owner	753,040,000	51.05%

(ii) Other persons' long positions in the Shares

Name of Shareholder	Capacity/nature of interest	Number of Shares held	Approximate percentage of issued share capital (Note 1)
Winwin International Strategic Investment Funds SPC (acting for and on behalf of Winwin Stable No. 1 Fund SP) (Note 2)	Person having a security interest in shares	753,040,000	51.05%
Zhongtai Innovation Capital Management Limited	Investment manager	753,040,000	51.05%
Arab Osman Mohammed (Note 2)	Agent	753,040,000	51.05%
Lai Wing Lun (Note 2)	Agent	753,040,000	51.05%

Notes:

- The total number of Shares in issue as at 31 December 2019 (i.e. 1,474,912,908 Shares) has been used for the calculation of the approximate percentage of interest.

REPORT OF DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

(ii) Other persons' long positions in the Shares *(Continued)*

Notes: (Continued)

- 753,040,000 Shares (the "Charged Shares") were pledged by Praise Treasure Limited in favour of Winwin International Strategic Investment Funds SPC (acting for and on behalf of Win Win Stable No.1 Fund SP) to secure certain indebtedness of Praise Treasure Limited, and on 27 September 2019, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited were appointed as joint and several receivers and managers over the Charged Shares. The Charged Shares represent approximately 51.05% of the issued share capital of the Company as at the date of this annual report.

Save as disclosed above, as at 31 December 2019, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to the existing shareholders.

COMPETING BUSINESS

None of the Directors had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2019. Each of Mr. Chen Yenfei and Praise Treasure Limited (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 26 May 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2019.

REPORT OF DIRECTORS

POSSIBLE TRANSACTION WHICH MAY OR MAY NOT INVOLVE CHANGE OF CONTROLLING SHAREHOLDER OF THE COMPANY

As set out in the Company's announcement dated 30 September 2019, the Company has been informed by Praise Treasure Limited ("PTL"), a controlling shareholder (within the meaning of the Listing Rules) that 753,040,000 Shares (the "Charged Shares") were pledged by PTL in favour of Winwin International Strategic Investment Funds SPC (acting for and on behalf of Win Win Stable No.1 Fund SP) (the "Chargee") to secure certain indebtedness of PTL, and on 27 September 2019, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited were appointed as joint and several receivers and managers over the Charged Shares. The Charged Shares represent approximately 51.05% of the issued share capital of the Company as at the date of this annual report.

As set out in the Company's announcement dated 4 June 2020, (i) the Company has been further informed that PTL is still in negotiation with the Chargee regarding the settlement of the outstanding indebtedness owed by PTL to the Chargee, and it will need more time to reach final settlement with the Chargee in view of (a) the outbreak of the novel coronavirus epidemic in the People's Republic of China which adversely affected the progress of negotiation among the parties involved; and (b) that more time is required for potential new lender of PTL to conduct due diligence exercise in relation to PTL and for the negotiation among the parties involved; and (ii) the Company has not been advised by PTL or the Receivers of any proposed change of the ownership of the Charged Shares which may or may not involve a change of the controlling shareholder of the Company (the "Possible Transaction"). Details of the Possible Transaction are set out in the Company's announcements dated 30 September 2019, 3 October 2019, 1 November, 2019, 2 December 2019, 2 January 2020, 3 February 2020, 3 March 2020, 19 March 2020, 3 April 2020, 4 May 2020 and 4 June 2020.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2019 is contained in note 50 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

REPORT OF DIRECTORS

CHARITABLE DONATIONS

There was no charitable donations made by the Group during the year ended 31 December 2019 (2018: Nil).

AUDIT COMMITTEE

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

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 14 to 26 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

For events after the reporting period, please refer to note 54 to the consolidated financial statements in this annual report.

AUDITORS

CCTH CPA was appointed as the auditor of the Company on 11 January 2017 upon the resignation of Crowe Horwath (HK) CPA Limited. The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by CCTH CPA.

CCTH CPA shall retire and being eligible, offer themselves for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

By the order of the Board
Non-executive Director
Mr. Wu Guohua

Hong Kong, 22 June 2020

INDEPENDENT AUDITOR'S REPORT



**TO THE SHAREHOLDERS OF
PA SHUN INTERNATIONAL HOLDINGS LIMITED**
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Pa Shun International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 63 to 70, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit and loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), 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.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

How our audit addressed the key audit matter

Revenue recognised from sales of pharmaceutical products

Note 5(a) to the consolidated financial statements

Revenue from sales of pharmaceutical products is recognised when the controls of the pharmaceutical products are transferred to customers. The accounting policy for revenue recognition is disclosed in note 3(n) to the consolidated financial statements. The Group recognised revenue of approximately RMB845.4 million from sales of pharmaceutical products for the year ended 31 December 2019.

We have identified revenue recognised from sales of pharmaceutical products as a key audit matter as the revenue recognised is quantitatively significant to the consolidated statement of profit or loss and is one of the key performance of the Group.

Our procedures in relation to revenue recognised from sales included:

- We obtained an understanding of the revenue business process regarding sales of pharmaceutical products.
- We evaluated and tested the key controls over the recognition of sales of pharmaceutical products.
- We checked, on a sample basis, the terms set out in the sales and purchase agreements, and assessed whether the significant risks and rewards of ownership of the related pharmaceutical products sold and the Group's control therein have been transferred to the customers by reviewing the relevant documents, including the delivery notes and acknowledgement to receipts.
- We tested the recognition of material sales transactions closed to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting periods in accordance with the Group's revenue recognition policy.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of the proposed property development project

Note 21 to the consolidated financial statements

As at 31 December 2019, the Group had made payments amounted to approximately RMB185.8 million to Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming") in connection with a proposed property development project of a logistic centre. Management conducted impairment assessment of the property project and concluded that no impairment loss is required to be made based on the fair value of the properties upon their completion of development, as valued by an external property valuer.

We identified the impairment assessment of the proposed property development project as a key audit matter due to significant payments made by the Group for the project up to 31 December 2019 and the estimation and judgment involved in the assessments of the budgeted development costs for the project and the fair value of the properties upon their completion of development as valued by the external property valuer.

Our procedures in relation to the impairment assessment of the property development project included:

- We interviewed with management of the Group regarding the status of the project and update of the project development.
- We obtained an understanding of the management's internal control of the preparation of budgeted costs for the development of the property project.
- We assessed the reasonableness of the individual components of the budgeted costs by reference to the feasibility study report prepared by management and other corroborative evidence.
- We evaluated the competence, capabilities and objectivity of the external property valuer regarding the project under development.
- We obtained an understanding from the external property valuer about the valuation techniques, performance of the property markets, significant assumptions adopted, critical judgmental areas, key inputs and data used in the valuation.
- We evaluated the reasonableness of the key inputs used in the valuation by comparing the rentals, capitalisation rate and market observable transactions for valuation with other similar properties, market trend and management assumptions.
- We interviewed with management of Chengdu Yiming regarding the development progress of the project to assess whether the project development is in line with the planned time schedule and any significant obstacles are expected to hinder the project completion.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Net realisable value of inventories

Note 23 to the consolidated financial statements

As 31 December 2019, the Group had inventories amounted to approximately RMB14.8 million. Recoverability of the inventories involved management judgment in assessing the net realisable value ("NRV") for individual inventories. The management's estimation of the NRV is primarily based on the latest selling prices and current market conditions. The Group conducted the inventory review and, where necessary, made allowance on obsolete and slow moving items to write off or write down such inventories to their NRV.

We have identified the NRV of inventories as a key audit matter due to the magnitude of inventories and the significant degree of judgment by the management associated with determining the NRV.

How our audit addressed the key audit matter

Our procedures in relation to assessing the net realisable value of the inventories included:

- We obtained an understanding of the control procedures performed by management in estimating the NRV of the inventories and conducting periodic review of inventory obsolescence.
- We observed the Group's inventory counts to identify whether there is any damaged or obsolete inventories.
- We tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices.
- We tested, on a sample basis, the NRV of selected inventory items, by comparing the selling prices subsequent to the year end, against the carrying amounts of these individual finished goods. Where there are no subsequent sales of the respective finished goods after the year end, we discussed with management as to the assessment of net realisable value of the products, corroborating explanations with the inventory ageing, sales orders, historical margins, and current market conditions by using our industry knowledge and external market analysis, as appropriate.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

How our audit addressed the key audit matter

Recoverability of trade and commercial bills receivables

Note 24 to the consolidated financial statements

At 31 December 2019, the Group had gross trade and commercial bills receivables amounted to approximately RMB414.9 million, of which impairment provision of RMB123.3 million has been made. Recoverability of these receivables involved management judgment in assessing the allowance for doubtful debts for the receivables. The ability of the debtors to repay to the Group depends on customer specific and market conditions which involve inherent uncertainty.

We have identified impairment assessment of trade and commercial bills receivables as a key audit matter due to the magnitude of the receivables and the estimation and judgment involved in the determination of the recoverable amounts of these receivables.

Our procedures in relation to the recoverability of trade and bills receivables included:

- We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts.
- We assessed the classification and accuracy of individual balances in trade and commercial bills receivables ageing report by testing the underlying invoices on a sample basis.
- We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgment about the recoverability of the outstanding receivables and assessed the allowance for doubtful debts made by management for these individual balances.
- We assessed the appropriateness of the expected credit loss positioning methodology, by examining the key data inputs on a sample bases, to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit loss.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Recoverability of other receivables

Note 24 to the consolidated financial statements

As at 31 December 2019, the Group had other receivables amounted to approximately RMB80.7 million which included receivables of grants and taxes refundable from local government and outstanding balances due from other parties.

The ability of the debtors to repay to the Group depends on debtor's specific and market conditions and the financial position of the debtors.

We have identified impairment assessment of the other receivables as a key audit matter due to the magnitude of the receivable balances and the estimation and judgment of management involved in the determination of the recoverable amounts of these receivables.

How our audit addressed the key audit matter

Our procedures in relation to the recoverability of other receivables included:

- We obtained an understanding of the Group's processes and controls relating to monitoring of the recoverability of the other receivables and identifying any impairment indicators.
- We assessed the classification and accuracy of individual receivables by testing relevant corroborative evidence on a sample basis.
- We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to year end date, we obtained an understanding of the basis of management's judgment about the recoverability of the outstanding receivables and assessed the impairment loss made by management for doubtful recovery of the receivable balances.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

How our audit addressed the key audit matter

Impairment assessment for investments in associates

Note 17 to the consolidated financial statements

As at 31 December 2019, the carrying amount of the Group's investments in associates amounted to approximately RMB50.6 million, of which no impairment loss has been recognized in the consolidated financial statements.

We focused on impairment assessment of the Group's investments in associates as the magnitude of the investments is significant and management assessment of the recoverable amount of the investments involves judgements and estimates about the future results of the associates and underlying value of the assets held by the associates.

Our procedures in relation to the impairment assessment of the investment in associates included:

- We interviewed with management of the Group regarding details of the calculation of the recoverable amount of the investments in associates.
- We performed audit procedures on the accounting records and relevant documents of the associates.
- We evaluated the competence, capabilities and objectivity of the external property valuer regarding the valuations of the properties held by the associates.
- We obtained an understanding from the property valuer about the valuation techniques, performance of the property markets, significant assumptions adopted, critical judgemental areas, key inputs and data used in the valuation.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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.

INDEPENDENT AUDITOR'S REPORT

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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

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

CCTH CPA Limited

Certified Public Accountants

Hong Kong, 22 June 2020

Lee Chi Hang

Practising Certificate Number: P01957

Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza,
1 Science Museum Road, Tsim Sha Tsui,
Kowloon, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*For the year ended 31 December 2019*

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Loss for the year	(193,399)	(63,408)
Other comprehensive loss for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC")	(8,083)	(5,448)
Item that may not be reclassified subsequently to profit or loss:		
Loss on change in fair value of financial assets at fair value through other comprehensive income	(22,000)	–
Total comprehensive loss for the year	(223,482)	(68,856)
Attributable to:		
Equity shareholders of the Company	(223,804)	(64,857)
Non-controlling interests	322	(3,999)
Total comprehensive loss for the year	(223,482)	(68,856)

The notes on pages 71 to 172 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	51,642	58,026
Right-of-use assets	15	3,060	–
Prepaid land lease payments	16	–	2,315
Investments in associates	17	50,580	9,382
Goodwill	18	–	5,942
Other intangible assets	19(a)	29,632	886
Prepayments for intangible assets	19(b)	–	17,000
Financial assets at fair value through other comprehensive income	20	3,000	–
Property development project	21	185,797	–
Other non-current assets	22	1,972	192,769
Deferred tax assets	35(b)	6,312	4,117
		331,995	290,437
CURRENT ASSETS			
Inventories	23	14,849	55,573
Trade and other receivables	24	373,740	422,193
Prepayments and deposits paid	25	179,179	259,054
Amount due from an associate	26	–	10,834
Amounts due from related parties	50(b)	85	1,078
Pledged bank deposits	27	9,893	41,111
Cash and cash equivalents	27	16,125	48,831
		593,871	838,674
CURRENT LIABILITIES			
Trade and other payables	29	111,979	94,277
Bank borrowings	30	6,000	35,824
Amount due to a shareholder	31	283	3,413
Amounts due to associates	33	2	–
Amounts due to related parties	50(b)	144	144
Amounts due to non-controlling interests	32	–	5,143
Corporate bonds payable	34	26,871	5,074
Income tax payable	35(a)	8,695	13,930
		153,974	157,805
NET CURRENT ASSETS		439,897	680,869
TOTAL ASSETS LESS CURRENT LIABILITIES		771,892	971,306

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 31 December 2019*

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred income – government grant	36	24,053	24,565
Corporate bonds payable	34	64,143	82,336
Lease liabilities	37	114	–
Deferred tax liabilities	35(b)	–	7,932
		88,310	114,833
NET ASSETS			
		683,582	856,473
CAPITAL AND RESERVES			
Share capital	38	1,216	1,116
Reserves	40	696,267	869,580
Total equity attributable to equity shareholders of the Company		697,483	870,696
Non-controlling interests		(13,901)	(14,223)
TOTAL EQUITY		683,582	856,473

The consolidated financial statements on pages 63 to 70 were approved and authorised for issue by the board of directors of the Company on 22 June 2020 and are signed on its behalf by:

Wu Guohua
Director

Shen Shun
Director

The notes on pages 71 to 172 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to equity shareholders of the Company											
	Share capital RMB'000	Share premium RMB'000	PRC statutory reserve RMB'000	Convertible bonds reserve RMB'000	Investment revaluation reserve RMB'000 (Note 40)	Share option reserve RMB'000 (Note 40)	Exchange reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	856	469,233	47,094	7,395	-	11,997	3,986	(28,150)	236,854	749,265	-	749,265
Loss for the year	-	-	-	-	-	-	-	-	(59,409)	(59,409)	(3,999)	(63,408)
Other comprehensive loss for the year												
Exchange differences on translation of financial statements of entities outside the PRC	-	-	-	-	-	-	(5,448)	-	-	(5,448)	-	(5,448)
Total comprehensive loss for the year	-	-	-	-	-	-	(5,448)	-	(59,409)	(64,857)	(3,999)	(68,856)
Recognition of equity-settled share-based payments	-	-	-	-	-	11,456	-	-	-	11,456	-	11,456
Early redemption of convertible bonds	-	-	-	(7,395)	-	-	-	-	51	(7,344)	-	(7,344)
Recognition of equity component of convertible bonds	-	-	-	56,402	-	-	-	-	-	56,402	-	56,402
Issue of shares upon:												
- conversion of convertible bonds	238	156,341	-	(56,402)	-	-	-	-	-	100,177	-	100,177
- exercise of share options	22	15,817	-	-	-	(2,916)	-	-	-	12,923	-	12,923
Disposal of partial interest in a subsidiary (note 52(iii))	-	-	(40)	-	-	-	-	1,616	11,098	12,674	(10,224)	2,450
Appropriation to PRC statutory reserve	-	-	1,735	-	-	-	-	-	(1,735)	-	-	-
At 31 December 2018 and 1 January 2019	1,116	641,391	48,789	-	-	20,537	(1,462)	(26,534)	186,859	870,696	(14,223)	856,473
Loss for the year	-	-	-	-	-	-	-	-	(193,721)	(193,721)	322	(193,399)
Other comprehensive loss for the year												
Loss on change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(22,000)	-	-	-	-	(22,000)	-	(22,000)
Exchange differences on translation of financial statements of entities outside the PRC	-	-	-	-	-	-	(8,083)	-	-	(8,083)	-	(8,083)
Total comprehensive loss for the year	-	-	-	-	(22,000)	-	(8,083)	-	(193,721)	(223,804)	322	(223,482)
Adjustment upon lapse of share options	-	-	-	-	-	(9,081)	-	-	9,081	-	-	-
Issue of shares upon acquisition of subsidiaries	100	50,491	-	-	-	-	-	-	-	50,591	-	50,591
Transfer of PRC statutory reserve to retained profits	-	-	(15,632)	-	-	-	-	-	15,632	-	-	-
At 31 December 2019	1,216	691,882	33,157	-	(22,000)	11,456	(9,545)	(26,534)	17,851	697,483	(13,901)	683,582

The notes on pages 71 to 172 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Operating activities			
Loss before tax		(190,482)	(48,047)
Adjustments for:			
Depreciation of property, plant and equipment	14	3,517	5,450
Depreciation of right-of-use asset	15	1,594	–
Amortisation of prepaid land lease payments	16	–	205
Amortisation of intangible assets	19(a)	2,164	178
Government grant recognised to profit or loss	36	(512)	(511)
Reversal of impairment loss on deposits paid for acquisition of property, plant and equipment	6(b)	–	(10,000)
Impairment loss on prepayments for intangible assets		17,000	3,000
Impairment loss on intangible assets		4,090	–
Impairment loss on trade receivables	6(b)	118,469	10,046
Impairment loss on other receivables	6(b)	7,193	1,514
Impairment loss on inventories		463	–
Impairment loss on prepayments and deposits		32,501	–
Reversal of impairment loss on trade receivables	6(b)	(8,288)	(2,974)
Reversal of impairment loss on other receivables		(1,234)	(10,091)
(Gain)/loss on disposal of property, plant and equipment	6(a&b)	(9)	4,163
Loss on disposal of land use rights		–	1,780
(Gain)/loss on disposal of a subsidiary	43	(5,516)	903
Loss on disposal of an associate		1,916	–
Gain on disposal of intangible assets	6(a)	–	(603)
Gain on change in fair value less costs to sell of biological assets	6(a)	–	(60)
Write-off of property, plant and equipment		179	–
Gain on redemption of convertible bonds	6(a)	–	(7,516)
Loss on issue of convertible bonds	6(b)	–	42,043
Bank interest income	6(a)	(49)	(193)
Interest income from loan receivables	6(a)	(576)	(518)
Finance costs	7	11,855	15,668
Share of profit of associate		(650)	(1,259)
Equity-settled share-based payments	39	–	11,456
Net foreign exchange gains		(6,469)	844

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2019*

	NOTES	2019 RMB'000	2018 RMB'000
Operating cash flows before movements in working capital		(12,844)	15,478
Decrease in inventories		37,747	4,799
(Increase)/decrease in trade and other receivables		(76,586)	39,128
(Increase)/decrease in prepayments and deposits paid		(27,691)	19,697
Decrease/(increase) in amount due from an associate		10,834	(10,834)
Decrease/(increase) in amounts due from related parties		993	(981)
Increase/(decrease) in trade and other payables		22,731	(46,975)
(Decrease)/increase in amount due to a shareholder		(3,148)	3,413
Increase/(decrease) in amounts due to related parties		–	(151)
Decrease in other non-current assets		5,000	–
(Decrease)/increase in amounts due to non-controlling interests		(5,143)	5,143
Cash generated (used in)/from operations		(48,107)	28,717
Income tax paid	35(a)	(10,347)	(10,850)
Net cash generated (used in)/from operating activities		(58,454)	17,867

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2019*

	NOTES	2019 RMB'000	2018 RMB'000
Investing activities			
Purchase of property, plant and equipment		(92)	(403)
Proceeds from disposal of biological assets and related land use rights and property, plant and equipment		–	4,000
Proceeds from disposal of property, plant and equipment		62	6
Proceeds from disposal of an associate		8,123	–
Deposit for acquisition of property, plant and equipment refunded		–	10,000
Deposit paid for intangible assets		–	(35,000)
Payments for purchase of intangible assets		–	(180)
Decrease in deposits paid for acquisition of property, plant and equipment		–	182
Payments in connection with land exchange refunded		–	10,352
Payments in connection with a property development project		–	(15,336)
Deposits refunded for investment projects		15,000	34,098
Consideration for acquisition of unlisted investments		–	(65,000)
– paid		–	22,877
– refunded		–	
Disposal of a subsidiary	43	4,912	(7)
Decrease in pledged bank deposits		31,345	8,253
Partial disposal of a subsidiary		–	2,450
Bank interest received		49	193
		59,399	(23,515)
Financing activities			
Drawn down of new bank loans	44	6,000	35,824
Repayment of bank loans	44	(34,824)	(26,009)
Proceeds from issue of corporate bonds	44	–	6,320
Proceeds from exercise of share options granted		–	12,923
Corporate bond repaid	44	(1,864)	–
Payment of lease liabilities	44	(1,588)	–
Corporate bonds issue expenses	44	–	(1,209)
Finance costs paid	44	(1,349)	(8,885)
		(33,625)	18,964
Net (decrease)/increase in cash and cash equivalents			
		(32,680)	13,316
Cash and cash equivalents at 1 January		48,831	35,036
Effect of changes in foreign exchange rates		(26)	479
		16,125	48,831
Cash and cash equivalents at 31 December	27		

The notes on pages 71 to 172 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

Pa Shun International Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) was incorporated in the Cayman Islands on 3 May 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 19 June 2015. The addresses of the Company’s registered office and the principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 1310D, 13/F., Premier Centre, 20 Cheung Shun Street, Lai Chi Kok, Kowloon, Hong Kong.

The functional currency of the Company is Hong Kong dollar (“HK\$”). The consolidated financial statements of the Company are presented in Renminbi (“RMB”) for easy reference of international investors.

The principal activity of the Company is investment holding. Details of the principal activities of the Company’s subsidiaries are set out in note 52.

2. APPLICATION OF NEW AND REVISED HKFRSs

New and revised HKFRSs applied in current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA:

HKFRS 16

HK(IFRIC)-Int 23

Amendments to HKFRSs

Amendments to HKFRS 9

Amendments to HKAS 19

Amendments to HKAS 28

Leases

Uncertainty over Income Tax Treatments

Annual Improvements 2015-2017 Cycle

Prepayment Features with Negative Compensation

Plan Amendment, Curtailment or Settlement

Long-term Interests in Associates and

Joint Ventures

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

New and revised HKFRSs applied in current year (Continued)

Other than as explained below regarding the impact of HKFRS 16 “Leases”, the application of other new and amended standards effective in respect of the current period had not resulted in significant impact on the Group’s consolidated financial statements. The Group has also not applied any new or amended standards that are not effective in respect of the current period.

HKFRS 16 Leases

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities and other payables. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
 - Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- (a) The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Non-current assets	
Increase in right-of-use assets	4,858
Decrease in prepaid land lease payments	<u>(2,315)</u>
Current assets	
Decrease in prepayments and deposits paid	<u>(65)</u>
Increase in total assets	<u>2,478</u>
Liabilities	
Current liabilities	
Increase in trade and other payables	1,511
Non-current liabilities	
Increase in lease liabilities	<u>967</u>
Increase in total liabilities	<u>2,478</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)****New and revised HKFRSs applied in current year (Continued)****HKFRS 16 Leases (Continued)****Impacts on transition (Continued)***(b) Nature of the effect of adoption of HKFRS 16*

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

	RMB'000
Operating lease commitments as at 31 December 2018	<u>2,482</u>
Discounted operating lease commitments as at 1 January 2019 (using the weighted average incremental borrowing rate of 5.13%)	2,389
Add: Prepaid lease payments	100
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019 and low-value assets	<u>(11)</u>
Lease liabilities as at 1 January 2019	<u>2,478</u>
	RMB'000
Analysed as	
Current	1,525
Non-current	<u>953</u>
	<u>2,478</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. APPLICATION OF NEW AND REVISED HKFRSs (Continued)

New and revised HKFRSs applied in current year (Continued)

HKFRS 16 Leases (Continued)

Summary of new accounting policies

Amounts recognised in the consolidated statement of financial position and profit or loss

	Right-of-use assets RMB'000 (Unaudited)	Lease liabilities and other payables RMB'000 (Unaudited)
Arising from adoption of HKFRS 16		
Reallocated from prepaid land lease payments	2,380	–
Recognition of lease liabilities	2,478	2,478
	<hr/>	<hr/>
As at 1 January 2019	4,858	2,478
Depreciation charge	(1,594)	–
Disposals	(206)	–
Interest expense	–	85
Payments	–	(1,588)
Exchange difference	2	–
	<hr/>	<hr/>
As at 31 December 2019	3,060	975

New and revised HKFRSs in issue but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

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 other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group, comprising the Company and its subsidiaries, have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. These consolidated financial statements have also been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared on the historical cost basis except that certain assets are stated at fair value as explained in the accounting policies set out below.

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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

The principal accounting policies are set out below:

(a) Subsidiaries and non-controlling interests

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group has power over the entity, the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to use its power to affect those returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicated that there were changes to one or more of the aforementioned three elements of control.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets, however, the choice of measuring non-controlling interests is limited to those types of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation. All other types of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by HKFRSs.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(a) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the equity interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any identified impairment losses.

(b) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent period.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(b) Goodwill (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 HKAS 39, or HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(c) Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s 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 the associate.

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

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 cost of disposal) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(c) Investments in associates (Continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

(d) 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 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Interest income which is derived from the Group's ordinary course of business are presented as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9)

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 collecting contractual cash flows and selling; 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 fair value through profit or loss (“FVTPL”), except that at the date of initial application/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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL. A financial asset is classified as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial asset measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial assets, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized 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.

(ii) Financial assets designated as at FVTOCI

Investments in financial assets 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 investment revaluation 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 financial assets, and will be taken to accumulated losses.

Dividends from these financial assets 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 income and gains" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at 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 interest earned on the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9)

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

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

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

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

(i) Significant increase in credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) (Continued)

(i) Significant increase in credit risk (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) (Continued)

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) 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 assets 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 assets because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) (Continued)

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group. Amounts due from an associate and related parties, and other receivables 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 that 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 loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivables where the corresponding adjustment is recognised through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9)

Financial assets are classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL. A financial asset is classified as 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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain recognised in profit or loss excludes any interest earned on the financial assets and is included in other income and gains.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from an associate and related parties, pledged bank deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9) (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial liabilities and equity instruments

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 the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or redemption at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, if any, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(d) Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to a shareholder, related parties and non-controlling interests, and corporate bonds payable) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of available-for-sale financial asset, the cumulative gain or loss previously accumulated in reserves is reclassified to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated to write off the cost of items of property, plant and equipment (other than construction in progress), less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20 – 30 years
Leasehold improvements	The shorter of the lease term and their useful life of 3 – 10 years
Machinery and equipment	5 – 10 years
Furniture and other office equipment	3 – 10 years
Motor vehicles	4 – 10 years
Ephedra grass	18 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful lives of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses. Cost comprises direct costs of construction during the construction period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the asset is substantially completed and ready for its intended use. No depreciation is provided in respect of construction in progress.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(f) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful lives is finite) and impairment losses, if any. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives from the date they are available for use and their estimated useful lives are as follows:

Patent	14 – 20 years
Computer software	5 – 20 years

Both the period and method of amortisation are reviewed annually.

(g) Leases

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

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

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

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

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(g) Leases (Continued)

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of property, plant and equipment, and land that have a lease term of twelve 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
- 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.

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

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

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(g) Leases (Continued)

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

Lease liabilities

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

The lease payments includes:

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

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(g) Leases (Continued)

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

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 assets. 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.

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

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

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

The Group as a lessor

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

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

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

Rental income which is derived from the Group's ordinary course of business is presented as revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(h) Impairment of tangible and intangible assets (other than goodwill and financial assets)

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the tangible and intangible assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

- Property, plant and equipment;
- Prepaid land lease payments;
- Property development project
- Intangible assets;
- Investment in associate;
- Other non-current assets; and
- Prepayments and deposits paid.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition and reversal of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior reporting periods. Reversals of impairment losses are credited to profit or loss in the reporting period in which the reversals are recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the reporting period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement benefits

The entities within the Group in Mainland China (the "People's Republic of China" or "PRC") participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The cost of all these schemes is charged to profit or loss of the Group for the reporting period concerned and the assets of all these schemes are held separately from those of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(k) Employee benefits (Continued)

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to share premium account) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(l) Income tax

Income tax for the reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous reporting periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(I) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(l) **Income tax** (Continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) **Revenue from contracts with customers**

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

A performance obligation represents goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(n) Revenue from contracts with customers (Continued)

Contracts with multiple performance obligations (including allocation of transaction price)

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, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

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 the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(o) 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 each 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 at 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.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through 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 other comprehensive income.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(q) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in note 3(q)(a).
 - (vii) A person identified in note 3(q)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information and are provided regularly to the Group's executive Directors for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(a) **Impairment of property, plant and equipment, right-of-use assets/prepaid land lease payments, investments in associates, property development project, other intangible assets, other non-current assets and prepayments and deposits paid (aggregate carrying amount: RMB501,862,000 (2018: RMB539,432,000))**

If circumstances indicate that the carrying amounts of property, plant and equipment, right-of-use assets/prepaid land lease payments, investments in associates, property development project other intangible assets, prepayments for intangible assets, other non-current assets and prepayments and deposits paid may not be recoverable, the assets may be considered “impaired”, and an impairment loss may be recognised to reduce the carrying amounts to the recoverable amount in accordance with the accounting policy for impairment of these assets as described in note 3(h). The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgment relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying amounts of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(b) **Impairment of trade and other receivables and amounts due from an associate and related parties (aggregate carrying amount: RMB373,825,000 (2018: RMB434,105,000))**

The Group estimates the provision for impairment of trade and other receivables and amounts due from an associate and related parties by assessing the recoverability based on credit history, ageing of the receivables balance and prevailing market conditions. The impairment losses are also determined based on expected credit loss provisioning method which requires management’s estimates and judgments. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed.

(c) **Assessment of useful lives of property, plant and equipment (carrying amount: RMB51,642,000 (2018: RMB58,026,000))**

The Group estimates the useful lives of property, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of the related assets, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation charges and decrease the carrying amount of such assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(d) **Net realisable value of inventories (carrying amount: RMB14,849,000 (2018: RMB55,573,000))**

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling the products with similar nature. Any change in the market conditions and management's experience would increase or decrease the write-down of inventories or the related reversals of write-down made in prior periods.

(e) **Recognition of deferred tax assets (carrying amount: RMB6,312,000 (2018: RMB4,117,000))**

Deferred tax assets are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires a significant level of judgment exercised by the management. Any change in such assumptions and judgment would affect the profit in future years and hence the carrying amounts of deferred tax assets recognised.

5. REVENUE AND SEGMENT REPORTING

(a) **Revenue**

The principal activities of the Group are pharmaceutical distribution, self-operated retail pharmacies and manufacture of pharmaceutical products in the PRC.

Revenue represents the sales value of goods supplied to customers (which is recognised on the basis of "at a point of time"). The revenue of each significant segment is as follows:

	2019 RMB'000	2018 RMB'000
Pharmaceutical distribution	798,490	754,498
Self-operated retail pharmacies	1,255	3,882
Pharmaceutical manufacturing	45,703	62,762
	845,448	821,142

(b) **Segment reporting**

The Group manages its business by business lines and distribution channels. In a manner consistent with the way in which information is reported internally to the executive Directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

Pharmaceutical distribution: this segment generates revenue primarily from sales of pharmaceutical products to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.

Self-operated retail pharmacies: this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.

Pharmaceutical manufacturing: this segment generates revenue primarily from sales of pharmaceutical products manufactured by the Group.

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

Year ended 31 December 2019								
Pharmaceutical distribution								
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Others RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	690,859	39,218	58,905	9,508	798,490	1,255	45,703	845,448
Inter-segment revenue	-	-	-	-	-	-	291	291
Reportable segment revenue	690,859	39,218	58,905	9,508	798,490	1,255	45,994	845,739
Reportable segment profit/(loss)	8,823	2,027	9,135	1,565	21,550	(463)	20,833	41,920
Other segment information								
Depreciation and amortisation	-	-	-	-	-	-	114	114

Year ended 31 December 2018								
Pharmaceutical distribution								
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Others RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	566,479	133,243	49,655	5,121	754,498	3,882	62,762	821,142
Inter-segment revenue	253	4,592	-	-	4,845	-	749	5,594
Reportable segment revenue	566,732	137,835	49,655	5,121	759,343	3,882	63,511	826,736
Reportable segment profit	13,301	10,002	5,699	723	29,725	1,425	29,111	60,261
Other segment information								
Depreciation and amortisation	-	-	-	-	-	-	675	675

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***5. REVENUE AND SEGMENT REPORTING (Continued)****(b) Segment reporting (Continued)****(i) Segment revenue and results (Continued)**

Revenue and expenses are allocated to the reportable segments with reference to sales generated by and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

(ii) Reconciliations of reportable segment revenue and segment profit or loss

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	845,739	826,736
Elimination of inter-segment revenue	(291)	(5,594)
Consolidated revenue	845,448	821,142
Loss		
Reportable segment profit	41,920	60,261
Elimination of inter-segment loss	12	25
Gross profit derived from external customers	41,932	60,286
Other income and gains	22,285	19,193
Other net loss	(197,289)	(42,661)
Selling and distribution expenses	(10,976)	(15,142)
General and administrative expenses	(35,229)	(55,314)
Finance costs	(11,855)	(15,668)
Share of profit of associate	650	1,259
Consolidated loss before tax	(190,482)	(48,047)
Other items		
Depreciation and amortisation		
Reportable segment total	114	675
Unallocated total	7,137	5,158
Consolidated total	7,251	5,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Revenue from individual customers contributing over 10% of the total revenue of the Group is as follows:

	2019 RMB'000	2018 RMB'000
Revenue generated from pharmaceutical distribution		
Customer A	135,331	N/A
Customer B	107,706	N/A
Customer C	<u>86,870</u>	<u>N/A</u>

Revenue from each of the Customer A, Customer B and Customer C for the year ended 31 December 2018 did not contribute 10% or more to the Group's revenue for the year.

The Group's segment revenue and segment profit for the years ended 31 December 2019 and 2018 were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC and the principal assets employed by the Group were located in the PRC as at 31 December 2019 and 2018. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2019 and 2018.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision makers for review during the years ended 31 December 2019 and 31 December 2018 for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***6. OTHER INCOME AND GAINS AND OTHER NET LOSSES****(a) Other income and gains**

	2019 RMB'000	2018 RMB'000
Franchise fee (<i>note below</i>)	8,155	7,378
Bank interest income	49	193
Interest income from other receivables (<i>note 24(c)</i>)	576	518
Gain on disposal of property, plant and equipment	9	–
Gain on change in fair value of biological assets	–	60
Gain on disposal of subsidiary (<i>note 43(a)</i>)	5,516	–
Gain on disposal of intangible assets	–	603
Gain on redemption of convertible bonds	–	7,516
Write-off of trade payables	172	–
Write-off of other payables	1,215	–
Reversal of write-off of other payables	(583)	–
Net foreign exchange gains	571	–
Royalty fee income (<i>note below</i>)	4,000	–
Deferred income – government grant (<i>note 36</i>)	512	511
Sundry income	2,093	2,414
	22,285	19,193

Note: The franchise fee and royalty fee income are recognised on the “overtime” basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. OTHER INCOME AND GAINS AND OTHER NET LOSSES (Continued)

(b) Other net losses

	2019 RMB'000	2018 RMB'000
Net foreign exchange losses	–	1,456
Impairment loss on:		
– inventories	463	–
– trade receivables (note 24(a)(ii))	118,469	10,046
– other receivables (note (i) below)	7,193	2,335
– deposit paid (note 25(c))	25,000	–
– advance payments to suppliers (note 25(a))	32,501	–
– prepayments for intangible assets (note 19(b))	17,000	3,000
– intangible assets (note 19(a))	4,090	–
Reversal of impairment loss on:		
– deposits for acquisition of property, plant and equipment (note 22(a))	–	(10,000)
– trade receivables (note 24(a)(ii))	(8,288)	(2,974)
– other receivables (note (ii) below)	(1,234)	(10,091)
Write-off of property, plant and equipment	179	–
Loss on disposal of property, plant and equipment (note (iii) below)	–	4,163
Loss on disposal of a subsidiary (note 43(b))	–	903
Loss on disposal of land use rights	–	1,780
Loss on issue of convertible bonds	–	42,043
Loss on disposal of associate (note 17)	1,916	–
	197,289	42,661
Other net losses, net		

Notes:

- (i) Impairment loss on other receivables of RMB7,193,000 (2018: RMB2,335,000) was recognised in profit or loss in respect of the year in light that these receivables remained long outstanding for over one year without any settlement during the year and that certain of these receivables were due from debtors with financial difficulties.
- (ii) During the year ended 31 December 2019, certain receivables totalled RMB1,234,000 (2018: RMB10,091,000) was settled by the related debtors, accordingly the impairment loss previously made by the Group against these receivables totalled RMB1,234,000 (2018: RMB10,091,000) was reversed and deducted from other net losses for the year.
- (iii) Included in loss on disposal of property, plant and equipment for the year ended 31 December 2018 is loss amounted to RMB4,064,000 incurred in connection with the disposal of the Group's biological assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
PRC Enterprise Income Tax	5,112	12,680
Deferred tax		
Origination and reversal of temporary differences	<u>(2,195)</u>	<u>2,681</u>
	<u>2,917</u>	<u>15,361</u>

Notes:

- (i) The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.
- (ii) Pursuant to rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (iii) No provision for Hong Kong Profits Tax has been made in the consolidated statement of profit or loss as the Group has no assessable profits arising in Hong Kong for both of the years presented.
- (iv) Except for Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("Chengdu Pashun"), the Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% (2018: 25%).

Having applied for preferential income tax treatment under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy, Chengdu Pashun, a wholly-owned subsidiary of the Company, obtained the approval from local tax authority and is entitled to a preferential income tax rate of 15% for the period from 1 January 2011 to 31 December 2020.

The income tax expense can be reconciled to loss before tax as per the consolidated statement of profit or loss as follows:

	2019 RMB'000	2018 RMB'000
Loss before tax	<u>(190,484)</u>	<u>(48,047)</u>
Tax charge on loss before tax, calculated at the statutory tax rates applicable in the jurisdictions concerned	(45,215)	(7,313)
Effect of non-deductible expenses	48,170	29,483
Effect of non-taxable income	(175)	(8,030)
Effect of unused tax losses/deductible temporary differences not recognised	137	300
Underprovision in respect of prior years	<u>–</u>	<u>921</u>
Income tax expense	<u>2,917</u>	<u>15,361</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS**

An analysis of the directors' emoluments by individual Directors is as follows:

For the year ended 31 December 2019

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive Directors					
Chen Yenfei (<i>Chairman and Chief Executive Officer</i>) (note c)	-	635	-	-	635
Shen Shun	-	178	20	-	198
Chen Rongxin	-	85	-	-	85
Non-executive Directors					
Zhang Xiongfeng	44	-	-	-	44
Hu Haisong (note a)	44	-	-	-	44
Wu Guohua (note b)	44	-	-	-	44
Independent non-executive Directors					
Liu Liangzhong	-	50	-	-	50
Wong Tak Shing	159	-	-	-	159
Lu Yongchao	127	-	-	-	127
	418	948	20	-	1,386

Notes:

- (a) Hu Haisong was appointed as a non-executive Director on 20 May 2019.
- (b) Wu Guohua was appointed as a non-executive Director on 20 May 2019.
- (c) Chen Yenfei was vacated from the office of the Chairman of the Board and an executive Director and ceased to be the Chief Executive Officer of the Company on 18 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)****For the year ended 31 December 2018**

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive Directors					
Chen Yenfei (<i>Chairman and Chief Executive Officer</i>) (Note f)	-	607	-	-	607
Zhou Jian (<i>note a</i>)	-	85	-	-	85
Shen Shun	-	295	-	-	295
Chen Rongxin (<i>note b</i>)	-	137	-	1,146	1,283
Non-executive Directors					
Masahiro Honna (<i>note c</i>)	5	-	-	-	5
Zhang Xiongfeng	42	-	-	1,146	1,188
Independent non-executive Directors					
Liu Liangzhong	100	-	-	-	100
Wong Tak Shing	152	-	-	-	152
Min Feng (<i>note d</i>)	71	-	-	-	71
Lu Yongchao (<i>note e</i>)	36	-	-	-	36
	<u>406</u>	<u>1,124</u>	<u>-</u>	<u>2,292</u>	<u>3,822</u>

Notes:

- (a) Zhou Jian retired as an executive Director on 28 June 2018.
- (b) Chen Rongxin was appointed as an executive Director on 1 August 2018, resigned on 7 August 2018 and was re-appointed on 5 September 2018.
- (c) Masahiro Honna resigned as a non-executive Director with effect from 6 February 2018.
- (d) Min Feng resigned as an independent non-executive Director with effect from 14 September 2018.
- (e) Lu Yongchao was appointed as an independent non-executive Director on 1 August 2018, resigned on 7 August 2018 and was re-appointed on 14 September 2018.
- (f) Chen Yenfei was vacated from the office of the Chairman of the Board and an executive Director and ceased to be The Chief Executive Officer of the Company on 18 June 2020.

During the two years ended 31 December 2019 and 2018, there were no amounts paid or payable by the Group to the Directors or any of the highest paid individuals set out in note 11 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any emoluments for the two years ended 31 December 2019 and 2018.

During the year ended 31 December 2018, two Directors were granted share options, in respect of his services to the Group under the share option scheme of the Company. Details of the share options granted during the year ended 31 December 2018 and share option scheme of the Company are set out in note 39 to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five employees of the Group with the highest emoluments, two (2018: three) are Directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the remaining three (2018: two) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	522	989
Retirement scheme contributions	32	8
Equity-settled share-based payments	–	802
	<u>554</u>	<u>1,799</u>

The emoluments of the above individuals with the highest emoluments are within the following bands:

	2019 Numbers of individuals	2018 Numbers of individuals
Nil to HK\$1,000,000 (equivalent to RMB882,000) (2018: equivalent to RMB843,000)	3	1
HK\$1,000,001 (equivalent to RMB882,001) (2018: equivalent to RMB843,001) to HK\$1,500,000 (equivalent to RMB1,323,000) (2018: equivalent to RMB1,264,000)	–	1

12. DIVIDENDS

No dividend was paid, declared or proposed during the year ended 31 December 2019 (2018: Nil) nor had any dividend been proposed since the end of the reporting period (2018: Nil).

13. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of RMB193,721,000 (2018: RMB59,409,000) and the weighted average of approximately 1,448,003,000 ordinary shares (2018: 1,117,006,000 ordinary shares) in issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***13. LOSS PER SHARE (Continued)****(b) Diluted loss per share**

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company and the weighted average number of ordinary shares, as follows:

(i) Loss

	2019 RMB'000	2018 RMB'000
Loss for the purpose of basic earnings per share	(193,723)	(59,409)
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	–	5,558
Gain on redemption of convertible bonds	–	(7,516)
	<hr/>	<hr/>
Loss for the purpose of diluted loss per share	N/A	N/A

(ii) Weighted average number of ordinary shares

	2019 Number of shares '000	2018 Number of shares '000
Weighted average number of ordinary shares for the purpose of basic loss per share	1,448,003	1,117,006
Effect of conversion of convertible bonds	–	169,337
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted loss per share	N/A	N/A

The computation of diluted loss per share does not assume the exercise of the Company's share options granted because the exercise price of those share options was higher than the average market price of shares for both of the years presented.

Diluted loss per share for the year ended 31 December 2019 is not presented as there were no other potential ordinary shares in issue for the year ended 31 December 2019. Diluted loss per share for the year ended 31 December 2018 is not presented as the effects arising from the convertible bonds in issue during that year are considered anti-dilutive for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***14. PROPERTY, PLANT AND EQUIPMENT**

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and other office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Ephedra grass RMB'000	Saplings RMB'000	Total RMB'000
Cost									
At 1 January 2018	56,954	4,843	11,204	14,654	3,040	3,196	32,780	1,388	128,059
Additions	-	-	8	352	-	43	-	-	403
Disposals	-	-	(121)	(839)	(134)	-	(32,780)	(1,388)	(35,262)
At 31 December 2018 and 1 January 2019	56,954	4,843	11,091	14,167	2,906	3,239	-	-	93,200
Additions	-	-	-	28	-	64	-	-	92
Disposals/write-off	-	-	(387)	(555)	(581)	-	-	-	(1,523)
Disposal of subsidiary	(2,920)	-	-	(2)	-	-	-	-	(2,922)
At 31 December 2019	54,034	4,843	10,704	13,638	2,325	3,303	-	-	88,847
Accumulated depreciation									
At 1 January 2018	11,274	1,618	3,111	12,982	2,670	-	302	-	31,957
Depreciation for the year	2,553	1,056	88	607	89	-	1,057	-	5,450
Eliminated on disposals	-	-	(6)	(741)	(127)	-	(1,359)	-	(2,233)
At 31 December 2018 and 1 January 2019	13,827	2,674	3,193	12,848	2,632	-	-	-	35,174
Depreciation for the year	2,430	718	85	284	-	-	-	-	3,517
Disposal of subsidiary	(153)	-	-	(37)	(5)	-	-	-	(195)
Write back	-	-	(343)	(550)	(398)	-	-	-	(1,291)
At 31 December 2019	16,104	3,392	2,935	12,545	2,229	-	-	-	37,205
Carrying amount									
At 31 December 2019	37,930	1,451	7,769	1,093	96	3,303	-	-	51,642
At 31 December 2018	43,127	2,169	7,898	1,319	274	3,239	-	-	58,026

Notes:

- (a) The Group's buildings are located on leasehold land in the PRC.
- (b) Ephedra grass and saplings are bearer plants which are located in Ningxia Province, the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***15. RIGHT-OF-USE ASSETS**

	Leased land RMB'000 <i>(Note a)</i>	Leased properties RMB'000 <i>(Note b)</i>	Total RMB'000
Arising from adoption of HKFRS 16			
– recognition of right-of-use assets and lease liabilities	–	2,478	2,478
– transferred from prepaid land lease payments	2,380	–	2,380
	<hr/>	<hr/>	<hr/>
Carrying amount at 1 January 2019	2,380	2,478	4,858
Depreciation provided for the year ended 31 December 2019	(59)	(1,535)	(1,594)
Disposal of subsidiary	(206)	–	(206)
Exchange difference	–	2	2
	<hr/>	<hr/>	<hr/>
Carrying amount at 31 December 2019	2,115	945	3,060

Notes:

- (a) The leased land represents prepaid land lease payments in respect of land located in the PRC. Such leased land is amortised over the periods ranging from 20 to 50 years.
- (b) The Group is the lessee in respect of the Group's offices and warehouses under operating leases. The leases typically run for an initial period of 1 to 3 years with an option to renew when all terms are renegotiated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***16. PREPAID LAND LEASE PAYMENTS**

The Group's prepaid land leases payments represent prepayments of land use rights in respect of land located in the PRC.

	RMB'000
Cost	
At 1 January 2018	5,959
Disposals	<u>(1,960)</u>
At 31 December 2018	3,999
Transferred to right-of-use assets upon adoption of HKFRS 16	<u>(3,999)</u>
At 1 January 2019 and 31 December 2019	<u>–</u>
Accumulated amortisation	
At 1 January 2018	1,593
Charge for the year	205
Eliminated on disposals	<u>(179)</u>
At 31 December 2018	1,619
Transferred to right-of-use assets upon adoption of HKFRS 16	<u>(1,619)</u>
At 1 January 2019 and 31 December 2019	<u>–</u>
Carrying amount	
At 31 December 2019	<u>–</u>
At 31 December 2018	<u>2,380</u>
	RMB'000
Analysed for reporting purposes as:	
Current asset (included in prepayments and deposits paid)	65
Non-current asset	<u>2,315</u>
	<u>2,380</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***17. INVESTMENTS IN ASSOCIATES**

	2019 RMB'000	2018 RMB'000
Unlisted associates		
Cost of investments	50,587	8,123
Share of post-acquisition loss/profits and other comprehensive income	(7)	1,259
	50,580	9,382

Movements during the year are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	9,382	–
Acquisition of associates	50,587	8,123
Share of profits for the year	650	1,259
Disposal of an associate	(10,039)	–
At 31 December	50,580	9,382

Particulars of the associates of the Group are as follows:

Name	Place of establishment/ registration and operations	Proportion equity interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		2019	2018	2019	2018	
廈門特倫生物藥業有限公司 ("Te Lun")	PRC	–	10%	–	30%	Manufacturing and sales of pharmaceutical products, tea and other healthcare products
Awesome Applause Sdn. Bhd. ("Awesome Applause")	Malaysia	49%	0%	49%	0%	Property investment
Massive Goodwill Sdn. Bhd. ("Massive Goodwill")	Malaysia	49%	0%	49%	0%	Property investment

Notes:

- (a) During the year ended 31 December 2019, the Group acquired 49% equity interest in Awesome Applause and Massive Goodwill on 19 March 2019 and 12 April 2019 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. INVESTMENTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (b) During the year ended 31 December 2018, the Group completed the acquisition from an independent third party (“the Vendor”) of 10% equity interest in 廈門特倫生物藥業有限公司 (“Te Lun”) on 30 May 2018 for a consideration of RMB8,123,000. Te Lun is principally engaged in provision of manufacturing and sales of pharmaceutical products, tea and other healthcare products in the PRC.

On 22 May 2018, the Group entered into an agreement with the Vendor, under which the Vendor assigned 20% voting rights in Te Lun to the Group for ten years commencing from 22 May 2018 for nil consideration. As at 31 December 2018, 30%, 40% and 30% voting rights in Te Lun are held by the Group, the Vendor and a third party respectively and management of the Group is of the view that the Group can exercise significant influence over Te Lun as at that date.

During the current year, the Group disposed of its 10% equity interest in Te Lun to an independent third party on 28 June 2019 for a consideration of RMB8,123,000 which gave rise to a loss on disposal of RMB1,916,000. The loss on disposal of the associate amounted to RMB1,916,000 (2018: Nil) was recognised in profit or loss in respect of the year and was included in other net losses (note 6(b)).

Te Lun, Awesome Applause and Massive Goodwill are accounted for using the equity method in these consolidated financial statements.

The following table illustrate the summarised financial information in respect of Te Lun, Awesome Applause and Massive Goodwill and the reconciliation of the summarised information to the carrying amount in the consolidated financial statements:

	31 December 2019			31 December 2018
	Awesome Applause RMB'000	Massive Goodwill RMB'000	Total RMB'000	Te Lun RMB'000
Non-current assets	85,478	26,804	112,282	112,082
Current assets	2	2	4	57,311
Current liabilities	(13)	(13)	(26)	(33,842)
Non-current liabilities	(7,736)	(1,299)	(9,035)	(41,731)
Net assets	77,731	25,494	103,225	93,820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***17. INVESTMENTS IN ASSOCIATES** *(Continued)*

	Year ended 31 December 2019				Te Lun, 30 May 2018 to 31 December 2018 RMB'000
	Te Lun, 1 January 2019 to 28 June 2019 RMB'000	Awesome Applause 19 March 2019 to 31 December 2019 RMB'000	Massive Goodwill 12 April 2019 to 31 December 2019 RMB'000	Total RMB'000	
Revenue	31,408	-	-	31,608	59,861
Profit/(loss) before tax	7,733	(14)	-	7,719	14,794
Income tax expense	1,160	-	-	1,160	(2,207)
Profit and total comprehensive income for the period	6,573	(14)	-	6,559	12,587
Reconciliation to the Group's interest in the associate:					
Proportion of the Group's ownership	10% (wholly disposed of on 28 June 2019)	49%	49%		10%
Group's share of net assets of the associate	-	38,088	12,492	50,580	9,382
Carrying amount of the investment	-	38,088	12,492	50,580	9,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***18. GOODWILL**

	2019 RMB'000	2018 RMB'000
Cost		
At 1 January	5,942	11,934
Eliminated on disposal of subsidiary (<i>note 43</i>)	<u>(5,942)</u>	<u>(5,992)</u>
At 31 December	<u>–</u>	<u>5,942</u>
Accumulated impairment losses		
At 1 January	–	5,992
Eliminated on disposal of subsidiary (<i>note 43</i>)	<u>–</u>	<u>(5,992)</u>
At 31 December	<u>–</u>	<u>–</u>
Carrying amount		
At 31 December	<u>–</u>	<u>5,942</u>

Impairment tests for cash-generating units containing goodwill

The cost of goodwill is allocated to the Group's cash-generating units ("CGUs") identified as follows:

	2019 RMB'000	2018 RMB'000
Yanchi County Medical & Pharmaceutical Herbal Co., Ltd. (鹽池縣醫藥藥材有限公司) ("Yanchi")	<u>–</u>	<u>5,942</u>

Goodwill arising from the acquisition of Yanchi in relation to growing, processing and sale of biological assets

The goodwill of RMB5,942,000 at 31 December 2018 arose from the acquisition of Yanchi during the year ended 31 December 2017.

During the current year, the Group disposed of its subsidiary, Yanchi, and the goodwill attributable to Yanchi was transferred out and formed part of the carrying amount of the subsidiary disposed. Details of the disposal of the subsidiary are set out in note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***19. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS****(a) Other intangible assets**

	Patent RMB'000 <i>(Note (i))</i>	Computer software RMB'000 <i>(Note (ii))</i>	Total RMB'000
Cost			
At 1 January 2018	2,000	4,836	6,836
Additions	–	180	180
Disposals	–	(3,152)	(3,152)
	<hr/>	<hr/>	<hr/>
At 31 December 2018 and 1 January 2019	2,000	1,864	3,864
Additions	35,000	–	35,000
	<hr/>	<hr/>	<hr/>
At 31 December 2019	37,000	1,864	38,864
	<hr/>	<hr/>	<hr/>
Accumulated amortisation and impairment			
At 1 January 2018	2,000	1,555	3,555
Amortisation for the year	–	178	178
Eliminated on disposals	–	(755)	(755)
	<hr/>	<hr/>	<hr/>
At 31 December 2018 and 1 January 2019	2,000	978	2,978
Amortisation for the year	2,012	152	2,164
Impairment loss recognised for the year	4,090	–	4,090
	<hr/>	<hr/>	<hr/>
At 31 December 2019	8,102	1,130	9,232
	<hr/>	<hr/>	<hr/>
Carrying amount			
At 31 December 2019	28,898	734	29,632
	<hr/>	<hr/>	<hr/>
At 31 December 2018	–	886	886
	<hr/>	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS (Continued)

(a) Other intangible assets (Continued)

Notes:

- (i) As referred to in note 25(b), the Group completed the acquisition of three patents for an aggregate consideration of RMB35,000,000 from an independent third party, 武漢好多多生物科技有限公司 (“Wuhan Hao Duo Duo”) during the current year. These patents are “一種適合腎臟病人食用面製品及其加工方法”, “一種脫蛋大米加工方法” and “一種適合腎臟病人食用再制米及其加工方法”. Under the agreement for the acquisition, the Group is entitled to exclusively use these patents for the period commencing from 27 February 2019 to 3 May 2033 and 30 October 2033 (“Patent Period”) and the Group licenced such patents to Wuhan Hao Duo Duo over the Patent Period for receipt of royalty fee of RMB4,000,000 per annum.

The patents acquired during the current year were amortised on a straight line basis over the Patent Period and the carrying amount of the patents at 31 December 2019 will be amortised over the remaining useful lives of 14 years (2018: Nil).

- (ii) Included in computer software is the right to use electronic platform of Tianfu Mercantile Exchange Company Limited for 10 years commencing from 15 January 2016 with the carrying amount of RMB2,397,000 at 31 December 2017. During the year ended 31 December 2018, the Group disposed of this right to a third party for a consideration of RMB3,000,000, which resulted in a gain on disposal of RMB603,000 recognised in profit or loss in respect of that year (note 6(a)). The consideration for disposal, which is unsecured, interest free and repayable on demand, was not received by the Group up to the end of the reporting period and was included in other receivables (note 24(c)).

The carrying amount of computer software will be amortised over the remaining useful lives ranged from 1 to 8 years (2018: 1 to 9 years).

- (iii) The amortisation charges of RMB2,164,000 (2018: RMB178,000) are included in “general and administrative expenses” in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS (Continued)

(b) Prepayments for intangible assets

	2019 RMB'000	2018 RMB'000
Prepayments for patented technology (<i>note</i>)	—	17,000

Movements during the year are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	17,000	20,000
Impairment loss recognised for the year (<i>note 6(b)</i>)	(17,000)	(3,000)
At 31 December	—	17,000

Note:

In 2014, the Group entered into a technology cooperation agreement with Beijing Runbofude Biotechnology Co., Ltd. ("Beijing Runbofude"), an independent third party, to acquire a patented technology from Beijing Runbofude for a ten-year period from 1 January 2014 to 31 December 2023 at a consideration of RMB20,000,000.

On 28 July 2014, by way of a supplementary agreement, the commencement date of the ten-year period was changed from 1 January 2014 to the date on which the installation and testing of production plant and equipment was approved by Beijing Runbofude.

Up to the date of approval of these consolidated financial statements, the installation and testing of production plant and equipment was not yet approved by Beijing Runbofude.

During the current year, management of the Group conducted a review of the commercial viability of the patented technology and of the view that the products attributable to this technology cannot be marketable. Accordingly, impairment loss on this intangible assets amounted to RMB17,000,000 (2018: RMB3,000,000) was recognized in profit or loss in respect of the current year which was included in other net losses (*note 6(b)*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	2019 RMB'000	2018 RMB'000
Unlisted investment		
Cost of investment	25,000	–
Loss on change in fair value	<u>(22,000)</u>	<u>–</u>
Fair value at 31 December	<u>3,000</u>	<u>–</u>

As referred to in note 25(c), during the current year, the Group completed the acquisition of 5% equity interest in a PRC entity, 武漢太福製藥有限公司 (for identification purpose only, Wuhan Taifu Pharmaceutical Co. Ltd.) (“Wuhan Taifu”), from an independent third party for a consideration of RMB25,000,000. Wuhan Taifu is principally engaged in manufacturing of Chinese medicine in the PRC. Such investment in Wuhan Taifu is accounted for as a financial assets at fair value through other comprehensive income in the consolidated financial statements.

The fair value of the unlisted investment at 31 December 2019 is estimated based on the present value of the future cash flow forecast as valued by an external valuer. Details of the key assumptions adopted for the valuation are as follows:

	31 December 2019
Discount rate	16.18%
Terminal growth rate	3%
Tax rate	15%
Expected growth rate in revenue	3% to 30%

The loss on change in fair value amounted to RMB22,000,000 (2018: Nil) was recognised in investment revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. PROPERTY DEVELOPMENT PROJECT

	2019 RMB'000	2018 RMB'000
Property development project in the PRC, at cost	<u>185,797</u>	<u>–</u>

Up to the end of 31 December 2018, the Group had payments to a third party, Chengdu Yiming Investment Management Company Limited (“Chengdu Yiming”), amounted to approximately RMB185,797,000 for the property development project of a logistic centre in the PRC. The land use rights of the land of the property development project is currently registered in the name of a subsidiary of the Company and Chengdu Yiming. It is the understanding of the management of the Group and Chengdu Yiming that the development costs of the property development project, including any land premium of the land for the project arising from change of land usage, are financed as to 30% and 70% by the Group and Chengdu Yiming respectively and the subsidiary and Chengdu Yiming are entitled to share 30% and 70% the ownership of the land used for the property development project and the properties after the completion of development.

During the year ended 31 December 2019, the negotiation with the PRC local government regarding the land premium and other terms for the change of land usage of the land for the property development project had been finalized. The licence for the construction was obtained and the construction commenced afterwards. The payment of RMB185,797,000 was transferred to property development project.

The property development project was classified under other non-current assets in prior years and is separately presented in the consolidated statement of financial position during the current year under review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

22. OTHER NON-CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Deposits paid for acquisition of property, plant and equipment (<i>note a</i>)	1,972	1,972
Payments in connection with a property development project (<i>note 21</i>)	–	185,797
Guarantee deposit (<i>note b</i>)	–	5,000
	<u>1,972</u>	<u>192,769</u>

Notes:

- (a) The deposits were paid by the Group for acquiring and installing plant and machinery in the Group's production plant. Included in the deposits paid as at 31 December 2017 are the amounts paid by the Group to two independent third parties amounting to RMB10,000,000, of which impairment loss amounting to RMB10,000,000 has been recognised up to that date. During the year ended 31 December 2019, the deposits of RMB10,000,000 were refunded to the Group, accordingly the impairment loss of RMB10,000,000 previously made were reversed in respect of that year and included in other net losses (*note 6(b)*).
- (b) Guarantee deposit represents the deposit paid for a ten-year period Chinese herbal planting project which will be refunded upon the completion of the project. During the year, the deposit paid was fully refunded to the Group.

23. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	6,823	8,126
Work in progress	2,029	556
Finished goods	5,948	46,842
Consumables	49	49
	<u>14,849</u>	<u>55,573</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade and commercial bills receivables (<i>note a</i>)	291,586	346,191
Bank bills receivables (<i>note b</i>)	1,494	1,325
Other receivables (<i>note c</i>)	80,660	74,677
	<u>373,740</u>	<u>422,193</u>

Notes:

(a) Trade and commercial bills receivables

(i) Ageing analysis of trade and commercial bills receivables

As at the end of the reporting period, the ageing analysis of trade and commercial bills receivables, based on dates of goods delivery and net of allowance for doubtful debts, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	9,380	86,861
1 to 3 months	30,709	114,552
4 to 6 months	69,398	76,497
Over 6 months	182,099	68,281
	<u>291,586</u>	<u>346,191</u>

An average credit period of 30 to 180 days is granted by the Group to its customers.

(ii) Impairment loss on trade and commercial bills receivables

	2019 RMB'000	2018 RMB'000
Trade and commercial bills receivables		
– Gross amount	414,905	374,769
– Allowance for doubtful debts	<u>(123,319)</u>	<u>(28,578)</u>
– Amount net of allowance for doubtful debts	<u>291,586</u>	<u>346,191</u>

Impairment losses in respect of trade and commercial bills receivables are recorded using an allowance account unless the Group considers that recovery of the amount is remote, in which case the impairment loss is written off against trade and commercial bills receivables directly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***24. TRADE AND OTHER RECEIVABLES (Continued)***Notes: (Continued)***(a) Trade and commercial bills receivables (Continued)****(ii) Impairment loss on trade and commercial bills receivables (Continued)**

Movements of the allowance for doubtful debts are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	28,578	21,510
Impairment losses recognised (<i>note 6(b)</i>)	118,469	10,046
Reversal of impairment losses (<i>note 6(b)</i>)	(8,288)	(2,974)
Uncollectible amounts written off	(15,440)	(4)
	<hr/>	<hr/>
At 31 December	123,319	28,578

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade and commercial bills receivables relate a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and commercial bills receivables balances. Trade and commercial bills receivables are non-interest-bearing.

An analysis of the impairment loss on trade receivables of the Group is set out in note 46(a).

(iii) Trade and commercial bills receivables that are not impaired

An ageing analysis of trade and commercial bills receivables based on the dates of goods delivery that are neither individually nor collectively considered to be impaired is as follows:

	2019 RMB'000	2018 RMB'000
Not past due	94,029	137,927
	<hr/>	<hr/>
Less than 1 month past due	32,976	43,416
1 to 3 months past due	116,445	118,777
4 to 6 months past due	35,076	32,926
Over 6 months past due	13,060	13,145
	<hr/>	<hr/>
	197,557	208,264
	<hr/>	<hr/>
	291,586	346,191

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(b) Bank bills receivables

The bank bills receivables is aged within 180 days (2018: 180 days).

(c) Other receivables

An analysis of other receivables is as follows:

	2019 RMB'000	2018 RMB'000
Loan receivable (note (i))	–	8,000
Other taxes recoverable	22,342	23,219
Consideration receivable for disposal of a subsidiary (note (ii))	26,902	–
Consideration receivable for disposals of biological assets, land use rights and related property, plant and equipment (note (iii))	–	26,000
Consideration receivable for disposal of other intangible assets (note 19(a))	3,000	3,000
Consideration receivable for partial disposal of a subsidiary (note 52(ii))	–	2,450
Royalty fee receivable	4,000	–
Others	24,416	12,008
	80,660	74,677

Notes:

- (i) The loan was advanced by the Group to a third party. Such loan receivable was unsecured and carried interest based on bank benchmark interest rates, and among which RMB6,176,000 was impaired and RMB1,824,000 was repaid to the Group during the year ended 31 December 2019.
- (ii) Pursuant to the agreement for disposal of the subsidiary, Yanchi County Medical & Pharmaceutical Herbal Co., Ltd., the consideration for disposal amounted to RMB10,000,000 and RMB20,000,000 are payable by the vendor on or before 31 December 2019 and 31 December 2020 respectively. Such consideration for disposal totalled RMB30,000,000 remained unsettled up to 31 December 2019.

At initial recognition, the fair value of the consideration receivable is estimated to be RMB26,326,000 (Note 43(a)) using the effective interest rate of 11.52% per annum. The consideration receivable is subsequently measured at amortised cost with the carrying amount of RMB26,902,000 (2018 : Nil) , using the effective interest rate of 11.52% per annum, and the imputed interest income on the consideration receivable recognized in respect of the current year amounted to RMB576,000, which was included in other income and gains (note 6(a)).

- (iii) The consideration receivable for disposals, which were unsecured and interest free, were fully repaid to the Group during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. PREPAYMENTS AND DEPOSITS PAID

	2019 RMB'000	2018 RMB'000
Advance payments to suppliers (<i>note a</i>)	169,735	153,385
Payments for acquisition of intangible assets (<i>note b</i>)	–	35,000
Consideration paid for acquisition of unlisted investments (<i>note c</i>)	–	65,000
Other deposits and prepayments	9,444	5,669
	<u>179,179</u>	<u>259,054</u>

Notes:

- (a) The amount represents deposits paid to suppliers for purchases of goods in relation to the business undertaken by the Group. Management expects that a substantial portion of these purchases will be made within one year after the end of the reporting period.

During the current year, management of the Group performed assessments of the financial position of the suppliers and is of the view that recoverability of the advance payments made to certain suppliers amounted to RMB32,501,000 (2018: Nil) cannot be assured beyond reasonable doubt, accordingly impairment loss amounted to RMB32,501,000 (2018: Nil) was recognised on such advance payments which was included in other net losses (note 6(b)).

- (b) During the year ended 31 December 2018, the Group entered into an agreement with an independent third party, Wuhan Hao Duo Duo, for the acquisition of three intangible assets for a total consideration of RMB35,000,000, which was fully paid by the Group up to that date. During the current year, completion of the acquisition has taken place in February 2019 and the payments made amounted to RMB35,000,000 were reclassified and formed the cost of the patents (note 19).
- (c) During the year ended 31 December 2018, the Group entered into an agreement with an independent third party for the acquisition of 5% equity interest in an unlisted entity, Wuhan Taifu, for the consideration of RMB25,000,000, which was fully paid by the Group up to that date. Completion of the acquisition has taken place in January 2020 and the payments made amounted to RMB25,000,000 was reclassified and formed the cost of the 5% equity interest in Wuhan Taifu (note 20).

During the year ended 31 December 2018, the Group entered into an agreement for the proposed acquisition of 60% equity interest in another entity for the consideration of RMB40,000,000, which was fully paid by the Group up to that date. During the current year, the proposed acquisition was cancelled and the payment previously made to the extent of RMB15,000,000 was refunded to the Group with the outstanding balance of RMB25,000,000, which is unsecured, interest free and repayable to the Group within one year from the end of the reporting period. Having performed an assessment of the financial position of the related debtor, management of the Company is of the view that repayment of the outstanding balance of RMB25,000,000 cannot be assured beyond reasonable doubt, accordingly, impairment loss on the outstanding receivable of RMB25,000,000 (2018: Nil) was fully recognised in profit or loss in respect of the current year and was included in other net losses (note 6(b)).

26. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate is interest free, unsecured and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Pledged bank deposits (<i>notes a, b and c</i>)	9,893	41,111
Cash and cash equivalents in the consolidated statement of financial position		
– Cash at banks and on hand	<u>16,125</u>	<u>48,831</u>
	<u>26,018</u>	<u>89,942</u>

Notes:

- (a) Bank deposits amounted to RMB9,893,000 (2018: RMB11,111,000) have been pledged to banks for bills facilities of RMB11,787,000 (2018: RMB11,730,000) granted to the Group. These pledged bank deposits will be released upon the settlement of relevant bills payables. Included in pledged bank deposits at 31 December 2018 are deposits totalled RMB30,000,000 pledged for general banking facilities to the extent of RMB28,824,000 granted to the Group as at that date.
- (b) Cash at bank earned interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank deposits approximate their fair values.
- (c) Cash and cash equivalents and pledged bank deposits placed with banks in the PRC totalled RMB15,721,000 (2018: RMB55,223,000) are denominated in Renminbi. Remittance of these funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Equity securities listed in Hong Kong, held for trading at fair value (<i>note 47(e)</i>)	<u>–</u>	<u>–</u>

Trading of these equity securities has been suspended since 20 January 2016. In the opinion of the management of the Group, the fair value of such equity securities is minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables (note (i))	35,205	30,428
Bills payables	19,788	11,730
Lease liabilities (note 37)	861	–
Salaries, wage and welfare payable	11,396	9,863
Contract liabilities (note (ii))	13,796	20,055
Accrued corporate bond interests (note 34)	6,584	–
Other payables	24,349	22,201
	<u>111,979</u>	<u>94,277</u>

Notes:

- (i) As at the end of the reporting period, the ageing analysis of trade payables, based on dates of goods delivery, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 month	7,616	4,855
1 to 3 months	4,885	3,570
Over 3 months	22,704	22,003
	<u>35,205</u>	<u>30,428</u>

The credit period granted by suppliers is 30 to 180 days.

- (ii) The Group receives deposits from customers for sales of pharmaceutical products as established in contracts which is regarded as contract liabilities.

The following table shows the amount of the revenue recognised in the current reporting period in relation to carried-forward contract liabilities:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>7,103</u>	<u>2,272</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank loans repayable within one year		
– secured by Group's assets (<i>notes b(i) and (ii)</i>)	–	29,824
– secured by guarantees given by a subsidiary and/or a substantial shareholder (<i>note b(iii)</i>)	–	6,000
– secured by guarantees given by a subsidiary and a substantial shareholder and properties held by that substantial shareholder and a third party (<i>note b(iv)</i>)	6,000	–
	<u>6,000</u>	<u>35,824</u>

Notes:

- (a) The bank loan outstanding at 31 December 2019 of RMB6,000,000 carried interest at fixed interest rate of 8.590 per annum. The bank loans outstanding at 31 December 2018 to the extent of RMB34,824,000 carried interest at interest rates which are based on bank benchmark interest rates with the remaining bank loans of RMB1,000,000, bearing interest at fixed interest rates of 4.8% to 7.2% per annum.
- (b) Details of the security pledged and guarantees given for the bank loans are as follows:
- (i) Bank loan amounted to RMB28,824,000 at 31 December 2018 was secured by the Group's pledged bank deposits amounted to RMB30,000,000 at that date.
 - (ii) Bank loan amounted to RMB1,000,000 at 31 December 2018 together with bank bills facilities were secured by the land use rights and properties held by certain subsidiaries of the Company with the aggregate carrying amount of RMB1,399,000.
 - (iii) Bank loan amounted to RMB6,000,000 at 31 December 2018 was secured by guarantees given by a substantial shareholder of a subsidiary of the Company.
 - (iv) Bank loan amounted to RMB6,000,000 at 31 December 2019 was secured by guarantees given by a substantial shareholder and a subsidiary of the Company; and pledge of the properties held by that substantial shareholder and a third party.

31. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is interest free, unsecured and repayable on demand. This shareholder is beneficially owned by Mr. Chen Yenfei, the former chairman and the former executive director of the Company.

32. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests are interest free, unsecured and repayable on demand.

33. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates are interest free, unsecured and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***34. CORPORATE BONDS PAYABLE**

	2019 RMB'000	2018 RMB'000
Carrying amount of corporate bonds due in:		
– 2019	3,635	5,074
– 2020	23,236	21,516
– 2021	14,324	13,406
– 2022	2,857	2,701
– 2023	796	746
– 2024	30,479	29,024
– 2025	15,687	14,943
	91,014	87,410
Payable		
– Within one year	26,871	5,074
– In the second to fifth years	64,143	38,370
– More than five years	–	43,966
	91,014	87,410
Analysed for reporting purposes as:		
Current liability	26,871	5,074
Non-current liability	64,143	82,336
	91,014	87,410
Movements in corporate bonds payable are as follows:		
At beginning of the year	87,410	74,740
Proceeds received on issue of corporate bonds	–	6,320
Bonds issue expenses	–	(1,209)
Interest recognised as finance costs (<i>note 7</i>)	10,421	9,438
Interest paid during the year	–	(6,190)
Accrued interest reclassified and included in trade and other payables (<i>note 29</i>)	(6,584)	–
Repayments during the year	(1,864)	–
Exchange realignment	1,631	4,311
At end of the year	91,014	87,410

No corporate bonds were issued by the Group during the year ended 31 December 2019. During the year ended 31 December 2018, the Company issued unsecured corporate bonds with the prior aggregate principal amount HK\$7,500,000, giving rise to a total gross proceeds of HK\$7,500,000, equivalent to RMB6,320,000 before expenses).

At 31 December 2019, the corporate bonds with the principal amount of HK\$111,900,000 (2018: HK\$113,900,000) remained outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***35. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION****(a) Income tax payable in the consolidated statement of financial position represents:**

	2019 RMB'000	2018 RMB'000
PRC Enterprise Income Tax	<u>8,695</u>	<u>13,930</u>

Movements of the income tax payable in the consolidated statement of financial position are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	13,930	12,443
Charge for the year	5,039	11,759
Underprovision in respect of prior years	73	921
Released on disposal of a subsidiary	–	(343)
Tax paid during the year	<u>(10,347)</u>	<u>(10,850)</u>
At 31 December	<u>8,695</u>	<u>13,930</u>

(b) Deferred tax assets and deferred tax liabilities recognised:

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

	Fair value adjustment on business combination RMB'000	Provision for impairment RMB'000	Provision for accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	(8,186)	3,200	1,915	1,938	(1,133)
Credited/(charged) to profit or loss	<u>254</u>	<u>(2,828)</u>	<u>–</u>	<u>(108)</u>	<u>(2,682)</u>
At 31 December 2018 and 1 January 2019	(7,932)	372	1,915	1,830	(3,815)
Disposal of subsidiary	7,932	–	–	–	7,932
Credited/(charged) to profit or loss	<u>–</u>	<u>2,517</u>	<u>(38)</u>	<u>(284)</u>	<u>2,195</u>
At 31 December 2019	<u>–</u>	<u>2,889</u>	<u>1,877</u>	<u>1,546</u>	<u>6,312</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***35. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)***(b) Deferred tax assets and deferred tax liabilities recognised:** *(Continued)*

The following is an analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	6,312	4,117
Deferred tax liabilities	—	(7,932)
	<u>6,312</u>	<u>(3,815)</u>

(c) Deferred tax assets and liabilities not recognised:

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profit earned by certain PRC subsidiaries to its direct holding company outside the PRC from 1 January 2008 onward. Deferred tax liabilities of RMB28,162,000 (2018: RMB29,914,000) was not provided for in the consolidated financial statements of the Group for the year ended 31 December 2018 in respect of undistributed profits of relevant PRC subsidiaries amounted to RMB588,506,000 (2018: RMB598,285,000) as the management of the Company confirmed that profits generated by the relevant PRC subsidiaries from 1 January 2008 onward will not be distributed to its direct holding company outside the PRC in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses and other deductible temporary differences totalled approximately RMBNil (2018: RMBNil) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams. The tax losses will expire in one to five years after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. DEFERRED INCOME – GOVERNMENT GRANT

	2019 RMB'000	2018 RMB'000
At 1 January	24,565	25,076
Credited to profit or loss (<i>note 6(a)</i>)	(512)	(511)
	<hr/>	<hr/>
At 31 December	24,053	24,565
	<hr/>	<hr/>

Deferred income of the Group mainly represents government compensation in respect of the exchange of land use rights with local government.

Such deferred income will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

37. LEASE LIABILITIES

	2019 RMB'000	2018 RMB'000
Lease liabilities payable:		
– within one year	861	–
– within a period of more than one year but not more than two years	114	–
	<hr/>	<hr/>
Total lease liabilities payable	975	–
Less: Amount due for settlement within twelve months included in trade and other payables (<i>Note 29</i>)	861	–
	<hr/>	<hr/>
Amount due for settlement after twelve months shown under non-current liabilities	114	–
	<hr/>	<hr/>

38. SHARE CAPITAL

	Par value HK\$	Number of ordinary shares '000	Nominal amount of ordinary shares HK\$'000
Authorised:			
At 1 January 2018	0.001	2,000,000	2,000
Increase in ordinary shares during the year (<i>Note a</i>)	0.001	3,000,000	3,000
	<hr/>	<hr/>	<hr/>
At 31 December 2018 and 31 December 2019	0.001	5,000,000	5,000
	<hr/>	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***38. SHARE CAPITAL (Continued)**

	Par value HK\$	Number of ordinary shares '000	Nominal amount of ordinary shares HK\$'000	Carrying amount RMB'000
Issued and fully paid:				
At 1 January 2018	0.001	1,064,564	1,065	856
Issue of shares on conversion of convertible bonds (Note b)	0.001	269,000	269	238
Issue of shares on exercise of share options (Note c)	0.001	24,310	24	22
At 31 December 2018	0.001	1,357,874	1,358	1,116
Issue of shares upon acquisition of subsidiaries (Note d)	0.001	117,119	117	100
At 31 December 2019	0.001	1,474,993	1,475	1,216

Notes:

- (a) In June 2018, the Company increased its authorised share capital to HK\$5,000,000 by creation of 3,000,000,000 shares of HK\$0.001 each.
- (b) On 26 October 2018, convertible bonds with the principal amount of HK\$134,500,000 were converted into 269,000,000 new shares of the Company at the conversion price of HK\$0.5 per share.
- (c) On 16 November 2018, the Company issued 24,310,000 shares upon the exercise of share options granted at the exercise price of HK\$0.6 per share, giving rise to a gross proceed of approximately HK\$14,586,000 (equivalent to RMB12,923,000).
- (d) On 19 March 2019 and 12 April 2019, the Company issued 82,409,000 and 34,709,818 new shares at share prices of HK\$0.54 per share and HK\$0.42 per share for the purpose of acquisitions of 100% equity interests of Bisan Parkwell Consultants Limited and Parkwell Services Consultants Limited respectively. The closing price of the shares of the Company on 19 March 2019 and 12 April 2019 are HK\$0.54 per share and HK\$0.42 per share respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted the share option scheme (the “Scheme”) on 26 May 2015 for the purpose of rewarding certain eligible participants for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to early termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years commencing from 26 May 2015.

Eligible participants of the Scheme include (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to the Company or any of its subsidiaries; and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue.

Participants of the Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant within 28 days after the offer date. The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Company’s shares as quoted on the Stock Exchange’s daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company’s shares as quoted on the Stock Exchange’s daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share. The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

Shares are issued and allotted upon the exercise of options. The Company has no legal or constructive obligations to repurchase or settle the options in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

No share options were granted under the Scheme during the year ended 31 December 2019.

During the year ended 31 December 2018, options to subscribe 100,000,000 shares at the exercise price of HK\$0.67 per share were granted by the Company.

Movements in the number of share options during the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019					2018				
	Weighted average exercise price HK\$	Number of share options				Weighted average exercise price HK\$	Number of share options			
		Directors '000	Employees '000	Others '000	Total '000		Directors '000	Employees '000	Others '000	Total '000
At 1 January	0.64	28,000	40,390	107,300	175,690	0.6	8,000	54,700	37,300	100,000
Granted during the year	-	-	-	-	-	0.67	20,000	10,000	70,000	100,000
Exercised during the year	-	-	-	-	-	0.6	-	(24,310)	-	(24,310)
Lapsed during the year	(0.6)	(8,000)	(30,390)	(37,300)	(75,690)	-	-	-	-	-
At 31 December	0.67	20,000	10,000	70,000	100,000	0.64	28,000	40,390	107,300	175,690
Exercisable at the end of the year	0.67	20,000	10,000	70,000	100,000	0.64	28,000	40,390	107,300	175,690

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019	Exercise price per share HK\$	Exercise period
Number of options '000		
100,000	0.67	7 September 2018 to 25 May 2025
<hr/>		
2018		
Number of options '000	Exercise price per share HK\$	Exercise period
75,690	0.60	8 July 2016 to 31 December 2019
100,000	0.67	7 September 2018 to 25 May 2025
<hr/>		
175,690		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

The fair value of the share options at the date of grant during the year ended 31 December 2018 is estimated to be HK\$13,141,000 (equivalent to RMB11,456,000) using the trinomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Inputs into the model	Options granted on 7 September 2018
Risk free rate	2.182%
Expected volatility	49.332%
Dividend yield	Nil

The expected volatility may not necessarily be the actual outcome.

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

Equity-settled share-based payments amounted to RMB11,456,000 has been recognised in profit or loss in respect of the year ended 31 December 2018 relating to share options granted by the Company.

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK\$0.67 (2018: HK\$0.64) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 5.4 years (2018: ranged from 1 year to 6.4 years).

At the end of the reporting period, the Company had 100,000,000 (2018: 175,690,000) share options outstanding under the Scheme. Exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 100,000,000 (2018: 175,690,000) additional ordinary shares of the Company which would give rise to the total gross proceeds of HK\$67,000,000 (2018: HK\$112,414,000).

Up to the date of approval of these consolidated financial statements, the Company had 100,000,000 share options outstanding under the Scheme, which represents approximately 6.8% of the Company's shares in issue as at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***40. RESERVES**

	2019 RMB'000	2018 RMB'000
Share premium (<i>note i</i>)	691,882	641,391
PRC statutory reserve (<i>note ii</i>)	33,157	48,789
Investment revaluation reserve (<i>note iii</i>)	(22,000)	–
Share option reserve (<i>note 39</i>)	11,456	20,537
Exchange reserve	(9,545)	(1,462)
Other reserve (<i>note iv</i>)	(26,534)	(26,534)
Retained profits	17,851	186,859
	<u>696,267</u>	<u>869,580</u>

*Notes:***(i) Share premium**

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) PRC statutory reserve

Pursuant to the articles of association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at a 10% of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. When the balance of statutory reserve fund reaches 50% of registered capital of each relevant PRC subsidiary, any further appropriation is at the discretion of the shareholders of this subsidiary. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

(iii) Investment revaluation reserve

Investment revaluation reserve at 31 December 2019 represents loss on change in fair value of financial assets at fair value through other comprehensive income as stated in note 20.

(iv) Other reserve

Other reserve at 31 December 2019 and 31 December 2018 amounted to RMB26,534,000 comprises the following:

- the difference between the Company's cost of acquisition of the subsidiaries over the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired under common control.
- the amount arising from transactions with owners in their capacity as the equity owners.
- gain on disposal of partial interest in a subsidiary amounted to RMB1,616,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance (Chapter 57 of the Laws of Hong Kong). The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

The Group also participates in a state-managed retirement benefit scheme operated by the government of the PRC. The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme. The subsidiaries are required to contribute certain portion of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

At 31 December 2019, there were no material forfeitures available to offset the Group’s future contributions (2018: Nil).

42. ACQUISITION OF SUBSIDIARIES

Set out below are the acquisition of subsidiaries which the Group took place during the year ended 31 December 2019. The Group has not acquired any subsidiaries during the year ended 31 December 2018.

Acquisition of Bisan Parkwell Consultants Limited (“Bisan Parkwell”)

On 8 March 2019, a subsidiary of the Company, Ready Gain Limited (“Ready Gain”), entered into an agreement with third parties (the “Vendor”) for the acquisition of 100% equity interest in Bisan Parkwell for a consideration of HK\$45,325,000. Completion of the acquisition took place on 19 March 2019 and the consideration for the acquisition was satisfied by the issue of 82,409,090 new shares of the Company. The fair value of the shares issued is estimated to be RMB38,090,000 at the date of issue, which is calculated based on the closing market price of the Company’s shares at the issue date.

Bisan Parkwell, being an investment holding company, holds 49% equity interest in Awesome Applause Sdn. Bhd. (“Awesome Applause”), Pursuant to the acquisition agreement, the Group is in a position to exercise significant influence over Awesome Applause, Awesome Applause is regarded as an associate of the Company upon the completion of the acquisition.

Awesome Applause is a company incorporated in Malaysia with limited liability and is principally engaged in property investment. As at 31 December 2019, Awesome Applause has signed agreements for the purchase of 48 units of the properties located in Melaka, Malaysia for a consideration of MOP31,565,000 (equivalent to RMB51,955,000). These properties to be acquired by Awesome Applause are under construction and completion thereof is expected to be completed in 2020. On 8 March 2019, Bisan Parkwell, Ready Gain and Awesome Applause signed a novation agreement under which 49% of the payment obligation for purchase of these properties is borne by the Vendor. In addition, on the same date, Awesome Applause signed a shareholder agreement with the major shareholder of Awesome Applause holding 51% of the equity interest of Awesome Applause that the shareholder will bear the remaining 51% payment obligation for purchasing these properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***42. ACQUISITION OF SUBSIDIARIES (Continued)****(b) Acquisition of Parkwell Services Consultants Limited (“Parkwell Services”)**

On 3 April 2019, a subsidiary of the Company, Big Wish Global Limited (“Big Wish”), entered into an agreement with the Vendor for the acquisition of 100% equity interest in Parkwell Services for a consideration of HK\$19,090,400. Completion of the acquisition took place on 12 April 2019 and the consideration for the acquisition was satisfied by the issue of 34,709,818 new shares of the Company. The fair value of the shares issued is estimated to be RMB12,501,000 at the date of issue, which is calculated based on the closing market price of the Company’s shares at the issue date.

Parkwell Services, being an investment holding company, holds 49% equity interest in Massive Goodwill Sdn. Bhd. (“Massive Goodwill”), Pursuant to the acquisition agreement, the Group is in a position to exercise significant influence over Massive Goodwill, Massive Goodwill is regarded as an associate of the Company upon the completion of the acquisition.

Massive Goodwill is a company incorporated in Malaysia with limited liability and is principally engaged in property investment. As at 31 December 2019, Massive Goodwill has signed agreements for the purchase of 20 units of the properties located in Melaka, Malaysia for a consideration of MOP12,841,000 (equivalent to RMB21,174,000). These properties to be acquired by Massive Goodwill are under construction and completion thereof is expected to be completed in 2020, On 3 April 2019, Parkwell Services, Big Wish and Massive Goodwill signed a novation agreement under which 49% of the payment obligation for purchase of these properties is borne by the Vendor. In addition, on the same date, Massive Goodwill signed a shareholder agreement with the major shareholder of Massive Goodwill holding 51% of the equity interest of Massive Goodwill that the shareholder will bear the remaining 51% payment obligation for purchasing these properties.

The acquisitions of Bisan Parkwell and Parkwell Services are accounted for as asset acquisition, assets and liabilities recognised at the acquisition date:

	Bisan Parkwell RMB'000	Parkwell Services RMB'000	Total RMB'000
Assets			
Investments in associate	38,088	12,499	50,587
Amount due from shareholder	8	9	17
	<u>38,096</u>	<u>12,508</u>	<u>50,604</u>
Liabilities			
Other payables	5	6	11
Amount due to associate	1	1	2
	<u>6</u>	<u>7</u>	<u>13</u>
Total identifiable net assets acquired	<u>38,090</u>	<u>12,501</u>	<u>50,591</u>
Representing: Consideration transferred – shares issued by the Company	<u>38,090</u>	<u>12,501</u>	<u>50,591</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. DISPOSAL OF SUBSIDIARIES

(a) Disposal of subsidiary during the year ended 31 December 2019

On 14 June 2019, a subsidiary of the Company, Chengdu Kexun Pharmaceutical Co., Ltd., disposed of 100% equity interest in Yanchi to a third party, for a consideration of RMB35,000,000. Yanchi was engaged in plantation of biological assets, distribution of Chinese herbal medicines and medicine chain store operation in the PRC.

The fair value of the consideration at the date of completion of the disposal was estimated to be RMB31,326,000, using the effective interest rate of 11.52% per annum.

Consideration for the disposal:

	RMB'000
Cash consideration	
– received by the Group	5,000
– receivable by the Group (<i>note 24(c)</i>)	<u>26,326</u>
Total consideration	<u>31,326</u>

Analysis of assets and liabilities at date of disposal over which control was lost:

	RMB'000
Non-current assets	
Property plant and equipment	2,727
Right-of-use assets	206
Goodwill	5,942
Current assets	
Inventories	2,514
Trade and other receivables	35,882
Prepayments	7
Cash and cash equivalents	88
Current liabilities	
Trade and other payables	(12,624)
Bank borrowings	(1,000)
Non-current liabilities	
Deferred tax liabilities	<u>(7,932)</u>
Net assets disposed of	<u>25,810</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***43. DISPOSAL OF SUBSIDIARIES (Continued)****(a) Disposal of subsidiary during the year ended 31 December 2019 (Continued)**

Gain on disposal of a subsidiary:

	RMB'000
Total consideration	31,326
Net assets disposed of	<u>(25,810)</u>
Gain on disposal of a subsidiary (<i>note 6(a)</i>)	<u>5,516</u>
Net cash inflow on disposal of a subsidiary:	

	RMB'000
Consideration received	5,000
Cash and cash equivalents disposed of	<u>(88)</u>
Net cash inflow on disposal of the subsidiary	<u>4,912</u>

(b) Disposal took place during the year ended 31 December 2018

On 11 December 2018, a subsidiary of the Company, Chengdu Pa Shun Pharmacy Chain Store Co., Ltd., disposed of 100% equity interest in Hubei Baixintang Pharmacy Chain Store Co., Ltd. ("Baixintang") to a third party, for Nil consideration. Baixintang was engaged in machine chain store operation in the PRC.

Consideration for the disposal:

	RMB'000
Consideration receivable	<u>—</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. DISPOSAL OF SUBSIDIARIES (Continued)

- (b) Disposal took place during the year ended 31 December 2018 (Continued)
Analysis of assets and liabilities at date of disposal over which control was lost:

	RMB'000
Current assets	
Prepayments and other receivables	2,034
Amount due from a group company	1,993
Cash and cash equivalents	7
Current liabilities	
Other payables and accruals	(795)
Income tax payable	(343)
Amount due to a group company	(986)
Net assets disposed of	<u>1,910</u>

Loss on disposal of a subsidiary:

	RMB'000
Consideration receivable	–
Net assets disposed of	(1,910)
Waiver of amount due to a former subsidiary	1,993
Waiver of amount due from a former subsidiary	(986)
Loss on disposal of a subsidiary (note 6(b))	<u>(903)</u>

Net cash outflow on disposal of a subsidiary

	RMB'000
Consideration received	–
Less: Bank balances and cash disposed of	(7)
Net cash outflow on disposal of a subsidiary	<u>(7)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Finance costs payable (included in other payables and accrued expenses) RMB'000	Corporate bonds payable RMB'000	Convertible bonds RMB'000	Bank borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2018	-	74,740	109,187	26,009	-	209,936
Financing cash inflows	-	6,320	-	35,824	-	42,144
Financing cash outflows	(672)	(7,399)	(2,023)	(26,009)	-	(36,103)
Gain on redemption of convertible bonds	-	-	(2,462)	-	-	(2,462)
Convertible bonds converted into shares of the Company	-	-	(100,177)	-	-	(100,177)
Other non-cash movements	-	-	(16,221)	-	-	(16,221)
Finance cost for the year	672	9,438	5,558	-	-	15,668
Exchange realignment	-	4,311	6,138	-	-	10,449
At 31 December 2018	-	87,410	-	35,824	-	123,234
Financing cash inflows	-	-	-	6,000	-	6,000
Financing cash outflows	(1,349)	(1,864)	-	(34,824)	(1,588)	(39,634)
Other non-cash movements	-	(6,584)	-	(1,000)	2,478	(5,106)
Finance cost for the year	1,349	10,421	-	-	85	11,855
Exchange realignment	-	1,631	-	-	-	1,638
At 31 December 2019	-	91,014	-	6,000	975	97,987

45. MAJOR NON-CASH TRANSACTIONS

During the year, the Group acquired certain subsidiaries and the consideration for the acquisition of the subsidiaries was satisfied by the issue of new shares of the Company, details of which are set out in note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

46. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of:

	2019 RMB'000	2018 RMB'000
EQUITY		
Equity attributable to equity shareholders of the Company		
– Share capital	1,216	1,116
– Reserves	696,267	869,580
LIABILITIES		
Bank borrowings	6,000	35,824
Bills payables	19,788	11,730
Corporate bonds payable	<u>91,014</u>	<u>87,410</u>

The Directors review the capital structure on a continuous basis. As part of this review, the Directors 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 issue of new shares and convertible bonds as well as the additions and repayment of bank and other borrowings.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

The financial assets and financial liabilities of the Group are as follows:

	Financial assets at 31 December	
	2019 RMB'000	2018 RMB'000
Financial assets at fair value through other comprehensive income		
Unlisted investment	3,000	–
Financial assets at fair value through profit or loss		
Equity securities listed in Hong Kong	–	–
Financial assets at amortised cost		
Trade and other receivables	373,740	422,193
Amount due from an associate	–	10,834
Amounts due from related parties	85	1,078
Pledged bank deposits	9,893	41,111
Cash and cash equivalents	16,125	48,831
	399,843	524,047
	402,843	524,047

	Financial liabilities at 31 December	
	2019 RMB'000	2018 RMB'000
Financial liabilities at amortised cost		
Trade and other payables	111,979	94,277
Bank borrowings	6,000	35,824
Amount due to a shareholder	283	3,413
Amounts due to associates	2	–
Amounts due to related parties	144	144
Amounts due to non-controlling interests	–	5,143
Corporate bonds payables	91,014	87,410
	209,422	226,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Group is exposed to credit risk and the Group's maximum exposure to credit risk in relation to financial assets is their respective carrying amounts in the consolidated financial statements.

The Group has large number of customers and there was no concentration of credit risk. The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

(i) Trade receivables

The Group applies the simplified approach to provide for expected credit losses for trade receivables prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS** *(Continued)***(a) Credit risk** *(Continued)***(i) Trade receivables** *(Continued)*

As at 31 December 2019, the loss allowance for trade receivables based on expected credit loss (“ECL”) provision matrix was determined as follows:

	0-90 days	91-180 days	More than 180 days	Total
31 December 2019				
Expected loss rate	0.1%	0.2%	5%	
Gross carrying amount (RMB'000)	40,129	69,537	305,239	414,905
Loss allowance (RMB'000)	40	139	9,584	9,763
	0-90 days	91-180 days	More than 180 days	Total
31 December 2018				
Expected loss rate	0.1%	0.2%	0.5%	
Gross carrying amount (RMB'000)	201,615	76,650	96,504	374,769
Loss allowance (RMB'000)	202	153	145	500

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

In addition, management of the Group are of the view that loss allowance assessed on individual credit impaired debtors amounted to RMB113,556,000 (2018: RMB28,078,000) has to be made in the consolidated financial statements as such debtors are in financial difficulties and the recoverability of such receivables cannot be assured beyond reasonable doubt.

Based on the above assessment, accumulated impairment losses on trade receivables amounted to RMB123,319,000 (2018: RMB28,578,000) were recognised as at 31 December 2019, comprising impairment loss assessed based on the ECL provision matrix amounted to RMB9,763,000 (2018: RMB500,000) and the impairment loss assessed on individual credit impaired debtors amounted to RMB113,556,000 (2018: RMB28,078,000).

The credit quality of the debtors is assessed based on their financial position, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors. As at 31 December 2019, the Group had a concentration of credit risk given that the top 5 customers account for 6% (2018: 28%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years. The Group's historical experience in collection of receivables falls within recorded allowance and the directors do not expect any major impairment on trade receivables, and receivables from other counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

39% of the Group's revenue for the year ended 31 December 2019 was derived from three major customers. In the event that these major customers experience any adverse business conditions or terminates its business relationship with the Group and should the management fail to identify new customers, there may be a material adverse impact on the Group's revenue, results of operations and financial condition. To minimize the above risks, the Group should actively expand its customer base.

(ii) Other receivables, amounts due from an associate and amounts due from related parties

The Group uses four categories for these receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

As at 31 December 2019, the internal credit rating of other receivables, and amounts due from an associate and related parties were performing. The Group has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected losses method. Thus no additional loss allowance for these receivables was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS** *(Continued)***(a) Credit risk** *(Continued)***(iii) Cash at bank and bank deposits**

The table below shows the details of bank deposit balances (including pledged bank deposits) maintained at the end of the reporting period:

	Rating	2019 RMB'000	2018 RMB'000
Cash at banks and bank deposits	A2-Baa2 <i>(note (i))</i>	12,260	87,404
	AAA <i>(note (ii))</i>	13,683	–
		<u>25,943</u>	<u>87,404</u>

Note:

- (i) The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Accordingly, management of the Group considers that the credit risk on these bank balances and bank deposits is limited.
- (ii) The rating represents long-term credit rating provided by Dagong Global Credit Rating Co., Ltd ("Dagong"); a PRC recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Dagong. Accordingly, management of the Group considers that the credit risk on these bank balances and bank deposits is limited.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management and the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The tables below analyse the Group's non-derivative financial liabilities into relevant grouping based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows that include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information of these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

At 31 December 2019	Within 1 year RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial assets					
Trade and other receivables	376,838	-	-	376,838	373,740
Amounts due from related parties	85	-	-	85	85
Pledged bank deposits	9,893	-	-	9,893	9,893
Cash and cash equivalents	16,125	-	-	16,125	16,125
	<u>402,941</u>	<u>-</u>	<u>-</u>	<u>402,941</u>	<u>399,843</u>
Non-derivative financial liabilities					
Trade and other payables	111,979	-	-	111,979	111,979
Bank borrowings	6,510	-	-	6,510	6,000
Amount due to a shareholder	283	-	-	283	283
Amounts due to associates	2	-	-	2	2
Amounts due to related parties	144	-	-	144	144
Corporate bonds payable	33,205	64,220	16,813	114,238	91,014
	<u>152,123</u>	<u>64,220</u>	<u>16,813</u>	<u>233,156</u>	<u>209,422</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS** *(Continued)***(b) Liquidity risk** *(Continued)*

At 31 December 2018	Within 1 year RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial assets					
Trade and other receivables	422,395	-	-	422,395	422,193
Amount due from an associate	10,834	-	-	10,834	10,834
Amounts due from related parties	1,078	-	-	1,078	1,078
Pledged bank deposits	41,128	-	-	41,128	41,111
Cash and cash equivalents	48,831	-	-	48,831	48,831
	<u>524,266</u>	<u>-</u>	<u>-</u>	<u>524,266</u>	<u>524,047</u>
Non-derivative financial liabilities					
Trade and other payables	85,065	-	-	85,065	94,277
Bank borrowings	36,251	42	-	36,293	35,824
Amount due to a shareholder	3,413	-	-	3,413	3,413
Amounts due to related parties	144	-	-	144	144
Amounts due to non-controlling interests	5,143	-	-	5,143	5,143
Corporate bonds payable	7,982	60,591	54,355	122,928	87,410
	<u>137,998</u>	<u>60,633</u>	<u>54,355</u>	<u>252,986</u>	<u>226,211</u>

(c) Interest rate risk

The Group's interest rate risk arises primarily from loan receivable (included in trade and other receivables), cash at banks, pledged bank deposits, bank borrowings, corporate bonds payable and convertible bonds. Loan receivable, cash at banks and pledged bank deposits carried at variable rates expose the Group to cash flow interest rate risk. Bank borrowings carried at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Corporate bonds payable and convertible bonds were issued at fixed interest rates which expose the Group to fair value interest risk.

The Group does not anticipate significant impact to cash at banks and the pledged bank deposits arising from change in interest rates because the interest rates of bank deposits are not expected to change significantly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

The interest rates and terms of repayment of bank loans of the Groups are disclosed in note 30. The Group normally borrows short-term bank loans which have short-term maturity within one year in order to limit its exposure to interest rate risk.

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings, loan receivable, cash at banks and pledged bank deposits, with all other variables held constant, would decrease/increase the Group's loss after tax (and retained profits) by approximately RMB220,000 (2018: RMB761,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments held by the Group which expose the Group to cash flow interest rate risk at the end of the reporting period. The impact on the Group's loss after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the year ended 31 December 2018.

The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group's exposure to fair value interest risk is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS** *(Continued)***(d) Foreign currency exchange risk**

Foreign exchange risk arises when the group entities enter into transactions denominated in a currency other than their functional currency. The Group's financial assets and liabilities are mainly denominated in Renminbi and Hong Kong dollars. The exchange rates among these currencies are not pegged, and there are fluctuations of exchange rates among these currencies.

The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and considers hedging significant foreign currency exposure should the need arise.

The carrying amounts of the financial assets and financial liabilities at the reporting date denominated in currencies other than functional currencies of the related entities are as follows:

	Assets		Liabilities	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
RMB	<u>2</u>	<u>30,287</u>	<u>-</u>	<u>-</u>

Sensitivity analysis

The following table indicates the approximate change in the Group's profit or loss after income tax expense in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances of assets and liabilities of the group entities where the denomination of these balances is in a currency other than the functional currencies of these entities. A positive number below indicates an increase in loss for the year where the functional currency strengthens against the relevant currency. For a weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit or loss, and the balances below would be negative.

	2019		2018	
	Increase in foreign exchange rate %	Effect on loss for the year RMB'000	Increase in foreign exchange rate %	Effect on loss for the year RMB'000
RMB	5%	<u>-</u>	5%	<u>(1,514)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 28).

The Group's listed investments are listed on the Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to industry indicators, as well as the Group's liquidity needs.

At 31 December 2019, the fair value of the held for trading securities is minimal for the reason as detailed in note 28. Management does not expect that there is significant impact on the Group's performance arising from change in equity share price.

(f) Fair value measurement

(i) *Financial instruments measured at fair value*

The following table presents the fair value of financial instruments measured at fair value at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

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

The Group engages independent professional valuers to perform valuations for the financial instruments of which are carried at fair value in the consolidated financial statements. The professional valuer reports directly to the chief financial officer of the Company and the Directors. Valuation reports with analysis of changes in fair value measurement are prepared by professional valuer and are reviewed and approved by the chief financial officer of the Company and the Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement (Continued)

(i) Financial instruments measured at fair value (Continued)

	Fair value measurements as at 31 December 2019 categorised into				Fair value measurements as at 31 December 2018 categorised into				Valuation technique(s) and key inputs
	Fair value at 31 December 2019 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Fair value at 31 December 2018 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
	Recurring fair value measurements								
Assets:									
Financial assets at fair value through other comprehensive income (note 20)	3,000	-	-	3,000	-	-	-	-	Discounted cash flow analysis
Financial assets at fair value through profit or loss (note 28)	-	-	-	-	-	-	-	-	Quoted bid price in an active market
	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(ii) Fair value of financial instruments carried at other than fair value

The Directors consider that the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 31 December 2019 and 2018. The fair values, which are included in Level 3 category, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rates that reflect the credit risk of counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

48. OPERATING LEASE COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000
Within 1 year	1,490
In the second to fifth years, inclusive	992
More than 5 years	—
	<u>2,482</u>

49. CAPITAL COMMITMENTS

Capital commitments outstanding but not provided for in the consolidated financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Commitments contracted but not provided for in respect of		
– acquisition of property, plant and equipment	—	3,504
– property development project	<u>2,027</u>	<u>—</u>
	<u>2,027</u>	<u>3,504</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

50. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2019 and 2018 the transactions or balances with the following parties were considered to be related party transactions:

Name of party	Relationship with the Group
Mr. Chen Yenfei	The Chairman, the controlling shareholder of the Company (“Controlling Shareholder”) and an executive Director and he ceased to be the Executive Director and Chief Executive Officer of the Company with effect from 18 June 2020
Hubei Bai Xin Food Company Limited (“Hubei Bai Xin”)	Entity controlled by the Controlling Shareholder
Praise Treasure Limited	Entity controlled by the Controlling Shareholder
Wuhan Wantong Investment Company Limited (“Wuhan Wantong”)	Entity controlled by the Controlling Shareholder
Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited (“Wuhan Bai Xin Zheng Yuan”)	Entity controlled by the Controlling Shareholder
Wuhan Baixin Pharmaceutical Co., Ltd. (“Wuhan Baixin Pharmaceutical”)	Entity controlled by the Controlling Shareholder

In addition to those disclosed elsewhere in these consolidated financial statements, the Group had the following transactions and balances with the related parties:

(a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid/payable to the Company’s Directors as disclosed in note 11 is as follows:

	2019 RMB’000	2018 RMB’000
Short-term employee benefits	1,724	4,825
Post-employment benefits	52	18
	<u>1,776</u>	<u>4,843</u>

Total remuneration is included in staff costs (see note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***50. MATERIAL RELATED PARTY TRANSACTIONS (Continued)****(b) Balances with related parties**

	NOTES	Amounts owed to the Group by related parties		Amounts owed by the Group to related parties	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Balance with related parties					
Amount due from/(to)					
Hubei Bai Xin					
– non-trade in nature	(i), (ii)	5	986	–	–
Amount due from/(to)					
Wuhan Wantong					
– non-trade in nature	(i), (ii)	–	12	(93)	(93)
Amount due to Wuhan Bai Xin					
Zheng Yuan					
– trade in nature	(i)	–	–	(51)	(51)
Amount due from Wuhan Baixin Pharmaceutical					
– trade in nature	(i), (ii)	80	80	–	–
Total balances with related parties		85	1,078	(144)	(144)

Notes:

- (i) The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms.
- (ii) No provisions for bad or doubtful debts have been made in respect of the amounts due from related parties.
- (iii) The maximum outstanding balances due from related parties during the two years ended 31 December 2019 and 2018 are as follows:

	Maximum balance outstanding during the year	
	2019 RMB'000	2018 RMB'000
Hubei Bai Xin	986	986
Wuhan Wantong	12	12
Wuhan Baixin Pharmaceutical	80	80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,006	324
CURRENT ASSETS		
Amounts due from subsidiaries	504,226	423,303
Other receivables	2,084	1,739
Prepayments	177	174
Pledged bank deposits	–	30,000
Cash and cash equivalents	336	4,618
	506,823	459,834
CURRENT LIABILITIES		
Other payables	8,856	2,233
Corporate bonds payable	26,871	5,074
Amount due to a shareholder	283	3,413
Amount due to a subsidiary	4,732	4,645
	40,742	15,365
NET CURRENT ASSETS	466,081	444,469
TOTAL ASSETS LESS CURRENT LIABILITIES	467,087	444,793
NON-CURRENT LIABILITIES		
Corporate bonds payable	64,143	82,336
NET ASSETS	402,944	362,457
CAPITAL AND RESERVES		
Share capital	1,216	1,116
Reserves (<i>note</i>)	401,728	361,341
TOTAL EQUITY	402,944	362,457

The Company's statement of financial position was approved and authorised for issue by the board of Directors on 22 June 2020 and is signed on its behalf by:

Wu Guohua
Director

Shen Shun
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: Movements in the reserves of the Company are as follows:

	Share premium RMB'000	Convertible bonds reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	469,233	7,395	11,997	9,207	(74,753)	(171,659)	251,420
Loss for the year	-	-	-	-	-	(76,639)	(76,639)
Other comprehensive income for the year							
- Exchange differences							
on translation of financial statements	-	-	-	13,206	-	-	13,206
Total comprehensive income/(loss) for the year	-	-	-	13,206	-	(76,639)	(63,433)
Recognition of equity-settled share-based payments	-	-	11,456	-	-	-	11,456
Loss on early redemption of convertible bonds	-	(7,395)	-	-	-	51	(7,344)
Recognition of equity component of convertible bonds	-	56,402	-	-	-	-	56,402
Issue of shares upon							
- conversion of convertible bonds	156,341	(56,402)	-	-	-	-	99,939
- exercise of share options	15,817	-	(2,916)	-	-	-	12,901
At 31 December 2018 and 1 January 2019	641,391	-	20,537	22,413	(74,753)	(248,247)	361,341
Loss for the year	-	-	-	-	-	(21,097)	(21,097)
Other comprehensive income for the year							
- Exchange differences							
on translation of financial statements	-	-	-	10,993	-	-	10,993
Total comprehensive income/(loss) for the year	-	-	-	10,993	-	(21,097)	(10,104)
Adjustment upon lapse of share options	-	-	(9,081)	-	-	9,081	-
Issue of shares upon acquisition of subsidiaries	50,491	-	-	-	-	-	50,491
At 31 December 2019	691,882	-	11,456	33,406	(74,753)	(260,263)	401,728

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For the year ended 31 December 2019

52. SUBSIDIARIES

- (i) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place of incorporation/ operation	Issued and fully paid up capital/paid up registered capital	Group's effective interest		Attributable equity interest Held by the Company		Attributable equity interest Held by a subsidiary		Principal activities
			2019	2018	2019	2018	2019	2018	
Pa Shun Pharmaceutical Company Limited	The British Virgin Islands ("BVI")/ Hong Kong ("HK")	US\$50,000	100%	100%	100%	100%	-	-	Investment holding
Toyot Pa Shun Medicine Factory Company Limited (東洋百信製藥廠有限公司)	HK/HK	HK\$10,000,000	100%	100%	-	-	100%	100%	Investment holding
Chengdu Toyot Pa Shun Pharmacy Co., Ltd. 成都東洋百信製藥有限公司 (note a, b and g)	PRC/PRC	RMB164,570,000	100%	100%	-	-	100%	100%	Manufacturing and sale of pharmaceutical products in the PRC
Chengdu Pashun Pharmacy Chain Store Co., Ltd. 成都百信藥業連鎖有限責任公司 (note a and c)	PRC/PRC	RMB5,000,000	51%	51%	-	-	51%	51%	Medicine chain store operation and management
Chengdu Kexun Pharmaceutical Co., Ltd. 成都科訊藥業有限公司 (note a, c and d)	PRC/PRC	RMB170,000,000	100%	100%	-	-	100%	100%	Distribution of pharmaceutical products in the PRC
Chengdu Keyi Biotechnology Co., Ltd. 成都科一生物科技股份有限公司 (note a and c)	PRC/PRC	RMB2,000,000	100%	100%	-	-	100%	100%	Not yet commenced business
Yanchi County Medical & Pharmaceutical Herbal Co., Ltd. 鹽池縣醫藥藥材有限公司 (note a, c and e)	PRC/PRC	RMB542,900	-	100%	-	-	-	100%	Plantation of biological assets, distribution of Chinese herbal medicines and medicine chain store operation in the PRC
Ready Gain Limited 宏願環球有限公司	BVI	US\$50,000	100%	-	100%	-	-	-	Investment holding
Big Wish Global Limited 盈達有限公司	BVI	US\$50,000	100%	-	100%	-	-	-	Investment holding
Bisan Parkwell Consultants Limited 百勝百惠顧問有限公司	HK	HK\$10,000	100%	-	-	-	100%	-	Investment holding
Parkwell Service Consultants Limited 百惠服務顧問有限公司	HK	HK\$10,000	100%	-	-	-	100%	-	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

52. SUBSIDIARIES (Continued)

(i) (Continued)

Notes:

- (a) The English translations of the names of the Company's subsidiaries which were registered and incorporated in the PRC are for reference only and the official names of these entities are in Chinese.
- (b) This entity was established in the PRC in the form of wholly-foreign-owned enterprise.
- (c) These entities were established in the PRC as PRC domestic-invested companies.
- (d) The paid-in registered capital of the subsidiary increased to RMB170,000,000 during the year pursuant to the Group reorganisation, under which the amount due by the subsidiary to its holding company amounted to RMB120,000,000 was capitalised as paid-in registered capital.
- (e) The entity was disposed of during the year ended 31 December 2019.
- (f) None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year under review.
- (g) The total registered capital of this subsidiary is RMB326,000,000 of which RMB164,570,000 has been paid up.

(ii) **Details of non-wholly owned subsidiary that has material non-controlling interests**

The table below shows details of non-wholly owned subsidiary of the Group that has material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interest		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019	2018	2019	2018
		%	%	RMB'000	RMB'000	RMB'000	RMB'000
Chengdu Pashun Pharmacy Chain Store Co., Ltd. ("Chengdu Pashun")	PRC	49%	49%	322	(3,999)	(13,901)	(14,223)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2019***52. SUBSIDIARIES (Continued)****(ii) Details of non-wholly owned subsidiary that has material non-controlling interests (Continued)**

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Chengdu Pashun	31 December 2019 RMB'000	31 December 2018 RMB'000
Current assets	<u>7,680</u>	<u>8,684</u>
Non-current assets	<u>3,010</u>	<u>3,327</u>
Current liabilities	<u>(39,059)</u>	<u>(41,037)</u>
Equity attributable to owners of the Company	<u>(14,468)</u>	<u>(14,803)</u>
Non-controlling interests	<u>(13,901)</u>	<u>(14,223)</u>
	1 January 2019 to 31 December 2019 RMB'000	5 November 2018 to 31 December 2018 RMB'000
Revenue	39,500	6,205
Other income and gains	10,168	1,792
Cost of sales	(37,442)	(6,014)
Other losses	(173)	(8,345)
Other expenses	(11,396)	(1,798)
Profit/(loss) for the period	<u>657</u>	<u>(8,160)</u>
Profit/(loss) attributable to:		
– owners of the Company	335	(4,161)
– non-controlling interests	322	(3,999)
Profit/(loss) for the period	<u>657</u>	<u>(8,160)</u>
Net cash outflows from operating activities	(1,171)	(2,626)
Net cash (outflow)/inflows from investing activities	(15)	3
Net cash inflows from financing activities	–	5,143
Net cash (outflow)/inflows	<u>(1,186)</u>	<u>2,520</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

53. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY

The Directors consider the Company's ultimate and immediate holding company to be Praise Treasure Limited which was incorporated in the BVI. The ultimate controlling party of the Company is Mr. Chen Yenfei, who is the former chairman, the former chief executive officer and a former executive Director, and a controlling shareholder of the Company.

54. EVENT AFTER THE REPORTING PERIOD

In addition to those disclosed elsewhere in the consolidated financial statements, the following event took place subsequent to the end of the reporting period:

On 26 May 2020, the Group disposed of its 5% unlisted equity interest in Wuhan Taifu (note 20) to an independent third party for a consideration of RMB3,000,000.